S. Hrg. 110–30

DISCUSSION OF THE U.S. DEPARTMENT OF AGRICULTURE FARM BILL PROPOSAL

HEARING

[BEFORE THE]

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

ONE HUNDRED TENTH CONGRESS

FIRST SESSION

FEBRUARY 7, 2007

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

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DISCUSSION OF THE U.S. DEPARTMENT OF AGRICULTURE FARM BILL PROPOSAL

Wednesday, February 7, 2007

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

The Committee met, pursuant to notice, at 9:20 a.m., in room SD–106, Dirksen Senate Office Building, Hon. Tom Harkin, Chairman of the committee, presiding.

Present or submitting a statement: Senators Harkin, Leahy, Lincoln, Stabenow, Nelson, Salazar, Brown, Casey, Klobuchar, Chambliss, Lugar, Cochran, Roberts, Coleman, Crapo, Thune, and Grassley.

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

Chairman Harkin. Good morning. The Senate Committee on Agriculture, Nutrition and Forestry will come to order.

This morning, we are pleased to welcome the Secretary of Agriculture, Mike Johanns, to explain and answer questions about the Administration's proposals for the 2007 farm bill. We again welcome Deputy Secretary Chuck Conner and Chief Economist Keith Collins, accompanying the Secretary.

You know, we commonly refer to the, quote, "farm bill," when in fact that term captures only a fraction of what the legislation is called upon to address. All Americans have a stake in the farm bill. Its scope extends from helping agricultural producers to conserving our natural resources, promoting rural growth and jobs, alleviating hunger and improving nutrition, investing in food and agricultural research, and increasingly to securing our Nation's energy future.

I want to thank you, Secretary Johanns, and your team for making proposals that challenge us to take a new look at issues and problems and to consider new approaches. We have a responsibility to write a farm bill which looks to the future, not one that clings to the status quo of the past.

Now, we made a good deal of progress, I think, in the Farm Security and Rural Investment Act of 2002. But farm bills are written for a limited number of years for a good reason. Agriculture is among the most rapidly changing sectors of our economy. Policies that worked at one time may not be well suited to a new era filled with critical new challenges and opportunities for farm families, rural communities, and our entire Nation.

A core mission of the farm bill, of course, is promoting profitability and income potential in agriculture and a degree of stability and predictability in our Nation's food and agricultural system. Americans have come to take for granted a plentiful, wholesome, and affordable food supply, and it is in our Nation's best interest to construct programs to help agricultural producers survive the vagaries of weather and markets.

But we also need a farm bill that looks much further ahead. It must be bold enough and creative enough to prepare for and master challenges and opportunities on the horizon. We are, as you have said many times, Mr. Secretary, in the midst of revolutionary changes in food and agriculture, most notably in farm-based renewable energy. We put an energy title in the 2002 farm bill, and there is broad agreement that energy is perhaps the key driving force in this farm bill. I commend President Bush for his ambitious renewable energy objectives, although I have some concerns that the budget lacks the resources necessary to achieve those goals.

I also welcome your proposals, Mr. Secretary, to increase our investment in agricultural conservation, rural development and research, to help beginning farmers and ranchers, and to improve USDA's efforts in promoting nutrition and health and fighting hunger. We must do more in those areas.

So I guess my main question at the beginning is whether the Administration's proposals, your proposals, are strong enough and will we be able to back them up and strengthen them with the budget that we have and the resources that we have.

Again, Mr. Secretary, I want to compliment you and your team on a really good proposal. I think there is a lot of stuff in there that we can work together with you on. I think it does chart a new bold challenge to us here to work together to achieve those goals. So again, the committee welcomes you and the valuable contribution of your proposals to our work in writing this new bill. I look forward to a good bipartisan working relationship with you and the administration and with my colleagues here in Congress in drafting and enacting this vitally important legislation.

With that, I will turn to our distinguished former Chairman and our Ranking Member, my good friend from Georgia, Senator Chambliss.

STATEMENT OF SENATOR CHAMBLISS, A U.S. SENATOR FROM GEORGIA

Senator CHAMBLISS. Mr. Chairman, thank you for holding this hearing today.

As Chairman, as you know, I dedicated much of 2006 to preparing for the reauthorization of the farm bill and this committee spent many hours in field hearings listening to producers about their farm bill needs. Secretary Johanns held his own listening sessions around the country and points to those sessions in his development of the Administration's farm bill proposals. This hearing today is an important step toward the farm bill reauthorization in that it will allow us to explore the justifications for the Secretary's specific proposals and engage in a dialog about impacts the proposal could have on this Nation's farmers, ranchers, rural communities, and the agricultural economy.

Mr. Secretary, welcome. We are always glad to have you back before the Agriculture Committee. Dr. Collins, Chuck, we are always pleased to see you here. Thank you for your efforts, and we appreciate you bringing new ideas to the table as Congress begins to debate the new farm bill.

My goal always has been to make certain that America's farmers' voice is heard and their concerns are addressed in this process. There are a lot of farmers, a number of ideas, and a variety of ways in which concerns can be addressed. Each Senator on this committee represents an important part of agriculture country and we will each have an important role in crafting the new farm bill.

When the 2002 farm bill was passed, the Congressional Budget Office estimated that we would spend $110.6 billion on commodity programs during fiscal years 2002 to 2008. I am proud to say that because of the market-oriented direction in which that farm bill took us, that we have spent much less than originally estimated. Farm program spending under the 2002 farm bill is now expected to cost approximately $25.3 billion less than originally projected for fiscal years 2002 to 2008. And even if we take into account recently enacted disaster assistance packages, the 2002 farm bill has spent $19.2 billion less than expected. These are impressive figures that we need to consider in constructing the next farm bill.

One thing that the 2002 farm bill did provide to our farmers and ranchers around America was a true safety net, and frankly, Mr. Secretary, with your proposals, I see a tendency toward guaranteeing farmers payments versus providing that safety net. I am not sure what direction the committee is going to decide to go, but it does steer us away from providing a helping hand in the years when the farmers really have low yields, low prices, and it moves us in a direction of making sure that farmers get money from the Federal Government every year irrespective of whether or not they plant crops.

Certainly, there are a lot of challenges ahead of us as we work to complete the farm bill before portions of it expire. But I trust that we can, Mr. Chairman, work in a bipartisan manner to reach a consensus that will prove beneficial for each of our States and our constituencies.

I thank you and look forward to the witnesses' testimony today.

Chairman HARKIN. Thank you very much, Senator Chambliss.

Secretary Johanns, again, welcome to the committee. Your statement will be made a part of the record in its entirety. Please proceed as you so desire. They put 10 minutes on there, but do not worry too much about that. We want to hear your full explanation and, of course, I then will open it up for questions and different rounds at that time. So, Mr. Secretary, welcome.

STATEMENT OF HON. MICHAEL JOHANNS, SECRETARY OF AGRICULTURE, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC; ACCOMPANIED BY KEITH COLLINS, CHIEF ECONOMIST, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC; AND CHARLES CONNER, DEPUTY SECRETARY OF AGRICULTURE, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC

Secretary JOHANNS. Thank you, Mr. Chairman. I have to tell you, it is an honor for me to be back in front of the committee. Members of the committee, I appreciate the opportunity to visit with you. This is the first time I am appearing before the 110th Congress and I feel, like I said, very honored to be able to be here and speak about the farm bill.

Our Department has worked very hard on these proposals, but for that matter, farmers across the country did because of our listening sessions. I am submitting for the record a very extensive written statement, so I am going to speak from an outline today and try to keep it to the point but fairly brief.

I would also mention that, for the record, Mr. Chairman, we are submitting the book that contains our farm bill proposals, so that will be a part of the record.

Thanks for acknowledging two people that were very key in developing our proposals. I could not have a better Deputy than Chuck Conner. I will tell you, Chuck has really led this effort in the Department.

Chairman HARKIN. Be careful what you say. We all know him. [Laughter.]

Secretary JOHANNS. Yes, I know. I know. I will be careful.

And then, of course, every time we had a question about analysis or background, we turned to Dr. Collins. My respect for Dr. Collins grows daily. He does a great job for us.

We also have with us a whole host of people, but I would mention one of our newest Under Secretaries, Mark Keenum, who I think is very familiar to the committee. He works in this area with our farm programs and also with our Foreign Agricultural Service. And then Scott Steele, if there are budget issues, Scott is here to address those.

This journey to the farm bill proposal started pretty soon after I arrived a couple of years ago. We held 52 Farm Bill Forums across the United States, really on a nationwide basis. We received 4,000 comments. Our approach was always the same. It was an open microphone, no prearranged testimony. We just said we will be in a given location. Farmers showed up. They would oftentimes drive hours to come to these forums and talk to us.

I do appreciate, Mr. Chairman, you were at a forum that I conducted in Iowa and that was pretty typical of the forums we had across the country.

We received 4,000 comments. We did a summary of those comments that is actually contained in this binder, but we put it on the website, 41 summary papers, and then I turned to our Chief Economist Keith Collins and I said, identify themes, and we worked together and tried to identify themes out of the comments. These were published in five theme papers that have now been on our website for some period of time, filled with excellent information, and again, led by the folks in Keith's shop.

We then ended up with our farm bill proposals, which is contained in this booklet, and as I said, we made that a part of the record.

Let me just be very clear, and I mentioned this when I was going through the confirmation process. I have a history with the 2002 bill. I was the lead Governor for the Western Governors and the Midwest Governors. In fact, Tom Vilsak and I were co-lead Governors for the Midwest Governors in the reauthorization of the 2002 bill. I have said many times, I think it was the right policy for the times. Commodity prices were low. Exports had declined for several years in a row. The debt-to-asset ratio was at about 15 percent. That was not the highest in history, but it was certainly a number that caught probably everybody's attention. It was the first ever farm bill with an energy title and it increased conservation spending by about 80 percent.

But times do change, and farm bills reflect the changing times. As the Chairman indicated, that is why we pass them for a limited number of years and then reenact them, so we can calibrate the changes that have occurred.

Today, as we prepare for a new farm bill, commodity prices are strong for most program crops, and in some areas, historically strong. Exports have increased every year to a record $68 billion. We think in 2007 that number will actually get to $77 billion. That will be yet another record.

In all of the recordkeeping the USDA has ever done, I can tell you that we have the lowest debt-to-asset ratio in recorded history. It is now about 11 percent as of 2006, and the trend very definitely is in the right direction.

And renewable energy is a significant contributor to the agricultural economy.

As we went around the country, we listened to stakeholders and we built proposals based upon principles of reform and also recognizing that fiscal responsibility was important. We knew at some point we would have a baseline number we would have to work with. The proposals we submit, I would respectfully suggest to the committee, are more predictable. These proposals are more market-oriented. They provide support when revenue is low.

Senator Chambliss, I am very anxious to engage in a dialog with you on some of the comments you have made because actually, we believe the proposals we are making provide a more predictable safety net for producers out there. But again, I will save that for our discussion.

We believe these proposals are more equitable. They distribute resources more equitably than previous farm bills have done. And we support growers of specialty crops, for example, who have had a small place in previous farm bills, but very small. We also would respectfully suggest that these proposals are better able to withstand challenge.

Again, many of you have an interest in, of course, all commodities. Some have a very special interest because of state production in cotton. Well, we have a WTO cotton case. We cannot ignore it. We are now—the case is final in terms of the ruling. Now they are trying to figure out whether we have complied with the ruling. That is what the most recent case is. And we believe it wisely and effectively spends tax dollars.

Let me just touch with a tad bit of detail on some of the proposals. We are proposing to revise downward marketing loan rates. I mentioned that when we released this almost—well, it was a week ago. Here is how they were set. They were set based upon the market. We did not go out there to try to just pick a number. We set them based upon market experience over the last 5 years of the 2002 farm bill, the Olympic average, taking out the high year, taking out the low year, and basing it on the average of those 5 years.

The House approved a version of the 2002 farm bill before it was sent over here to the Senate and loan rates were established in that House-approved bill. We have proposed to cap loan rates based upon that number that had been through that process.

We now post about 8,000 daily prices, county prices, and you can do the math. Eight-thousand times 365, I do not know if we post them on holidays or not, Chuck, but if you do the math, roughly around three million posted county prices. It is no wonder you go out into the country and farmers are saying, our county prices do not make sense. They do not compare with what is happening in the next county. Quite honestly, it just invites problems. We are changing that from a daily posted price in our proposal to a monthly posted price.

We also increase direct payments by $5.5 billion. I can tell you without a doubt, to the producer out there, this is more predictable. It is not tied to price or production, and although I am not the trade lawyer, I can tell you that generally, payments not tied to price or production do not run into the WTO challenges that you have in programs that are tied to price or production. And for the young producer out there, if this proposal is adopted, you take it to the bank.

Now, lowering loan rates for four of the major commodities—corn, wheat, rice, and soybeans—the net effect really is not financial. But notwithstanding, we went out there and said, you know, in the third, fourth, and fifth year, we should improve the safety net, so we identified a billion dollars to raise those direct payments. If the projections are accurate, the loan rate impact here really is not going to make any change in terms of the financial aspect. It is about a wash, and Keith may talk about that at some point.

We heard something very interesting out there relative to the countercyclical, and Senator Chambliss, this might get to a part of your comments. This seemed counterintuitive to me, but we heard it in Kansas, we heard it in Nebraska, we heard it in other places. Farmers showed up and said, you know, the interesting thing about the 2002 bill, I am over-compensated when I do not need it and I am under-compensated when I do. And like I said, it sounded terribly counterintuitive to me. Let me explain what those farmers were telling us.

In years of high production, the price goes down typically and the countercyclical kicks in. And if they have raised a crop, in fact, a big crop, they were able to pick a day to lock in their LDP. And in 1 year, it happened at a time where we had a 2–month decline in price because of Hurricane Katrina and prices came back, so they locked in very high LDPs.

Now, let me take the other side of that. What about that statement that says, in years where I need the safety net, the 2002 bill isn't there? Some of you will really relate to this. What farmers were telling us there, and again, we have studied this and it bore out, in years where their production has been hit by drought or other circumstances, what tends to happen to the price? The price goes up. It is a simple supply and demand phenomena. The countercyclical does not kick in. They do not get the countercyclical payment at a time when they are experiencing drought, their neighbors are experiencing drought, for example.

And I was told a thousand times out there—it is etched in my memory—"Mike, you can't LDP a crop you can't raise." There are no loan deficiency payments on a crop you did not raise. So at a time when the farmer needs us most, they have no safety net. Is it any wonder that groups are here almost on an annual basis saying, we need a disaster program, and there is this annual debate, should it be $2 billion? Should it be $6 billion? Should it be $4 billion?

Our approach to this addresses a very important part of that issue, and again, it came from farmers. We provide a conservation-enhanced payment option. Let us say a farmer of a program crop out there looks at the farm bill and says, you know, prices are strong. I do not think I am going to get a countercyclical or loan deficiency payment over the next 5 years. I will get my direct, but I will not get these other programs. However, there are some conservation things that I have been interested in getting done. Is there a program that fits for me?

Under the proposal we are making, the answer to that question is yes. Farm just the way you are. Raise your corn, your wheat, your cotton, whatever you are raising. Work with us on conservation ideas for your farm. We will raise your direct payment 10 percent under our proposal. And so we get a benefit. We assure that farmer an additional payment to assist in doing those conservation efforts, totally voluntary. The farmer may look at it and say, that is a good program for somebody, it is not a good program for me. I will stay with where I am at. That is fine. No problem with that at all. We give farmers another option to look at.

We are also proposing to eliminate commodity program payments on land acquired through 1031 exchange. This does follow the land. Boy, I will tell you what, you go out there, all I needed to do to start a farm bill forum debate was to start talking about 1031, and I will tell you what, you got a debate.

Farmers see this as raising their cash rents and their land prices, and what we are saying is we are not proposing to impact the tax code. You will still be free to do the 1031 exchange. We appreciate the jurisdictional issue here. What we are saying is if you do that, then the cash commodity payments under Title I would not apply to that land. You would not receive those payments.

Now, if I might make a few comments about some of the other changes we are proposing. I could spend hours on the commodity title. It is complex. We know that. I will let that come out in questions.

Let me talk about conservation. We are proposing an increase of $7.8 billion in our conservation programs. We heard from farmers,"we like conservation". "Your programs are so complicated, they confuse us". They are right. They confuse us, to be very blunt about it. We are proposing simplification and consolidation. We are proposing to create a new Environmental Quality Incentives Program, which would include a regional water program.

Senator Harkin, you have led the debate on the Conservation Security Program. We are proposing more than doubling the funding in this area, from about $300 million annually to $800 million. Most of the money for CSP under the current plan is way out there in the ninth and tenth year. It spikes up like this. We are proposing to level that out and increase the funding by $500 million.

If our proposals are accepted, we would be able to offer CSP on a nationwide basis—on a nationwide basis. It would not be limited to watersheds like it is today. We believe over the time of our—over 10 years, that we would increase acres from 15 million to 96 million, a substantial increase in what is proposed, and I have to tell you, it just works better for us. Trying to get out there nine or 10 years and then ramp that program up that dramatically, it would just work better, I think, for stakeholders and everyone if we could level that funding out over the next decade.

We are providing $1.6 billion in new funding in our proposal for renewable energy research, development, and production, targeted at cellulosic ethanol. I am confident in telling you, I think corn will always be a part of our ethanol industry. It has got a tremendous footing in the market. It has been around a long time, really successful in the last couple of years. But if we are to meet our goals, if we are to meet that goal that the President talked about in his State of the Union of reducing gasoline consumption by 20 percent in 10 years, we need to move toward cellulosic.

But here is the positive thing about that. All of a sudden, ethanol goes from a corn belt-based program to a national program. If you have biomass in your State, you have forest ground where literally you want to clean up what is laying on the floor of that forest, you could have a biomass program. If you grow grass in your State.

The other thing I would mention, we have made a proposal on a conservation program where literally we would say you have to meet your conservation goals. You have to deal with the nesting season. You have to do everything you said you would do to meet the environmental nesting requirements, but let us think about a program that would allow a harvest, if you will, of something from that conservation ground, and again, I emphasize in an environmentally sensitive way, complying with all of the needs of the nesting birds out there, but again, it gives farmers another option.

We are providing $1 billion in loans and $500 million in grants for rural communities. We have a list we could provide, but across the United States, we have 1,280–some hospitals, if I remember the number correctly—1,283 hospitals that have been designated Rural Critical Access Hospitals. These hospitals need to be rehabilitated. They need to be up to today's standards. These are in very rural areas. Senator Nelson, we would see these in our State, but you would see these across the country. Senator Roberts, you would see these in Kansas. These are hospitals that if that hospital closes, health care disappears for miles and miles. We are proposing—we have not had the money to finish these hospitals. We are proposing the financing for this loan program—it is a loan program that would do them all—during the life of this farm bill, we would do all 1,283 hospitals, and again, a very important program for health care.

We propose additional funding to deal with the backlog of infrastructure programs, and we are proposing some consolidation.

We are also targeting about $5 billion in funding to support our specialty crop farmers across the country. As I said, we did Farm Bill Forums across the United States. Our specialty crop farmers made it clear, they did not want to be a subsidized crop. They are not looking to be in Title I in terms of a cash subsidy. What they were looking for was increase in funding for research in phytosanitary and sanitary issues, market promotion, those kinds of things, and so we have identified funding here.

We have a number of proposals. We started every farm bill forum with somebody from FFA, somebody from 4H. I was in both programs growing up. They are great programs. They talked about the challenges of starting out, beginning farmers. We are proposing in the program crop area to enhance the direct payment for beginning farmers by 20 percent. We are also targeting part of our conservation programs and substantially improving our loan programs for beginning farmers. The improvements in the loan programs, the targeted enhancement and conservation, would also apply to socially disadvantaged farmers.

Now, we have not defined beginning farmers in our proposal, although there is a definition in our loan programs, but that would be one where we say to the committee, Chairman, we want to work through this and try to figure out how this program applies. But we proposed these ideas because I think they make sense for the next generation of farmers.

And then I would also mention, and there is a lot of detail that I will not go into here that we can certainly provide in response to questions, we are doing a number of things in our food assistance programs that are very beneficial. For example, college savings, we are proposing that would not be computed as a part of your assets. Your retirement account, we are proposing that that would not be figured in as a part of your assets. So again, it should improve access.

We are improving—we focused on this disaster assistance area. A couple of things I would mention. One is the revenue-based plan will simply work better. We are also proposing gap coverage. We went out to farmers and they said, “Mike, I can buy crop insurance to cover 70 percent of my crop,” or whatever the number is. “What do I do?” Some farmers cannot afford to lose that 30 percent and survive. Some can. Some can manage that risk, not a good deal, but they can manage it. We are proposing to cover that gap in our crop insurance proposal. We are linking crop insurance participation to farm program participation and we are consolidating ECP and EWP in one emergency landscape program in our proposal.

A final thing I will mention, overall, I believe these proposals achieve a funding balance. If you look at the spending in the 2002 farm bill, from 2002-2007, this proposal spends about $10 billion less. If you add into that the disaster relief, it would be about $17 or $18 billion less. But apples to apples, $10 billion less. However, if you just walked in and said, "I like the 2002 bill. Let us just reauthorize it," some have said that, maybe less and less now, but some have said that, and so if you just walked out on the Senate floor and got those votes and the House floor and just simply reauthorized it, this proposal actually spends $5 billion more over the baseline. But most importantly, it fits within the President's plan to balance the budget within the next 5 years, and I would argue to you, it is a more predictable safety net in terms of what farmers are trying to deal with, and that is especially true in those areas that have struggled through drought and those kinds of issues.

Let me just wrap up my comments and say, Mr. Chairman, I thought your comments were right on target. We do a farm bill every 5 years because it gives us an opportunity to ask ourselves what has worked, what has not worked. We decided the best way of approaching that was to simply ask farmers that question and to try to fit our proposals and tailor them with that as our base.

So with that, again, I am pleased to be here. If I took a few more minutes than I thought I was going to, I apologize. As you can tell, I feel passionately about what we are doing, and I say finally, I look forward to working with you and the committee on all of these important issues.

Chairman HARKIN. Mr. Secretary, thank you very much. That was a very comprehensive and well-presented, I think, analysis of your farm bill proposal. It is a comprehensive bill. There are a lot of good things in there that I think we should take a look at. I think it is one on which we can work together as a committee and work with you on as we move ahead.

[The prepared statement of Hon. Michael Johanns can be found on page 69 in the appendix.]

Chairman HARKIN. Just a couple of comments on what you said there. I think you are right on target on doing something about monthly posted prices rather than the daily.

I have a concern about the direct payments. It is going to get harder and harder to explain to our colleagues here, and I think the American people, why we should give a government check to someone who is doing very well, who is making a lot of money, but we are going to give you a check anyway. That is why I, quite frankly, I had some questions about this Revenue Assurance Program as it was brought up in the past. The more I look at it, I think the more I like it, and I think it has a lot of promise. Again, I just say, to my way of thinking, I think that rather than bumping up direct payments, maybe we ought to put more in the Revenue Assurance. Again, that is a true countercyclical-type program.

Now, how that runs into WTO problems, I am not certain. We have to work that one out, I think. But I think that is more saleable than just a direct payment, again, to a farmer who is doing very well.

The 1031 exchanges, right on target. I hear about that a lot. In fact, I just want to say as an aside, I compliment you on all the hearings you had around the country. I went to the one in Iowa. You were right. It was wide open, no preset agenda. Anybody could say what they wanted to say, and I thought it was really a good exchange. But the 1031 exchanges, you are right on target on that.

On conservation, I know that there is an urge to simplify and we do have to simplify, but there are a lot of specific things that we have tried to address in the past, whether it is WHIP or WRP or EQIP or CRP. All of these address different aspects of conservation, and I am not certain that sort of one-size-fits-all. Within that framework, whatever we can do to simplify, we should.

I again congratulate you and thank you for your proposal on getting rid of the watershed basis on the CSP Program. I have heard a lot of not good comments on that one in the past, simply because of the anomalies which it brings up and the inequities on that. So we can go to a true national basis on that. We had some testimony in our hearings earlier on and we are getting more information on proposals on how you do that and we welcome any suggestions that you might have on that basis, also.

I will say, however, I think that as much as I applaud your willingness to move ahead on CSP, I think if you are going to use CSP for renewable energy and cellulose crops where they can harvest it in an environmentally sensitive manner, I think CSP fits into that and I am not certain that that amount of money that we have there will move farmers into that transition where they can grow those kinds of crops, but that is for a later discussion.

On rural development, I applaud your proposal on the hospitals. I think that is long overdue, something I wish we would have paid attention to in the past and we did not.

The Specialty Crop Program, while I think you are going down the right track on that, I might have a question and concern about how you want to do that. We have started a program, a little pilot program in the 2002 farm bill that was called the Fruit and Vegetable Snack Program. We started with four States and 100 schools, 25 schools in each State, where kids were given free fresh fruits and vegetables and it was just to see what would happen. Well, what happened is every single one of those 100 schools that started, not one has asked to drop out of the program. We are now up to 14 States, if I am not mistaken, and, I do not know, somewhere between 500 and 700 schools. I cannot get a quite good grip on exactly how many schools.

But every State in which they have adopted this, the schools that are not getting it are asking why they cannot get it. It is a way to get fresh fruits and vegetables to kids in elementary school. I have said before, my goal has been that in 10 years, that every elementary school kid in America gets free fresh fruits and vegetables at snack time in their schools. I hope that we can work on that as part of your program in looking at specialty crops.

The enhanced direct payments to beginning farmers, I think we should look at that. I have a little bit of concern about that in terms of the definition and who gets that and whether or not that ought to be balanced with long-term lower rate interest rates, in other words, spreading things out over a longer period of time and that rather than just an up-front direct payment as such, but a balance between the two.

On food stamps, again, I congratulate you for looking at the retirement assets. Senator Chambliss has a bill which pretty soon—have you introduced it yet or not? I want to get on it, but——

Senator CHAMBLISS. It is ready to be dropped.

Chairman HARKIN. It is ready to be dropped, working on the asset limit and stuff. I looked it over and I told my staff to put me on that bill right away. But it tracks a lot of what you are saying.

And the crop insurance, we are going to have to take a look at that gap coverage, group coverage that you are talking about and see how workable that is. I do believe that crop insurance should be strengthened. I think it provides, again, that safety net when you are talking about farmers may not get something when they do not have a crop. Well, that is what crop insurance is for and we need to design it so that we do cover that gap you are talking about, that 20 percent, 30 percent gap in there.

So all in all, I thank you very much for your presentation and for your recommendations. We look forward to working with you on it.

I have one question that basically has to do with funding and energy. I think there is a consensus, Mr. Secretary, and you have said it in your statement, to move this farm bill aggressively in the energy area, in renewable energy. But right now, USDA is proposing about $160 million per year in funding for energy programs. Correct me if I am wrong on that. Current authorizations for essentially the same programs total over $200 million per year, and appropriations from fiscal year 2003 through 2006 averaged about $175 million a year.

So again, if I am right on those numbers, then why are you proposing less than recent appropriations or current authorizations while at the same time the President is calling for a very aggressive and expanded research and development program on renewable fuels and bioenergy? So that is my question. I am looking at the figures and it looks like we are spending more now and authorizing more now than what you are proposing.

Secretary JOHANNS. You are right in terms of spending authorization, but let me, if I might, just run through some numbers here that I have in front of me. The 2002 farm bill provided mandatory funding of $14 million per year. It authorized an additional appropriation of $49 million annually through 2007. However, none of the additional $49 million of authority was ever appropriated. It never came to be.

A couple of other things to think about before I talk about our proposal. The 2005 Energy Policy Act extended the authorization for appropriations to fiscal year 2015 and increased discretionary funding by $200 million. We are not proposing any change to that. So that is still there. We are not proposing that that go away.

In addition, the USDA proposes an increase in mandatory funding from $14 million to $15 million a year, so actually a little bit better than what was in the 2002 bill.

Chairman HARKIN. Fourteen to fifty?

Secretary JOHANNS. Fourteen to fifteen, one-five. Fourteen to one-five, 15.

Additionally, the USDA's research title proposal also includes a major investment for bioenergy. It provides $50 million annually for bioenergy and bio-based products research initiative. This initiative was designed to be complementary to the biomass research and development initiative.

Then finally, our proposal would accelerate the development of technologies to better utilize low-value woody biomass by authorizing $15 million in annual mandatory funding for Forest Service research. Now, that is a pretty aggressive program. I would also mention that we are also proposing a $2.1 billion loan guarantee program to assist in building cellulosic ethanol plants, and I would mention this funding is targeted at the cellulosic area. But again, not to take away from anything we might be doing out there now in corn. We will continue to do those things, too.

The other thing I would mention, and this is an area I only want to mention because I am not as familiar with the Energy Department budget as much as I would like be, but there is an energy initiative there that we work with the Energy Department on, so when you put the whole initiative together, Chairman, I think you will see that we have a very aggressive effort here. You add into it the loan guarantee program and I think we can do some very, very exciting things with what we are proposing.

Chairman HARKIN. Mr. Secretary, I am sure my staff and others will absorb that and look at that. You are right on the $2.1 billion loan guarantee program. DOE has that. They cannot administer anything. I mean, DOE, this is not what they have done in the past. They have no history of doing this. They have tried to do it. They cannot seem to get it done.

Well, we know how to do it, we being the Department of Agriculture know how to do this. We have a long history in doing this and it is time that we step up to the plate and I am glad you did with the $2.1 billion. I think we ought to be out there. As you know, we have got to break this chicken-and-egg thing.

You can get investors in corn ethanol plants now. That is no problem. You can raise a lot of equity on those. But cellulose, that is pretty difficult right now. If there is no supply, then you have got to put some loan guarantees out there for cellulose plants and for farmers to raise the crops. They say, well, why should we raise it? Where are the incentives? Where is the market for it? So we have got to do both together and I think that is sort of what you are doing.

But let me move ahead. I just want to ask one more question. On the Conservation Security Program, your plan would provide an increase of $500 million over the next 10 years, spread the baseline funding from the two uncapped years in the baseline back to raise the existing multi-year funding cap. Chuck, I am finally understanding what you were doing here. Well, you are going in the right direction. It is just not enough, OK?

But the President's budget released Monday would reduce spending for the Conservation Security Program in 2008 by $135 million and reduce the cap on CSP by $80 million between now and 2015. So there is kind of an inconsistency there.

And the second part of my question has to do with regulation. You are planning to take a whole year to redo the CSP regulations. I do not know why. Between that and the funding situation, this could mean the program might not enroll any new farmers or ranchers for 2 years, and yet farmers and ranchers like the program. They want to participate. We want to do better conservation on working lands. We want to move into bioenergy crops. This fits that perfectly. It seems to me it is an existing program. It should not take you 2 years to get this done.

So that is two. How about the inconsistency in the President's budget, what you want to do, and why does it take 2 years and can you collapse that down?

Secretary JOHANNS. Let me address the 2 years and I will ask Dr. Collins to visit with you about budget.

It is going to take us some time to do some regulations here. Chairman, I would say this. If we can do it in a shorter period of time, I will absolutely be committed to that.

Chairman HARKIN. Well, you can.

Secretary JOHANNS. You are right. Farmers told us they liked this program. You referenced their consternation about this being limited to wetlands and they would say, well my neighbor can get in it. I cannot get in it. They felt some unfairness there—or watershed. It is not wetlands.

Chairman HARKIN. Yes.

Secretary JOHANNS. And so whatever we can do to get those regulations done and do this program, and I think at the end of it, there may be some things here that you want to talk to us about, but I think at the end of it, we are going to have a better program, a more reasonably financed program, a program that we can build upon year after year after year instead of somebody worrying about the ninth year and the tenth year where this program skyrockets in terms of the funding available.

I would sincerely argue to you, I think some of the things, maybe not all, but some of the things you would like to accomplish are necessary. We have to get through that rulemaking process. If we can do it more expeditiously, I am all for moving government along and we will take a look at that. But we built something in and that is where you are running into this issue about 2008.

Chairman HARKIN. On the budget stuff, I will defer until later. I have taken too much time as it is right now and I will defer to that later. After everybody has had their rounds, we will get back to that budget on that.

Secretary JOHANNS. OK.

Chairman HARKIN. I will now yield to my colleague, Senator Chambliss.

Senator CHAMBLISS. Thank you, Mr. Chairman.

Mr. Secretary, let me make clear that our obligation as an oversight committee dictates that we direct criticism where we think it needs to go and we commend where we think we need to commend. As you and I have discussed privately, I commend you for thinking outside the box. We have got to make significant changes in the way we approach agriculture in this country and particularly government participation.

My criticism, though, is really directed in a number of areas. I am going to try to focus on a couple of them relative to your proposals, because at the end of the day, we both have the same goal in mind and that is to make sure that we continue to provide the most abundant, the highest quality, and the safest food supply of anybody in the world. We cannot let agriculture become a national security issue. And the way we make sure that does not happen is that we continue to have farmers all across America that produce that high quality of food product.

Now, in your testimony, you have noted as a criticism of the 2002 farm bill that only 9 percent of farms collected 54 percent of all government commodity payments, and that is true. But what you have not noted in that testimony is that 9 percent of U.S. farmers represent 70 percent of farm output. Now, this 9 percent that USDA considers commercial farms combined with the next tier, representing 25 percent of all farms, which are known as intermediate farms, consists of farm operators who report farming as their major occupation.

The remaining farms, which are dubbed rural residence farms by USDA, represent 65 percent of all farms and receive only 16.9 percent of government payments under the current farm bill. But those farm operators list their major occupation as something other than farmers. They are not the people who get dirt under their fingernails and drive the tractors every day. And while these rural residents' farms contribute in a positive and significant way to our Nation's agricultural diversity, it is fair to say that they do not incur the level of agricultural risk of those intermediate or commercial farmers who provide the bulk of the Nation's commodities.

Now, in the current farm bill, we have a $2.5 million threshold for farmers to be able to participate in farm programs. Now, that $2.5 million is gross income only, from farming operations, significantly different from the adjusted gross income and the level of $200,000 that you have proposed. In addition, the current farm bill says that will be a 3–year average and that 75 percent of that $2.5 million has to come from farming operations, a major change from what you are now proposing.

I called up—and under your proposal, a farmer who exceeds that $200,000 limit gets no payments whatsoever in the subsequent year. I called an equipment dealer and I said, tell me what a piece of equipment costs. For example, what does a big tractor cost that somebody who has got 500 acres or more needs. A John Deere 8330 is $130,000. A small tractor is $80,000. A 4 row cotton picker is $230,000. A corn combine with a grain head is $260,000. With those numbers, in Georgia, it was not that long ago you could buy a farm for that amount of money, and these folks are now having to pay that for equipment.

I point that out because under your limit of $200,000 of adjusted gross income, a farmer would still have to make all of his equipment payments. He would have to make all of his land payments on any farm that he was purchasing. And yet if he had a pretty good year 1 year, by the time he got to the next year, he would not be able to participate in government programs, and that is why I say that your proposal concentrates more on direct payments to folks as to whether or not they farm or not, as the Chairman referred to, and does not provide that safety net, and I am going to give you an example.

Let us say that we pass this farm bill this year. It goes into effect October 1, when the fiscal year begins. And let us say you have a farmer in my part of the world who has a pretty good year this year. He participates in government programs under the cap that is set in place. He has an adjusted gross income in excess of $200,000 from which, as I have already said, he has got to make all these payments. But all of a sudden, he has exceeded your cap. So that means that next year, he does not participate in government programs. He gets no payments under your proposal.

Now, let us say next year, when he needs those payments, he has that drought that you referred to or he has extreme wet conditions that you referred to and he does need those payments. All of a sudden, because of this cap that you have set, he gets no income. He gets no help from the government. He has still got to make those farm payments. He has still got to make those equipment payments. He has still got to reimburse his banker. And granted, he has got the crop insurance program to work with, but what am I missing here? Where is that safety net that we want to give to our folks under your proposal with that scenario?

Secretary JOHANNS. Very respectfully, here is what you are missing. Our proposal is a 3–year average, so what you have laid out there in terms of 1 year, another year, is actually going to be substantially mitigated by a 3–year average. You know, I grew up on a farm. I appreciate there can be spectacular years followed by bad years. We understand that.

The other thing I would tell you is this. If you take a look at adjusted gross income, the current law is $2.5 million. It is also based on AGI. It is an AGI limit just like what we are proposing.

I will tell you, at $2.5 million, and Keith always remembers numbers better than I do, but I think if I remember the numbers correctly, at $2.5 million, you are really not impacting anybody to speak of. I think it is 0.0007 percent of the tax filers in the United States who would be impacted by that. It is—even under the proposal we are making, we are impacting 2.3 percent of the tax filers in the United States, 2.3 percent, and it is actually, when you figure out who actually is receiving payments, it is probably a much smaller number than even that.

But getting beyond that, Senator, I certainly appreciate also the cost of equipment. You are right, equipment is expensive. If you are a major commercial farmer as we describe it and as you have referenced, you go out and buy a new combine, you could pay $250,000, $300,000. If you put bells and whistles on it and it does the things that we can do with current technology, these are very pricey operations.

However, if you go to Schedule F on the tax return, which is entitled "Profit or Loss from Farming" or also it is just basically the form where you consolidate your profit and loss, in part one, you list all of your income, and then the Internal Revenue Service through action by Congress allows you to start deducting what you would deduct off of that income.

I could spend the next 10 minutes describing what you can deduct. It is a long, long list. It is items 12 through 34, everything from pension and profit sharing plans to rent, lease, repairs, seeds, employee benefit programs other than what is under pension and profit sharing. I mean, like I said, I could tie up a lot of the committee's time telling you what is computed in that, and I am talking about AGI. I am not talking about the gross income. So you get to take all that away before you have to worry a bit about the proposal we are making.

And then you get to line 34, and tell me where else you find this on anybody's tax return. The Internal Revenue Service has five or six more spaces where you list other expenses. Everything else that was not listed somewhere else, you get to list other expenses, including machinery.

Now, the other thing I want to devote a moment to was your question about the high cost of machinery. I do not deny it. Whether you are a farmer in Iowa or a farmer in Georgia, there is a cost of machinery. I asked for an example. I said, assume for the purposes of discussion, when I spoke to somebody in our economist division, I said, assume that a farmer spent $400,000 on equipment. How will that farmer's expense impact his AGI?

Now, here is what would happen. You can do Section 179 expensing. That will save you $108,000. Then on the balance, the $292,000 balance, you can take depreciation, and based upon 2006 numbers, that would total $31,273. So now the farmer can plug in, offsetting his income, $139,273 for that $400,000 equipment purchase.

Now, the other thing I would tell you is that farmer, let us say he bought $400,000 worth of equipment. He probably did not part with $400,000 in cash. There is probably some trade-in value in the old equipment. I mean, there are a number of things going on here. But the only point I will make to you is that when you really slice and dice this, we project, and Keith can explain how we do this, that we will probably impact a billion-and-a-half over 10 years. But with the recognition that we are basing this on AGI, that the farmer gets to take all of these expenses off, again, here is what I would respectfully suggest.

By any definition in any part of the country, these folks are doing very well. My deputy said, these tend to be the wealthiest folks in the county. I do not know if that is the case or not. I do not live in every county. But I will tell you, based on AGI, these folks are in the top 2.3 percent of tax filers in the United States, and then slicing it even finer, those folks who receive farm programs, it is even a smaller number of that.

Now, there is probably some concern because we have people from all over the country here about, well, Mike, I hear you, but this impacts my part of the country more than other parts of the country.

I have asked Keith to look into that and Keith is going to offer a thought or two, and if you do not mind, I would like to have Keith offer a thought. Keith?

Mr. COLLINS. Sure, Mr. Secretary. I can amplify your comments by perhaps providing a couple of numbers.

I would say, first of all, the universe of people that we are focused on here with this proposal is Schedule F filers, people who file a 1040 return and have a Schedule F. In 2004, there were a little over two million of those. Out of those two million, 85,000—and that is a little bit different number than our book because we have got some more recent data from the Internal Revenue Service—about 85,000 of those farm proprietors had adjusted gross income over $200,000. But now out of those 85,000, many of them did not get farm program payments at all. So out of those 85,000, 25,000 received farm program payments.

So that means 25,000, or 1.3 percent of Schedule F filers, received farm program payments, and they received 4.7 percent of all farm program payments made. Mr. Chambliss, you mentioned that commercial farms received 55 percent of all farm program payments. Well, this group receives 4.7 percent of all farm program payments.

I also should mention that there are other filers, those who do not participate in a material way in the operation of the farm. They file a 1040. They may not have a Schedule F, usually do not. They file a Form 4835. They are landlords. There is another 638,000 of those filers, and out of that, there are 12,000 of them, or 13,000 of them that receive farm program payments. That is about 2 percent of all the Form 4835 filers in the United States.

In total, when you add the Schedule F filers and the Form 4835 filers together, you have got about 2.7 million tax returns and about 38,000 of those, or 1.4 percent, have adjusted gross incomes above $200,000.

Now, we had a little bit of difficulty getting complete State data, but as the Secretary mentioned, we do have some idea of how this cuts regionally, but primarily just from the Schedule F filing data. And if you look across the country at where the most or the highest proportion of Schedule F filers having adjusted gross income over $200,000 reside, it tends to be the Northeastern States, States like New Jersey, Connecticut, Massachusetts. In fact, the State with the highest proportion of returns, Schedule F returns over $200,000 AGI is the District of Columbia. Twenty-nine percent of tax returns with Schedule F are over $200,000 in AGI.

In most of the States, particularly in the Southern States, it is lower. Alabama, 4 percent of Schedule F filers have AGI over $200,000. Mississippi, 4.4 percent. Georgia is a little higher, 6.8 percent. But generally, that is the way it works out. The coasts tend to be higher. The heavily populated States tend to be higher. When you get into the plains States, Kansas is 2.3 percent of Schedule F filers have AGI over $200,000. And then again, out of that 2.3 percent, not all of those are getting farm program payments.

So I think while there has been a lot of alarm about this proposal and perhaps the heavy incidence of this proposal on commercial farmers, when we look at the data, I think it turns out to be less than what probably most people expect. Thank you.

Senator CHAMBLISS. Just very quickly as a follow-up, if the $200,000 is a 3–year average, Mr. Secretary, then you need to be clear in your book, because I am sitting here reading at page 21. It says, $200,000 annually. It does not say anything about average. So you need to make that clear, and that helps some. It does say that you can have a couple of good years and throw in a bad year and you are still going to be eligible.

However, I am also sitting here looking at Schedule F. Irrespective of whether you have the average of $200,000 or $2.5 million, you are still going to have to make these payments. Now, you referred to Schedule F and here it is, and Chuck, you are shaking your head. Show me on here where it says you can deduct your farm land payments, that you can deduct your equipment payments. These payments go on, and $200,000 is a lot of money, but when you are talking about somebody having to conduct a farming operation or that is a corporation, whether it is an individual or whether it is a trust. If he has $200,000 and has a million dollars' worth of equipment, plus the land, the farm, there is no way he can do it.

But even irrespective of that, irrespective of whether it is somebody that has a million dollars' worth of payments, or if he has a small amount of payments, he has still got to take it out of whatever that adjusted gross income is. Keith, your numbers bear out the fact that farmers do a pretty good job of taking a lot of expenses off of there, and I do not doubt that. But the fact is, a $200,000 limit, even if it is over a 3–year average period of time, is not going to allow your small farmer, your farmer who farms 500 acres, the ability to participate.

Keith, I think you hit it on the head better than anything else. We are going to eliminate 85,000 farmers across America with that limit from being able to get a helping hand when times are tough, not in the good years, but when times are tough, they are going to be eliminated.

My time is up. I have taken way more than I should. I may have a chance to come back, Mr. Secretary. I do have, Mr. Chairman, a list of questions that I will submit for the record.

Chairman HARKIN. Without objection, we will include those, and we will include any questions that members were not able to ask to send to the Secretary.

In order of arrival, we have Senator Nelson, Senator Crapo, Senator Roberts, Senator Lugar, Senator Salazar, Senator Klobuchar, Senator Cochran, Senator Brown, Senator Coleman, Senator Lincoln, Senator Stabenow. I am told that Senator Nelson will yield his first position to Senator Crapo, who needs to make another appointment, so I recognize Senator Crapo. We will try to do 6–minute rounds. I ask, Mr. Secretary, if you can help condense the answers a little bit and we will try to get through at least a first round and get into a second round, but I am committed to be here as long as we need to flesh out all the concerns that Senators have on your proposal. Senator Crapo?

Senator CRAPO. Thank you, Mr. Chairman, and thank you, Senator Nelson. I am one of those who, I am sure like most of us, have four hearings going on at this point and need to get moving to another.

Mr. Secretary, I want to join with the comments of others who already today have commended you for thinking outside the box and submitting a very solid, good proposal to us for consideration. By the nature of the way this works, though, I am going to focus on some areas where I do have disagreement in the few moments that I have. In fact, I am going to probably spend my entire time on just one of those, and that is the dairy program aspects of the proposal.

As you know, I have been a longtime opponent of the MILC program, which I believe is regionally divisive and does not really provide an effective, fair, or non-market-distorting safety net for our dairy farmers, and I am disappointed that the administration has embraced this program in its proposal. In fact, the USDA itself has identified a number of flaws in the past with the MILC program, and in a report issued in 2004, the USDA found that the MILC program conflicts with the dairy price support program and actually causes milk prices to stay lower longer for all dairy producers. According to that report, without the MILC program, the remaining dairy programs raise the milk price by 4 percent compared to about 1 percent with the MILC, on average over 5 years.

So I guess my question is, why, given this understanding by the USDA of the problems we have with the MILC program, has the administration endorsed it as a part of its proposal?

Secretary JOHANNS. As you know, to date, we have supported the money for the MILC program. The President indicated he would and we have, and we have honored that commitment. For many dairy farmers in the Northeast, this is a safety net program. You can argue about whether it is effective, whether it is getting the job done, but it was put there. It has been financed over the past 5 years.

We propose some changes, much like we have proposed changes to a number of programs. We say it needs to be based upon the historical average. We propose that the rate be cut down from, I think, 34 percent the last year of the farm bill. It would be at 20 percent. But we have made those kinds of proposals all across our programs to try to make programs more market-oriented.

Here is what I would say when I thought about this. I certainly appreciate what you are saying and what you quoted from some of our findings. Once a safety net is put in place for people, however, it is very difficult to just snap your fingers and say it goes away. That is going to cause some real pain out there.

So we took an approach that basically says, we think we can put enough change into this, enough reform into this, that for the life of this next farm bill, it will step down and be a more market-oriented approach.

The final thing I would say on it, I have had a number of conversations with farmers in the milk area. I do think, Senator, there is a growing discussion about how best to approach milk programs in the future. I do not think it is ready for this farm bill, but I do believe as we head into the next 5 years with this in place, I do think that this discussion will continue and my hope is that good things will come out of it and we can take yet another step in the next farm bill.

Senator CRAPO. Well, thank you for your answer. I disagree with your conclusions there. In fact, I think that we would have a better safety net if we were to eliminate the MILC program, but I understand what you are saying.

I wanted to get two other quick questions in here, so if I could ask you to respond quickly to them, I would appreciate it because I am running out of time already.

The first is you describe some changes that you are proposing to the MILC program and my question is, do you anticipate that this revised MILC program will be classified as blue box or amber box under WTO rules?

Secretary JOHANNS. I am not the trade person and I would feel a lot more comfortable if I could pass that question to Susan Schwab. But I do think there is a chance this is blue box.

Senator CRAPO. OK. I will certainly ask her, as well, if she could elaborate on that, maybe when you get a chance to give me a fuller answer. I would appreciate it.

Secretary JOHANNS. Yes.

Senator CRAPO. The last question—I want to stick with dairy but shift subjects quickly—is on forward contracting. It is not clear to me what the current position of the Department is on forward contracting. In the past, the administration has supported it, as I do. In fact, there was a letter by Secretary Venneman to this committee stating the desire of the Department to have Congress extend that program.

Do you continue to support the program? Does the Department continue to support it, and if so, would you be willing to send us another letter indicating that support?

Secretary JOHANNS. I absolutely would. We support that. We have in the past. I do not know that we spent any time on that issue in the farm bill proposal——

Senator CRAPO. Right.

Secretary JOHANNS [continuing]. But we are so on the record there, but I would be happy to do it again and——

Senator CRAPO. I would appreciate that.

Secretary JOHANNS. I would be glad to do it. I will send that and copy the committee.

Senator CRAPO. Thank you. Mr. Chairman, we did it with 15 seconds to spare.

Chairman HARKIN. Great example. Thank you very much, Senator.

Now, we will go to Senator Nelson, and then Senator Roberts, then Senator Lugar, and on.

Senator NELSON. Thank you, Mr. Chairman.

Mr. Secretary, thank you for being here today and a special thank you to the former Chairman and Ranking Member Senator Chambliss for conducting a field hearing out in Nebraska and for listening very carefully to those who grow their crops in rows and those who are engaged in agriculture with ranching and cow-calf operations. We appreciate it very much.

Mr. Secretary, I have been watching the crop insurance program for some time as it relates to a continuing drought. The crop insurance program was never designed to try to have a loss for 7 years in a row, and so the effect of that is that the base continues to shrink each year so that if you have a drought going long enough, in effect you are out of business for crop insurance. I hope that you will take a very close look at the crop insurance program to see what we can do to avoid having that result. Averaging over years might make somewhat of a difference, but there are some things that I think ought to be considered and our staff would like to visit with you about that.

I have a series of questions which I will submit to you, as well, but one of the things that is important, I think, in this farm bill is to stress what the purpose of it is. The purpose is obviously to get payments to agriculture in a fair and equitable way and one that complies with all the new requirements. But it is also to protect our agricultural production sources in the United States so that we do not have to rely on other countries for production of our food because we want to produce it here at home. If we like relying on other countries and other parts of the world for 65 percent of our oil, we will love importing 65 percent of our food and relying on other countries to provide it for us. We do not want to give away that.

So, really, this farm bill is about protecting and the security of our food production here, not just safety but security of being able to produce it here at home so that we do not end up as a result of unfair trade practices, as a result of other imports, that we are not in the position where we have to rely on others for our food.

The second part of this is moving toward our own fuel security with the biofuels, with cellulosic, with ethanol, and you and I know what the ethanol industry started in Nebraska. When I was Governor, we had one plant. When I left, we had seven and you inherited that and we have continued to progress along the way and it is very encouraging that we are looking at switchgrass and other kinds of products that we can turn into our own fuel. But it is about developing our fuel security, as well.

So my challenge, I guess, and I tell you, I have no pride of authorship, but you probably would not believe that, but turning it into the Food and Fuel Security Act of 2007, because that is what it is about. Now, there will be some that will want to offer another word, "fiber," too, so I will be tripartisan, whatever it takes, but I think the emphasis has to be on producing and having the security of our food here at home. That is what these payments are about, keeping people in agriculture, bringing new people into agriculture.

Someone said today that the average age of farmers in Nebraska went up from 55 to 56. It still seems pretty young to me, but I know that the trend is not necessarily the way we want to go, or the number of farms that continue to decrease.

So that is what this is all about, and I applaud your efforts to try to build a program that will really work toward fuel and food, the security of both, because that is really what this is all about, and I wondered if you might have any comments you might make on that suggestion.

Secretary JOHANNS. I like the suggestion and I think it does focus on reality. You know, if you think about how much we are involved in the fuel issues, and I believe there is a great opportunity to expand that on a nationwide basis. As I said in my opening comments, I really look forward to the day and envision the day when production of ethanol is a nationwide phenomena, where it does move out of the corn belt and we move into cellulosic ethanol. That is when every citizen can look at that and say, we are benefiting from that investment that was made by that Congress some years ago. I think it is exactly where we need to be headed.

We did not try to name the bill. We only wanted to put our proposals out. But I do agree with your thought that it reflects reality. Twenty percent of our corn crop now is essentially devoted to ethanol. That number is likely to continue growing. I hope a future Secretary can come here and start giving you statistics as to how much of our biomass in the country is now being devoted to ethanol production, because we have got a lot of it and it is an untapped source of energy for this country.

Senator NELSON. Thank you. Thank you, Mr. Chairman. I outdid Senator Crapo. I left 20 seconds.

Chairman HARKIN. You sure did. Thank you very much, Senator Nelson.

Now we go to Senator Roberts.

Senator ROBERTS. Thank you. Thank you, Mr. Chairman, and thank you for holding this hearing, and thank you, Mr. Secretary, for coming before us. As I said, the best way to write a farm bill or any bill is to sit on the wagon tongue and listen to farmers and you certainly followed that advice. My word, you went to 52 listening sessions, including one at the Kansas State Fair in Hutchison and handled that very well.

We are running the numbers and we are going to be with you next week and so I am not going to be too pesky with you. I want to thank you for your health care efforts. I think you said 1,200, I think, Critical Access Hospitals. We have 84 in Kansas, the most in any State, and I want to thank you for that initiative.

I did not vote for this last farm bill. I checked with staff. I checked the numbers out of Kansas State University and seven out of the 10 years previous to that bill, the 2002 bill, we would not have received a payment. Those were some of the roughest years that we have had. And we have continued that. Why on earth would I support a farm bill that seven out of 10 years when you really need the money you are not going to get the money?

You said that, basically, in your testimony, but I want to repeat it. It is on page six of 12 in the Wiesemeyer report. I am not getting any payment for this, Mr. Chairman, or at least I do not think I am, and if I am, I sure as hell do not want to talk about it.

[Laughter.]

Senator ROBERTS. But at any rate, Jim Wiesemeyer, if James Brown was the Godfather of Soul, he is the Godfather of Agriculture Program Policy. On page six of 12, you say, well, if you look at the current CCP, and farmers told us this, and when they told us this, it seemed counterintuitive. I could not figure out what they were telling us. But when we looked at it, they were right. It is no wonder they were showing up asking for disaster aid. You cannot LDP something you have not grown, and they are right about that. But what tends to happen is that prices go up and the CCP is not triggered and they are out. They are flat out. If they have not raised a crop because of drought, they have literally lost on their LDP and literally lost on their CCP. Where is the safety net?

And that is what a lot of people were asking at the end of the 2002 bill. Lord knows I do not want to extend that. And so we had to rely on crop insurance and that is about all we had, and that is why you are going to be facing on the supplemental an emergency disaster bill for the 3 years of drought that we went through out on the plains and your home State, my home State, and other areas out there. So I want to thank you for really figuring out what is wrong with the current program and how to fix it.

We have to remember the lessons we have learned. I know you have heard in the forums that the target price for wheat was too low. We would get four cents of an increase. I am not going to get into comparing the commodities. I do not want to do that. I could, but do not want to. But the four cents comes in the out years. Wheat growers are not very happy about this, and so we are going to have to work on that.

I want to know, how does this formula help the wheat producers who were essentially left out of the countercyclical program under the 2002 bill? You do not have to answer that right now because I do not have enough time to get into it, but you could answer it for the record, and besides, you are coming up to talk to me next week anyway.

Do you have any projections—and this would be for the number cruncher of all time and the flyspecker over here, Dr. Collins—do you have any projections that you could provide us as to how the countercyclical payments would have looked over the last 5 years compared to the current farm bill? We need to know that.

You have traditionally opposed ad hoc disaster payments, encouraging the producer to buy crop insurance. As somebody who worked very hard in 2000 with Senator Bob Kerrey from Nebraska to create a program that provides the necessary risk management tools to producers, I am very concerned about the effects of your proposal on crop insurance. The last farm bill already robbed to use us as a bank, $2 billion from crop insurance. How does taking additional money out of this risk management program help producers? I do not understand that.

As the $200,000 adjusted gross income cap plays out in reality, let us say that there are three brothers in Dodge City, Kansas, operating jointly as Three Brothers, Inc. That company has an AGI of $205,000. That means each brother receives about $68,333 as their share. Does your proposal really preclude any of the brothers from receiving Title I payments? Does the $200,000 limit apply to the AGI of the corporation or to each brother individually?

You also have a conservation enhancement payment under Title I, that is the one where you say you will increase the producer's direct payment by 10 percent if they forego a marketing assistance loan countercyclical payment. I understand that the conservation payments under Title II are not subject to the new AGI limit in your proposal. So my question is, is this proposal a commodity program or a conservation program and which AGI limit would you propose applying to it?

Now, that is the laundry list of questions that I had for you. We have got about 32 seconds. Obviously, you cannot answer that, so why do not we just reserve all that until you come up and talk to me next week. We will have a good talk about it.

Keith, you said 85,000 farmers were eligible but only 35,000 actually got payments, is that right?

Mr. COLLINS. Mr. Roberts, I said out of all of the Schedule F filers, the what we call farm proprietors——

Senator ROBERTS. Sure, sure, sure.

Mr. COLLINS.—85,000 had AGI above $200,000, and out of that 85,000, 25,000 actually got farm program payments.

Senator ROBERTS. Yes, but the other 60,000, with the way the farm program was set up, we did not have a crop. So how can you file on Schedule F if you did not have a crop and you are not going to get a payment?

Mr. COLLINS. This was 2004 data, Mr. Roberts.

Senator ROBERTS. Two-thousand-and-four?

Mr. COLLINS. Correct. That is the latest IRS data we had.

Senator ROBERTS. Yes. Well, that is right in the middle of our drought. We had 2003, 2004, 2005, 2006, and a blizzard.

[Laughter.]

Mr. COLLINS. It was also——

Senator ROBERTS. I mean, the reason they did not put it down on Schedule F is with the way this farm bill is written, if you do not have a crop, you do not get a payment, except for crop insurance. I guess that is my answer to it. The other thing is that 29 percent came from the District of Columbia. What is that all about?

Mr. COLLINS. Apparently there are a lot of high AGI farm proprietors in the District of Columbia.

Senator ROBERTS. Yes, there are a lot of absentee landlords or something. By the way, Members of Congress make about $170,000 and if all farm income counts, there are not going to be many Members of Congress getting any farm program payments. I do not have a farm.

[Laughter.]

Senator ROBERTS. Thank you, sir, and Mr. Secretary, thank you. Chuck, it is good to see you and that guy with the glasses on his nose behind you. I appreciate his work, too. Thank you, Mr. Secretary.

Chairman HARKIN. Thank you, Senator Roberts.

Now we turn to the person who really alerted us and the whole country, I think, to the promise of cellulose ethanol, who really kind of charted the course and led the way, and that is Senator Lugar.

Senator LUGAR. Thank you very much, Mr. Chairman.

Let me just join you and Senator Chambliss in commending the Secretary, to begin with, for this book. This is really a substantial contribution. Now, I do not want to be derogatory to other Secretaries of Agriculture, but frequently, we have had a suggestion of pamphlets and then disappearance. I appreciate the fact that you are here, you have a book, you have Chuck Conner, who came with me to Washington 30 years ago and whose ministry in this thing I really respect so much, and Keith Collins, who has done superb work really throughout this period of time in amassing statistics that are impressive. So this is important.

Now, I make that point because some of the agricultural press have commented that commendation has come here or there, but I think it ought to be very concerted. I am one person that supports what you are doing, and even though we may argue over specifics of this situation, this is a vast contribution.

Second, I wanted to commend you for sticking up for the fact that farmers throughout the last three decades have gained much of their growth through foreign trade. We have expanded our markets. We need to continue to do that. I appreciate all the disputes that are going on surrounding the WTO—loss of jobs, outsourcing, all sorts of particular protections even of American agricultural commodities, but this really has to be something that is a mission for agriculture in the same way that, second, you have commended energy.

The explosive possibilities of this are evident to any of us who are in farm country now. I am amazed at the changes even in a short time in rural counties in our State—tax revenues, deposits in the bank, hope for the local Chamber of Commerce. This is an extraordinary sociological phenomenon, quite apart from whatever we are discussing with regard to individual farmers. And it is just beginning.

This is so significant, the world trade business and the energy revolution as it intersects agriculture, that if we did nothing else but foster those two things, we will do a great deal for most farmers in our country as well as most of our citizens.

Now, let me just add with regard to the energy situation, I am hopeful that specifically USDA can work in this bill or elsewhere with those who are going to try to get higher yields for corn or for beans or for whatever. We have all these static estimates, only so many acres, only so many bushels. Now, granted, the weather plays a big role, but the fact is that there has not been much of an incentive to get corn to 200 bushels to the acre on an average and 250 in a good year, or ditto to move ahead with beans. In all of our lifetimes, we have seen those kinds of adjustments, but not for a while. I think that is very, very important.

Likewise, with regard to corn ethanol, distillers' dry grain, DDG. Some people are working out markets for that, new deal, huge opportunity for income, and likewise a way of meeting some of the needs of people who are feeding livestock, who need to try to think through how those proteins can come to their livestock.

A third thing I want to mention is the safety net item, I think very important. Last farm bill, I proposed a safety net situation and got 30 votes. It was an alternate farm bill. I have no grief for that particular situation, but others have thought through that and improved upon it a great deal.

Our payments, I believe, ought to be to keep farmers in business and that, I think, can be done in part through what you are suggesting. I hope we will be able to perfect that. There are a lot of groups outside of agriculture deeply interested in the equities of that.

And speaking of equities, I commend your attempt to try to meet the criticism, not in agriculture, not in this committee, but the ordinary people in life who say, why should a millionaire get subsidies from me, a modest taxpayer? There isn't any good reason for that.

And we have got to think about some degree of social equity while we are thinking about subsidies. Some would say subsidy is not a good idea at all. I am not going to go down that route, but I would just simply say that, clearly, there are limits to both the patience and the common sense of most people when it comes to subsidies and taxpayers and transfers of monies in America. And I commend you and Keith for trying to get into that problem.

Now, let me just add that the conservation that Senator Harkin has talked about is very important because that is our heritage. The land that I farm or that I hope that my sons will continue to farm will someday be farmed by other people. Hopefully, it will be in better shape, we will have done better with the water resources, improved the land resources, kept White River from flooding more often, all the sorts of things that are very important for our heritage, the assets of our Nation. So we want to support those programs.

And finally, I would hope at the end of the day that all of this bill costs the taxpayers of the country much less money. I appreciate each of our committees would say, well, after all, we are advocates for particular people. We are advocates for farmers. I am a farmer in the sense that I own land, 604 acres. We have got corn and soybeans and trees out there. I take these programs very seriously. Someone is suggesting about recipients of payments, I am a recipient of payments. The Environmental Working Group and so forth lists me and our farm so everybody can read how much is coming into our farm. So we understand these issues.

But I would just say simply that it is very, very important that we preserve the opportunity to farm for people, not just family members. My sons are going to have that opportunity. But there are very few sons, reportedly, in our State who are going to have those opportunities. And just getting down to the payments issue, the dilemma is that the talented young farmers right now farming in Indiana, 2,000, 3,000, 4,000 acres, may only own 50 or 100 of that. That is where the machinery is being utilized, and they are doing a pretty good job. But the equity of this is uncertain, I would say, and farmers are still getting owner and the ownership situation. You cannot tackle all of that, but the fact that you have tried to get into those issues is tremendously important in terms of the continuity of agriculture.

So I will submit my questions for the record, but I wanted to take this time to make these comments. Thank you very much.

Secretary JOHANNS. Thanks for the comments. We appreciate it.

Chairman HARKIN. Thank you very much, Senator. Again, thank you for your great leadership in this whole area. I look forward to working with you on this whole area of bioenergy and how we move ahead and couple that with conservation at the same time. I think it is doable. I do not know exactly how to do it right now, but I hope we can accomplish that.

Let me see, now, going down the list here, Salazar, Klobuchar. Senator Klobuchar?

Senator KLOBUCHAR. Thank you, Mr. Chairman.

Thank you, Secretary Johanns. And thank you for the visits you have made to our State. I know that Congressman Collin Peterson and I met with you when you were there at Farm Fest and appreciate the work you have done in our State. I also appreciate the focus that you have on energy. Like Senator Harkin, I am concerned about the investment that we want to make sure that when you look at the money we have put into oil companies, that if we are really going to develop our own home-grown energy, that we have to make a better investment than this.

I also appreciate that you are talking about continuing the MILC program. We would like to see it at the levels at least that it is currently and not a cut. But it is very important that we continue the MILC program as well as the sugar program.

But I thought I would focus today on disaster assistance. You know, Minnesota farmers have been hit with heavy losses for two consecutive years. We were hit with excess rain and flooding in

2005 and again with drought in 2006, and in some cases, the same farms in both years. The combined costs of the disasters to Minnesota's farm economy was more than $700 million over both years. I have cosponsored the Emergency Farm Relief Act of 2007 that was introduced by Senator Conrad to compensate farmers for a portion of these losses. As we look at the emergency supplemental funding for the war in Iraq, which of course to support our troops, I understand, but emergency funding for farmers is also important for rural America.

Given the fact that the 2002 farm bill commodity programs have cost something like $25 billion less than originally anticipated, why don't we see that kind of support for the $5 billion in disaster assistance for those farmers who suffered losses over the last 2 years?

Secretary JOHANNS. In the farm bill proposal we have, I would respectfully suggest to you that we have what I consider some excellent ideas in terms of how to deal with disaster. For example, Senator, there is just no question in my mind that the revenue-based countercyclical is going to work better for those individuals who have experienced disaster problems in a program crop than just, without a doubt, than what we have now, because what tends to happen in a disaster, price goes up. The current program is triggered by price and they are out, and if they do not raise a crop, they do not get the loan deficiency payment under any circumstances, so they really lose on a couple of accounts.

The second thing I would say is that one of the things we heard from farmers was that the gap they could insure, whatever the number is, 70 percent of their crop or whatever, but that 30 percent was the real problem for some farmers. For others, it was not. They did not want to lose that, needless to say, but they were at a point in their farming career where that would be a part of the risk that they could manage if they had to.

So our gap coverage says for those farmers who want to buy that gap coverage, let us make it available. Let us put that in our proposal. We have also proposed consolidating a couple of programs that we use a lot in disaster, ECP and EWP, which again, I think we confuse everybody about when these programs apply and when they do not. We are proposing a different approach.

Now, in terms of the disasters that we have been dealing with, here is what I would say to you from our standpoint at the Department. We have reached out in so many ways. I was Governor of a State just north of Senator Roberts' State and in the same vicinity of your State. Out of the 6 years I was Governor, I think we had drought all 6 years. We had a couple of years a little bit better than the others, but a very, very difficult situation. I will tell you that when the Department stepped up with the non-fat milk program, it was a huge help to our farmers. It has been criticized and we have tried to be mindful of the criticism directed at that, but it really was a helpful program.

This last year, we went out. We identified additional funding where literally we could block grant it into the States and they could distribute it to dig wells deeper, buy feed for the animals, buy hay. It was a very, very flexible program, and again, a program well received.

I feel strongly we need to somehow solve this disaster issue because it is an annual event here. How big, should it happen, should it not happen, et cetera—how does a farmer ever plan on that? I mean, that is no safety net. And farmers told me that was no safety net.

I really believe that working with the proposals we have, and maybe there are some other ideas, there are some things that really will be a safety net for farmers in disaster relief situations.

Senator KLOBUCHAR. And I appreciate that. I would just also appreciate, though, support for the supplemental, for Senator Conrad's bill.

The other piece of this with the crop insurance, my concern with this is based on a county-wide basis of loss, and we have some big counties in Minnesota where you might have a part of a county where a farm was totally wiped out and the rest of the county is fine. Have you looked at that again and refiguring that for that situation?

Secretary JOHANNS. I will ask Dr. Collins, who works this area, to offer some thoughts on that.

Mr. COLLINS. Senator, we have looked at that and we decided to go with the county basis because we already have in place county area crop insurance programs. We have GRP, Group Risk Protection, and GRIP, Group Risk Income Protection. If you look at the national enrollment in crop insurance, farmers who buy crop insurance policies today have about $20 billion of their crop value that is not covered. That is the value of the deductible part of their policy. We have county area policies in place already today that would cover about $13 billion out of that $20 billion deductible. So we already have on the ground a county area-based policy that could be adopted to cover the deductible portion of existing multiple peril crop insurance policies.

So that is the reason we went to the county basis, because it takes years to develop a crop insurance program, to determine the appropriate actuarial rating, and we already have done that over the last several years for the county-based areas.

Now, I understand your concern. It is a legitimate concern, and what you will find is that producers whose yields tend to correlate with the county, this will be a great benefit to them. For those producers whose yields do not correlate with the county, they are going to have to buy up higher levels of coverage with their individual crop policies. So it is true that there are some tradeoffs there and I think we went with the county basis because that was where we were best equipped to deal with it.

Senator KLOBUCHAR. Well, thank you, and we look forward to working with you and I will submit some additional questions in writing.

Thank you, Mr. Chairman.

Chairman HARKIN. Thank you very much.

Senator Cochran?

Senator COCHRAN. Mr. Chairman, thank you.

Mr. Secretary, thank you and your staff for cooperating with our committee and being here to describe the proposal the administration is making for changes in the farm programs. We know this is a complicated and wide-ranging effort and we appreciate the hard work personally you have devoted to the process and your openness in terms of going around and talking and asking questions of people out in the country about what their thoughts are and what their impressions are of these proposals.

What I am hearing from some of my friends in my State of Mississippi is that in cases of cotton and rice programs, the changes that are proposed in the farm bill may very well end up causing people to go out of farming, sell the land, and I wonder, in that connection, has there been any effort to do an economic income analysis or economic impact analysis of the program in terms of job losses, economic consequences, practical consequences as a result of these proposals, if they are approved and enacted into law.

Secretary JOHANNS. I will ask Dr. Collins to talk more extensively about the economic analysis. Let me, if I might, though, offer a thought. I was in your State recently. In fact, our first stop when we unveiled this was in Mississippi and we had a great opportunity to talk to producers. It was a packed house. They were very, very interested in what we were doing.

But let me, if I might, just zero in on cotton because we were right there in the Delta. If you look at the adjustments that we have made to the loan rate for cotton, for example, and then look at the increase that we have made in the direct payment, the increase in the direct payment is 65 percent. And again, it is hard to figure out the micro level, the impact on each farmer in each State, but I can tell you in an overall picture the numbers are absolutely very close to each other.

But here are a couple of things, Senator, that I think are really important. The first thing is cotton is plagued like any other crop with weather issues. It may be especially true for cotton. If you are irrigating cotton, you can withstand drought and that sort of thing, but if you are not, you are just praying that Mother Nature is going to be on your side this year. The one thing about the direct payment I can tell you, that is the one thing you are not going to have to pray about. Maybe you should pray anyway, but I can tell you it is going to be there. It is a mandatory provision, approved. That young cotton farmer out there who is just getting started who has a mortgage payment, an equipment payments, et cetera, can take that to the bank. Under the current program, if they lose a part of that crop, again, they cannot LDP a crop that they did not raise, and if they have any uptick in the price, they are not going to get the countercyclical kicking in and so they are really, really out. They are really on the losing side of what was supposed to be a safety net.

The second point I would mention, and again, I am not the trade person so I even hesitate to bring this up other than it is real. We aggressively defended our cotton program. We lost in the first stage. We aggressively defended it again. We lost in the second stage. Now there is a WTO panel and the purpose of them being impaneled is to decide whether we have done what is necessary to comply with the ruling. That is the only purpose of the panel. Somewhere in your deliberation time here, between now and the time the farm bill will be passed, my expectation is you will get a WTO ruling there and then we will know what that ruling is.

But as I said to cotton producers, folks, it is no safety net to go out there and suggest something that puts a bullseye on your back. It is no safety net at all. As a general proposition, if your payments, your direct payments are not linked to price or production, they are green box. They are WTO compliant.

Now, I will tell you, Senator, we did not sit down to write a farm bill for the WTO. We sat down to write a farm bill that we thought was good policy, but again, getting back to the case of cotton, I cannot ignore it and none of us can because 80 percent of the cotton produced is exported. Like it, dislike it, pro-trade, anti-trade, I know all the debate, but the reality is that on any given day, we have got to be paying attention to selling 80 percent of our cotton production into that export market. We just are in a position where we have got to pay attention to how best to do this.

And I can tell you, I think when you sort it all out, with that increase in direct payment, with some of the things we are doing, I will promise you I cannot tell you what happens to the individual farm out there. I can tell you in terms of the overall picture I believe this is a more secure, a more predictable safety net, and I am not being critical of the 2002 bill. I supported the 2002 bill. If you turned the clock back, I would do it again. But times do change and one of the changes here is we have got to pay attention. We need that export market for your cotton people.

So that is a long answer, probably more than you wanted——

Senator COCHRAN. I think you are absolutely right. The export market is critical for agriculture generally, but specifically for cotton. We understand that and we appreciate your looking into it and trying to figure out what the consequences are going to be. I think, to be fair with our constituents, though, it would be a mistake to over-promise that we are going to fix this in a farm bill. I do not know that the votes are here to do that or the support from the administration is available to help us do that. And so I am trying to figure out what do we do now? How do we try to make a transition if a transition is needed from some traditional land use practices to something that could take the place of what we have seen in the past.

I grew up in an era, as some of the others did, both my grandparents had farms. Those days are so different from where we are today, though. My recollections as a young boy of picking cotton and chopping cotton, that just—nobody does that anymore. You have got cotton pickers and mechanical—what you have is a labor force that has built up and a culture of people involved in providing the inputs, those fertilizers, seeds, and on and on and on, businesses depend on this. If this crop just disappears, it is going to have an enormous adverse economic consequence on the South and particularly on my State of Mississippi.

I just wonder if anybody has thought about that and thought about, well, what are we going to do now? Just tell everybody, good luck? Is there going to be any kind of effort to help with a transition if that occurs in some of these areas? I am worried about that.

There used to be economists, and this is not talking about Keith or anybody in particular, but they would talk about, well, there are going to be some financial dislocations. I have heard that. I heard that when I got to Washington. What that means is people are going to go broke. Some people are going to go broke and it is going to be devastating.

I just am curious to know if you have thought through that and what are we going to do about it.

Secretary JOHANNS. I come from a different part of the country, admittedly, but financial dislocation language does not impress me, either. I was very, very involved with farmers during the 1980 crisis. In my lifetime, and hopefully in no one's lifetime, do we see that again. We thought long and hard about it.

I suppose, Senator, we could have walked into this committee and said, well, we have done this because we have to comply with the WTO. We wish you the very best. Not impacted direct payments, taken that money, sent it to the bottom line and had a big savings and touted that all over the country that we have got this big savings. We did not do that. We tried to figure out how best to approach this. And so that is why cotton is getting—you know, the other four major program crops starting in the third year going through the fifth year, they get a 7 percent increase. We are proposing 65 percent for cotton.

So you add all of that up, and again, I will suggest to you that I think we have got some great ideas here. I have immense respect for you, like everybody on the committee. I know that you are trying to figure this out, too, just like we have been trying to figure it out because we have to somehow decide how best to approach this because that export market is important. I would love to sit down with you or your staff or whoever you want me to sit down with, walk through the numbers, try to show you what we think these numbers mean, and, you know, just make the case, because I think some of the very same things you are debating in your mind today, we have debated. We have tried to figure out how best to approach this.

I would again respectfully suggest, I think we have got a really good idea here and a good approach and we are anxious to try to make the case. So I offer that to you. I would be happy to do it. Your concerns are certainly our concerns.

Senator COCHRAN. Well, we appreciate your response and your interest in working to try to find some answers to our questions.

I complement you on the conservation incentives. I like the idea that you are expanding the Wetlands Reserve Program, the Conservation Reserve Program. The Cellulosic Bioenergy Program is something that I think we will be very interested in. These are all options for land use, as well, and we just need to take advantage of the opportunities we have to help make ends meet, as they say.

Thank you very much.

Chairman HARKIN. Thank you very much, Senator Cochran.

Senator Coleman?

Senator COLEMAN. Thank you, Mr. Chairman. It is kind of like a blink of an eye here. I look to my right, and if you count Roberts as a Chair on the House side, I think there is an array of one, two, three, four, five Chairmen, former Chairmen of this committee. I have not been here that long.

But I do have to say, Mr. Secretary, I do want to start off by thanking you. And I have some concerns and kind of the nature of this is that I will kind of target in on those, and I do not even know if in the time we have that I will even get the responses. We will have a further conversation. But I want to thank you and your staff for your effort in this, for the work you have done on the ground, for your commitment to listen to the folks who this impacts, our farmers.

I have said I have some questions. I am going back home and talk to the folks who have got the dirt under their fingernails and let them tell me what is the impact of some of these changes. But clearly, you have done the groundwork. You have thought outside of the box. You are trying to deal with that situation that says if you do not plant the crop, where is the safety net? I understand that.

I have particular appreciation—I disagree with my colleague from Idaho about the MILC program, and yet I will join him on forward contracting. We should work together on that. I share the concerns of many of us on sugar. I think you have done a good job maintaining a program that is no cost to the taxpayer.

I think we face some challenges in the future over some trade issues and I think energy may be a solution and I applaud the strong commitment to energy. I think a lot of it has come out of this committee, by the way, and I think that is important. On Foreign Relations, we had Alan Greenspan come before the committee and he indicated that we could be doing 60 billion gallons of—about 60 billion. A lot of us thought it was bold when we did 7.5 billion gallons of renewable fuel, RFS, for this country. We are going to do 11 billion gallons if we do nothing in the next couple of years. What we can get out of corn may be 15 to 17 billion. We have got 60 billion, but we have got to get there, and you have that commitment.

I share the commitment that is close to the heart of the Chairman in conservation. Rural development, I have a particular concern about Critical Access Hospitals, and you touched this. I thought we had the most in the Nation. Kansas may have, but we are pretty close and I visited almost half of them. That is a difference. That is life and death. It is life and death, those 25–bed hospitals, and so I applaud the work that goes on there.

Let me at least phrase a few areas of concern, and one is there is a—we have a farm policy to protect the farmers when prices are low, not when prices are high. We cut marketing loans by $4.7 billion. I think countercyclical cuts is $3.7 billion. I think these are two of the programs that help farmers on the down side. And then we have slight and temporary increases on direct payments.

My concern is what if predictions are wrong and prices drop? I start with that concern. Do you need to pass unbudgeted emergency relief like we did in the 1990's? So I have that concern. Let me lay that out there. If there is time, you can respond now or respond later.

I got a—and by the way, it is a big axe. If you look at the cuts, the overall cuts, kind of if you weigh it in totality, $3.7 billion from the current baseline below 2008, 2010, that is a lot of money to cut from the safety net. It is a heavy axe that we are doing there.

I have a particular concern, if I can, just about wheat. I want to put it on the table. Senator Roberts kind of mentioned that. You stated publicly that wheat growers did not get a fair shake in the last farm bill and so I am wondering if you see a four-cent increase in direct payment that only comes in the out years as equitable, especially in light of the fact that I am hearing from a lot of folks in the wheat industry that the countercyclicals do not do much for wheat.

And the particular concern I have is on your countercyclical program, you make it revenue-based rather than price-based, but what if—I have got folks in the Red River Valley, if they lose their entire crop under their program and cannot get a payment if prices are high for farmers in other States that make their crop.

So my question would be are we covering—one of the strengths of this proposal is we are saying, hey, we are going to provide a safety net for folks who do not reduce the crop. On the other end, if I have got folks who get wiped out and in the rest of the country they are making theirs, then my folks get left out, and I presume that applies for others. So help me understand how your proposal would help farmers who suffer complete crop loss, especially if the rest of the country has a good year.

I could go on and on. If you can deal with the general proposition that a lot of this is based on a sense that we think prices are going forward, and God bless, they are. I mean, energy has made a difference. Energy is the future. Energy is the future. I do hope—I just have to say this—that we look at sugar.

If we turned everything that is green into energy down the road but exclude sugar, I think this could be a problem for our sugar growers, and especially, by the way, as we look at NAFTA and some other things where we have the prospect of a lot of sugar coming in this country. I would hope that we would look at energy, at ethanol as a way possibly to deal with the sugar that is coming in so we do not upset our program. That may be the safety valve and I hope that we kind of look to the future in spite of some of the challenges of price now.

I have only got 24 seconds left. I will make this statement. Let us continue the conversation, but I am very, very concerned about if we are wrong on the price bet that our farmers could face some big problems under this. But with that, let me say this is a forward-thinking proposal. You have done the hard work. I am very appreciative and I look forward to working with you on this farm bill. Thank you, Mr. Chairman.

Chairman HARKIN. Thank you, Senator Coleman.

Now, Senator Lincoln.

Senator LINCOLN. Thank you, Mr. Chairman.

Mr. Secretary, welcome to the committee and thank you so much for joining us today with Dr. Collins and Mr. Conner.

Before I begin my round of questions, I would like to start by acknowledging what is certainly a very detailed proposal and one which is obvious you have put a great deal of passion into and time, as well, in your listening tours. We want to thank you for your work. I am certainly glad to know that you have listened to a lot of farmers across the country who support the current farm bill, and I presume as a result you propose maintaining some of the basic structures here as we have seen in the commodity title, the marketing loan, the countercyclical, the direct payment. You have mentioned some of your reasons for why you have dealt with them as you have.

But I do have some serious questions and concerns and I look forward to working with you in the months ahead to try and face those challenges that we all face across this country in terms of the diversity of our States and the diversity of this country and the products and commodities that we grow. So that is important.

I would just like to point out that from the questioning, Senator Nelson brings up the issues of markets and, you know, how we meet those demands, and coupling that with Senator Chambliss's remarks and the possibility of losing those 85,000 farmers as a result of the means testing that you have placed in here, that production probably will shift overseas and as it does, we will never see it again, more than likely. So I am hoping that Dr. Collins, perhaps, or somebody might respond to us with an answer in writing where you anticipate the foreign countries that will compensate for any expected decline in our production of those commodities as you talk about those export markets, and if so, which countries those might be. So if you all could provide that.

Then in reference, really, to your AGI proposal, this recommendation kind of strikes me as somewhat inconsistent with the Administration's approach to so many other policy initiatives in terms of their ideas, I suppose. I serve on the Finance Committee and I find it interesting that when we passed legislation a few years back to stem the loss of manufacturing jobs in this country, to my knowledge, no one in the administration raised any question about the size of the income of the manufacturer receiving the tax benefit. In fact, I think we wished that all the manufacturers were doing better economically than they were. We had just lost about some three million manufacturing jobs. But in any event, Congress and the administration thought it was important enough to step in and help manufacturers compete in the global marketplace. That is not always free and it is not always fair, as we know, and we did so regardless of the manufacturer's size or income.

I think the same is also true of the Administration's approach to energy policy. I also sit on the Energy Committee and I have been spending a lot of time lately reviewing our Nation's energy policy and, of course, see a lot of press about record profits from the Nation's oil companies. As you are certainly likely to be aware, the government provides a considerable amount of assistance via the tax code and other incentives for the energy sector, and yet to my knowledge, the administration has not proposed a means test for oil companies, either.

I hear most often that this is due to our need for energy security and the necessity or the really necessary commitment to the pursuit of energy independence, and yet we have not extended those tax credits for the renewable fuels in a way that is—it was not in the President's budget, anyway.

I guess, Mr. Secretary, just an explanation or your comments in terms of to the committee why the administration supports means testing for farmers but not for oil companies, or why we should support means testing for our farmers when they face the same, if not more, unlevel playing field in the global marketplace. Now, I know you have made the comment several times that you are not the trade person, and we are certainly aware of that, nor was the farm bill written for trade purposes. And yet we cannot operate in a vacuum and we know that.

When we look at what it means to this country to not only working farm families but all families to have a safe, and more importantly, affordable food supply, secure food and fiber supply produced here at home, it seems to me that it would be as equally as high a priority in terms of the Administration's policies and ideas of how they approach those things. So maybe, I do not know, you have got an idea of how that——

Secretary JOHANNS. I will offer a thought or two, if I could.

Senator LINCOLN. Sure.

Secretary JOHANNS. Let me, if I might, just start out. You use the terminology "means testing." Keep in mind that the 2002 farm bill embraced that approach. It is in the 2002 farm bill. It is a much higher level, like $2.5 million, and it impacts really a sliver of the tax filers in the United States because $2.5 million in adjusted gross income really is the wealthiest of the wealthy. But $200,000 of adjusted gross income, again, is, if you examine what we are saying they can deduct under our tax code, they are getting a substantial benefit, if you will, because of tax policy adopted by Congress.

But then we go a step further in this area and we say, we are going to not only recognize that, we are going to send cash. We are going to send a subsidy. We are going to say to hard-working families around the country that the money that you pay in taxes will be distributed into a formula that sends out a check to people who are raising these commodities.

Now, personally, I have said all along, I think it is a wise Federal policy to invest in agriculture. Not everybody agrees with me when I make that statement, but I believe it is a wise Federal policy.

But when you look at the decision, is there a point at which you become successful enough that you graduate from the cash subsidy that we are sending, I think Congress has answered that question repeatedly. Since 1970, payment limits have been a fact of life. Payment limits have been a part of farm policy now for over 35 years, dating back, I believe, to the 1970 farm bill, and I will just be very candid with you, and maybe there is somebody in this room who would disagree with me. You know what? They haven't worked certainly not very well. Certainly not very well. I think the common belief is that there is a payment limit, but quite honestly, there are so many opportunities to restructure, to redesign, to do this, that, and the next thing.

This is vastly different approach than saying, there is a tax credit contained in a farm tax return, or if you get oil you get a tax credit or whatever, than literally distributing cash out of the Treasury. I believe it is just a vastly different approach. Thank you very much.

Senator LINCOLN. Well, it seems to be also that you are picking winners and losers and I just do not think that is our business here, but hopefully we will have an opportunity to work with you a little more and see what we can do to be a little bit more diverse in terms of our approach, I will wait for the second round, Mr. Chairman.

Chairman HARKIN. Thank you, Senator Lincoln, Senator Stabenow?

Senator STABENOW. Thank you, Mr. Chairman, and welcome, Mr. Secretary and Dr. Collins and Mr. Conner. Welcome. We appreciate all the hard work, and I would echo the sentiments about the way in which you presented information to us in the farm bill. I appreciate it very much.

When we look at agriculture in Michigan, it is our second largest industry, and in the farm bill, I find myself needing to be interested, as I have talked to the Chairman about before, in every single page because we have a great diversity of crops and everything from soybeans and corn and sugar beets to apples and cherries and milk and pork and beef, as well as Christmas trees. We have everything.

But I want to focus—and I will be focused on every piece as a result of that, as well as rural development and premier land grant universities like Michigan State University, my alma mater, are in the State. So I care very much about all of the farm bill.

But I want to focus on 50 percent of the crops that have not been included in a substantial way in this farm bill, which are specialty crops. I think it is important and I appreciate the new focus that you have given. Senator Craig and I will be reintroducing shortly our specialty crops bill that we hope—we talked to the Chairman about incorporating into a new title and are looking forward to working with the Chairman and Ranking Member and committee to do that.

Let me speak to a couple of things related to specialty crops now, because I think it is important that you have added certain provisions. I do think, and I want to just emphasize in the area of increased purchases for fruits and vegetables for nutrition, which, as you know, is a win-win situation. We help our fruits and vegetable growers. We also help our children, we help seniors, we help others in terms of their nutrition.

I appreciate the proposed increase in Section 32 and the dollars that you have proposed, an additional $200 million for 2008, $225 million for 2009, et cetera. I just want to emphasize, though, that we attempted to do that. We put into the farm bill in 2002 what we thought was going to be an additional $200 million per year above current spending, which at that time was $180 to $200 million a year. Unfortunately, instead of seeing an additional $200 million added, we see numbers like the 2005 purchase, according to CRS, which was $135 million total, not with $200 million added to it.

So it is important to me, and I want to create language however we create it in the farm bill to make it clear that it is, in fact, additional money, not the difference between $135 and $200 million, and I am looking forward to working with you on that, because the language in here is very positive. I just want to make sure it gets translated because it is a critical program. It is a critical program for our farmers.

I also want to ask, and I would welcome your comment on that, Mr. Secretary, but I also notice that you are not proposing to expand the Specialty Crop Block Grant Program and I wonder if you might share why that would be the case as we look at expanding opportunities for specialty crops in the farm bill.

Secretary JOHANNS. Actually, let me address that first issue. We agree with you. When I sat down with you, you pointed out to me that you felt like you had made a step forward only to find out that maybe you had not made any ground at all.

Senator STABENOW. Right.

Secretary JOHANNS. So at page 172 of our book, when we referenced this additional funding, we describe it as provide new mandatory funding for the purchase of fruits and vegetables. Senator Harkin mentioned the snack program. We are proposing to do this through the school lunch program. However, Senator, I can tell you that our attitude has been if schools are using this to benefit the children, maybe they do it through lunch, maybe they do it through breakfast, maybe they do it through a snack, we kind of view this, let the schools decide what program works best. So we will try to work with you on that, too. But yes, we heard you and we have included that.

Chuck, on the pilot program, Senator, is that what you were referring to?

Senator STABENOW. There is a Specialty Block Grant Program that we had in the past.

Secretary JOHANNS. I guess what I would say is this. The additional funding here is about $5 billion, as you know.

Senator STABENOW. Yes.

Secretary JOHANNS. It is a significant marker for specialty crop producers in the farm bill proposal. And what we are proposing is that money would be in the research area, which we have significantly boosted. So I think what you are referencing in the pilot program, I think we have addressed but through the research title, which specialty crop producers told us we really would like some assistance in funding for research, sanitary, phytosanitary, the purchases, and market promotion——

Senator STABENOW. Right.

Secretary JOHANNS [continuing]. And I think we hit all of those areas pretty substantially.

Mr. CONNER. And I think, Senator, if I could, I believe the Specialty Crops Block Grant Program, as well, was an authorization subject to appropriation. The programs Secretary Johanns has described would all involve mandatory funding taken directly out of the CCC, so we would not be subject to appropriations in that regard.

Senator STABENOW. Thank you. This is certainly an important step forward for specialty crops. There is no question that research is a major piece of the commodity purchase. We have other assistance, as well, tree assistance program, other things that are very important for specialty crops.

Let me just, if I might, just ask one more——

Chairman HARKIN. We have people that need to—can we go to the second round? We will have a second round.

Senator STABENOW. Absolutely, Mr. Chairman.

Chairman HARKIN. Now Senator Thune. Well, Senator Thune left. Senator Grassley?

Senator GRASSLEY. Thank you, Senator Harkin, Mr. Chairman, and Mr. Secretary. First of all, I know you, as every other member said, you have put hard work into your suggestions and I think I ought to recognize that I am aware of that hard work because you spent a great deal of time at the State Fair of Iowa having a listening session and I imagine that was one of more than 100 listening sessions you or your staff had around the country, so you were diligently taking notes at that meeting and I presume this is a result of that, so thank you very much.

One of the things that everybody knows I have been interested in and working hard with Senator Dorgan on is farm payment limitations. I am going to go through a series of questions, so if you could just make a note or a couple of words that would remind you of what I am asking about.

I was wondering how you came to the number of $200,000 of adjusted gross income for someone not to receive farm payments down from the $2.5 million that is under current law. I am happy to see that a payment limit section is in the farm bill proposal. I do not know how it is going to work out. We will have a chance to study that before we work on legislation, but obviously, I am very much interested in payment limits, so one way or the other, your way or the Dorgan-Grassley way, we have to do something about payment limits so that 10 percent of the largest farmers do not get 72 percent of the benefits, not that that is the only problem.

The problem is a greater problem of the public relations for farmers. There is only 2 percent of the population, when city people might question whether or not we ought to help big farmers get bigger so that they cut young people out from getting started farming or young people renting land, whatever the case might be, and it is all of the above. So that is one issue.

Along the same line, though, I notice that you have increased the payment cap to $360,000 without eliminating generic certificates. I would be happy not to eliminate generic certificates, but I would just like to have everybody that gets a generic certificate get a 1099 so that we know they are paying tax on it. We do not know that. Everybody else that gets a farm payment, gets benefit from a program, has a 1099. So that is a major issue.

But the $360,000 and also increasing the direct payment to $110,000. Now, I was not here, but I was told that you made an answer to Senator Roberts that this was in order to be WTO compliant. Well, if you are WTO compliant at $110,000, you are surely WTO compliant at $40,000, it seems to me.

Also, on another issue, I have been getting calls from farmers to see if they would be able to get out of their CRP contracts early. If you have not commented on that for some other member, I would like to hear that.

I am concerned that through my discussions with farmers, that they are concerned as I am about the huge concentration that we have seeing the livestock industry, the vertical integration, trying to control all aspects of livestock production. I do not think the concentration is much different than it was 100 years ago—well, 90 years ago when we passed the Packers and Stockyards Act, not we, but when Congress did. So I think it is fair that you ought to know that farmers get nervous when just four firms, and now we are talking about Swift being sold off, slaughter 71 percent of all the livestock or cattle, 63 percent of the farmers. Is that much different than where we were 100 years ago?

Could you also comment on why there is no mention of consolidation in the farm bill proposal? Now, maybe administrations do not generally do that because you want the marketplace to take care of it, but we have the Packers and Stockyards Act. We have Congress acting when there was a problem of concentration at that time. Should we not be concerned about this if we are concerned about the institution of the family farm? Thank you.

Chairman HARKIN. You have got about a minute to answer all those questions.

Secretary JOHANNS. I will run through it very quickly.

Senator I do appreciate your leadership in this really challenging area of payment limits. Here is what it came down to. If you look at the whole constellation of issues, the $360,000, which you point out that is what the limit would be, some would probably argue that is too much. Some would probably say, well, it should be more than that. But that was the number that was familiar from the 2002 farm bill.

But really what the debate came down to is this. The most effective way of approaching this and where you are going to have the most impact is as we have proposed. These things have—I mentioned maybe before you arrived, we have had payment limits since 1970, and I will just be very blunt. None of them have been very effective. New ideas come up. We get new laws. We issue new regulations and all of a sudden everything just gets restructured and people are writing stories the next year saying, how are they getting around the payment limits? This is certain. It is straightforward to administer, and so that is how we arrived at that approach.

The CRP contracts, I am looking at that. In the next 60 to 90 days, we will have a lot better numbers as to what is going to happen out there in farm country, how much corn is going to be planted, and I can make an assessment as to whether we should release CRP acres early. I understand I can do that. The Secretary does have that power. I promise you, we are looking at it, and as those numbers come out, please continue the conversation with us. We should have a decision, I would say by early summer, maybe even a tad bit before that, but in that timeframe.

The concentration area, again, a very complicated area. Our role, in my judgment, is administration of the Packers and Stockyards Act, and as a recent audit or investigation showed, not only is that our role, we need to be more forceful and do a better job there.

I have to tell you, I came from a State that had a constitutional ban on corporate farming. Just respectfully, I would suggest we have to look at this area. That ban was thrown out recently by the Eighth Circuit Court of Appeals, lost at the District Court, lost at the Eighth Circuit. I think there is a petition for certiorari pending before the U.S. Supreme Court. Those efforts to try to regulate that kind of thing have fallen on disfavor. South Dakota lost their ban, et cetera. So bans in who can do this and who cannot do this, I think it is just an area we are looking at. I won't offer any legal advice. I am a lawyer, but I do not practice anymore, but I just again respectfully suggest that is an area you have to pay attention to if there is some thinking about this as farm bill policy is developed.

Generally we do take a position that market forces should regulate how things end up. That has just been my general view through the years.

I think I hit everything.

Chairman HARKIN. Pretty close. Thank you, Mr. Secretary.

Senator Leahy?

Senator LEAHY. Thank you, Mr. Chairman. Having spent a number of years as Chairman of this committee, I know how difficult it is sometimes to put one of these hearings together and to make it coherent and how difficult it is for the Secretary. There have been times, Mr. Secretary—this is going to come as a shock to you, but there have been times over the years that a tad bit of parochialism has come into the questioning here, and I hate to think—you think that Bob Gates or somebody like that has trouble coming up here to explain the war, and you have to understand, look around the diversity of this committee and figure out what the parochial issue is for each of us.

I was pleased with my talk with you last night and with Mr. Conner, who as I said is well known to this committee. I actually appreciate all you have done, Mr. Secretary.

I think, as I said, on the MILC program, I am glad to see it in here. I think, though, that it has been cut too much. It is one of the best—it probably is the best targeted program USDA runs. It works with market forces to provide modest assistance when the prices are low. Now we have soaring feed costs and fuel costs and low milk prices. It is the worst possible time to cut it. It is the most targeted program you have in your Department.

I think the increased funding for EQIP is a good idea. I do not agree with eliminating the regional equity provision. This, I authored in the 2002 farm bill. You have States that receive very little commodity program support, but having a $12 million base of conservation funding is a good public policy. I am also concerned about the Administration's plan to consolidate the Farm and Ranchland Protection Program that was started in Vermont.

I also wish the administration would reverse its position in opposition to emergency disaster assistance. My State of Vermont, Vermont is still trying to recover from first the devastating floods that wiped out much of the corn and hay crop last spring, then we had a drought on top of it. We had the worst possible thing, increased fuel prices. I know Chairman Peterson in the House indicated some willingness to move disaster assistance, but I remember last year when we did this on the Iraq supplemental, we were faced with a veto threat. We are spending billions of dollars a month in Iraq for reconstruction there. I wish we could take just a tiny bit of what we are wasting in Iraq and spend it on our American farmers.

Now, given the USDA's recommendation for a continuance of MILC as part of the 2007 farm bill, do you support a 1–month MILC extension from August 31 to September 30 in order to assure there is not a lapse in the program?

Secretary JOHANNS. Senator, we do. In fact, I was just asking Keith Collins, but I think we have built that in as we tried to figure out where we ended up on the baseline. But let me study that before I commit to that last statement. Let me make sure——

Senator LEAHY. Will you get back to me——

Secretary JOHANNS. Yes.

Senator LEAHY [continuing]. Because obviously this is of great significance not only in my State but several others, and if you could give me a definitive response on that, it would be very, very helpful.

Do you agree that the MILC program is highly targeted to small- and medium-sized dairy farmers?

Secretary JOHANNS. It definitely works for small- and medium-sized farmers. There are publications out there where we have raised questions about the MILC program. But having said that, in response to an earlier question from Senator Crapo, here is my read on it and here is why we ended up. We made changes pretty well across commodities equitably. It seemed fair to approach the MILC program the same. But probably the most important thing in terms of the decision to keep the program was it is a safety net that was put in place. Agriculture adjusts to that. I just—we heard over and over again from farmers out there, we like the structure. We would like to see you try to keep the structure in place. Here is where we think changes are necessary.

And so that weighed on me and I decided to keep the structure pretty well across the farm bill and the proposals we have made, including MILC. I think it is very difficult for farmers that we just walk in, boom, the safety net is over, the MILC program is gone. So we proposed to keep it.

Senator LEAHY. And in that regard, we touched this just briefly last night when we talked, but 30–some-odd years on this committee, I have supported a lot of commodity programs that do not affect my State at all. This is one of the very few that does. It is far more targeted than the others. I must admit that I have a little bit of difficulty going back home explaining why I am supporting things for Iowa, for any of these other States, and Vermont, a program that affects a State like mine, it is cut.

And last, will you look at this question of disaster assistance? Again, just think of going to a farmer in my State who has just been clobbered. They know we passed this assistance in the past. We know the administration has cut it out because they said we have to concentrate first on disaster assistance to Iraq. Explain that to a farmer in my State, why it is far more important for reconstruction and emergency fuel assistance, everything else in Iraq than it is right here in our own country when it is our tax dollars going to it. So please, please look at this question of disaster assistance again, and you and I should chat further on that because I know my time is up.

Thank you. And again, thank you very much for your call last night. I do appreciate that very much, and Mr. Conner, too.

Secretary JOHANNS. Sure.

Chairman HARKIN. Thank you very much. Let me see, now I will go to Senator Salazar.

Senator SALAZAR. Thank you very much, Senator Harkin. I have an opening statement and some questions, but I will submit those for the record, and I assume that is without objection, and I would appreciate it, Mr. Secretary, if you would respond to my questions.

Let me just first say to both you and the Chairman that I very much appreciate the work that you have done on the rewrite of the 2007 farm bill. I think last year, through many of the conversations that we had here and probably ten or 12 farm bill listening sessions that I had in Colorado, there was a sense that we would not be dealing with this issue here today in 2007 and it is through the leadership of Chairman Harkin as well as through your leadership and all the work that you did last year that we are here today.

Just as a general comment, I will tell you that I appreciate the substance of what you have put into the farm bill. I do think as one Senator from Colorado that it is something that we can work from. You obviously will have lots of input and back-and-forth as we go forward and we try to improve on the product that you have brought here to us today, but let me just say thank you to you and to Mr. Conner and Dr. Collins and all of the staff that have been involved in putting together this proposed farm bill. It gives us at least a framework from which to start on.

I am going to ask a couple of questions. The first question has to do with energy. I think for all of us, Democrats and Republicans alike, this is one of the new great chapters of opportunity for rural America, to bring rural America back into a place of vibrancy and certainly in Nebraska with what you did in ethanol and some of the things there, you were leading the way.

My question to you is this. I am concerned that we do not have the resources in here to be able to implement the vision that I think is a shared vision in America for how we can grow our way to energy independence. Senator Grassley and I, for example, are cosponsoring the resolution that says 25 by 25, we ought to be able to grow 25 percent of our energy from renewable energy sources by the year 2025.

And I looked at the budget that you have presented here and it looks like it is $978 million for the energy title over the time period of 2008 to 2017. But when I take that amount and I say, well, what does that mean in terms of the 50 States and what they are going to get with respect to the grants and the other programs that are articulated here, it essentially comes out to about $1 million a year. A million dollars a year, Mr. Secretary, with all due respect, I do not think gets us to where we want to get. It does not get us to where the President said that we ought to be getting with the 35 billion gallon renewable fuel standard, I think by the year 2017.

And so I have this reaction without having studied this in great detail that this is highly insufficient if what we are going to do is to put an imperative on this energy opportunity that we have for rural America. So can you just respond to that. Is this adequate?

Secretary JOHANNS. Yes. What I will do for you, I in earlier testimony walked down through all of the areas of the USDA budget where we have increased funding and then just reminded the committee that in addition to all of that, we had added a loan guarantee program of $2.1 billion targeted at cellulosic. But just suffice it to say, when you look at our total energy proposals, and also recognizing we aren't proposing to change anything that you have done already, that is in the bank, if you will, but if you look at everything we have targeted going forward, we have a very substantial energy package and I will detail and outline that for you in a letter to you, Senator, and a copy to the committee.

But part of what gets really confusing here is if you look back, for example, and make comparisons, part of that money was discretionary. It never got funded. It never made it to the finish line, and so even though it was theoretically there, it was never appropriated and we never were able to work with it, so——

Senator SALAZAR. I would appreciate it, and I imagine that my colleagues on both sides of this committee would very much appreciate having a more robust explanation of what it is that we are doing with respect to investments on this title of the farm bill.

Secretary JOHANNS. We will.

Senator SALAZAR. Let me ask you one more quick question. Coordination with respect to other agencies, the Department of Energy. I just came from a hearing with Secretary Bodman, talking about what he is doing there. How are we coordinating what we are doing here with the Department of Energy? A quick example is cellulosic ethanol. We heard from the experts at a conference we had a week ago that it is almost a dream too far away, not commercially feasible right now. How are you and DOE coordinating to make sure that as a country we are having the maximum impact on trying to achieve these visions that we have?

Secretary JOHANNS. Coordinated at every level. We have people—I not only coordinate with my colleague on the Cabinet, but we have staff people working——

Senator SALAZAR. Is there a specific renewable energy working team that coordinates on an ongoing basis?

Secretary JOHANNS. I will allow Keith, if you do not mind, to offer a few thoughts on that.

Mr. COLLINS. Sure, Mr. Salazar. There are several, in fact. One is that USDA has created an Energy Council. It is chaired by one of our under secretaries——

Senator SALAZAR. And DOE participates——

Mr. COLLINS. DOE participates in the Energy Council. We also have a statutory group, the Biomass Research Development——

Senator SALAZAR. If you can get me an overview of that coordination, it is important because it is important that our government know what one hand is doing so we know how we are moving forward.

Last question before my time runs out. Following up on Senator Leahy's comments on agricultural disaster assistance, Colorado is now under lots and lots of snow. We have 10,000 dead cows out in the Eastern plains and it is a problem that is affecting Nebraska and other States. It has been a sore point, frankly, between us in the Senate and the administration. I would hope that you can get yourself, Secretary Johanns, and the administration to support the agricultural disaster emergency package so we can get that behind us and then concentrate on the good product that you have brought to us before and see how we can move forward and refine it and look forward. It is just a request.

I thank you very much for being here today and thank you again. As I said earlier, Chairman Harkin, I think a year, even 6 months ago, people were saying there is not going to be a farm bill in 2007. I want to just say again, congratulations, because I think when you go through a program that is a $100 billion program the way that we have and you have 5 years of experience, no matter how good the program is, no matter how visionary those people were who wrote it, you learn a lot in that 5–year period and it would not be happening if it had not been for your leadership and I really appreciate it.

Chairman HARKIN. You are overly generous. I appreciate that. But we worked hard on that. We got a good bipartisan agreement on that. And I commend the administration. I think the Secretary has come up with a good sound proposal. We will work on it, obviously. Not everybody agrees on different things in it, obviously. We have got a lot of work to do here. But I am convinced we can come up with a good progressive forward-looking farm bill. I think we are—I see certain things emerging. Obviously, there are things we are going to have to work out and there will be some contentious issues. I understand that. But I still think we are headed in a direction that we can all hopefully pull together on.

Senator Thune?

Senator THUNE. Thank you, Mr. Chairman. I would also echo my colleague from Colorado about dealing with the disaster issue. If we could come to a resolution on that that deals with the last couple of years of disasters in the Midwest, then we could, I think, start with a clean slate, so to speak, as we tackle this next farm bill and contemplate how we deal with disasters going forward.

But I do want, Mr. Secretary, to thank you, Deputy Secretary Conner, Dr. Collins, for what is a very good faith effort that required a lot of thought, a lot of time, and a lot of input from people all over the country, and I appreciate your willingness to listen. Fifty-two meetings around the country, many of which were attended by you, Mr. Secretary, I think speaks really well of your commitment to getting a good product that incorporates the input, the thoughts, the best ideas out there from our producers who ultimately have to live with and adhere to the policy that we enact here in the Congress. So thank you for what was a very time-intensive and laborious, I am sure, process, but one that is, when you look at all the work that went into it and the product that you produced, it was clear that you did—that there is a lot of work that did go into it, and again, one that ultimately hopefully will be of great benefit to our producers.

Let me just make a couple of general observations about—and again, I won't get into specific questions. We will have time to do that. I do want to interact with my producer groups in South Dakota as they react to this and get their direct input so that as we move forward, we can figure out what some of the regional impacts of the bill are and how we can put a bill together, assemble a bill, hopefully by the August recess, that is something that we can—everybody can be happy with and be able to vote out of the Congress and hopefully get signed and enacted into law.

But there are a couple of questions that I have at the moment and you talked about. One has to do with the budget. You talked about a $10 billion reduction over the course of the bill, $18 billion if you include disaster payments of the past farm bill. And the question has to do with this, because it seems to me at least some of the assumptions you are making about prices going forward are maybe not optimistic, hopefully they are realistic in terms of where prices are going to be in the out years, but I recall going through when I was a member of the House of Representatives trying to get disaster relief enacted here, coming to the administration with a proposal that essentially would say that we are achieving great savings in LDP and countercyclical payments from not making payments today that as a result of higher prices, and I wanted to apply those savings toward disaster relief and the answer was, no way, you cannot do that because in the out years of this farm bill, we may not have these good prices and we have to have this reserve.

It looks to me like that is what you are doing here. You are assuming that these prices are going to stay at this level and therefore there is going to be all this money that would have been available under the previous farm bill that you can call savings, and so you are cutting back on some of the safety net-type programs.

I guess I would like to get you just to react to that because it seems to me that you are building assumptions in about prices in the out years here that could affect some of these programs if, in fact, we get into a time when prices drop precipitously.

Secretary JOHANNS. Here is what I would offer. Pretty soon here, you will start exactly where we started. You will start with a baseline, and all decisions will be based upon what you do off of that baseline. Here is how you will get the baseline. You will just say, well, if we just did the 2002 bill, kept every "i" dotted and every "t" crossed and changed nothing, what would that cost over the next 5 years? As the 2007 farm bill, that is where your assumption is going to begin. That is where our assumption begins.

In computing into that, you are going to have to make some decisions, rational decisions, based upon price projections. We did not just pull these numbers out of the air to get the numbers to fit. That is the baseline you will start with. That is the baseline that we started with.

Here is how it shapes up. If you compared the actual spending that occurred from 2002 to 2007 in the farm bill that we have today, this proposal will spend about $10 billion less. Why? Because during a lot of that time, you had very low prices. You paid out very large LDPs during the Katrina event and those kinds of things happened. It has only been in the last year or so that you started to see those prices go back up. When I came here 2 years ago, the discussion was, what will we possibly ever do with all this corn we have in reserve? Now, that is not the discussion anymore.

Then if you did the 2002 farm bill again, let us just say you said to me, Mike, I want the 2002 farm bill again, I do not want any changes, no "i" undotted, no "t" uncrossed, this proposal spends $5 billion more. It fits within the President's plan, but it spends $5 billion more than that baseline, and you will be finding that as you start to work through the numbers.

You say we have cut the safety net. We really have not. Here is why we have not. If you look at cotton, the money that increases the direct payment is basically what we have done in terms of adjusting on loan rates. If you look at the other four major program crops, which you grow some of them in your State, wheat, corn, rice, and soybeans, an adjustment of the loan does not make any difference. It is basically a net wash financially. So we have not really impacted that safety net and you will find that you won't impact it, either.

On the other hand, if you say, you know what, I just want to keep all that the same and I am willing to take the money away from the enhanced direct payment for those crops, those four crops, which is an additional 7 percent in the third, fourth, and fifth year, you have just cost those producers a billion dollars, because we literally went out and found and identified that money, recognizing that somewhere out there, maybe ethanol is not quite as strong, et cetera, so let us buildup the direct payment. But the nice thing about it, if you approve that, your farmers can take it to the bank. It is done, it is mandatory, and they can plan on that money being there. You take that out, you just cost those producers across the country a billion dollars, and adjusting the loan rates, I think you are going to find, unless you make really radical adjustments, you are going to find that it is a net zero effect, or basically a wash. So it is not the reduction that maybe you think.

And the last thing I would say, Senator, and I offer this to everybody and I am probably getting myself in trouble here, but I am happy to come out and explain this or sit down with producers or your staff or whoever because it is complicated. We would be happy to try to do some things to try to get people out there to walk folks through what we have done here.

I think in a State like yours, because you are so similar to Nebraska, you are going to like what we did.

Senator THUNE. Well, I hope you are right. I know the direct payment probably impacts differently across commodities. A corn grower in Western or the middle of South Dakota probably—I talked to one yesterday that said, "I get about $8 an acre on my direct payments." So increasing it by 20 percent is not a big deal. But on the other hand, I think you have to weigh that versus the current program and what they would be with the current loan rates, what they would be receiving.

So I guess the main thing is maintaining that, of course, safety net for those down years, hoping that in the future, if renewable energy continues to drive corn prices high—we have got good corn prices, although that gets the livestock guys upset. You do not want to go to a sale barn these days because you will get the other side of high corn prices, which I am sure you are hearing, as well.

But just a couple of things I will say. I know my time has expired, but a couple other observations. One is there is a concern that has been raised, too, about when you do the national target revenue per acre, that going to a national does not take into consideration what I think you heard from Norm Coleman, some of the regional or local conditions that might impact that, if you had a really bad year in one area of the country.

And second, and this has to do with this whole issue that was raised earlier by my colleague from Arkansas, ironically, I have always supported payment limits, and at the time, I do not think that the administration was in favor of it. Now the administration is coming out in favor of it and now my agricultural groups are saying they do not want them anymore. So I am not sure who is being progressive and who is digressing here, but there has been an evolution of thought on this, and I think even when you get out of some of the Southern commodities, you are going to hear from farm bureaus and corn grower organizations in my part of the country that may have some issues with that.

But nevertheless, it is a good start. You jumpstart the process and we look forward to working with you, and Mr. Chairman, look forward to working with you as we get this process underway. Thank you.

Chairman HARKIN. Thank you, Senator Thune. Senator Casey?

Senator CASEY. Mr. Chairman, thank you for putting together this hearing and for your great leadership of this committee on very difficult issues, and I am going to thank you, Mr. Secretary, for your public service and for the work that goes into putting together the budget proposals that you and your team have announced.

I have got a couple of questions. I do want to focus, as Senator Leahy reminded us, some of us once in a while get parochial. That is part of our job, to focus a lot of attention on our home State. I know you have spent a lot of time in the Commonwealth of Pennsylvania and I know some of these issues will be familiar to you.

I want to speak in particular about dairy policy, and I know you have been asked about this today. In our State, we have got some 8,600 dairy farmers, a big part of our farm economy, and if there was one resounding and consistent question that I heard from dairy farmers across the State over the last 2 years, it is a very simple question, but I know that dealing with it is particularly difficult. What a lot of them said to me very simply, and it is a question they have asked for many years, is why doesn't Federal policy take into consideration or have a full understanding and a policy that reflects the true cost of production, what a dairy farmer and his or her family have to endure just to survive.

And I know that it is a very broad question, and I also want to ask particular questions about the MILC income loss contract. But I just wanted to get your thoughts generally on that very specific but, I think, very important question for dairy farmers.

Secretary JOHANNS. I grew up on a dairy farm in Senator Harkin's State, so I have been around dairy as long as I can remember and I will share a story with you. I went to the village where my great-grandfather came from in Germany 2 years ago, and as we drove into this village, guess what was in the middle? Dairy cows. So I guess we have been milking cows in my family for a long, long time. I do have a familiarity here probably that is maybe even more than the average Secretary would have because my background is there.

The proposals we have made in our current dairy policy are what I would describe as fairly modest. We keep the milk income loss contact (MILC) program, probably surprised a few people by deciding to do that because we have put out some information questioning the program, but we do keep it.

We are making adjustments. It does go from a rate of 34 percent, stairsteps down to 20 percent, and it is based upon historical production under our proposal. But that is really it with MILC. We also keep the price support program at the current level, and that is really the main area where we have the ability to impact the dairy situation for farmers out there.

I was questioned by Senator Crapo, why did you keep the MILC program, and I said, you know, it is a safety net that was put there and you just do not change that overnight. So my hope is that the dairy industry, because I do think there is conversation on what to do and I think they are going to have some proposals, I would encourage the dairy industry to keep that conversation going, because here is what you will find, Senator. There is a huge diversity of opinion in the dairy industry between your area of the country and as you move West. As you move West, bigger operations, a lot of cows, you know, it is just a different phenomena than what we would see in the Northeast. In my judgment, both are valuable and we need to develop dairy policy that is helpful.

The last thing I will mention, we get criticized a lot on the milk marketing order system because it is slow and cumbersome, and you know what? It is slow and cumbersome. I wish I could figure out a solution to that problem. I would make most dairy farmers more happy with this. It is a very cumbersome process, not because I have got people dragging their feet at the USDA, it is just the process is so cumbersome. People are trying to get through these things, but by the time we get to a decision, the issue that drove that is sometimes a year or 2 years old.

So, boy, I am really hoping the dairy industry can work with this committee and maybe have some ideas. I guess we would try to be open to ideas. Of course, we would. But what we have proposed here is fairly modest and I think most of the people who are involved in dairy would agree with me.

Senator CASEY. Well, I appreciate that. One thing I would ask you to do, and certainly I would want to make myself available at getting our schedules together, is to spend some time in Pennsylvania listening to, as you have, I am sure, in the past, listening to our dairy farmers and I hope we can do that.

Let me just ask you in particular about MILC, and I know we are—when I say the income loss contract. How did you determine the reductions that would take place between fiscal year 2009 and fiscal year 2013, when you go from that 34 down to 20?

Secretary JOHANNS. Here is basically how we did it. Our approach was to try to be equitable as best we could across commodities. We had made adjustments in the marketing loan rates, again, pretty well across the commodities based upon historical market prices over the life of the last two farm bills. We have kind of put that in place. Then we looked at the MILC and said, how can we make the case that they were treated about the same? And so that is really how we headed out there to do it, and that is how we ended up with this stairstep process.

The thought was originally, maybe we should just reduce it straight out of the box. I wanted a more rational approach in terms of adjusting it over time, so we did it over the 5 years of the farm bill.

And actually, here is another interesting issue. I was talking to Senator Thune about the baseline. Here is your challenge with the MILC program. It is not in the baseline. It is not funded out there. So when you sit down and say, I want the MILC program, you are going to have to convince your colleagues to find money somewhere to fund this program at whatever level you want it funded at. It will be literally new money added to the baseline, and Senator Harkin has been through this. He is nodding his head. That is just the way it is, so——

Senator CASEY. I look forward to working with you and with the committee and especially our Chairman.

Chairman HARKIN. As I said earlier, I think we have a lot of consensus on the committee to move ahead, but I said there are going to be some contentious issues. I think we just tapped one.

[Laughter.]

Chairman HARKIN. It just has to do with different parts of the country and what we are going to do. Well, we will just have to work. We will work something out some way. But with the budget constraints, Senator Casey, we really do have a problem here without it being in the baseline, and how we resolve it, I do not know quite yet.

We will start a second round. I will keep myself to 6 minutes and then go around again.

Just a couple, three things. CSP, just keep in mind—this is not a question—but incentives. Think about it as an incentive background for biomass and conservation together, for biomass and conservation together. Think about it as an incentive.

Second, on the program that you and I talked about when you first came into my office, Section 9002, the bio-based purchasing requirement for the Federal Government, we put a provision in the last farm bill—it is in permanent law, by the way—that requires the Federal Government to purchase bio-based products as long as they are equivalent in price, performance, and availability. Last September, you were very gracious to come over to the Department of Defense where we had a 2–day fair or whatever you want to call it, exhibitors. Forty-some companies came there to demonstrate the goods they had that were bio-based that could be purchased by the Department of Defense.

You moved aggressively on this. I congratulate you for it. At first. But we are still at only six products and what has happened? It seems to have, from your initial endeavor to really move this, it seems to have slowed down greatly and I do not know why.

Second, I looked in your book. You have a proposal for $18 million over 10 years. That is $1.8 million. That is a small increase from what we had, and I just wonder if that is going to be adequate.

So, just briefly, address yourself to Section 9002 and what you want to accomplish with that.

Secretary JOHANNS. Keith really spearheaded the regulations, if I remember correctly, on this, and Keith, if you could—I do not know how much of this you can remember, but if you could help with this one.

Mr. COLLINS. Mr. Secretary, Senator Harkin, I agree with you. It was a long time in getting the first proposed rule out. We had to get guidelines out first through a proposed and final rulemaking. As you indicated, we do have six items. Items are classes of bio-based products with literally hundreds of branded products subsumed under an item. We have six items that have been designated for preferred procurement by final rule. That final rule requires us to give agencies, Federal agencies, a year after the promulgation of the final rule before the mandate takes effect. That mandate takes effect this March 2007, because the six items were designated by final rulemaking in March 2006.

We have two other proposed rules. The comment periods have closed. We are preparing the final rules now. We are discussing the final rules with the Office of Management and Budget and we hope very soon to be able to issue final rules on two rules which will designate an additional 20 items. Again, 20 items being classes of bio-based products. When we have those 20 items designated, together with the original six, we will have something in the order of 600 manufacturers producing over 2,000 branded products that will then be designated by final rulemaking for preferred procurement under the program.

In addition to that, we have expanded greatly our outreach efforts to other Federal agencies under our Assistant Secretary for Administration, who has taken a tremendously enthusiastic approach to reaching out to Federal agencies to ensure that their own procurement regulations in each Federal agency meet the requirements of the law and that they are up and ready to run in March of 2007.

Chairman HARKIN. I appreciate that. I do intend to use my position as Chairman of this committee to call in the Secretaries of Defense, Interior, Commerce, and a few others and ask them why they are not implementing this part of the law. It applies to them. It does not apply to the Department of Agriculture, just for you for the rulemaking and coming up with the products. But we need to find out why the rest of the Federal Government is not focusing on this. Now, Gordon England, the Deputy Secretary of Defense, gets it and he was very promotive of this, but I just want you to know I will be calling up these other people, too.

Mr. COLLINS. You are correct, though. We are required to have the Federal Acquisition Regulation modified, but then in addition to that, every Federal agency that has their own procurement regulations have to modify those. At Agriculture, we have a thing called AGAR, which is equivalent to the FAR, and we had to revise that, as well. Every Federal agency has that obligation.

Chairman HARKIN. I know that, and I intend to ask them that, too, call them up and ask them what they know about it.

Fruit and vegetable program, snack versus lunch, I notice you geared toward the school lunch program there, then later on you said schools should make the decision. But keep in mind that you can just keep putting more and more and more stuff in the school lunch program, Mr. Secretary, but as teachers told me and principals told me, kids come to school in the morning and they get the growlies right around about nine o'clock in the morning, or maybe they have had a sugar breakfast and then they crashed on that sugar and what do they get? They go to the vending machines or they eat cookies or something like that.

So what has happened is with this snack program is they are able to get fresh fruits and vegetables which get them through that, evens them out. We had all kinds of information about how they study better and everything. So I just want you to think about that in terms of how we move ahead on that.

And the question I have—I am running out of time—is why do we not have a rule yet updating the school meal patterns to conform to the recent dietary guidelines if you are going to move into school lunch programs? We do not have a rule yet, and I am just wondering. If you do not have an answer, maybe you can submit it for the record.

Secretary JOHANNS. I will submit that for the record, if I could.

Chairman HARKIN. I appreciate that. I have 17 seconds. Technical problems. I agree with you on changing the food stamp name program. That is good. And you said about providing a bonus or something like that, up to 25 percent or something like that if they buy fruits and vegetables. I do not know if you have put that in or that is my own head work. But I need to know about technical problems. If you use your EBT card and you go through and let us say you give a bonus to someone to buy fresh fruits and vegetables, what are the technical problems? What if we wanted to say, OK, if you buy $10 worth of fruits and vegetables and you swiped your card, you will get a bonus of 25 percent on that. I just need to know what technical problems, and again, if you do not know that, you can submit that for the record.

Secretary JOHANNS. We will answer—we will get a technician to answer that, but just so the record is clear, our proposal, we have not submitted a proposal to bonus people. What we do have is a pilot program working with States to try to find innovative solutions to obesity problems. Something like that could fit here.

Chairman HARKIN. I hope we would look at that bonus problem. Senator Lincoln?

Senator LINCOLN. Thank you, Mr. Chairman. I just have, I think, three more questions and one comment, and I apologize for taking up all your time.

Your comment in closing on the payment limitations, you noted that it has a history, and certainly last year was prevalent in the 2002 farm bill, or the last time, and that is true, but it was there as a compromise. I will just make sure that just to go one step further, if you noticed in that compromise, it was stated that 75 percent or more of the adjusted gross income had to be derived from farming. That has been eliminated in what you have proposed. The problem with that is when you look at AGIs, as indicated on the Federal tax forms, that means it would all be farm income and non-farm income.

The purpose of what we were trying to do in that compromise was, as I remember, I think it was called the Scotty Pippin rule, to make sure that people, not to harm the farmers that were doing a good job in farming as they were supposed to, but to make sure that it was not directed to people who were non-farm income and non-farmers.

So I would say that I hope that we can look at coming about at compromises and taking that into consideration and certainly not just assuming that all large farmers are old and greedy. The fact is, many of our large farmers are large because they have to be and they have to farm an economy of scale to be competitive in the global marketplace.

Senator Grassley mentioned keeping farmers young. Many of our large farmers are young. They are the next generation. And the reason they farm large farms is because of the crops they grow in the areas that they live and those crops are what are suited to be grown there. And if they do not grow that economy of scale, they cannot be competitive.

So I just hope that we will take that into consideration. I know there are a lot of greedy people, but I hope we do not just assume that. There are greedy CEOs, there are greedy people in all professions. But just assuming that they are trying to circumvent laws or circumvent rules, I think is the wrong approach. I hope that what we will do is look and see that diversity exists in all areas and that this is one where if we are looking particularly—and when I talk about marketplaces, that is where I go to my next question.

Our own OMB Director Rob Portman has stated many times that there is no economic sector more distorted than the world agriculture market. The fact is that all of our farmers face the lopsided playing field, be they big, small, or in between, quite frankly. And I wonder oftentimes why our administration continues to criticize the support that we provide our farmers instead of focusing on foreign tariffs and subsidies that again are far, far higher and greater than anything we provide our producers.

So we look at our farm families producing crops, Mr. Secretary, and I look through your proposal and note that there is $11 billion in cuts to the farm safety net and that number jumps to about $13.5 billion if we include the crop insurance cuts. So if you offset it by adding back the direct payments, which you indicate is a part of what you are trying to provide in terms of relief, the direct payment increases and some of the other items, we are still looking at nearly an $8 billion cut to our farm families.

So I hope that—well, my question really is, in trying to accomplish what you are trying to accomplish in the context of this farm bill rewrite, I hope it is not to from a side door go back to "freedom to farm," meaning unilaterally trying to disarm our farmers in an international global marketplace, particularly in the midst of a trade negotiation in terms of the WTO. I mean, I would like to see us encouraging our trading partners to step up to the negotiating table to reduce their tariffs and subsidies before giving away our farm, as it is sometimes said, or just throwing away the farm, perhaps, in those negotiations. I know you are not the trade man, but nonetheless, I think it is an important part of this equation.

Secretary JOHANNS. I appreciate your comments. We do not make an assessment about greed or anything like that. I believe in all of agriculture. People sometimes ask me if we are for the big guy, or if we are for the little guy. I say, look, I am for farmers. I am for ranchers. I am for agriculture. You are right, some are of a size that is required by the economic circumstances that they are dealing with. Some are smaller. But I believe in supporting agriculture.

I would also make the case, Senator, that if you really look at the proposal, very respectfully, I believe we have improved the safety net. Let me give you an example, and farmers told us about this.

When Katrina hit, we had about a 2–month interruption of transportation down the Mississippi that was significant. It lasted longer than that, but it rippled across America and it affected the corn and soybean price. The corn price dropped from about $2 a bushel to $1.55, $1.60. At that point in time, farmers locked in their LDP and they got 40 to 45 cents a bushel to do that, and you can do the math, absolutely legal and appropriate under the 2002 farm bill. But I do not think that is what Congress intended. I think Congress intended a true safety net where we would be there to help farmers when they needed the help.

So when farmers are telling me this and then telling me, look, it was when I needed you most you were not there because the price went up and I did not get the countercyclical, I am going, something is not working very well here. Again, what we tried to do is keep the structure, try to figure out how to operate this system better, try to recognize that it was safety net that farmers were focused on, you know, and try to make proposals to Congress that were based upon that good policy.

I was in Iowa—I was in Des Moines recently in the release of this and I talked about that LDP phenomena with Hurricane Katrina. You know what? Farmers were out in the audience nodding, and again, it was entirely appropriate. I am not suggesting anything other than I am not sure that in the end that is what Congress headed out to do here. I think what Congress headed out to do was provide a safety net.

And so I think we have provided a more secure safety net, a more predictable safety net, a safety net that farmers can plan on, and it is more in accordance with what I think Congress was trying to do with the 2002 farm bill——

Senator LINCOLN. Well, I think you kind of make the point, too, here that there are variables that we deal with in agriculture, much of which we have no control over——

Secretary JOHANNS. Yes.

Senator LINCOLN [continuing]. And you point out Katrina and the weather that existed. We suffered from that, but we did not get the disaster because we were not in the area, but it still comes up the river and it still comes across the—you know, the weather patterns still come straight up and blow down our rice and damage our cotton when it is getting ready to be harvested, along with the fact that the input costs, the energy costs were drastically high both starting then and through the following year. So there is a lot of that that occurs.

I go back to something else Senator Grassley talked up. He talked about images being portrayed, and it seems like the Department of Agriculture is always concerned about the image of whether or not what you are doing is going to be portrayed in the press by certain groups as being something that it is not, quite frankly.

But what I would say is that if you deeply cut the programs that have helped farmers when they need it, when you talk about the marketing loan rates, and then you increase the direct payment slightly and temporarily, which pays the farmer regardless of what happens, even when prices are good and production is good, do you not think that that is going to invite bad publicity? If prices and production turn out to be good in the future, as they are predicted but certainly not assured, or that absolute calamity comes about and you are billions and billions of dollars in emergency relief that we are all having to hassle about, if those predictions turn out wrong, it is kind of what Senator Thune was saying. If price and production are bad——

Secretary JOHANNS. Here is what I would say, Senator, and again, very respectfully, but your question does misstate our proposal and I just have to put it out there for you.

Senator LINCOLN. Yes.

Secretary JOHANNS. If you look at the adjustment in the loan rate for cotton and go over to the full life of the farm bill, all 5 years, you will see that we increase their direct payment by 65 percent, 66, and there it is. It is more predictable for those cotton farmers. They know what they are going to get. They are not going to get cut out on that payment when their crop is short because they had dry conditions and are not on irrigated land.

When you look at adjustment in the loan rates for the other four major commodities, it is basically a wash. It does not save any money. We are not getting those billions of dollars of savings that you are suggesting, not at all.

But we went out there and we said, look, let us find a billion dollars that we can put out there for them to increase their direct payment. Again, they can take it to the bank through the third, fourth, and fifth year. During the first couple of years, we have got very high prices, very high prices, and I will study the same thing that you will be studying, because in the end, as I said to Senator Thune, you are going to start exactly where we did. What is in the baseline, what is out of the baseline? What does the 2002 bill look like if we passed it for the next 5 years and what baseline does that create? I will tell you it is not a reduction. Run the baseline on the 2002 bill, compare our proposals, we are $5 billion over.

So if you say, Mike, you really made a nice presentation here but I like the 2002 bill, I am going to stick with it, I am going to fight to get it passed, somewhere out there, $5 billion has just been taken away from people because our proposal is $5 billion over the baseline.

Senator LINCOLN. Well, I am not so stuck in the gumbo, as we call mud in the Delta, to say that I have to have the 2002 bill, but I do think—and I hope that you will be willing to work with us to come up with some compromises that may be more reflective of the diversity that exists, and we thank you, Mr. Secretary. Thank you, Mr. Chairman.

Chairman HARKIN. I just have a few more, but I have to respond to Senator Lincoln. You cited Rob Portman as saying that the biggest distortions in trade were in agriculture, is that what he said?

Senator LINCOLN. World agricultural markets.

Chairman HARKIN. Well, I like Rob Portman a lot. He is a fine guy. I may have to call him up on that one. I happen to think the biggest distortions are in manufacturing, where people are paid basically slave wages, where they are provided no kinds of retirement benefits or anything else, where they use child labor in many cases. I think those provide some of the biggest distortions in terms of our world trading agreement. Where we at least try to pay our workers a living wage and provide different benefits and things, they do not get that same thing in other countries and they are just undercutting us, a lot of times using child labor, too. So I would say that that may be a bigger distortion than what we see in agricultural trade.

Mr. Secretary, the fastest growing segment of the food industry is organics, 20 percent per year going up right now. In the 2002 farm bill, we started to address some of this in a couple of ways. There is this sort of valley of death, as they say. If somebody wants to do organics and they have got program crops and program acres, to grow organics, you have to be certified for 3 years. I mean, you have to do 3 years before you get your USDA certification, but they cannot market it as organics.

So we tried to provide some funds in that bill to get them through that and then to do some more research, and what we provided was $3 million a year for research and extension. Your proposal has only $1 million a year. So the way I see it, that is a two-thirds cut in the fastest growing area and an area where, for a small amount of money, we can provide niche markets for a lot of farmers all over this country and people who want to grow organics.

So I am just wondering why there is this back-off in your proposal.

Secretary JOHANNS. Our proposal is at page 166 of the book we have submitted and it lists a whole bunch of initiatives under the organic title. I will not—the hour is getting late and I will not detail those, but these basically were built on suggestions that the organic industry had been touting or proposing. So I think we hit everything.

The other thing I would mention is that if you look at our proposals, we have mandatory funding there, also. Again, because there is this issue, you can put a lot of discretionary money out there. It does not tend to get funded, and you look back 5 years later and say, well, that was a nice idea. It did not go anywhere because the money was not there.

If you look at our proposals, I think they are comprehensive. I think it is along the lines of what the organic industry wanted plus there is mandatory money there that will help.

Chairman HARKIN. I think the mandatory is just in the Market Access Program. That is the way I see it.

Secretary JOHANNS. I would have to study that a little more.

Chairman HARKIN. Well, we will have to get into this——

Secretary JOHANNS. Yes.

Chairman HARKIN [continuing]. Because in your budget, in the budget, it is $18 million over 10 years—no, that is not right——

Secretary JOHANNS. Yes, it is 69——

Chairman HARKIN. It is $10 million over 10 years.

Mr. CONNER. It is $61 million, Senator Harkin, I think, over 10 years, and that is all mandatory funding in our bill, I believe.

Secretary JOHANNS. I think the organic industry—I am not aware of whether they have weighed in on our proposal, but I am thinking this is pretty close, plus it is mandatory money and that, as you know, is always hard to come by.

Chairman HARKIN. I will look at it. I thought it looked like you were cutting it from the $3 million, which I thought was a paltry sum anyway.

I had a big meeting this weekend with a number of organic farmers in Iowa. We had a big gathering there. Their need is for regional processing facilities. They need small regional processing facilities to be able to take their goods there and have them regionally processed, packaged, whatever, and then put out. So I look forward to discussing that with you.

But I have got to clear up the amount of money on organics. We have got to do more on organics. We have got to provide more money—Mark tells me that the organic research, what I am talking about, and extension is cut, but the overall organic does go up, so we will take a look at that. We will work on that.

One last thing, and it is late and I appreciate your staying here so long. We will work on the Food and Nutrition Program, on the technical problems regarding how we give a bonus to food stamp recipients. We will work on that.

My last question, again looping back to where I started, my favorite subject, CSP.

Secretary JOHANNS. OK.

Chairman HARKIN. Again, one more time, as I understand your plan to provide the increase of $500 million over the 10 years, we spread the baseline back. I understand all that. It is going in the right direction. But here is what I do not understand, Chuck. The President's budget released Monday would reduce spending for the Conservation Security Program in 2008 by $135 million and reduce the cap on CSP by $80 million between now and 2015. So it seems to me there is an inconsistency here, and if you can clear it up a little bit now or provide a more detailed analysis later on, I would appreciate it. Or Mr. Secretary—I just said Chuck because we have beentalking about this.

Mr. CONNER. Senator Harkin, I think to underscore what the Secretary had said earlier, the budget that we submitted earlier this week does reflect all of the current CSP contracts that we have already awarded and also provides some additional funding so that those same contract recipients can actually upgrade their contract, if you will, and receive additional assistance and exchange for additional conservation benefits. We have not—so that is built into the President's budget, current contracts plus opportunities to upgrade those contracts with more conservation.

Chairman HARKIN. OK.

Mr. CONNER. Now, beyond that——

Chairman HARKIN. No new contracts?

Mr. CONNER. That is right. As the Secretary has noted, we have in our book proposed, in addition to the additional funding, we have proposed changes to some aspects of CSP. For that reason, we do not believe that there is going to be new contracts awarded in this fiscal year and therefore——

Chairman HARKIN. Two-thousand-eight.

Mr. CONNER. I am sorry, in fiscal year 2008, and for that reason have not included any of the additional increases to begin in that fiscal year. Obviously, they would begin then in 2009 and beyond with the adoption of a new farm bill proposal. But again, I think the important point, Senator, is we have covered the existing contracts plus their opportunity for additional conservation dollars within those contracts.

Chairman HARKIN. Well, again, as you can imagine, I do not think that is acceptable. For 2 years, we are going to go 2 years without one new contract, and I just do not know why it would take so long to come up with rules and regulations. We have an existing program. We will get a good idea probably soon, by early summer, the direction we are going on this. I think when you did the EQIP funds after the 2002 farm bill, that happened pretty rapidly. So I just think we just cannot afford to have 2 years like that.

Again, one more time, how does the $80 million reduction, the $80 million reduction in the President's budget through 2015 square with the purported $500 million additional over the 10 years?

Secretary JOHANNS. Chairman, if I might offer a thought, we have our budget person here and maybe if he can caucus with your folks to try to——

Chairman HARKIN. OK.

Secretary JOHANNS. We can tie each other around the axle on these numbers and I think we are successfully doing that.

Chairman HARKIN. All right. But go ahead, Keith. Maybe Keith can give us a——

Mr. COLLINS. I can try very quickly, Mr. Harkin. First of all, we are not proposing a decrease in CSP funding in our budget request for 2008. For 2007, our CSP funding is $259 million. Our budget request——

Chairman HARKIN. That is right. I am aware of that.

Mr. COLLINS. Our budget request is $316 million. That is an increase. That is to do exactly what Deputy Secretary Conner said, to fund existing contracts plus enhancements. The $80 million you are talking about is a decrease from our baseline level and that decrease in the baseline level simply results from the fact that we are not holding additional enrollments in 2007 and 2008. So we are slightly below our baseline. But then we would make up for that in our farm bill proposal by adding the $500 million, pulling the out year funding forward, and enrolling in the order of ten to 11 million acres a year and going from 15.5 million acres today to 96.5 million acres in 2017.

Chairman HARKIN. OK.

Mr. COLLINS. And if I might say, the question of——

Chairman HARKIN. Then that seems to me, from where I have been, it seems to me then that is $420 million. We will just deduct the $80 million off of it.

[Laughter.]

Chairman HARKIN. You are right. We can get around the axle on this one. We will work it out. We will work it out. We will work it out.

Let me see, did I have anything else here that I wanted to bring up? No, I think that really does it. You are very generous with your time, Mr. Secretary. Again, I thank you for a very, as I said in the beginning, a very challenging and, I think, forward-looking proposal. I hope we can get to work on it soon. My goal along, I hope, with Congressman Peterson on the House side is to get this thing put to bed and get it to the President sometime hopefully by September. I look forward to working with you on it.

Secretary JOHANNS. I look forward to working with you, Chairman. We really appreciate your leadership in pulling this hearing together. I think this is what farm bill policy is all about. You get together and you start talking about the issues and try to figure out where to go. We are excited about our proposal. As you can tell, I probably answered longer than I should have. I get fired up about the things that we have got here, but we do appreciate the hearing and the opportunity to visit with you and your committee.

Chairman HARKIN. Thank you very much, Mr. Secretary.

The committee will stand adjourned subject to the call of the chair.

[Whereupon, at 12:48 p.m., the committee was adjourned.]

A P P E N D I X

FEBRUARY 7, 2007

Senate Committee on Agriculture

February 7, 2007

Statement of Senator Thad Cochran

Mr. Chairman, Thank you for holding this hearing today. We appreciate Secretary Johanns appearing before the Committee in such a timely manner following the recent submission of the United States Department of Agriculture's 2007 Farm Bill Proposal.

The Administration's proposal will be an important part of the debate when Congress begins consideration of the new farm bill. I was pleased the proposal contained a strong conservation title that will encourage protection of environmentally sensitive land with incentives for proper forest and wetlands management. It is important for Congress to provide incentives for working lands and streamline the process for producers applying for program benefits.

I believe an important component of the farm bill proposal is the focus on young and disadvantaged farmers. The current costs of production and the inability to receive adequate financing create significant challenges for beginning farmers. Providing these farmers with additional assistance will result in a more stable income stream and encourage them participation in important conservation programs.

President Bush, in his State of the Union Address, put forth significant goals for renewable and alternative fuel production. Agriculture and rural America will have an important role in achieving these goals. His proposal outlines a significant increase in research and lending authority for further increasing our domestic production. Research will lead to more producers that will have the opportunity to participate in the production of renewable and alternative fuels and will enable the country to rely less heavily on imported fuel.

The Administration's proposal recommends significant changes to the current payment limit structure of the 2002 Farm Bill. The current structure was a result of significant debate and compromise. The recommendations will have the most affect on the producers who grow the majority of food and fiber across the nation. Any changes to payment limits should not unfairly target specific commodities or harm a producer's ability to effectively market their commodity. The next farm bill should continue to provide a safety net for all producers.

I look forward to working with the Administration and the Members of this Committee to ensure America's family farmers and ranchers have the support needed to continue to provide food and fiber and properly conserve our natural resources.

Senator Mike Crapo
USDA Farm Bill Proposal Hearing
Senate Agriculture, Nutrition and Forestry Committee
February 7, 2007

Mr. Chairman, thank you for holding this hearing and for the opportunity to share a few words. Also, thank you Secretary Johanns, Deputy Secretary Conner, and Dr. Collins for being here with us today to discuss the Administration's 2007 Farm Bill proposal. I recognize the considerable time you and USDA staff have put into collecting input across the country and putting together this proposal. While we may not agree on all of the suggestions, I recognize the thoughtfulness behind them, and I appreciate the willingness to put some of these controversial ideas on the table and the Administration's perspective in shaping federal farm policy.

As everyone in this room can attest, reauthorizing the farm bill is no easy task, and it will take a great deal of cooperation and hard work to write a farm bill that best enables our nation's farmers and ranchers to compete in domestic and world markets. I am looking forward to working with my colleagues in the Senate and House to do just that—write a farm bill that supports our producers and provides U.S. agriculture with the tools to succeed.

That said, I appreciate Secretary Johann's work. This is an impressive book, and there are a number of provisions that merit strong consideration.

The strong support throughout this proposal for beginning farmers and ranchers and underserved producers is commendable. I continue to hear about the obstacles new farmers face and believe we do need to find ways to help them get started.

I appreciate the emphasis on conservation, which would build on the success of the current conservation programs that benefit producers, landowners, and their families, but also benefit the general public with a cleaner environment, improved water and air quality and preserved and enhanced species habitat. There are some good ideas in here.

The Administration's proposal to dedicate $50 million over 10 years to encourage new private sector environmental markets to supplement existing conservation and forestry programs is interesting and I look forward to further discussion of how this would work. Conservation activities are providing environmental services, such as cleaner air and water that we all gain from, and exploring ways to create markets for those benefits will only broaden the conservation services provided in the current programs.

I also believe the members of this committee agree that we can use this farm bill to support agriculture's role in renewable energy. The ideas proffered by the Administration, such as using CRP for biomass production, will be helpful as we seek ways to enhance energy use of agricultural products.

There are also some ideas that are right in concept, but have some shortcomings.

I appreciate the Administration's support for extending the sugar program. Sugar beets are an important Idaho commodity and we need to support our growers in the face of a highly distorted global market. However, the extension is probably where our agreement ends. I suspect we will have some differences in what is necessary to maintain a no-net cost program in the face of imports.

The proposal to incorporate strong support for specialty crop producers, including the proposed funding increases for fruit and vegetable purchases, technical assistance and market access grants, is very welcomed. However, I'm concerned by the Administration's proposal to eliminate limits on planting of fruits and vegetables on base acres and what would happen for example should that trigger subsidized overproduction of potatoes.

There are also a few proposals that I'm not sure we will find agreement on.

It seems to me that we should be able to find better, more marketed oriented ways to support our dairy producers than investing more money in an extension of the Milk Income Loss Contract (MILC) program.

I am also concerned by the Administration's repeated attempts through budget proposals and now in the Farm Bill proposal to redirect funds for domestically procured food aid to purchase food aid abroad. While I noted that the proposal indicated that "cash food aid" would only be used in critical circumstances, the integrity of our food aid programs must be maintained and not eroded into a cash system that welcomes misconduct.

Mr. Chairman, these are just a few of the initial observations one makes going through the proposal, I could go on throughout the proposal and highlight agreements and disagreements—I think we all could. And, I skipped over some of the more controversial items. That said, I believe that we can have this debate about the ideas reflects well on the Secretary's proposal. It's been a long time since a Secretary of Agriculture came up with a farm bill proposal that merits this much discussion.

Thank you for the opportunity to share my thoughts. I look forward to the discussion today, and again thank everyone for being here to contribute to the valuable dialogue.

Senator Ken Salazar
Agriculture Committee Hearing: Discussion USDA farm bill proposal.
February 7, 2007
Statement

Thank you Mr. Chairman for holding this hearing today and thank you Secretary Johannes for appearing before the Committee this morning. Though I am skeptical of some portions of your proposal, I am examining all of them and comparing them to what I found when I conducted my own series of Farm Bill Listening sessions throughout Colorado. Secretary Johanns, everyone here shares a profound respect and dedication to rural America and I know that we all want to see a new Farm Bill that protects and benefits rural America.

Last year, I spent considerable time traveling across my state holding 2007 Farm Bill listening sessions, much like you did Mr. Secretary with your "Farm Bill Forums." It is not surprising that the tone and subject of the comments made across Colorado were strikingly similar to those made across the country. Simply, that times are indeed changing, and while some of the policies made law in the 2002 bill need revision, overall, much of the 2002 Farm Bill is working. Before us lies the challenge of building consensus so that sound policy can be made.

I see the 2007 farm bill starting the next chapter in the history of American Agriculture. There are exciting opportunities in biofuels and alternative energies. Home-grown ethanol remains one of the most promising fuels for rural America and the nation as a whole. Over the past several years we have been able to see ethanol grow into a cost effective, clean burning, and competitive octane enhancer. I appreciate the Administration's interest and attention to alternative energies in its proposal. I look forward to a robust, creative, and far-reaching Energy Title that can help cure America of its disruptive addiction to foreign oil.

I see a strong conservation title that is equitable and effective across the agricultural spectrum. Conservation programs, especially CRP, CSP, and EQIP, are all immensely popular in my state, and we should give farmers and ranchers the tools they need to continue as good stewards of the environment.

Furthermore, I see opportunities to bring the global, integrated economy to our fields, farms, and ranches. It is my hope the 2007 Farm Bill allows rural Americans greater access to important technologies like broadband internet and telemedicine. The Farm Bill needs to ensure these technologies reach those rural communities who need them most.

I speak often about our rural communities as "the forgotten America." And yet I am optimistic about the future. I hope that the 2007 farm bill signals a renewed commitment by the Administration and Congress to those who live in the nation's heartland. Our producers of food, fiber, and now fuel look to us to bring a new day for American Agriculture.

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It is our job to deliver.

STATEMENT OF SECRETARY MIKE JOHANNS
U.S. DEPARTMENT OF AGRICULTURE
BEFORE THE U.S. SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY

February 7, 2007

Chairman Harkin, Ranking Member Chambliss and Members of the Committee, I appreciate the opportunity to testify today to discuss the Administration's proposals for the 2007 farm bill. The Department has worked hard on these proposals, and I am proud to present them.

In addition to my comments today, I would ask you to carefully review the book on the dais that contains a full explanation of each of our proposals. In fact, I would ask that it be entered into the Committee record in its entirety. Many important changes lie within those pages – too many for me to detail today.

Let me just for a moment describe the foundation of these proposals. As we started to think about developing a comprehensive farm bill proposal almost two years ago, we wanted to know what actual farmers and other stakeholders were thinking. So we came up with the idea of the Farm Bill Forums. As we traveled across the country, we received great insight from our nation's farmers, ranchers, and rural residents.

Although we originally thought it would be most helpful to hear responses on six broad questions, we soon discovered it was best to let farmers, ranchers and others speak about whatever was on their minds.

Often, after traveling several hours, farmers would walk up to the open microphone and say things that were quite remarkable. I would jot down notes, as would those leading other sessions, and we would come back to the USDA and start comparing notes about what we were hearing from farmers, ranchers and other stakeholders. We learned a tremendous amount from them, and that information became the foundation upon which we built these policy recommendations.

I owe a great deal of gratitude to all those farmers and ranchers and others, who took the time to step up to the microphone and share great wisdom.

I have read many of the statements regarding your initial reactions to our proposals, and I very much appreciate your comments. I realize there are provisions and recommendations in here some of you will want to discuss further, but I do appreciate the fact that you are interested in learning more about our thoughts.

Reauthorizing the farm bill is a responsibility that I do not take lightly, and I look forward to working with you to craft this new farm policy. I hope that after today, USDA continues to have an open dialogue with Congress about the best farm policy to ensure the future of American agriculture.

As you have heard me say before, I have a history with the 2002 farm bill. I was the Governor of Nebraska when it was written. I was lead governor for Western Governors on the reauthorization of the farm bill, and I was co-lead with the Governor of Iowa for Midwestern Governors. The 2002 farm bill, I believe, was the right policy for the times. I supported it.

Why was it the right policy for the times? Commodity prices were low, exports had declined for several years, and the debt-to-asset ratio was about 15 percent for farmers. So the 2002 farm bill provided needed support. It was the first-ever farm bill with an energy title, and it was a farm bill that really stepped forward in the conservation arena, adding 80 percent in funding.

But like everything, times do change, and times have changed. In 2007, commodity prices are strong for most of the program crops. Exports have increased every year since 2000. Last year, in 2006, exports were about $68 billion, and we are projecting another record this year at about $77 billion. In the six years that President Bush has been in office, farm exports have set records three out of those six years. The President's trade agenda has made a difference in the country.

Looking at the balance sheet, we have the lowest debt-to-asset ratio in recorded history, 11 percent for farmers-- really remarkable. And although renewable fuels have been around a long time, the last couple of years have shown exponential growth and biofuels have gained strength as a significant contributor to the economy of rural America.

As we started thinking about how we wanted to approach the next farm bill, who we should listen to, who we should consult, we came to the conclusion that it should be the people most affected-- farmers and ranchers.

We conducted 52 Farm Bill Forums in 48 states with 4,000 comments received. Forty-one summary papers condensed all those comments into categories. Then, Dr. Keith Collins and our economists authored analysis papers on five themes. We posted all this information on our website and asked for people's input.

The folks that came to the microphone really made us think. I would be sitting on the stage, listening intently, jotting some notes, and think to myself -- is what they are saying really happening with our farm policy? For example, a gentleman at our farm bill forum, in Lubbock, Texas said, *"While the current farm program has served its purpose for the last several years, it is time to move on and craft a new, better farm bill. To create such we need to look at the success and failures of the current farm bill with a goal of improving upon this bill."*

In Missouri, I did a Farm Bill Forum, a gentleman by the name of Larry said, *"We urge you... to carefully review how well the current farm act is working for U.S. agriculture and consider ways to maintain the current farm act's structure as we go forward to begin debate on the 2007 bill."*

That was a pretty consistent theme across the country -- not unanimous especially in the commodity area – the current policy may not be getting the job done here or there, but we like the overall structure. We paid attention to that testimony.

Len from Wisconsin said something that we heard a lot about – Section 1031 of the tax code and its effect on land prices. He said, "*The 1031 is just driving our land rents and land prices to where the average producer, even big producers, can't compete.*"

In my home state of Nebraska, we did a Farm Bill Forum at Husker Harvest Days, and we had a gentleman by the name of Ernie say, "*Too often our farm policy focus is only on prices. The focus, we feel, should be on revenue which takes into account both prices and yields... [The current farm bill] tends to overcompensate when it should not and under compensate when more assistance is needed...*"

Well, this testimony took me off-guard; it seemed counterintuitive to me. But then we kept hearing that theme. John from Kansas said, "*We didn't raise anything because of drought. The prices went up and we didn't get any payment; we didn't have anything to sell...*"

When these people were coming to the forums and saying these things, it sounded counterintuitive because I was thinking the 2002 farm bill had gone a long way to help solve this safety net problem, when in fact it had not at all. Farmers were saying to us -- I cannot get a LDP for a crop that I don't raise. And they are absolutely right. To add insult to injury, if the crop isn't there, supply goes down, and prices go up -- simple supply and demand. The market price climbs above the target price and no countercyclical payment is triggered.

Several forum participants wanted to talk about trade. For example, a gentleman from Georgia said something very important. He said, "*If we're going to play in this free trade game and continue to support our farmers, then we need to trade proof our programs...*" Farmers really know about trade. When I talk to a cotton farmer about trade, approximately 75 percent of the cotton raised in the United States is exported. When I talk to a rice farmer about trade, 50 percent of the rice grown in the United States is exported. For the major row crops, every third row grown in the U.S. (e.g., corn, wheat, soybeans, cotton and rice) is exported.

Ellen in North Dakota, said, "*As the program exists right now, there are in fact no limits on commodity payments that can be received...*" This was a very interesting debate, with regional differences.

Then James from New York said, "*Historically, the farm bill has benefited a small but crucial group of farmers. However, by supporting expansion [of fruit and vegetable purchases]... we have the unique opportunity to use the 2007 farm bill to directly and positively impact the health of our children and begin to reverse a dangerous trend toward obesity.*" Again, we listened to James and several like him.

As we started working our way through all of these comments, some guiding principles became apparent. These principles of reform and fiscal responsibility guided us through our decision-making – leading to a farm bill proposal that is:

- **More Predictable** -- These market-oriented proposals provide support when revenue is low despite high prices.

- **More Equitable** -- These proposals distribute resources more equitably among producers and among commodities.
- **Better Able to Withstand Challenge** -- These proposals transition toward market-based programs and away from programs tied to price or production.
- **Wisely and effectively spend taxpayer dollars** -- We have to keep that support among the people who pay the bill -- the taxpayers. I have to be able to go to any city in America where there are no farmers and ranchers and effectively make the case that our farm policy is a wise federal investment, which I maintain. These proposals consolidate and streamline USDA programs to increase effectiveness and focus on providing a strong safety net.

Now, let me get into the specifics of our proposals. I'd also like to say for the record that all of the cost/savings estimates I refer to in this statement are over 10 years unless otherwise noted.

Commodity Title

Payment Limits and Eligibility

We have a proposal on payment limits that would end our commodity program subsidies to producers who are among the top 2.3 percent of Americans who file federal tax returns. We are taking a different approach to payment limits than what you've seen in the past. Under our proposal, if you have an Adjusted Gross Income of $200,000 or more, your participation in the farm bill commodity title programs would cease. Keep in mind that this is adjusted gross income which is gross income minus expenses and deductions. It is a net number.

We are proposing to eliminate the three-entity rule and transition to direct attribution. Under our proposal, a farmer can receive payments from any number of entities as long as your adjusted gross income is below $200,000 and you have not exceeded the annual payment limit of $360,000. This provision is projected to save about $1.5 billion over ten years.

Revenue-Based Countercyclical Program

As I mentioned earlier, I thought the safety net was pretty well resolved in the 2002 bill, but farmer after farmer said – I am getting a lot of money when I am producing a lot; I am not getting a safety net when my yields dwindle.

In fact, during some of the best years, USDA paid out the highest payments. We listened very seriously, we took that to heart. Thus, we are proposing a countercyclical program that is based upon revenue, instead of only price. This new program will actually work better across the commodities to provide a true safety net. A system based solely on a price trigger, without regard for yield, deals people out of the safety net when they need it the most.

Loan Deficiency Payments and the Marketing Loan Program

In the marketing loans, USDA is proposing to adjust the loan rates down to more reflect the actual market. We are actually basing loan rates on a methodical formula. We set the loan rates at the five-year annual average price of the commodity, throwing out the highest year and the lowest year, and take the average price.

We propose a cap on these formula-based loan rates, again not by picking a number out of the air, but by using the loan rate approved by the House of Representatives when they passed the 2002 farm bill. As you may remember, those loan rates were fairly broadly supported by commodity groups.

Direct Payments

We are proposing to increase the direct payment for the commodities. The members of the Committee know as well as anyone that we have been struggling with the WTO cotton case. It is real. Direct payments that are decoupled from price and production as a general rule are compliant with international trade rules. As I have said previously farmers understand the importance of trade, and I believe they will embrace a move to greater reliance of direct payments that are more predictable and protected from challenge. We want this Committee to write the farm bill, not have the WTO dismantling it piece by piece.

Enhanced Direct Payment for Beginning Farmers

We heard a lot from beginning farmers about formidable barriers to entry, including high land and cash rent prices and high input costs. Our idea was that a beginning farmer who qualifies for this program will get an increased direct payment -- in addition to anything else we're doing -- of 20 percent for their first five years. We wanted to make sure they had certainty and could plan for a period of time as they start farming. This proposal is projected to cost $250 million over ten years; so if a beginning farmer signs up for this in the last year of the farm bill, they would get an entire five years of enhanced payments.

Conservation Enhanced Payment Option

I could not be more excited about this proposal, and again the wisdom for this proposal did not come from here in the beltway, but from farmers. We are proposing to provide a conservation enhanced payment option, the option to replace commodity support payments with an enhanced direct payment for conservation efforts.

Let me explain how this new option would work. Maybe a farmer raising a given commodity looks out over the life of this farm bill and decides that the marketing loan and counter-cyclical payment programs are not as appropriate to his operation as they once were and would prefer to do some additional conservation on their farm. If farmers find themselves in this situation, they would be very interested in this option.

This program would be a voluntary program – a farmer can choose it or not choose it. If it works for their operation, great; if it doesn't, that's fine too. We simply say to the farmer -- if you want to place that farm into a conservation program with standards to be reached and agree during the life of the farm bill to forego marketing loans and the countercyclical payments, we will enroll you in this option and we will enhance your direct payment by 10 percent.

Again, this proposal makes a lot of sense from a trade standpoint, but it really makes sense for that farmer who wants to implement more conservation on the land. They could still grow whatever they want because this is a working lands proposal.

1031 Tax Exchanges
I would bet that if I would have started every forum with just a couple of words – 1031 tax exchange – I would get a debate for the next three hours. From earlier in my testimony, I noted a farmer at a Farm Bill Forum saying that 1031 exchanges were making it hard for even the big producers to compete for land. Land values have gone up, cash rent has gone up. Our proposal to help remedy this situation is to eliminate the commodity program payments on all new land acquired through a 1031 tax exchange. Our proposal does not intend for this requirement to be retroactive, but just to apply to all newly acquired land.

To be absolutely clear, we are not suggesting that Congress rewrite Section 1031 of the tax code. If you sell an apartment building here in Washington and you decide that you want to shelter your profits through buying Nebraska ranchland with your profits, great. Our proposal does not impact anyone's ability to use the 1031 tax exchange. We are saying that if you utilize a 1031 tax exchange when purchasing farmland, that land will not be eligible for commodity title program payments.

Dairy
We will continue the $9.90 price support program for milk and we do not propose changing the existing milk marketing orders. However, we are proposing to revise the Milk Income Loss Contract (MILC) program to make it consistent with other countercyclical programs, making it based on historical instead of actual production. Additionally, the MILC payment rate would stair-step down from the current level of 34 percent to 20 percent in the last year.

Sugar
We are proposing to keep the sugar program with one important policy change. Currently if we import more sugar than 1.532 million short tons, we are obligated to lift the marketing allotments in the sugar program. Now literally, under current law, the government has no supply management tools in this situation; we literally tell producers -- let it go, if you've got sugar, sell it if you choose to.

Now that situation creates a problem for the no net cost sugar program that sugar producers have long supported. We are obligated by current law to administer this program with no net cost to the taxpayer, but if prices fall to the loan rate, people will forfeit sugar to the government at great cost to the taxpayer.

To remedy this situation, we are proposing to keep that program intact with one policy change -- if we go over 1.532 million short tons of imported sugar, we can continue to impose marketing allotments.

As you know, the North American Free Trade Agreement (NAFTA), which was negotiated and approved by the Congress now a decade ago, has been ratcheting down the duties on sugar. Essentially it is an open market now, and it is absolutely an open market during the life of this next farm bill.

Mexico produces a lot of sugar, but they use a lot of sugar, and typically have a pretty strong price. We are likely not going to get a significant amount of sugar from Mexico every year, but there may be years that we get enough sugar imported to push us over 1.532 million short tons. Therefore, we are asking Congress for the authority not to lift the marketing allotments, but to leave those marketing allotments in place. Lifting these marketing allotments would simply collapse the no net cost sugar program, and lead to a projected $1.4 billion in forfeiture costs over the next ten years.

Planting Flexibility
Continuing with our commodity title, we are proposing to allow planting flexibility of fruits, vegetables, and wild rice on program base acres. As you know, the WTO, in the Brazil cotton case ruling, found that tying direct payments to production puts into question the green box status of our direct payments. We are addressing that problem with this proposal.

Retiring Base Acres When Sold for Non-Agricultural Use
We propose to require base acre retirement when all or a portion of a farm's cropland is sold for non-agricultural purposes. If a farmer wants to sell agricultural land for a shopping center, you can do that. But we propose retiring, rather than shifting, those base acres.

Conservation Title
We propose to increase conservation funding by $7.8 billion. This is a significant and needed investment to manage and preserve our natural resources. We also propose to streamline and consolidate like programs to improve efficiency and decrease the complexities for participants.

Environmental Quality Incentives Program
We would consolidate existing cost-share programs, including the Wildlife Habitat Incentive Program, into a newly designed Environmental Quality Incentives Program that continues and expands restoration and enhancement of fish and wildlife habitat as a program purpose. Additionally, we propose an increase of $4.2 billion over the ten year baseline for this important program. Within the increased EQIP funding, we recommend a new $1.7 billion Regional Water Enhancement Program, to address water conservation and water quality projects at the watershed or irrigation basin level.

Private Lands Protection Program
We consolidate and streamline our working lands easement programs into one Private Lands Protection Program and increase funding by about $900 million over the ten-year baseline. This proposal eliminates redundancy and overlap that result in confusion among producers and less environmental benefit per dollar invested. This proposal will also continue efforts to protect and restore native grasslands and important fish and wildlife habitat.

Wetlands Reserve Program
This Administration is committed to wetlands as you know, and we propose reauthorizing and increasing the Wetlands Reserve Program funding by $2.1 billion and increasing the maximum enrollment to 3.5 million acres.

Conservation Security Program
We propose increasing the funding for the Conservation Security Program -- actually smoothing out the baseline and adding $500 million over ten years. Our proposal modifies the program to

emphasize incentives for implementing higher levels of conservation practices, including practices benefiting fish and wildlife. USDA would open the program to nationwide enrollment and expand its current 15.5 million acres to an estimated 96.5 million acres over the next 10 years. Additionally, we propose reducing the complexity of the program and increasing the level of conservation by moving from three tiers to two; removing base, maintenance, and cost-share payments; and allowing the program to reward the best stewards in the nation. These changes would continue to protect the program from WTO challenges, result in more equity in the availability and distribution of the program, and provide a greater environmental return.

Conservation Reserve Program
We reauthorize the Conservation Reserve Program with added focus on the most environmentally sensitive areas. We also recommend giving priority within whole field enrollments to lands utilized for biomass cellulosic ethanol production.

I am really excited about this biomass reserve. Our proposal simply says – while preserving the environmental benefits, including the broad fish and wildlife purposes of the program, such as meeting all of the nesting requirements for birds and other criteria -- we will give priority to your application if you are devoting a piece of that land for biomass production for cellulosic energy. This proposal is consistent with our discussions on conservation and biomass production with farmers as we traveled across the country.

Market-based Approach to Conservation
We recommend authorizing USDA and other federal agencies to accelerate the development of private markets for the trading of ecosystem benefits associated with conservation. The proposal would help to ensure that environmental goods and services produced by agriculture and forests can be used as offsets in regulatory, voluntary partnership and incentive programs, consistent with existing law and regulations. Additionally, existing programs should be amended to allow for market-based and price discovery mechanisms, such as bidding and reverse auctions.

Emergency Lands Conservation Service
We propose consolidating two emergency response programs into a new Emergency Landscape Program. These are great programs – the Emergency Watershed Protection (EWP) and Emergency Conservation Program (ECP) – but it seems everybody is confused, probably here and outside, as to where they apply and where they do not; where one ends and the other begins. Our proposal would consolidate them into a one-stop-source.

Conservation Access Program
We heard a lot about our conservation programs from beginning farmers and socially disadvantaged farmers at our Farm Bill Forums. In response, we are proposing to set aside 10 percent of all farm bill conservation program spending for beginning and socially disadvantaged farmers. As you know, socially disadvantaged farmers is defined basically as minorities and women, while beginning farmers is defined in law under the Consolidated Farm and Rural Development Act.

Expanding Conservation Compliance with Sodsaver
To expand conservation compliance, we recommend eliminating certain USDA program payment eligibilities on grasslands and native rangelands that are converted into crop production. We do not have a lot of grasslands left in this country; we believe they are worth preserving. You can choose to still tear up grasslands, but under this proposal you will not get program payments on that land. This will compliment the current wetland conservation compliance provisions.

Trade Title
Farmers do understand trade. Admittedly, we have great debates about trade. I can still get a great debate by going to just about any coffee shop in rural America, but they care about and understand trade. As you have probably heard me say before, cuss it, discuss it, but the reality is we are farming in an international economy.

A number of proposals in this title are very, very positive for farmers, but especially specialty crop producers. We are proposing to increase funding by $68 million for the Technical Assistance for Specialty Crops program (TASC), and we suggest increasing the allowable project awards to $500,000. We propose increasing funding for the Market Access Program by $250 million over the ten-year baseline, and we are proposing to target that increase toward the non-program commodities.

We are establishing a new grant program to address emerging sanitary and phytosanitary issues--again, another theme that we heard from our specialty crop producers, and others like beef and pork producers. USDA recommends enhancing our U.S. presence within international standard-setting bodies. I have continuously said our trading partners need to live by international standards. We believe in living by international standards, we expect our trading partners to do the same, and we are proposing to increase funding in this area.

USDA recommends that we increase our analytical support and technical assistance to help limited resource U.S. agricultural groups when they face unfair trade situations. This proposal would clarify that we have broad authority to provide technical assistance and expertise to such groups. It is not a mandatory money thing, but it would give us very clear authority to work with these groups to help them solve their problems.

Additionally, we are doing some things to expand trade capacity, food safety, and agricultural extension programs into the fragile regions around the world -- Afghanistan comes to mind, Iraq would come to mind. Additionally, this kind of investment can make a huge difference in other parts of the world as well.

Finally, we propose reforming the Commodity Credit Corporation's Export Credit Guarantee programs to better withstand challenge and repealing a couple of trade authorizations that are dormant or redundant.

Nutrition Title

We have a number of proposals in the nutrition title to simplify and modernize the Food Stamp Program, while maintaining its integrity. Our proposals would improve access to the working poor and the elderly and would help to better reflect the needs of these recipients. In particular, we propose to exclude retirement and education savings accounts from the determination of food stamp eligibility to help low-income households save for their and their children's future even when they have an immediate, but perhaps temporary need for food stamps.

Advocates have been asking for a change in the food stamp program name and it is long overdue. The name "food stamps" is really a remnant of the past. While there was a day when recipients walked around with a paper stamp, we have now converted to electronic benefit cards resembling debit cards. We propose a more appropriate name for the times – the Food and Nutrition Program.

We are proposing grants to States to fund initiatives to address obesity among low income Americans" – a five-year $20 million per year competitive grant demonstration program to develop and test solutions to the rising problem of obesity.

We recommend several changes to our other food assistance programs to improve their administration and efficiency – specifically the Emergency Food Assistance Program (TEFAP), the Food Distribution on Indian Reservations Program, and our Senior Farmers' Market Nutrition Program.

In the nutrition area, we also have a number of proposals targeted to fruit and vegetables. We heard a lot in the Farm Bill Forums saying – your dietary guidelines promote eating more fruits and vegetables; is your farm bill proposal going to promote those healthy eating habits? Again, we listened and our proposals respond affirmatively.

We will provide $2.75 billion out of Section 32 funding to purchase additional fruits and vegetables for distribution in our nutrition assistance programs. This will be in addition to the section 32 funds that have been historically spent on fruits and vegetables. In addition to the increased availability of section 32 funds, we are proposing an increase of $500 million in commodity purchases of fruits and vegetables for schools. These commodities will be purchased and distributed through the National School Lunch Program and will support schools' efforts to offer meal based on Dietary Guidelines for Americans in the lunch, breakfast and after school snack programs. Finally, we are proposing some funding to conduct a study of foods purchased by schools. This study will inform USDA's efforts to provide technical assistance to support school efforts to offer meal that meet the most recent Dietary Guidelines; better manage the types and varieties of commodities procured by USDA of behalf of schools; and assess the economic impact of school food purchases on various commodity sectors.

Credit Title

Our credit programs are especially important to certain segments of agriculture. For example, young farmers at our Forums were asking us to figure out creative ways to assist them in getting started in production agriculture.

We propose to increase the limits for direct farm ownership loans and direct farm operating loans to a combined total of $500,000. USDA recommends doubling the direct operating loans target for beginning and socially disadvantaged producers and increasing to 100 percent the direct farm ownership loans target for beginning and socially disadvantaged farmers.

Finally, we are proposing to provide greater down payment loan access and flexibility to beginning farmers and ranchers. Again, a theme we heard often out there. We would cut the loan interest rate in half, defer the first payment for one year, decrease the minimum contribution of the property purchase price from 10 to 5 percent, and eliminate the $250,000 cap on the value of property that may be purchased. All things we heard about in Farm Bill Forums or in comments off the stage.

Rural Development Title

I could not be more excited about our proposals in the rural development area. One thing that was clear from our cross-country travels, the people are excited about rural development -- not a single negative comment in any Farm Bill Forum I conducted.

We are proposing some consolidation of the Rural Development programs to increase our flexibility and efficiency. This proposal is designed to make USDA operate better and most importantly better serve our customers.

Additionally, we recommend $1.6 billion in loan guarantees to complete the rehabilitation of 1,283 certified Rural Critical Access Hospitals. These designated hospitals are in very rural and remote areas where emergency hospital care is desperately needed because of long distances. These local communities simply do not have the money to complete their rehabilitation. Like you, I have been to some of these hospitals in rural areas. Without that hospital, people simply do not have adequate health care which adversely affects the quality of life and the economic vitality of those areas. We are proposing a loan program with enough money to completely rehabilitate them all -- every single one of those hospitals.

We are also proposing an additional $500 million to reduce the backlog of rural infrastructure projects, hugely popular programs with always more demand than our ability to meet. Thus, we decided to take a step forward and attempt to address a significant portion of this backlog. Communities really appreciate these programs and we are stepping up to the plate to provide further assistance -- Water and waste disposal loans and grants, Emergency water assistance grants, Community Facilities loan and grant programs, and Distance Learning and Telemedicine grants.

Research and Related Matters Title

We are very excited and proud of our research related proposals. We are proposing to provide an additional $1 billion for specialty crops research. One of the messages that we heard from our specialty crop farmers is -- we need additional research in this area. Focus research areas are expected to include fundamental work in plant breeding, genetics, and genomics to improve crop characteristics such as environmental responses, and tolerances, nutrient management, pest and disease management, enhanced phytonutrient content, as well as safety, quality, yield, taste, and shelf life.

Additionally, we are proposing to provide $500 million to create the Agricultural Bioenergy and Biobased Products Research Initiative. Enhancing the production and conversion of biomass to renewable fuels and related products is vital to our rural communities and our move toward alternative sources of energy; this proposal will go a long way to helping us meet these goals.

Finally, we are proposing to reorganize and revitalize the USDA's Research, Education and Economics mission. The goal is to better coordinate our efforts in-house with USDA funded university research. I appreciate the efforts of the land grant community and others in bringing innovative ideas such as CREATE-21 and the National Institute for Food and Agriculture. Our approach is a little different, but has similarities that I think everyone can agree is a positive step forward.

Forestry Title

We heard from people living in forestry-dependent communities as we traveled the country. We are proposing to initiate a new $150 million Wood to Energy Program. Again, this is part of the President's mission to expand the use of renewable and alternative fuels – a mission I know that many on this committee share. This program would accelerate the development of new technologies to use low-value woody biomass to produce energy. We have an abundance of this wood waste around the country, and it would be better for our forests if we could turn this waste into a marketable product. This program is designed to be a creative and environmentally sensitive use of this low value product to advance our energy independence.

Additionally, we are proposing several forestry related authorizations that are fully-detailed in the proposal book to develop innovative solutions to local and landscape-scale forest management issues.

Energy Title

I discussed most of these proposals when they were unveiled as part of the President's State of the Union address. However, I will provide some detail here for the Committee. As I indicated earlier, we are proposing to provide $500 million to create a new Bioenergy and Bioproducts Research Initiative. Additionally, our proposal would provide $500 million for rural alternative energy and energy-efficiency grants, going directly to farmers, ranchers and rural small businesses.

We are proposing to provide $2.1 billion in loan guarantees to support cellulosic ethanol projects in rural areas. This provides the needed funding to actually build plants and make cellulosic ethanol a real contributor to our energy independence. As I have said before, these loan guarantee programs are very well-received in rural America. These loan guarantees can often be the difference between getting a project off the ground and watching it flounder. I have seen it happen when I was Governor of Nebraska; these loan guarantees can really kick-start a project leading to good jobs and a more vibrant rural economy.

We are also recommending $150 million for biomass research and development act competitive grants, focusing exclusively on cellulosic ethanol. This funding is in addition to and complementary with our $500 million research title proposal.

Miscellaneous Title

We have a number of miscellaneous title proposals – too many to detail here. However, I would like to highlight a few especially in the risk management area. First, we propose to create a supplemental insurance program to improve our risk management tools for farmers. This new product is crop insurance gap coverage. Currently you can buy crop insurance for up to 85 percent of your loss. For some well-established farmers, that 15 percent or greater deductible is an acceptable risk; they can withstand a 15 percent loss; they would not like it, but it is not going to put them out of business. Other farmers feel they cannot withstand that deductible. We listened to these farmers and are proposing literally "gap coverage" where you can buy insurance to cover up to 100 percent of your loss under the crop insurance program. We hope this will help with the annual debate about ad hoc disaster assistance. We're proposing to increase the efficiency and effectiveness of our crop insurance program with a number of proposals, some of which you have seen in previous budget submissions.

Additionally, we are revising the dairy assessment requirements to create a more fair system. Currently, the law requires us to collect dairy research and promotion assessments in the 48 contiguous United States, but not in Alaska, Hawaii, Puerto Rico, or on imported dairy products. It is a fairness issue for U.S. dairy farmers and this proposal would solve the problem. We are also proposing a number of initiatives to help a fast growing segment of American agriculture – increasing research, data collection, and certification of organic agriculture.

Disaster Assistance

As I mentioned earlier in my testimony, our countercyclical proposal is a revenue-based system, providing a better safety net than what we have now. Our gap coverage in crop insurance will deal with this issue of crop insurance deductibles; this proposal will give producers the right tools to solve that problem.

We are proposing that if a producer receives program payments, they must have crop insurance. Crop insurance is widely accepted; some states have 90 percent-plus participation. We want to get that last piece enrolled. If a farmer gets subsidies from the program, we feel strongly that crop insurance is appropriate to help manage their risk. Finally, we have the new Emergency Landscape Restoration Program which is actually a consolidation of two existing programs.

We believe that these proposals in tandem will go a long way toward eliminating the need for an annual debate over ad hoc disaster assistance. It simply will not be needed.

Beginning and Socially Disadvantaged Farmers

As noted throughout this testimony, a number of provisions are targeted at beginning farmers and socially disadvantaged farmers. The changes to our payment systems, our loan program adjustments, and our new Conservation Access Program will be especially beneficial to our beginning and socially disadvantaged farmers. These proposals and others are highlighted on pages 175-179 in our proposal book.

Specialty Crops

We provide $2.75 billion more in Section 32 funds to purchase fruits and vegetables for food assistance programs, an additional $500 million for fruits and vegetables in schools, and $250 million to increase the Market Access Program, with increase targeted to our non-program commodities.

We are recommending $20 million to address sanitary and phytosanitary issues. We are proposing to increase our ability to offer technical assistance, and we are making specialty crop waste eligible under our cellulosic bioenergy program. All these improvements are highlighted on pages 171-173 in our proposal book.

Conclusion

As stated earlier in my testimony, and it bears repeating, our guiding principles in the Administration's farm bill proposals are: more predictable, more equitable, better able to withstand challenge, and wisely and effectively spending taxpayer dollars.

These proposals demonstrate fiscal responsibility. They save about $10 billion over the cost of the 2002 farm bill, even when you exclude disaster aid spending. I will also assure you that they uphold the President's plan to eliminate the deficit within five years. It also fits within our budget plan that we released earlier this week.

Yet, the good news for farmers and rural America is that we provide $5 billion more than would be provided if the 2002 farm bill were just simply extended. Remember a year ago, people were saying, we should do a straight extension of the farm bill. The USDA proposal actually will provide $5 billion more over that 10-year score. However, it will still fit within our balanced budget plan.

Our proposals support emerging priorities. We increased funding for renewable energy, conservation, research, rural development, and trade. We target nearly $5 billion in funds to support our specialty crop farmers, and we provide $250 million to enhance the direct payment for beginning farmers. We support socially disadvantaged farmers with a number of our programs, and we simplify and modernize the Food Stamp program. We tightened the payment limits as I have described, and we ensure a strong safety net for our producers.

To wrap up, let me tell you a story that kind of defines for me what the vision of the 2007 farm bill should be. My own father grew up right on the edge of the Depression years. His productivity was limited to the number of cows he could milk by hand. When he got to 12 or 13 cows, he had hit his maximum.

Somewhere along the line, someone had the vision to electrify the countryside from the most remote farm in North Central Iowa or the most remote ranch in Arizona. They built the infrastructure to deliver them electricity. And all of a sudden my family's ability to be productive literally doubled with the flip of a switch, and my father's world changed when he bought electric milking machines. All of a sudden it was not 12 cows, it was 30 cows. And he and my mother provided a better life for our family.

Now I make that point to you because I believe so strongly in what farmers have said to us. They like the structure of this farm bill, but they have a big vision for the future. It may be energy in their part of the country, it may be a different crop that they raise, or it may be the fantastic increases in cotton yields due to enhanced varieties that did not exist 20 years ago. It may be a thousand different things.

However, after listening to farmers all across this country, I came back committed to offering a farm bill proposal that did what they asked me to do -- keep the structure, they like the certainty of the structure; change where it is not working; and give farmers the opportunity to expand their vision for the future.

We believe this farm bill proposal, America's farm bill proposal, does exactly that. Thank you for your time. I look forward to addressing your questions today and working with you closely throughout the year as you work to craft visionary farm policy for today's and tomorrow's generation of American agriculture.

DOCUMENTS SUBMITTED FOR THE RECORD

FEBRUARY 7, 2007

USDA

United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

February 15, 2007

The Honorable Tom Harkin
Chairman
Committee on Agriculture, Nutrition and Forestry
United States Senate
328A Russell Senate Office Building
Washington, D.C. 20510-6000

Dear Mr. Chairman:

After the hearing on the Administration's 2007 Farm Bill proposals conducted by the Senate Committee on Agriculture, Nutrition and Forestry on February 7, 2007, you asked for data related to adjusted gross income (AGI) of agricultural producers. Enclosed are several tables that respond to your request and contain data discussed at the hearing.

Table 1 provides data on individual tax returns with farm income and/or expenses (Schedule F) for 2004. The table indicates that of 2.022 million individual returns filed in 2004 with farm income and/or expenses, 84,932 returns, or 4.2 percent, had an AGI of $200,000 or more. Of the 84,932 returns with AGI of $200,000 or more, 25,191, or 1.2 percent of all farm proprietors, received farm program payments, as indicated in line 6a on Schedule F. These 25,191 farm proprietors received $329 million in payments, or 4.7 percent of payments received by all farm proprietors.

Table 2 provides data on individual returns with farm rental income and/or expenses (Form 4835) for 2004. The table indicates that of 638,394 individual returns filed in 2004 with Form 4835, 29,407 returns, or 4.6 percent, had an AGI of $200,000 or more. Of the 29,407 returns with AGI of $200,000 or more, 12,906, or 2.0 percent of all individual returns with Form 4835, received farm program payments as indicated in line 3a on Form 4835. These 12,906 returns indicated receipt of $70 million in payments, or 5.9 percent of payments received by individual filers with Form 4835.

The data in tables 1 and 2 were provided to us by the Statistics of Income Division of the Internal Revenue Service (IRS).

The Honorable Tom Harkin
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Table 3 provides data by state on the percentage of individual returns with Schedule F having AGI of $200,000 or more. The data are taken from the IRS website at http://www.irs.gov/pub/irs-soi/04in54cm.xls.

We hope this information responds to your questions. Thank you for your interest in our 2007 Farm Bill proposals.

Sincerely,

Mike Johanns
Secretary

Enclosures

cc: Members of the Senate Committee on Agriculture, Nutrition and Forestry

Table 1. Individual Returns with Farm Income and/or Expens s (Schedule F) by Siz of Adjusted Gross Income, Tax Year 2004

[Money amounts are in thousands of dollars, except average amounts are in whole dollars]

Size of adjusted gross income	Number of returns with Schedule F	Total Agricultural Program Payments (Schedule F:6a), number of returns	Total Agricultural Program Payments, amount	Taxable Agricultural Program Payments (Schedule F:6b), number of returns	Taxable Agricultural Program Payments, amount	Net profit less loss from Schedule F
	1	2	3	4	5	6
Total	**2,022,298**	**717,518**	**7,023,497**	**712,494**	**6,953,469**	**-13,239,205**
Under $200,000	1,937,366	692,328	6,694,703	688,718	6,630,408	-11,236,016
$200,000 or more	84,932	25,191	328,794	23,776	323,061	-2,003,188

NOTE: Detail may not add to totals because of rounding.

Table 2. Individual Returns with Farm Rental Income and/or Expenses (Form 4835) by Size of Adjusted Gross Income, Tax Year 2004

[Money amounts are in thousands of dollars, except average amounts are in whole dollars]

Size of adjusted gross income	Number of returns with Form 4835	Total Agricultural Program Payments (Form 4835:3a), number of returns	Total Agricultural Program Payments, amount	Taxable Agricultural Program Payments (Form 4835:3b), number of returns	Taxable Agricultural Program Payments, amount	Number of returns with both Form 4835 and Schedule F attached	Net profit less loss from Form 4835
	1	2	3	4	5	6	7
Total	**638,394**	**347,538**	**1,184,048**	**342,899**	**1,149,127**	**71,464**	**3,053,804**
Under $200,000	608,987	334,631	1,113,968	330,634	1,081,533	69,132	2,815,321
$200,000 or more	29,407	12,906	70,081	12,265	67,595	2,333	238,483

NOTE: Detail may not add to totals because of rounding.

SOURCE: INTERNAL REVENUE SERVICE, STATISTICS OF INCOME DIVISION

2/5/2007

Table 3. Individual Returns with Farm Income and/or Expenses (Schedule F) by Size of Adjusted Gross Income, Tax Year 2004

State	No. returns with Schedule F	No. returns with AGI of $200,000 or more	Share of total returns with AGI of $200,000 or more	State	No. returns with Schedule F	No. returns with AGI of $200,000 or more	Share of total returns with AGI of $200,000 or more
AL	51,969	2,106	4.1%	MT	21,083	551	2.6%
AK	1,331	111	8.3%	NE	48,603	945	1.9%
AZ	8,363	766	9.2%	NV	3,899	449	11.5%
AR	47,479	1,442	3.0%	NH	2,102	150	7.1%
CA	72,225	8,767	12.1%	NJ	9,347	1,253	13.4%
CO	31,617	1,700	5.4%	NM	14,527	494	3.4%
CT	3,096	324	10.5%	NY	29,128	1,039	3.6%
DE	2,353	133	5.7%	NC	49,939	2,032	4.1%
DC	276	80	29.0%	ND	28,987	432	1.5%
FL	39,164	4,342	11.1%	OH	74,755	1,929	2.6%
GA	49,832	3,396	6.8%	OK	80,349	2,032	2.5%
HI	5,695	250	4.4%	OR	36,350	1,851	5.1%
ID	22,418	709	3.2%	PA	42,801	1,445	3.4%
IL	73,041	2,527	3.5%	RI	622	42	6.8%
IN	58,575	1,579	2.7%	SC	21,846	1,327	6.1%
IA	83,398	1,498	1.8%	SD	32,706	667	2.0%
KS	61,894	1,441	2.3%	TN	80,968	3,056	3.8%
KY	91,650	2,460	2.7%	TX	240,000	14,278	5.9%
LA	28,573	1,261	4.4%	UT	14,313	529	3.7%
ME	4,667	139	3.0%	VT	4,219	144	3.4%
MD	12,669	1,176	9.3%	VA	42,473	2,444	5.8%
MA	4,427	381	8.6%	WA	28,151	1,517	5.4%
MI	45,442	1,160	2.6%	WV	14,211	319	2.2%
MN	74,467	1,799	2.4%	WI	64,036	1,456	2.3%
MS	37,128	1,626	4.4%	WY	9,453	442	4.7%
MO	104,224	2,469	2.4%	Other	2,126	256	12.0%
				US	2,012,967	84,721	4.2%

Source: http://www.irs.gov/pub/irs-soi/04in54cm.xls

USDA

United States Department of Agriculture

America's Farm Bill 2007

2007 Farm Bill Proposals

United States Department of Agriculture

"These proposals represent a reform-minded and fiscally responsible approach to making farm policy more equitable, predictable and protected from challenge."

Mike Johanns
Secretary of Agriculture

United States Department of Agriculture

Dear Chairmen and Ranking Members:

I am pleased to share with you the U.S. Department of Agriculture's 2007 farm bill proposals. I am especially pleased to report that these proposals are constructed from the ideas and information conveyed to us by the very people who are most affected by farm policy.

As President Bush said in his message to farmers and ranchers during our Farm Bill Forums, "The farm bill is important legislation that meets real needs. The next farm bill should further strengthen the farm economy and preserve this way of life for farmers and ranchers of the future. Hearing your advice is an important step towards meeting these goals." The President and I are grateful to all of the farmers, ranchers and other stakeholders who attended our Farm Bill Forums or submitted comments to us.

Our 52 forums, conducted in 48 States, provided the foundation for our work. The 4,000 comments we received were categorized into 41 summary papers. As themes emerged, we put our economists, led by our Chief Economist Keith Collins, to work providing history, facts and alternatives in five analysis papers. We have publicly shared the results of all of this work, every step of the way, to maintain a transparent process—as should be the case when important policy is developed.

My hope is that our 65 proposals will become the building blocks for a new farm bill that is more equitable, predictable and better able to withstand challenge. These proposals strengthen existing priorities and bring focus to emerging priorities. Several of the priorities have dedicated titles in the current Farm Bill, and our proposals are outlined accordingly. Other priorities, including more equitable support of specialty crops and a greater commitment to beginning and socially disadvantaged producers, are represented in an array of proposals listed under several titles and summarized in sections 11, 12, and 13.

It is a tremendous honor to serve as the Secretary of Agriculture at this important time in history. I could not be more optimistic about the future of American agriculture. The balance sheet has never been stronger, the technological advances never more impressive, and the potential for a rural renaissance never greater. For these reasons, I take very seriously the responsibility that lies before us.

I look forward to working with the 110th Congress to craft new farm policy. I approach this discussion firmly believing that Federal support of agriculture is a wise investment and that how we provide that support is immensely important. These proposals recognize the dramatic changes in agriculture since 2002 and present policy ideas that are reform-minded and fiscally responsible and that provide strong support of agriculture in a global economy.

Sincerely,

Mike Johanns
Secretary

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TITLE I
COMMODITY
PROGRAMS

SUMMARY OF COMMODITY TITLE REFORM

Recommendations In Brief

Reform farm policy to make it more market-oriented, more predictable, less market distorting and better able to withstand challenge.

Problem

Loan deficiency payments and counter-cyclical payments are designed to provide producers a safety net. However, under the 2002 farm bill, loan deficiency and counter-cyclical payments were largest during years of record-breaking harvests and record farm income. Yet in these same years, natural disasters that caused complete crop loss often left some producers with little safety net whatsoever. John from Kansas described during a USDA Farm Bill Forum how he ended up with no support under the current system. He said, "We didn't raise anything because of the drought. Prices went up and we didn't get any payment. We didn't have anything to sell." The current price-based programs tend to "under-compensate when yields decline and over-compensate when yields increase."

Additionally, these payments are being scrutinized by some trading partners who believe they are trade-distorting. In fact, some farm bill programs have already been found noncompliant with international obligations. Further, the U.S. classification of some payments as non-trade distorting ("green box") is being questioned. With the expiration of the peace clause in the Uruguay Round Agreement, under which domestic support measures were generally, but not fully, protected from challenge, international competitors have already begun to challenge other U.S. commodity programs.

The 2002 farm bill set loan rates at fixed levels significantly above market prices year after year for many crops. Some claim that these high loan rates encourage farmers to plant more of these crops - further increasing supply and thus decreasing prices. These payments can also encourage attempts to produce crops in environmentally-sensitive, drought-prone lands. Furthermore, farmers can take advantage of short-term market events (such as an export terminal closing due to a hurricane) to lock-in artificially high loan deficiency payments, while actually selling the commodity later at prices well above the loan rate. This allows the market price received, combined with the loan deficiency payment, to far exceed the intended loan rate protection.

Payment limits and the Adjusted Gross Income cap have affected few producers. Only nine percent of all farms collect 54 percent of all government commodity payments. The complexity of the law allows virtually unlimited payments to the nation's largest and most wealthy farms. During Farm Bill Forums, producers spoke often about these wealthier farms inflating cash rental rates and outbidding their neighbors for farm real estate. The nation's tax policy coupled with these unlimited government payments have contributed to the surge in high land values and high rental rates. As a result, it is more difficult for beginning farmers to get started and for small-l and medium-sized farmers to compete.

During USDA Farm Bill Forums, opinions varied about the commodity title, but many were calling for a change from business as usual. For example, Jeremy from South Dakota wrote, "Subsidies drive up prices all along the production chain, from land to equipment to labor prices...Let free market principles determine the price of a combine, not commodity subsidies." And Mary, from Vermont wrote, "Congress needs to enact (and USDA needs to implement) effective payment limitations on the commodity program so that mega farms are not allowed to drive their neighbors off the land and raise land rental/sale values beyond reachable limits for beginning farmers."

Recommended Solution

The Administration is recommending reforms to Title I – entitled "Commodity Programs." Following is a list of the major components of the commodity title package.

1. Establish market-based loan rates at 85 percent of the 5-year Olympic average with maximum loan rates as established in the House-passed version of the 2002 farm bill. (For further information, see the proposal entitled "Revise Marketing Assistance Loans" on pages 9 – 11.)
2. Replace the current daily posted county prices (PCPs) used for determining loan deficiency payment (LDP) rates and repayment rates for marketing assistance loans with a monthly PCP for each crop. Revise requirements for establishing a producer's LDP and loan repayment rate to be based on the month that beneficial interest is lost. (For further information, see the proposal entitled "Revise Posted County Prices for the Marketing Assistance Loan Program" on pages 12 – 13.)
3. Increase overall direct payments and to provide additional income support in the 2010-2012 crop years. Continue direct payment acres at 85 percent of base acres, and do not update program payment bases and yields. This proposal would pay farmers an additional $5.5 billion over ten years. (For further information, see the proposal entitled "Increase Direct Payments" on pages 14 – 15.)
4. Further increase the direct payments to beginning farmers during their first five years of operation. These enhanced direct payments will invest $250 million in the next generation of production agriculture over ten years. (For further information, see the proposal entitled "Increase Direct Payments for Beginning Farmers" on pages 16 – 17.)
5. Create a counter-cyclical program that is more responsive to actual conditions by replacing current price-based payments with revenue-based payments for program crops. (For further information, see the proposal entitled "Revenue-Based Counter-Cyclical Payment" on pages 18 – 20.)
6. Reform farm program payment limits, eligibility requirements, and attribution to reduce payments going to larger and higher income producers, increasing overall equity in farm programs. (For further information, see the proposal entitled "Strengthen Payment and Eligibility Limits" on pages 21 – 23.)
7. Eliminate commodity program payments for all newly purchased land benefiting from a 1031 tax exchange. (For further information, see the proposal entitled "Section 1031 Exchanges" on pages 24 – 25.)
8. Continue to support the price of milk at $9.90 per cwt, and re-authorize and revise the Milk Income Loss Contract Program (MILC). MILC payments would be based on a reduced and historical payment rate, instead of actual, milk sales. These proposals are estimated to add $793 million in additional dairy payments over a ten year period. (For further information, see the proposal entitled "Revise Dairy Counter-Cyclical Payments and Continue Price Support Program for Milk" on pages 26 – 27.)

9. Revise the sugar program to operate at no net cost to taxpayers by balancing supply and demand for sugar through domestic marketing allotments and the tariff rate quota on sugar imports. (For further information, see the proposal entitled "Sugar Policy" on pages 28 – 29.)
10. In addition to the action already taken by the Congress to repeal Step 2 of the cotton program, repeal Steps 1 and 3 of the upland cotton competitiveness provision. Eliminate the competitiveness provisions for extra-long staple (ELS) cotton. (For further information, see the proposal entitled "Repeal Special Cotton Competitiveness Provisions" on pages 30 – 31.)
11. Allow planting flexibility of fruits, vegetables, and wild rice on base acres. (For further information, see the proposal entitled "Remove Planting Flexibility Limitations" on pages 32 – 33.)
12. Reduce or eliminate crop bases when an entire farm or a portion of a farm is sold for non-agricultural uses. (For further information, see the proposal entitled "Retire Crop Bases When Cropland Is Sold for Non-Agricultural Uses" on pages 34 – 35.)
13. Offer program crop producers a "conservation enhanced payment option" that enables them to elect to receive an enhanced, guaranteed direct payment if they agree to meet certain conservation requirements and forgo marketing assistance loan program benefits and counter-cyclical program payments. This new program is expected to pay farmers an additional $50 million over the next ten years. (For further information, see the proposal entitled "Conservation Enhanced Payment Option" on pages 36 – 37.)
14. Update Section 1601(e) of the 2002 farm bill entitled "Adjustment Authority Related to the Uruguay Round Compliance" to allow USDA to adjust certain payments to meet current and future WTO commitments. (For further information, see the proposal entitled "Continuing WTO Compliance" on pages 38 – 39.)

REVISE MARKETING ASSISTANCE LOANS

Recommendation In Brief

Establish market-based loan rates at 85 percent of the 5-year Olympic average with maximum loan rates as established in the House-passed version of the 2002 farm bill.

Problem

Loan rates guarantee farmers a "safety net" per unit of covered commodities. However, producers have used marketing strategies to receive large loan deficiency payments at harvest even when they sell their crop later in the year at market prices well above the safety net price. This unintended consequence allows some producers to lock in lucrative payments from the government, even when they actually sell their commodity at levels well above the safety net price prescribed in the 2002 farm bill.

Under the 2002 farm bill, loan rates are fixed for the 2002-2007 crops. As a result, loan rates for some commodities have been established at levels well above market prices year after year. Most claim these fixed loan rates create incentives for producers to plant one crop over another simply because relative loan rates may not reflect the trends in market prices. Most also claim a loan rate in excess of the market price for a crop encourages producers to plant more acreage to that crop, subsequently lowering the crop's market price and increasing marketing assistance loan outlays even further.

The benefits of the marketing assistance loan program are considered trade distorting and count against the product-specific domestic support under the Aggregate Measurement of Support (AMS) calculation under World Trade Organization (WTO) guidelines.

During USDA's Farm Bill Forums, producers repeatedly called for greater protection from trade challenges. Rusty in Georgia said, "If we're going to play in this free trade game and continue to support our farmers, then we need to trade-proof our programs." Others discussed unintended consequences of some support programs. Jessica of Arkansas said, "Due to these price supports, one of the unintended consequences...has been the artificially inflated cost of land which could cause young farmers to be discouraged from going into the farming business."

Recommended Solution

To minimize these market distortions and unintended consequences, the Administration recommends a more market-based solution for determining loan rates. All loan rates for commodity crops would be set at the lesser of:

1. 85 percent of the 5-year Olympic average (average of last five years price excluding the high year and the low year).
2. The loan rate levels established in the House-passed version of the 2002 farm bill (no loan rates were set for pulse crops, thus, the loan rates in current law are used to establish a maximum loan rate level for these three commodities).

Commodity	Units	Current	Average of Proposed Loan Rates over 2008-2012 1/	Proposed Maximum
Wheat	$\bu	2.75	2.58	2.58
Corn	$\bu	1.95	1.89	1.89
Sorghum	$\bu	1.95	1.89	1.89
Barley	$\bu	1.85	1.70	1.70
Oats	$\bu	1.33	1.21	1.21
Upland Cotton	$\lb.	0.52	0.4570	0.5192
ELS Cotton	$\lb	0.7977	0.7965	0.7965
Rice	$\cwt	6.50	6.50	6.50
Soybeans	$\bu	5.00	4.92	4.92
Other Oilseeds	$\lb	0.093	0.087	0.087
Peanuts	$\ton	355	336	350
Dry Peas	$\cwt	6.22	5.08	6.22
Lentils	$\cwt	11.72	10.45	11.72
Small Chickpeas	$\cwt	7.43	7.43	7.43
Graded Wool	$\lb	1.00	0.55	1.00
Nongraded Wool	$\lb	0.40	0.22	0.40
Mohair	$\b	4.20	1.92	4.20
Honey	$\lb	0.60	0.60	0.60

1/ Proposed loan rates are calculated for each year, 2008-2012, using actual and projected market prices and then averaged over the 5-year period.

Background

Marketing assistance loans are made by the Commodity Credit Corporation (CCC) to eligible producers on eligible commodities. They provide interim financing to facilitate the orderly distribution of commodities throughout the marketing year. Instead of selling immediately at harvest, the marketing loan program allows a producer who grows an eligible crop to store the production and pledge the crop as collateral. The loan proceeds help the producer to maintain financial stability without having to sell the harvested crop at the time of year when prices tend to be lowest. Later, when market conditions may be more favorable, a producer can sell the crop and repay the loan. Alternatively, the producer may forgo the loan and receive a loan deficiency payment at any time up to the loan availability deadline. Loan proceeds are based on loan rates set by statute and the quantity of eligible commodity pledged.

Recently, a WTO panel on cotton ruled that Step 2 payments, cotton marketing loans, and cotton counter-cyclical payments together contributed to price suppression in world cotton markets. The United States vigorously defended the programs, but as a result of the adverse ruling, terminated the Step 2 program on August 1, 2006. Brazil has requested permission from the WTO to retaliate against the United States, charging that the two remaining U.S. programs — marketing loans and counter-cyclical payments — continue to suppress world cotton prices. As a result a panel has been established to rule on Brazil's claims. Preliminary rulings on compliance are expected in 2007.

REVISE POSTED COUNTY PRICES FOR THE MARKETING ASSISTANCE LOAN PROGRAM

Recommendation In Brief

Replace the current daily posted county prices (PCPs) used for determining loan deficiency payment (LDP) rates and repayment rates for marketing assistance loans with a monthly PCP for each crop. Revise requirements for establishing a producer's LDP and loan repayment rate to be based on the month that beneficial interest is lost.

Problem

The current system of using PCPs to determine LDPs and permit loan repayment has enabled producers to receive financing early in the harvest season, avoid forfeitures, and allow commodities to be marketed in response to demand. However, the PCP system suffers from a series of problems. First, calculating 80,000 PCPs daily is a massive undertaking and leads to errors. Because PCPs are designed to reflect local market prices, lack of information on local market conditions can lead to PCPs that do not reflect local conditions and to PCPs that have unwarranted differences from one county to the next. Second, an unusual short-term event may cause a short-term decline in market prices, triggering a large volume of LDP requests at a high LDP rate that may not reflect the longer-term or underlying market conditions. This leads to excessive costs of the marketing loan program. Third, producers may take advantage of short-term price depressions to obtain an LDP and then market the crop later in the year, with the resulting market price plus LDP greatly exceeding the loan rate. In this case, the producer receives total compensation much greater than intended by the loan program.

The unintended levels of compensation were noted in several USDA Farm Bill Forum comments. Ellen from North Dakota said, "As the program exists right now there are in fact no limits on commodity payments that can be received, especially with respect to marketing loan gains."

Recommended Solution

The Administration recommends replacing the daily PCP with a monthly PCP. The monthly PCP would be an average of five daily PCPs on pre-set days during the previous month, excluding the high and low daily PCP. This new system would apply to all covered commodities except upland cotton, rice, wool, mohair, and honey. A producer who elects to forgo a marketing assistance loan and receive an LDP during any month would receive the LDP rate in effect on the day the producer loses beneficial interest in the commodity. The LDP rate would be the difference between the applicable loan rate and the monthly PCP. For a producer who elects to take out a marketing assistance loan, the loan repayment rate would be the loan rate plus interest, unless the producer loses beneficial interest immediately upon repayment of the loan. In that case, the loan would be repaid at the PCP in effect for the month if the PCP is less than the loan rate plus interest. If the loan is carried to maturity, the loan repayment rate would be the PCP in effect during the month the loan matures or during the last month of the commodity marketing year, whichever is earlier. For those producers who do not lose beneficial interest (silage producers, farmer-feeders, etc.), USDA would establish a payment rate for these producers based on the average of the monthly PCPs during the first three months of the marketing year.

Background

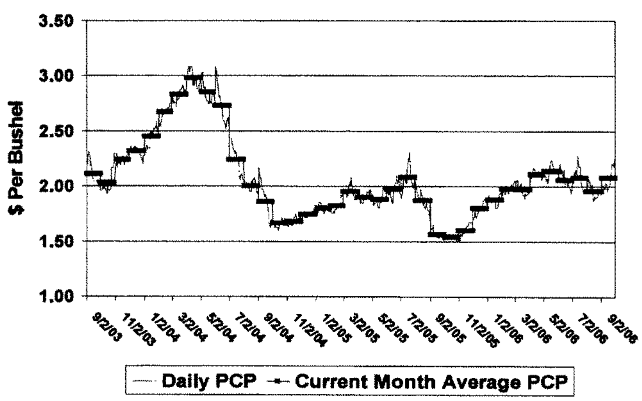
Producers may receive a nonrecourse marketing assistance loan for eligible commodities. They may settle their outstanding loan during the loan period by repaying the loan or, upon maturity, by forfeiting the commodity pledged as collateral for the loan to the Commodity Credit Corporation (CCC). A producer may repay the loan at the loan repayment rate which is the applicable county loan rate, plus accrued interest and other charges (per bushel or cwt) or the announced loan repayment rate for the respective commodity. Announced loan repayment rates, or PCPs, are established and available each day based upon the previous day's market prices at appropriate U.S. terminal markets, adjusted to reflect quality and location, for grains and soybeans. Each day, some 80,000 PCPs are announced by USDA. In addition, a producer eligible to obtain a marketing assistance loan may agree to forgo the loan and receive an LDP. The LDP rate equals the amount by which the county loan rate exceeds the announced loan repayment rate for the commodity.

Establishing the LDP rate or the loan repayment rate on the date the producer loses beneficial interest in the commodity would enable the producer to receive the price support provided by the loan rate while limiting excessive LDPs and marketing loan gains. A producer has beneficial interest in the commodity if all of the following remain with the producer: control of the commodity, risk of loss, and title to the commodity.

The following chart is an example of daily versus monthly PCPs:

PCP EXAMPLE: COMPARISON OF ACTUAL AND ALTERNATIVE PCPs FOR CORN

CENTRAL ILLINOIS, Sept. 1, 2003-Sept. 30, 2006



INCREASE DIRECT PAYMENTS

Recommendation in Brief
Increase overall direct payments and to provide additional income support in the 2010-2012 crop years. Continue direct payment acres at 85 percent of base acres, and do not update program payment bases and yields. This proposal would pay farmers an additional $5.5 billion over ten years.

Problem
While program crop prices are generally expected to remain firm or increase over the next few years, upland cotton is an exception. The combination of increases in upland cotton yields per acre and declining U.S. upland cotton textile production is expected to limit price gains and result in substantial cotton program expenditures, compared to other commodities.

The 2002 farm bill permitted producers to update their program crop base acres and yields. For the purposes of World Trade Organization obligations, updating bases and yields for direct payments would connect them more closely to current production and could jeopardize their "green box" status, causing these payments to be categorized as trade distorting "amber box" assistance.

Recommended Solution
The Administration proposes increased direct payment rates. In addition, the Administration proposes increased direct payment rates for commodities other than upland cotton in the 2010-2012 crop years to reduce the risk of weaker markets, with this increase totaling $1 billion over the three years.

The chart below shows direct payment rates for 2007 under current law compared to USDA's proposed direct payment rates for 2008-2017 crop years:

Crop	Current Law 2007	USDA Proposal 2008-2009 and 2013-2017	USDA Proposal 2010-2012
Corn ($/bu)	0.28	0.28	0.30
Sorghum ($/bu)	0.35	0.35	0.37
Barley ($/bu)	0.24	0.25	0.26
Oats ($/bu)	0.02	0.02	0.03
Wheat ($/bu)	0.52	0.52	0.56
Soybeans ($/bu)	0.44	0.47	0.50
Rice ($/cwt)	2.35	2.35	2.52
Upland Cotton (cents/lb)	6.67	11.08	11.08
Peanuts ($/ton)	36.00	36.00	38.61
Other Oilseeds ($/cwt)	0.80	0.80	0.857

Additionally, to avoid jeopardizing the status of direct payments as non-trade distorting "green box" support, direct payment base acres and yields should not be updated. Payment acres should continue at 85 percent of base acres.

USDA Farm Bill Forums brought forth a diversity of opinions about direct payments. Many producers commented on the benefits of direct payments in the world trade arena. Brian from Minnesota wrote, "I support continuing decoupled payments based upon cropping history rather than current plantings."

Background

The Direct Payment Program (part of the Direct and Counter-Cyclical Program, or DCP) provides payments to eligible producers on farms enrolled in DCP during the 2002-2007 crop years. Direct payments are computed using the base acres and payment yields established for each farm and are available for barley, corn, grain sorghum, oats, other oilseeds (canola, crambe, flaxseed, mustard seed, rapeseed, safflower, sesame, sunflower seed), peanuts, rice, soybeans, upland cotton, and wheat.

For each commodity, the direct payment for each crop year equals 85 percent of the farm's base acreage *multiplied by* the farm's direct payment yield *multiplied by* the direct payment rate. Direct payments are not based on producers' current production choices, but instead are tied to historical, fixed acreages and yields. Because direct payments provide no incentive to increase production of any particular crop, the payments support farm income without affecting producers' current production decisions.

For the purposes of reporting payments to the WTO, subsidies are classified into "boxes" that are given the colors green, blue, and amber.

Domestic support measures considered to distort production and trade fall into the "amber" box. These include measures linked to current production and prices. The U.S. amber box limit for product-specific support is $19.1 billion per year.

The "blue box" contains conditions designed to reduce distortion. Any support that would normally be in the amber box, but also requires farmers to limit production, can be placed in the blue box. There are currently no limits on spending on "blue box" subsidies.

"Green box" programs include farmer support that is not related to current production levels or prices. Examples include direct payments and qualifying research, environmental protection and rural development programs. "Green box" subsidies are therefore allowed without limits.

The 2002 farm bill permitted producers to update their program crop base acres and permitted updating of payment yields for counter-cyclical payments, if bases were updated. Payment yields for direct payments were not allowed to be updated.

INCREASE DIRECT PAYMENT FOR BEGINNING FARMERS

Recommendation in Brief
Further increase the direct payments to beginning farmers during their first five years of operation. These enhanced direct payments will invest $250 million in the next generation of production agriculture over ten years.

Problem
Beginning farmers and ranchers face barriers to entering production agriculture. Farming is a high-cost business and a significant percentage of these costs must be invested up-front as a new producer is getting started. Land values and rental rates in the major program crop regions have significantly increased. National average farmland values have increased 65 percent in the past five years, from $1,150 per acre in 2001 to $1,900 per acre in 2006. Average cropland rental rates increased from $71 per acre in 2001 to $79 per acre in 2006, or 11 percent over the same period.

The amount and cost of equipment, including planting, cultivation and harvest machinery, exemplifies the financial barriers to entering production agriculture. The price of a representative front-wheel-assist 250 horsepower tractor ranges from $180,000 to $200,000. Harvest equipment may be even more expensive, with a standard combine often costing more than $200,000. Lease costs are substantial as well.

This issue was raised repeatedly during USDA's Farm Bill Forums. Comments made by Cameron, of Ohio, represent the comments of many stakeholders. He said, "It is almost impossible for a young person to get started in farming. The current program does not do enough to help the younger farmer get established but almost hurts him because of the competition from larger established farmers and the government payments they receive."

Recommended Solution
To better prepare beginning farmers to face the initial financial burdens associated with entering production agriculture, the Administration recommends that beginning farmers receive an increased direct payment rate. The direct payment rate for beginning farmers should be determined by multiplying the covered commodity direct payment rate by 1.20. After the initial five years, the producer would no longer be eligible for a higher direct payment rate.

Vince, from Montana, is among the producers who strongly encouraged the department to expand support for beginning farmers. Vince specifically lauded direct payments. He wrote, "Because I am a beginning farmer, I was able to acquire a FSA guarantee on my farm's land loan. It is the direct payment in the current farm program that provides the stability I require for my budget and cash flow projections...When projecting my next year's budget, the direct payment is the only number I have been able to guarantee as fixed income. Without it, my land payment would be at risk."

Background

The Direct Payment Program (part of the Direct and Counter Cyclical Program, or DCP) provides payments to eligible producers on farms enrolled for the 2002 through 2007 crop years. Direct payments are computed using the payment rates in statute and the base acres and payment yields established for each farm. Direct payments are available for barley, corn, grain sorghum, oats, and other oilseeds (canola, crambe, flax, mustard, rapeseed, safflower, sesame and sunflower seeds), peanuts, rice, soybeans, upland cotton, and wheat.

For each commodity, the direct payment for each crop year equals 85 percent of the farm's base acreage *multiplied by* the farm's direct payment yield *multiplied by* the direct payment rate. Direct payments are not based on producers' current production choices, but instead are tied to historical, fixed acreages and yields. Because direct payments provide no incentive to increase production of any particular crop, the payments support farm income without affecting producers' current production decisions.

REVENUE-BASED COUNTER-CYCLICAL PAYMENT

Recommendations In Brief
Create a counter-cyclical program that is more responsive to actual conditions by replacing current price-based payments with revenue-based payments for program crops.

Problem
Current price-based counter-cyclical payments are based on fixed program payment yields and acreages. Thus when market prices drop below the level that triggers a counter-cyclical payment, payments are made regardless of the level of yields. By failing to take into account actual production per acre, current counter-cyclical payments tend to under-compensate producers when yields decline and over-compensate producers when yields increase.

During USDA Farm Bill Forums, the idea of counter-cyclical payments based on revenue was repeatedly echoed. Ernie from Nebraska said, "Too often our farm policy focus is only on prices. The focus, we feel, should really be on revenue which takes into account both prices and yields... [The current farm bill] tends to overcompensate when it should not and under-compensate when more assistance is needed." John from Kansas said, "We didn't raise anything because of a drought. The prices went up and we didn't get any payment; we didn't have anything to sell. A target revenue program would fix that."

In 2004-2005, historically high yields for corn and cotton drove supplies up and consequently prices down, triggering counter-cyclical payments for both crops. While prices were down, bushels and pounds sold by farmers were up, yielding unexpectedly high market revenues. Nonetheless, the counter-cyclical payment formula under the 2002 farm bill paid additional money to producers who were already experiencing above average revenues. Conversely, if a farmer is experiencing a drought and yields are low, commodity prices are often above the counter-cyclical price trigger. If producers have few or no commodities to sell at the high price, their farm revenue suffers, yet because the market price is above the counter-cyclical price trigger producers receive no payments. In cases such as these, unexpected market conditions yield unintended consequences.

Recommended Solution
Replace the current price-based counter-cyclical payment program for a commodity with revenue-based counter-cyclical payments for that commodity. The revenue-based payment for a commodity would be triggered when the actual national revenue per acre for the commodity is less than the national target revenue per acre.

The national target revenue per acre for the commodity would equal the 2002 farm bill's target price minus the 2002 farm bill's direct payment rate multiplied by the national average yield for the commodity during the 2002-2006 crop years, excluding the high and the low years. The national actual revenue per acre for a commodity would equal the national average yield for the commodity times the higher of: (1) the season-average market price and (2) the loan rate for the commodity.

If a payment is triggered, the national revenue-based payment per acre would be converted to a payment rate for producers by dividing the national revenue payment per acre by the U.S. average payment yield per base acre under the 2002 farm bill countercyclical payment program. An individual producer's revenue-based counter-cyclical payments would be determined by multiplying the national average payment rate for the commodity times 85 percent of the producer's base acres times the producer's program payment yield under the 2002 farm bill countercyclical payment program.

Base acres and program payment yields would remain fixed over the life of the 2007 farm bill. The national yield for determining target revenue would remain fixed over the life of the 2007 farm bill and would equal the average yield for the 2002-2006 crops, excluding the high and the low year.

Background

Price-based counter-cyclical payments established under the 2002 farm bill are triggered when the effective price for a covered commodity falls below the target price for the commodity. The effective price is the sum of: (1) the higher of the season-average market price or the national average loan rate for the commodity and (2) the direct payment rate for the commodity. Since current counter-cyclical payments are not directly tied to actual yields, they may over-or-under compensate producers for annual fluctuations in market revenue. For example, when yields are above trend, causing market prices to decline, current counter-cyclical payments can over-compensate producers since higher yields offset some revenue lost from lower market prices. The opposite occurs when yields are below trend. In this situation, lower production can cause market prices to increase and counter-cyclical payments to decline – even to zero. However, because revenue per acre may change only slightly or even decrease as a result of declining yields per acre, revenue-based payments would be more responsive to actual conditions.

The following page provides examples of how the program would operate in a hypothetical year for corn.

Price-Based Versus Revenue-Based Payments: Price and Revenue Guarantees

U.S. Data	Current Price-Based	U.S. Data	Recommended Revenue-Based
Target Price	$2.63/bu.	**Target Price**	$2.63/bu.
Direct Payment	$0.28/bu.	**Direct Payment**	$0.28/bu.
Price Guarantee	$2.35/bu.	**Difference**	$2.35/bu.
Program Yield (bu./ac.)	114.3 bu./ac.	**Olympic Average Yield (2002-2006)**	146.4 bu./ac.
		Target Revenue	344.04

Price-Based Versus Revenue-Based Payments: Payment Calculation
Example # 1—Higher Yield, Lower Price

U.S. Data	Assume Actual Price=$2.00/bu.; Yield=170.0/bu.; Revenue=$340.00/ac.	
	Price-Based	**Revenue-Based**
Price-Based Payment Rate Per Bushel (1)	$0.35	--
Program Yield	114.3 (bu./ac.)	114.3 (bu./ac.)
Revenue-Based Payment Per Acre (2)	--	$4.04
Payment Rate Per Bushel (3)	--	$0.035

(1) $0.035 = $2.35 - $2.00
(2) $4.04 = $344.04 - $340.00
(3) $0.035 = $4.04/114.3

Price-Based Versus Revenue-Based Payments: Payment Calculation
Example # 2—Lower Yield, Higher Price

U.S. Data	Assume Actual Price=$2.30/bu.; Yield=130.0/ac.; Revenue $299.00/ac.	
	Price-Based	**Revenue-Based**
Price-Based Payment Rate Per Bushel (1)	$0.05	--
Program Yield	114.3 bu./ac.	114.3 bu./ac.
Revenue-Based Payment Per Acre (2)	--	$45.04
Payment Rate Per Bushel (3)	--	$0.394

(1) $0.05 = $2.35 - $2.30
(2) $45.04 = $344.04 - $299.00
(3) $0.394 = $45.04/114.3

STRENGTHEN PAYMENT AND ELIGIBILITY LIMITS

Recommendation in Brief
Reform farm program payment limits, eligibility requirements, and attribution to reduce payments going to larger and higher income producers, increasing overall equity in farm programs.

Problem
Farm program payments account for a sizeable share of farm income for producers of program crops. Generally, the effect of payment limits has been limited because producers have been able to use various legal and regulatory provisions to avoid being restricted by these limits. The Commission on the Application of Payment Limitations for Agriculture authorized in the 2002 farm bill found the "limits on marketing loan benefits are not effective, only a small percentage of program crop producers reach the current limits on direct and counter-cyclical payments, and many of the largest farms have either restructured or are likely to do so to lessen the extent to which the limits reduce payments."

With only limited constraints on payments, a substantial portion of payments go to large, high income producers. In 2005, commercial farms (defined as a farm with sales of $250,000 or more, where the principal occupation of the operator is farming) accounted for nine percent of all farms but received 54 percent of all government payments, averaging $54,100 per farm. These farms had average household incomes of $200,000. Farms where the principal occupation of the operator was farming and with sales up to $250,000 (intermediate farms) accounted for 23 percent of farms and received 27 percent of all payments, averaging $8,700 per farm. These farms had average household incomes of $68,000. The U.S. average household income was $63,344 in 2005. These data indicate most payments go to farm households that have large incomes compared with other farms and with U.S. average household income. Moreover, these large payments are likely to provide a means and incentive for the "big to get bigger" and outbid their neighbors in purchasing and renting farmland.

The problem was highlighted in the comments offered during many Farm Bill Forums. Kristina from Virginia said, "Farm bill policies are supposed to preserve family farms, but they disproportionately channel money to big agribusiness." Steve from Georgia said, "These people drawing these multiple payments are in competition against us... They... keep getting bigger every year. The number of farmers drops every year. There's going to be fewer and fewer farmers, and there won't be such a thing as a family farm."

Recommended Solution
The Administration proposes increasing the effectiveness of farm bill payment limits and helping assure equity among farmers.

1. Decrease the Adjusted Gross Income (AGI) eligibility cap for all farm commodity program payments from the current $2.5 million to $200,000 annually. Continue current law AGI requirements and payment limits on all conservation title payments.

2. Repeal the current provision in law that waives the AGI cap if 75 percent or more of the AGI is derived from farming, ranching, or forestry activities. Thus, if a producer has an annual adjusted gross income of $200,000 or more, regardless of the source of the income, the producer would not be eligible for commodity program payments.
3. Replace the three entity rule with direct attribution of payments, so that all payments are attributed to natural persons directly and through entities that are determined to be actively engaged in agriculture.
4. Maintain the effective overall payment limit of $360,000 but adjust the separate payment limits on specific types of payments – from $80,000 to $110,000 for direct payments, from $130,000 to $110,000 for counter-cyclical payments, and from $150,000 to $140,000 for marketing loan gains.
5. Repeal honey, peanut, wool, and mohair program-specific payment limits (i.e., establish one comprehensive payment limit per person for all commodity program payments including dairy, not one limit for one set of commodity payments and another limit for other commodity payments).
6. Issue new rules that strengthen the now difficult-to-measure requirements for the active management contribution to the operation that enables individuals or entities to qualify for commodity program payments without contributing labor to the operation. Landowners who contribute land to an operation and receive rent in the form of a share of production of a program commodity produced on the land would continue to be considered actively engaged in agriculture and eligible for program payments.
7. Issue rules to institute new procedures to validate producer AGI and eligibility for payments to help ensure no erroneous payments are made.
8. Establish a de minimis level on the issuance of direct and countercyclical payments. To achieve efficiencies in the distribution of payments, no payment of $10.00 or less would be issued under the direct and countercyclical payment programs. In 2004, USDA made direct payments of $10.00 or less to 27,809 producers. These payments totaled $93,711.

Comments submitted during USDA's Farm Bill Forums offered varying opinions about payment limits. Some spoke passionately about the need for greater equity in distribution. Janet from North Dakota said, "We ask that changes be made in our agricultural support system which will do more than use family farmers as the poster children for ag spending. Put a cap on subsidies and close the loopholes which allow an unfair advantage to a few." Paul from Minnesota said, "You need to do something about a more equitable distribution so that the dollars are not going just to the largest farmers."

Internal Revenue Service (IRS) data for 2004 indicate that 97.7 percent of all American tax filers have an AGI under $200,000 and only one half of one percent of all Americans have an AGI over $500,000. Compared to the $2.5 million AGI cap in current law, less than .0007 percent of all American tax filers have an AGI of over $2.5 million. Put another way, less than seven in every 10,000 American families have an AGI over $2.5 million. Looking at farmers specifically, 2003 IRS data indicate that approximately two million tax filers submitted a Schedule F – reporting a profit or loss from farming. Of these, only 71,800 — 3.6 percent — reported AGI of $200,000 or more. This data also indicates that 4.5 percent of farm program payments (including Conservation Reserve Program Payments) went to the 3.6 percent of Schedule F filers with AGI of $200,000 or more.

Background

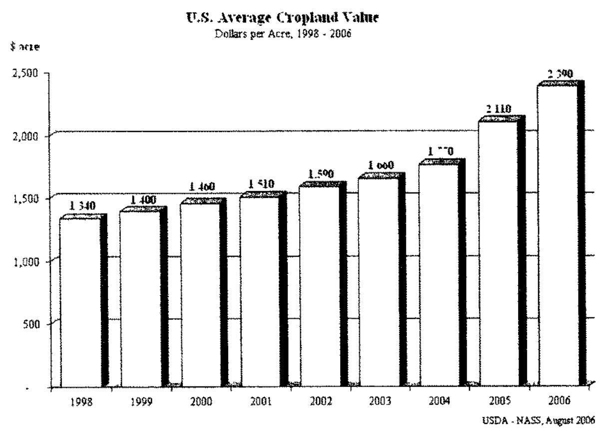
A limitation on the total annual payments that a "person" may receive under certain commodity programs has been in effect since enactment of the Agricultural Act of 1970. Subsequent farm legislation continued payment limitation requirements and added other income limitations. Most notably, the 2002 farm bill added a $2.5 million AGI limitation with respect to these programs. An individual or entity is not eligible for farm program and other payments if the individual's or entity's average AGI exceeds $2.5 million for the three tax years immediately preceding the applicable crop, program, or fiscal year. AGI for an individual filing a separate tax return is the amount reported as "adjusted gross income" on the Federal tax return for the individual for the applicable tax year, which includes wages, salaries, dividend and interest income, capital gains, net farm income (gross farm income minus farm expenses including depreciation) and other sources of income. Similar definitions apply to individuals filing joint returns, corporations, partnerships, trusts, etc. However, an individual or entity is considered eligible to receive farm program payments regardless of the level of AGI if 75 percent or more of the average AGI is derived from farming, ranching, or forestry operations. Reducing the AGI cap and repealing the 75 percent exception would reduce the number of high income households receiving farm income support.

Eliminating the three entity rule would allow transparent identification of payments to individuals and would reduce the incentive to create business organizations for reasons other than risk or business considerations.

SECTION 1031 EXCHANGES

Recommendation In Brief
Eliminate commodity program payments for all newly purchased land benefiting from a 1031 tax exchange.

Problem
While many farmers are reporting significant economic hardship, land values have continued to climb. Average farm real estate value increased over 90 percent from $974 per acre in 1998 to $1,900 per acre in 2006. During that same period, the average value of cropland increased almost 80 percent to an average $2,390 per acre.



High land values continue to be a barrier for new farmers who are seeking to enter production agriculture. These high land values are also problematic for small and socially disadvantaged farmers who are seeking to expand their operations.

A reoccurring theme at USDA Farm Bill Forums centered on how individuals near urban areas sold their land and moved to more remote areas where they outbid local farmers for farmland, simply to take advantage of the 1031 tax exchange. For example, Troy, a 26-year-old college graduate in agribusiness from Utah said, "It has always been my dream to be able to someday own my own farm. Currently, I am unable to do so due to the giant barrier of entry which is land values....This is mainly due to speculation of real estate and 1031 exchanges." Ronald from Minnesota caused a round of applause when he stated "it's the 1031 tax exchange that's killing the young farmer." And Len from Wisconsin added, "The 1031 is just driving our land rents and land prices to where the average producer, even big producers can't compete."

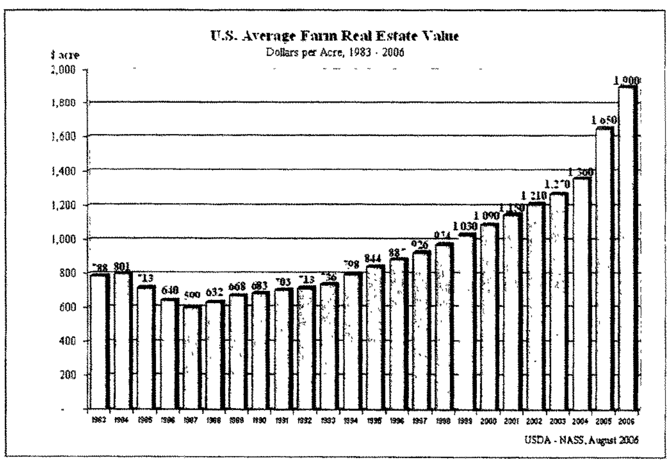
Recommended Solution

To help rectify this situation, USDA proposes to eliminate eligibility for direct payments, counter-cyclical payments and marketing loan benefits on land purchased after the date of enactment of the 2007 farm bill through a 1031 exchange. This policy change will help mitigate an unintended consequence of the tax code by allowing the market, not the tax code, to drive land purchases and prices.

Background

Section 1031 of the U.S. Internal Revenue Code allows investors to defer capital gains taxes on the exchange of like-kind properties. Like-kind (tax-deferred) exchanges, or "1031 tax deferments," can affect rural farmland values. Under "1031 tax deferments," landowners selling land at a profit can defer taxes on that profit by using the proceeds to acquire similar property for business or investment purposes. These taxes can be significant because urban expansion has caused a rapid increase in nearby agricultural land values. As farmers, ranchers, and others sell land, usually for nonfarm use, in these urban-affected areas, they may acquire farmland in more rural locations to avoid taxes.

Agricultural land value reflects the future value of agricultural production from that land (measured in current dollars), but also includes factors such as urban development pressures and recreational uses. Agricultural land values rose sharply in the 1970s and early 1980s, declined rapidly between 1982 and 1987, and have risen steadily since 1987.



REVISE DAIRY COUNTER-CYCLICAL PAYMENTS AND CONTINUE PRICE SUPPORT PROGRAM FOR MILK

Recommendation In Brief

Continue to support the price of milk at $9.90 per hundredweight (cwt), and re-authorize and revise the Milk Income Loss Contract Program (MILC). MILC payments would be based on a reduced and historical payment rate, instead of actual milk sales. These proposals are estimated to add $793 million in additional dairy payments over a ten-year period.

Problem

Operation of the milk price support program has helped to provide stability to producers' milk prices. Counter-cyclical payments to dairy producers are triggered under the MILC program when the Class I price in Boston in any month falls below $16.94 per cwt. The MILC program is not consistent with the other farm bill counter-cyclical programs that require payments to be based on historical production levels and an 85 percent payment rate.

Under the 2002 farm bill, authority for the MILC program expired on September 30, 2005. The Deficit Reduction Act of 2005 extended the MILC program authorizing payments through August 31, 2007, but no payments are authorized thereafter. Because the MILC program expires prior to expiration of the 2002 farm bill, the MILC program is not part of the 2007 farm bill baseline spending for FY 2008-2017. Thus, a continuation of the program in the 2007 farm bill would cause farm bill program spending to exceed baseline spending.

During USDA's Farm Bill Forums, dairy farmers from throughout the country let their views be known. For example, Ed from Wisconsin said, "We see the MILC program as an important supplement to the milk price support program, which is also an important part of the dairy income safety net. However, the milk price support program, by itself in its current form, is an insufficient safety net for dairy producers." And Calvin from Florida added, "We support the continuation of this relatively low cost safety net for dairy farmers...With the large investment required of dairy operations and the time frame required to enter dairy farming it is imperative that a floor be kept on dairy prices to maintain an adequate milk supply. The dairy price support program is a win-win for producers, processors, and consumers."

Recommended Solution

The Administration proposes to maintain the milk price support program and extend the MILC program. Under the proposed MILC program, dairy producers would continue to be eligible to receive a payment if the Class I price in Boston in any month falls below $16.94 per cwt. For FY 2008, the proposed payment rate would remain at the current rate of 34 percent of the difference between $16.94 per cwt and the Class I price in Boston. For subsequent years, the payment rate would be phased down to 31 percent in FY 2009, 28 percent in FY 2010, 25 percent in FY 2011, 22 percent in FY 2012, and 20 percent in FY 2013-2017.

MILC payments would be based on 85 percent of the 3-year average of milk marketed during fiscal years 2004-06. Payments would be subject to the current quantity-based limit on milk marketed eligible for MILC payments of 2.4 million pounds per year. This policy change would make the MILC program consistent with the other farm bill counter-cyclical programs that are calculated on historical production bases. MILC payments would also count towards a producer's overall counter-cyclical payment limit of $110,000 annually, helping to limit payments to producers with multiple dairy operations. The new adjusted gross income eligibility cap of $200,000 annually would also apply to MILC payments.

Background

The Milk Price Support Program (MPSP) supports the price of milk produced in the 48 contiguous states through the purchase of cheese, butter, and nonfat dry milk (NDM). The current milk price support rate is $9.90 per cwt. for milk testing 3.67 percent butterfat (milk fat). Under the MPSP, farmers are not paid directly but are supported through Federal purchases of dairy products. Purchases vary from year to year depending on the dairy market supply and demand situation and the support rate.

In recent years, the average price received for milk has been well above the support price and only very small amounts of nonfat dry milk, butter and cheese have been removed from the market to support the price of milk. Current projections suggest that the farm-level price of milk will continue to remain considerably above the support price and purchases under the milk price support program will remain small.

Besides MPSP, the MILC program is also available to dairy producers. MILC program payments are made on a monthly basis when the Class I milk price in Boston falls below the benchmark price of $16.94 per cwt. A maximum of 2.4 million pounds of milk marketed by an operation are eligible for MILC payments per fiscal year. MILC program payment rates are currently determined by multiplying 34 percent of the difference between $16.94 and the Boston Class I price for the month. By statute, no payments are authorized under the MILC program after August 31, 2007.

SUGAR POLICY

Recommendation In Brief
Revise the sugar program to operate at no net cost to taxpayers by balancing supply and demand for sugar through domestic marketing allotments and the tariff rate quota (TRQ) on sugar imports.

Problem
The sugar program is a nonrecourse loan program that supports the price of raw cane sugar at 18 cents per pound and refined beet sugar at 22.9 cents per pound. The 2002 farm bill requires the Secretary of Agriculture to establish domestic allotments that result in no forfeitures of sugar to the Commodity Credit Corporation (CCC) under the sugar price support program. However, the 2002 farm bill suspends the requirement when sugar imports for human consumption are expected to exceed 1.532 million short tons, and the imports would lead to a reduction in the overall allotment quantity. The current program limits imports of raw and refined sugar through a TRQ. Under the World Trade Organization (WTO), the United States is subject to minimum access requirements consistent with U.S. obligations.

Because of increased sugar imports expected from Mexico, which, under the NAFTA agreement, is not subject to the TRQ, USDA's current long-term projections indicate imports in excess of 1.532 million short tons, triggering the suspension of domestic marketing allotments during FY 2008-2017. As a result, U.S. sugar supplies are projected to exceed domestic use, and domestic sugar placed under nonrecourse loans would be forfeited to the Commodity Credit Corporation. USDA's projected outlays under the sugar price support program are $1.4 billion during FY 2008-2017.

Recommended Solution
The Administration recommends continuing the sugar price support program but eliminating the provision which requires the Secretary of Agriculture to suspend marketing allotments when sugar imports are projected to exceed 1.532 million short tons. Domestic marketing allotments for sugarcane and sugar beets could be reduced, as needed, to balance sugar supply and demand and prevent price support forfeitures. The sugar program could then continue to be operated at no net cost to taxpayers as it traditionally has in the past.

USDA heard divergent views on U.S. sugar policy. For example, Stephen, from Hawaii wrote, "We strongly urge that a no-cost U.S. sugar policy be retained in the next farm bill." While Stephen, from California, suggested, "A good start would be the end of ridiculous sugar price supports, benefiting the few at the expense of many -- not only all U.S. consumers, who pay artificially high prices for sugar products, but poor cane growers in other nations, who can't compete with our artificially priced products."

Background
The objective of the Administration's proposal would be to continue to maintain domestic sugar prices near historical levels while eliminating the Federal cost of the sugar price support

program. On January 1, 2008, full implementation of NAFTA eliminates all customs duties for sweetener trade between Mexico and the United States. Relative costs of production, transportation, and other market factors will determine where sugar crops are grown and processed in the United States and Mexico following elimination of customs duties on sweeteners trade between the two countries. If price supports for raw and refined sugar remain at current levels, U.S. prices would likely attract imports from Mexico. Depending on the volume of imports from Mexico, sugar prices could drop below the forfeiture level resulting in U.S. sugar program costs. USDA currently projects sugar program costs of $1.4 billion during FY 2008-2017, an average of $140 million per year, due to anticipated forfeitures. Under the proposal, the domestic marketing allotment program would be available to reduce domestic sugar supplies and support sugar prices for producers when imports exceed 1.532 million short tons.

Sugar imports from Mexico were 784,000 tons in FY 2006 and are projected at 330,000 tons for FY 2007. Prior to FY 2006, over-quota tariffs restricted imports to about 25,000 tons per year. The over-quota tariff is currently $0.015 per pound, and drops to zero on January 1, 2008.

REPEAL SPECIAL COTTON COMPETITIVENESS PROVISIONS

Recommendation In Brief

In addition to the action already taken by the Congress to repeal Step 2 of the cotton program, repeal Steps 1 and 3 of the upland cotton competitiveness provision. Eliminate the competitiveness provisions for extra-long staple (ELS) cotton.

Problem

In the cotton dispute brought by Brazil, the World Trade Organization (WTO) ruled that Step 2 payments for cotton users and exporters under the 2002 farm bill were prohibited subsidies contingent on exports or on the use of domestic over imported cotton. Congress subsequently repealed the Step 2 payment provisions. Step 2 was part of a set of three competitiveness provisions in the 2002 farm bill. The other two provisions -- a discretionary adjustment in the loan repayment rate and a special import quota -- have seldom been used, have increased program costs when used, and have had little meaning in the absence of Step 2.

The ELS cotton program includes a payment to domestic users and exporters that is analogous to the upland cotton Step 2 program.

Recommended Solution

Repeal Step 1, the discretionary adjustment in the loan repayment rate, and Step 3, the special import quota for upland cotton. Congress has already eliminated the Step 2 program for upland cotton. Steps 1 and 3 remain in law and should be repealed. Repeal the ELS competitiveness payment which is analogous to the Step 2 payment for upland cotton.

Background

The upland cotton program is comprised of a non-recourse marketing assistance loan and a 3-step competitiveness provision. The non-recourse marketing loan allows a producer to:

1. Place cotton under loan for up to 9 months,
2. Receive some money up front, which can be used to pay production expenses, and
3. Wait for an advantageous move in prices to market the cotton.

If subsequent prices do not allow the producer to repay the loan and receive a higher price, then at the end of the 9-month loan the producer can forfeit the cotton as payment in full for the loan. If the producer elects to repay the loan prior to maturity, the producer may repay the loan, at the lower of:

1. The loan rate, plus applicable storage and interest, or
2. An alternative repayment rate, called the adjusted world price (AWP), announced each Thursday.

Step 1 of the 3-step competitiveness provision for upland cotton is a discretionary adjustment to the AWP. The Secretary may, when certain conditions are met, reduce the AWP by an amount not to exceed the difference between the A-Index and the lowest U.S. quotation in Northern

Europe (USNE). The decision concerning the discretionary Step 1 adjustment is based upon several factors including the likelihood of achieving the prevailing export forecast, and the likelihood of forfeiture of loan collateral in the absence of the adjustment. The discretionary reduction has seldom been used, and when used, it increases the cost of the cotton program.

Step 2 of the 3-step competitiveness provision, now repealed, was designed to ensure that U.S. upland cotton could be readily marketed in both the domestic and international market. Step 2 operated when U.S. upland cotton prices were above world prices for a certain period and provided a subsidy to domestic users and exporters in the amount of the difference between the U.S. and world prices.

Step 3 of the 3-step competitiveness provision allows for the opening of a special additional import quota for upland cotton. These quotas permit importation of cotton above that permitted under existing quotas. Step 3 import quotas are triggered when U.S. cotton prices quoted in Northern Europe exceed world prices in Northern Europe for a specified period by more than the Step 2 payment rate. When the Step 2 provision was adopted, there was concern that it could result in exports of domestic supplies and lower prices to foreign buyers. The provision was enacted to provide domestic textile mills access to foreign cotton should U.S. prices rise and supplies tighten due to Step 2. Without Step 2, there is no basis for Step 3.

The ELS program provides payments that are analogous to the Step 2 payments. When U.S. ELS cotton prices are above world prices for a certain period, a payment is made to domestic users and exporters in the amount of the difference between the U.S. and world prices.

REMOVE PLANTING FLEXIBILITY LIMITATIONS

Recommendation in Brief

Allow planting flexibility of fruits, vegetables, and wild rice on base acres.

Problem

Under World Trade Organization (WTO) rules, direct payments can be classified as non-trade-distorting or "green box" support if, among other conditions, they are not "related to, or based on, the type or volume of [current] production" by the recipient. In the Brazil cotton case, the WTO ruled that direct payments provided under the 2002 farm bill could not be classified as "green box" support, because of the limitations on planting flexibility that currently prohibit the planting of fruits, vegetables, and wild rice on base acres eligible for payments. The WTO reasoned that because direct payments are conditioned on the recipients' avoiding production of certain crops after the base period, they are related to current production and thus do not meet the criteria for decoupled income support as defined in the WTO Agreement on Agriculture.

Although the WTO rulings and recommendations in the cotton dispute were limited to particular claims made by Brazil in that case, the reasoning in *Cotton* would suggest that it is desirable to remove the planting flexibility limitations.

Recommended Solution

To ensure that direct payments will be considered to be non-trade distorting green box assistance, the Administration proposes that the provision of the 2002 farm bill that limits planting flexibility on base acres to exclude fruits, vegetables, and wild rice, should be eliminated.

Background

The 2002 farm bill contained a provision limiting planting flexibility to exclude the planting of fruits, vegetables, and wild rice on base acres. Base acres are used to calculate direct and counter-cyclical payments.

U.S. commodity programs, from their inception in the 1930s to the present day, have had some form of acreage or production controls as a component of agricultural policy. These production and acreage control programs have served two purposes. Primarily, they were an attempt to balance supply and demand. The secondary purpose was to reduce government payments and limit the amount of acreage eligible for payment.

In the United States, interest in more market-oriented programs and global trade liberalization under multilateral trade agreements have prompted policy makers to design and implement less distorting government programs. Beginning with the 1985 farm bill, acreage limitations have gradually been eliminated and replaced by increased planting flexibility for farmers.

The 1996 farm bill provided producers with broad planting flexibility. Producers no longer were required to plant within restrictive and rigid Government regulations. They no longer had to produce a specific crop to receive program benefits and could make planting decisions based on market signals and what was in their best economic interest. The 1996 farm bill singled out fruits and vegetables as the exception to planting flexibility.

The 2002 farm bill continued the exception and added wild rice. Planting fruits, vegetables (other than lentils, mung beans, and dry peas), or wild rice on base acres makes the producer ineligible for direct and counter-cyclical payments. Exceptions include regions with a history of double cropping fruits, vegetables, and wild rice with commodities eligible for direct and counter-cyclical payments, farms with a history of planting fruits, vegetables, and wild rice (with an acre for acre reduction in payments), and producers with a history of planting fruits, vegetables, and wild rice (with an acre for acre reduction in payments).

RETIRE CROP BASES WHEN CROPLAND IS SOLD FOR NON-AGRICULTURAL USES

Recommendation In Brief
Reduce or eliminate crop bases when an entire farm or a portion of a farm is sold for non-agricultural uses.

Problem
There are several situations in which a farmer may sell an entire farm or a portion of a farm with no reduction in crop acreage bases and no reduction in direct and counter-cyclical payments. For instance, a farmer with two farms may sell one of the farms for non-agricultural uses and transfer the crop bases from the farm being sold to the remaining farm. In this instance, the crop bases on the farm being sold may be assigned to the farm being retained if the sum of the crop bases on the two farms is less than total cropland on the farm that is being retained. If a farmer sells a portion of an existing farm, the crop bases on the farm are not reduced unless the sum of the crop acreage bases on the farm exceeds the total cropland on the farm following the sale. In these situations, a producer could sell a major portion or an entire farm for non-agricultural uses with no reduction in direct and counter-cyclical payments. This could permit a producer to continue to receive the same level of direct and counter-cyclical payments even though the remaining cropland on the farm was significantly reduced. Additionally, the retention of crop acreage bases may contribute to the inflation of farmland values, making it harder for beginning and limited resource farmers to purchase land.

Recommended Solution
The Administration proposes to permanently reduce crop acreage bases in proportion to the decline in cropland when a portion of an existing farm is sold for non-agricultural uses. This recommendation also would prohibit reassignment of crop acreage bases to another farm or farms when an entire farm is sold. This proposal is modeled after the mechanism that proportionally reduces program crop base acres when a portion of a farm is enrolled in the Conservation Reserve Program.

Consider a farm with 100 acres of cropland and 60 acres of crop base. Under current law, if that farmer sells 20 acres to development of a subdivision and 20 acres to build a golf course, the farmer would retain the same amount of direct and counter-cyclical payments as before the sale. Under the Administration's proposal, that same farmer would see a proportional reduction in their base acres and a subsequent reduction in direct and counter-cyclical payments. Thus, in this case, the farmer started with 60 base acres and sold 40 percent of the farm to non-agricultural use; the farmer would receive a 40 percent reduction in base (60 acres multiplied by 40 percent equals a 24 acre reduction) and a proportional reduction in direct and counter-cyclical payments of 40 percent.

Background
Under the 2002 Farm Bill, direct and counter-cyclical payments for program crops are determined by multiplying a prescribed payment rate by payment production. Payment production for a program crop equals 85 percent of a farm's base acres times the farm's program

yield. Therefore, the amount of direct and counter-cyclical payments a producer is eligible to receive is directly tied to the program crop base acres on the producer's farming operations. Program crop base acres are determined by land's previous planting history.

CONSERVATION ENHANCED PAYMENT OPTION

Recommendation In Brief
Offer program crop producers a "conservation enhanced payment option" that enables them to elect to receive an enhanced, guaranteed direct payment if they agree to meet certain conservation requirements and forgo marketing assistance loan program benefits and counter-cyclical program payments. This new program is expected to pay farmers an additional $50 million over the next ten years.

Problem
Farm programs may provide incentives for some producers to grow crops even on drought-prone, marginal lands. Intensive production of program crops on marginal lands is counter to natural resource conservation goals. Moreover, a fixed, direct "green" payment, if properly constructed, would meet World Trade Organization (WTO) rules for non-trade distorting support that is exempt from WTO disciplines. Such incentives must be completely decoupled from current production and prices and must have clearly defined eligibility criteria in order to qualify under WTO rules as "green box" decoupled income support.

Recommended Solution
The Administration proposes to offer producers with program crop base acreage a "conservation enhanced payment option" that would allow producers to receive an enhanced direct payment in place of marketing assistance loan program benefits and counter-cyclical payments. The annual direct payment level for farmers choosing this option would be their regular direct payment provided under provisions of the 2007 farm bill plus ten percent of that payment for the duration of the 2007 farm bill. The direct payment limit for farmers choosing this option would be increased by ten percent as well from $110,000 to $121,000 annually.

Producers who choose this option would be required to adopt conservation and environmental practices equivalent to the Progressive Tier (for more information on the Progressive Tier, see proposal entitled "Conservation Security Program" on pages 46-48) requirements under the Conservation Security Program (CSP). Producers would not be required to produce agricultural commodities to receive the direct payment.

Background
Under this recommendation, a producer with crop acreage base could elect to enter a long-term contract covering the life of the 2007 farm bill to forgo benefits of the marketing assistance loan and the counter-cyclical payment programs. The contract would require the producer to meet the conservation requirements of the Progressive Tier under the CSP. Under the Progressive Tier, the producer must address water and soil quality concerns to a sustainable level and agree to address a third resource concern to a sustainable level by the end of the five-year contract. Similar to other conservation compliance requirements, producers would self-certify compliance with the Progressive Tier and would be subject to audit.

The participating producer would receive an annual, fixed, direct payment in lieu of marketing assistance loan program benefits and counter-cyclical payments. In addition, the producer would continue to receive the direct payment now provided under the 2002 farm bill. This direct payment along with the new "conservation enhanced payment option" direct payment would be subject to a payment limit of $121,000 annually. The producer would also be subject to other payment limit changes and adjusted gross income changes recommended for the 2007 farm bill. [See Title I recommendation entitled "Strengthen Payment and Eligibility Limits" on pages 21-23.]

Example conservation enhanced payment rates under this proposal will be as follows (calculated as 1.1 times the proposed direct payment rates and data are rounded):

Commodity	Proposed Direct Payment Rate 2008-2009 2013-2017	Conservation Enhanced Payment Rate 2008-2009 2013-2017	Proposed Direct Payment Rate 2010-2012	Conservation Enhanced Payment Rate 2010-2012
Barley (bu.)	$0.25	$0.28	$0.26	$0.29
Corn (bu)	$0.28	$0.31	$0.30	$0.33
Grain Sorghum (bu)	$0.35	$0.39	$0.37	$0.41
Oats (bu)	$0.02	$0.02	$0.03	$0.03
Other Oilseeds (cwt)	$0.80	$0.88	$0.86	$0.95
Peanuts (ton)	$36.00	$39.60	$38.61	$42.47
Rice (cwt)	$2.35	$2.59	$2.52	$2.77
Soybeans (bu)	$0.47	$0.52	$0.50	$0.55
Upland Cotton (lb)	$0.11	$0.12	$0.11	$0.12
Wheat (bu)	$0.52	$0.57	$0.56	$0.62

For each commodity, the direct payment for each crop year equals 85 percent of the farm's base acreage *times* the farm's direct payment yield *times* the direct payment rate.

To ensure that the payments are considered non-trade distorting under WTO criteria, the payments should be structured to meet the criteria of decoupled income support. The payments should be fixed and independent of current production and price and the producer should not be required to produce in order to receive the payment.

CONTINUING WTO COMPLIANCE

Recommendation In Brief

Update Section 1601(e) of the 2002 farm bill entitled "Adjustment Authority Related to the Uruguay Round Compliance" to allow USDA to adjust certain payments to meet current and future World Trade Organization (WTO) commitments.

Problem

The 2002 farm bill contains a "circuit breaker" provision that provides the Secretary of Agriculture with the authority to adjust expenditures under certain domestic support programs to ensure that expenditures do not exceed total allowable domestic support limits under the Uruguay Round Agreements. Section 1601(e) of the Act states:

> "If the Secretary determines that expenditures under subtitles A through E that are subject to the total allowable domestic support levels under the Uruguay Round Agreements ... will exceed such allowable levels for any applicable reporting period, *the Secretary shall*, to the maximum extent practicable, *make adjustments* in the amount of such expenditures during that period *to ensure that such expenditures do not exceed such allowable levels*." (emphasis added)

Under Title I, entitled "Commodity Programs," Subtitles A through E deal with direct and counter-cyclical payments for covered commodities, marketing assistance loans and loan deficiency payments for loan commodities and specific program payments for peanuts, sugar and dairy.

With the potential of a Doha agreement on the horizon, this statutory provision, while a useful tool, has become outdated. Since the current law provision is tied to the Uruguay Round Agreement, USDA would have no mechanism to ensure compliance with a Doha agreement. The ultimate goal is to replace the Uruguay Round Agreements with new agreements that open markets and integrate the global economy through measures such as the reduction or elimination of trade-distorting agricultural subsidies and tariffs. Current law suffers from the defect of being tied directly to the Uruguay Round Agreements, which we hope to supersede with Doha or another such agreement.

Recommended Solution

Section 1601 of the 2002 farm bill should be repealed and the following provision enacted:

> "(e) *Adjustment Authority Related to World Trade Organization Agreements Compliance.*
>
> > (1) *Required Determination; Adjustment.* -- If the Secretary determines that expenditures subject to the total allowable domestic support levels under the Uruguay Round Agreements, or any successor agreements, will exceed such allowable levels for any applicable reporting period, the Secretary shall, to the maximum extent practicable, make adjustments in the amount of such expenditures to ensure that such expenditures do not exceed allowable levels.

(2) *Successor Agreements*. -- For purposes of this subsection, "Uruguay Round Agreements" shall have the meaning prescribed by Section 2 of the Uruguay Round Agreements Act (19 U.S.C. 3501) and "successor agreements" shall refer to any future agreements concluded under the auspices of the World Trade Organization, duly approved by Congress, and determined by the President to be a successor agreement entered into force."

This proposed provision would permit the circuit breaker provision to be available with respect to any future WTO agreement limits and would not be confined solely to those applicable under the Uruguay Round Agreements.

In addition, the current law circuit breaker ties both the determination of allowable levels of domestic support and the expenditures that may be adjusted solely to those expenditures under subtitles A through E of the 2002 farm bill. Other domestic support measures, however, may be properly included in any calculation of total amber box support. The proposed amendment would accommodate their inclusion for all aspects of the circuit breaker determinations.

Background

In 1994, the member states of the WTO entered into a series of trade agreements known as the Uruguay Round Agreements. With respect to agriculture, the agreements sought to reduce subsidies and other market-distorting practices. Since the Uruguay Round Agreements do not themselves have the force of domestic law in the United States, Congress enacted the Uruguay Round Agreements Act to implement the obligations undertaken by the United States.

The agreements provided rules and disciplines for agricultural trade in three principal areas: market access, export subsidies, and domestic support measures. With respect to domestic support, each country agreed to a maximum amount of trade-distorting domestic support it would provide annually. The Uruguay Round Agreement on Agriculture established criteria to differentiate among policies that distort trade ("amber box measures"), policies that do not distort trade ("green box measures"), and direct payments that meet certain production-limiting requirements ("blue box measures").

Under Uruguay Round Agreements, WTO members are required to limit their annual expenditures on "amber box" measures. Each member nation has a different amber box limit, calculated from a historical basis for that country. With a significant exception for measures qualifying as *de minimis* support, the annual limit for the United States is $19.1 billion. Among U.S. programs, marketing loan gains, counter-cyclical payments, the dairy support program, and sugar policy are examples of "amber box" measures.

Recognizing that, under certain market conditions in a given year, U.S. domestic support programs could result in expenditures greater than the amount permitted under the Uruguay Round Agreements, Congress enacted the so-called "circuit breaker" provision in the 2002 farm bill. This provision provides the Secretary of Agriculture with the authority to adjust expenditures under certain domestic support programs to ensure that expenditures do not exceed total allowable domestic support limits.

TITLE II
CONSERVATION

SUMMARY OF CONSERVATION TITLE REFORM

Recommendations In Brief
Improve and increase funding of USDA conservation programs to better serve farmers, the environment, and all U.S. citizens.

Problem
USDA has multiple conservation programs within several agencies that can often lead to overlap and redundancy. Each of these conservation programs has its own eligibility requirements, regulations, policies, applications, and administrative actions that can lead to confusion and complications for producers seeking help. These inefficiencies result in increased administrative costs, leading to fewer dollars available for producers and fewer environmental benefits.

These disparate conservation programs are sometimes ill-equipped to solve complex agricultural landscape problems. These problems point to a need for streamlining, consolidation, and simplification. John from Maryland noted, "Currently, programs are implemented in a piecemeal fashion with no integration or connection with other programs or activities with similar objectives. We urge better integration and implementation of conservation programs...to ensure the conservation and environmental benefits of these programs can be most effectively realized."

Each program has strengths and administrative flexibilities, but these beneficial attributes are not applied across all relevant programs. Additionally, many of these programs do not have market-based or merit-based funding mechanisms to ensure limited conservation funding is allocated to the highest needs and best uses.

At the same time, the needs of beginning and socially disadvantaged producers are not being fully addressed, and demand for existing conservation programs often outpaces resources available. Tim from Oklahoma mentioned, "The biggest problem has been an under-funding of existing conservation title programs." And Philip, from California said, "A strong conservation title in the 2007 farm bill benefits everyone."

Recommended Solution
The Administration is recommending several changes to Title II of the farm bill – entitled "Conservation." Following is a list of the major components of the package.

1. Consolidate existing programs (Environmental Quality Incentives Program, Wildlife Habitat Incentives Program, Agricultural Management Assistance Program, Forest Land Enhancement Program, Ground and Surface Water Conservation Program, and the Klamath Basin Program) that provide financial assistance to customers through cost-share and incentives for working lands under a newly-designed Environmental Quality Incentives Program (EQIP). Simplify and streamline these activities, reduce redundancies, and produce more cost-effective environmental benefits. Create a new Regional Water Enhancement Program (RWEP) that focuses on cooperative approaches to enhancing water quantity and/or quality on a regional scale, and invest additional resources in the Conservation Innovation Grants program. These important changes to the EQIP program would invest an additional

$4.250 billion. (For further information, see the proposal entitled "Environmental Quality Incentives Program" on pages 43 – 45.)

2. Modify the Conservation Security Program (CSP) to create a stewardship program that emphasizes incentives for implementing higher levels of conservation practices. Expand CSP enrollment from its current 15.5 million acres to an estimated 96.5 million acres over the next 10 years, increasing investment by an additional $500 million funding over the 10 year baseline. (For further information, see the proposal entitled "Conservation Security Program" on pages 46 – 48.)
3. Consolidate three existing easement programs for working lands into one new Private Lands Protection Program to streamline processes, eliminate redundancies, and expand the strengths of each program. Invest an additional $900 million over 10-year baseline in this new easement program. (For further information, see the proposal entitled "Private Lands Protection Program" on pages 49 – 50.)
4. Reauthorize and enhance the Conservation Reserve Program (CRP) to focus on lands that provide the most benefits for environmentally sensitive lands. And in addition, give priority within whole-field enrollment for lands utilized for biomass production for energy. (For further information, see the proposal entitled "Conservation Reserve Program" on pages 51 – 52.)
5. Reauthorize the Wetlands Reserve Program (WRP) and consolidate the floodplain easements program of the Emergency Watershed Program into the WRP. Increase the total enrollment cap to 3.5 million acres, but maintain the fiscal year enrollment goal of 250,000 acres. This increase in acreage equates to an investment of $2.125 billion over ten years. Also introduce popular attributes of other easement programs into WRP. (For further information, see the proposal entitled "Wetlands Reserve Program" on pages 53 – 54.)
6. Expand conservation compliance to include "Sod Saver" to discourage conversion of grassland to crop production. (For further information, see the proposal entitled "Implement 'Sod Saver' to Discourage the Conversion of Grassland into Cropland" on pages 55 – 56.)
7. Designate a portion of each conservation program specifically for beginning farmers and ranchers, as well as socially disadvantaged producers. (For further information, see the proposal entitled "Conservation Access for Beginning and Socially Disadvantaged Producers" on pages 57 – 58.)
8. Invest $50 million over ten years to encourage new private sector environmental markets to supplement existing conservation and forestry programs. Introduce market forces into existing conservation programs to provide greater environmental returns from federal and landowner investments in conservation. (For further information, see the proposal entitled "Market-Based Approach to Conservation" on pages 59 – 60.)
9. Repeal Section 1241(d) of the 1985 Food Security Act, the regional equity provision, to allow funding to be allocated based on the highest need and best use of conservation funding. (For further information, see the proposal entitled "Merit-Based Funding Allocation" on page 61.)
10. Consolidate two emergency response programs - the Emergency Watershed Protection (EWP) and the Emergency Conservation Program (ECP) - into a new Emergency Landscape Restoration Program. Provide a one-stop source for landowners who need assistance after a catastrophic event to restore land to its productive state and prevent further land and water impairments. (For further information, see the proposal entitled "Emergency Landscape Restoration Program" on pages 62 – 63.)

ENVIRONMENTAL QUALITY INCENTIVES PROGRAM

Recommendation in Brief

Consolidate existing programs (Environmental Quality Incentives Program, Wildlife Habitat Incentives Program, Agricultural Management Assistance Program, Forest Land Enhancement Program, and Ground and Surface Water Conservation Program, and reauthorize the Klamath Basin Program) that provide financial assistance to customers through cost-share incentives for working lands under a newly-designed Environmental Quality Incentives Program (EQIP). Simplify and streamline these activities, reduce redundancies, and produce more cost-effective environmental benefits. Create a new Regional Water Enhancement Program (RWEP) that focuses on cooperative approaches to enhancing water quantity and/or quality on a regional scale, and invest additional resources in the Conservation Innovation Grants program. These important changes to the EQIP program would invest an additional $4.250 billion.

Problem

Multiple USDA cost-share programs are redundant and overlap. Each of the current programs has specific land and producer eligibility requirements, regulations, policies, applications, and administrative actions that can be confusing and time-consuming to producers. Additionally, multiple, redundant programs result in increased administrative costs, reducing funding available to producers. As we heard from Austin at the Delaware Farm Bill Forum, "there are numerous programs out there. It's hard for landowners to keep them all straight...any way we can work to streamline those and make it easier, I think while it's obvious, it's certainly very important." The complexity also impacts the program's ability to assist producers. As we heard from Bill in Nebraska "the process for applying and obtaining EQIP funds remains an obstacle to successfully helping many producers."

These disparate conservation programs do not always provide the correct combination of treatment needed to resolve complex agricultural landscape problems. Under the current system, the focus is often on an individual resource concern. For example, the Wildlife Habitat Incentives Program (WHIP) only focuses on wildlife habitat while the Ground and Surface Water Conservation Program (GSWC) of EQIP only focuses on water quantity, instead of focusing on what is the best for the ecosystem as a whole.

Additionally, USDA is limited in the area of technology transfer and farmer-to-farmer demonstrations, which could rapidly accelerate adoption of conservation practices. Current programs are achieving results; however, limited mechanisms are available to transfer those results to the general public.

Recommended Solution

The Administration proposes consolidating the existing agricultural conservation cost-share programs to strengthen, streamline, and improve current assistance while increasing the simplicity, accessibility, and understandability of these services. One program would greatly simplify the application process for landowners, which can be especially burdensome for those with multiple land uses on their farms or ranches. Funding for EQIP would be increased by $4.25 billion during FY 2008-2017, a 30 percent increase in mandatory funding.

Additionally, the newly enhanced EQIP would be expanded to a broader cross-section of agricultural producers and private landowners. Eligibility for EQIP cost-share assistance would include the following: cropland (including organically farmed land), grazing lands, agricultural production areas, confined feeding operations, irrigated land, wildlife habitat, native prairie, and private non-industrial forest lands. This broader range of land uses should avoid the need for separate programs under the farm bill to address niche interests.

A more comprehensive program would allow the Department to work with a landowner to address all the resource concerns identified on America's working lands instead of issuing one contract for one environmental solution and a second contract for another environmental fix. This new approach would allow USDA to address more resources on a wider variety of land uses as well as optimize technical assistance funding. The new program would allow for a combination of treatments that effectively target complex agricultural landscape concerns, such as air quality in the San Joaquin Valley, nutrient loading in the Chesapeake Bay, hypoxia in the Gulf of Mexico, or water needs in the Klamath Basin.

The program could be utilized to address major resource concerns such as air quality, water quality and quantity, soil erosion, and wildlife yet still effectively target specific concerns such as controlling invasive species, re-establishing native vegetation, managing non-industrial forestland, stabilizing streambanks, protecting, restoring, developing or enhancing unique habitats, removing barriers that impede migration of certain species, and addressing the needs of threatened and endangered species across ecosystems.

In addition to the traditional EQIP cost-share program, the Administration proposes the creation of a new Regional Water Enhancement Program (RWEP) that focuses on cooperative approaches to enhancing water quantity and/or quality on a regional scale. The RWEP would invest mandatory funding of $175 million to producers annually to address an important missing component in the federal government's conservation delivery system-large-scale, coordinated water conservation projects. This new program would:

- Coordinate and competitively fund large-scale (watershed or irrigation district level) water conservation projects
- Target working agricultural landscapes, including crop, pasture, grazing, and orchard lands
- Focus on one to two key water quantity/quality objectives per area
- Include performance incentives to encourage a high percentage of producer participation in a project area and achieve cooperative conservation outcomes
- Establish interim performance targets that must be achieved in order to renew project funding.

This new program in tandem with multiple conservation tools (including farmland management practices, easement purchases, and ecosystem restoration assistance) would provide flexibility to cooperative conservation partners to achieve improved water quantity and quality goals.

Additionally, a more robust Conservation Innovation Grants (CIG) program, funded at $100 million annually (currently funded at $20 million), would provide opportunities to stimulate the development of innovative practices, accelerate development of market-based models, result in emphasis and creativity in addressing regional resource concerns (i.e., Klamath Basin, Chesapeake Bay, and San Joaquin Valley), and find tools to assist small-scale producers. Grants would be used for technology transfer and farmer-to-farmer workshops and demonstrations of conservation success. These activities will encourage producers to further adopt innovative conservation practices.

Background

The 2002 Farm Bill contains six voluntary conservation cost-share programs, each providing a Federal payment to share in the cost of implementing conservation practices on private land. The current programs provide assistance to eligible producers for specific resource concerns or specific types of land.

EQIP addresses soil, water, air, and related natural resource concerns, with two EQIP components focusing on specific concerns: the GSWC addresses irrigated land; the Klamath Basin program addresses specific concerns to that region of the country; WHIP addresses development of habitat for upland wildlife, wetland wildlife, threatened and endangered species, and fish; the conservation portion of the Agricultural Management Assistance Program addresses risk management activities related to irrigation, grazing lands, and organic growers; and the Forest Land Enhancement Program addresses resource concerns on private forest lands. Each program has a unique regulation, unique programmatic requirements for participation, and unique application, contracting, and payment processes. Programs are implemented through landowners and land users who apply structural, vegetative, and land management practices on eligible lands on a voluntary basis. All of the programs are delivered locally with local producers, producer groups, and other interests having input into the solutions to resource problems.

CIG is a voluntary program to leverage Federal investment to stimulate the development and adoption of innovative conservation approaches and technologies. Under CIG, EQIP funds are used to award competitive grants to non-Federal governmental or non-governmental organizations, Tribes, or individuals. CIG enables the Administration to work with other public and private entities to accelerate technology transfer and adoption of promising technologies and approaches to address some of the Nation's most pressing natural resource concerns. CIG benefits agricultural producers by providing more options for environmental enhancement and compliance with Federal, State, and local regulations.

CONSERVATION SECURITY PROGRAM

Recommendation in Brief
Modify the Conservation Security Program (CSP) to create a stewardship program that emphasizes incentives for implementing higher levels of conservation practices. Expand CSP enrollment from its current 15.5 million acres to an estimated 96.5 million acres over the next 10 years, increasing investment by an additional $500 million funding over the 10 year baseline.

Problem
CSP is complicated for customers and staff. Complaints about its complexity surfaced during the USDA Farm Bill Forums, during recent Congressional farm bill hearings, in correspondence from Members of Congress, and in applicant complaints and appeals. Another problem with the current program is the low level of environmental benefit per dollar invested.

CSP does not have the resources to accept every eligible applicant, despite being viewed by some as an entitlement. The level of funding available for the program has changed six times. At the Farm Bill Forums, Art from Washington State contended, "to only offer this program to certain identified watersheds creates an uneven playing field amongst neighboring farmers." While Gary in Ohio added, "the CSP must be available to all producers, implemented as a nationwide program that is workable, and adequate funds must be appropriated to make it an effective program."

An additional concern with the CSP program, as currently structured, is that some of the payments may be taxable and/or considered trade-distorting under World Trade Organization (WTO) guidelines.

Recommended Solution
The Administration proposes reauthorization of CSP with the following adjustments: reduce complexity and increase the level of conservation by moving from three tiers to two; remove base, maintenance, and cost-share payments; provide for ranking of applications; expand the program by increasing funding during FY 2008-2017 to approximately $8.5 billion, $0.5 billion above the budget baseline for the current program; and allow the program to reward the best stewards in the nation. These changes would protect the program from WTO challenges, result in more equity in availability and distribution of the program, and provide a greater environmental return.

A tier of the existing CSP would be eliminated, resulting in a two-tiered system with a Progressive Tier and a Master Tier. This simplification would allow USDA to more easily delineate those who are performing conservation and want to do more, and those who are currently performing at the master conservation level. Combining aspects of current Tier I and Tier II requirements, the Progressive Tier would be available in five year contracts to producers who have addressed water and soil quality concerns to a sustainable level and agree to address a third resource concern to a sustainable level by the end of the contract. Like the current Tier III, the Master Tier would be available in 10 year contracts to producers who have addressed all existing resource concerns to the sustainable level and will undertake additional activities, such as higher levels of conservation treatment, on-farm demonstrations, and field trials.

The enhanced CSP would enroll about 10 percent of the Nation's eligible land, or 96.5 million acres, during the 10 year period FY 2008-2017, compared with 15.5 million acres participating in the program in 2006.

Providing financial assistance for CSP through enhancement payments rewards exceptional conservation efforts and additional activities that provide increased environmental benefits above the normal level required to sustain a natural resource. By removing the base and maintenance payments, the new program eliminates payments that may be taxable and/or considered potentially trade-distorting under WTO criteria. Eliminating the cost-share payments eliminates a redundancy with the Environmental Quality Incentives Program, which also simplifies the program.

The current program prohibits ranking of applicants. As such, it requires a complex process for selecting applications when applications exceed the available funding. By ranking applications the best may be rewarded and technical assistance costs reduced. A simplified two-tier system, with ranking, would allow the program to be offered annually on a broader geographic basis rather than only in a limited number of watersheds. This competition raises the level of conservation practiced nationally and provides additional environmental benefits generated by program participants.

Background

The Conservation Security Program (CSP) is authorized by the Farm Security and Rural Investment Act of 2002. The CSP is a voluntary program that provides financial and technical assistance to producers who advance the conservation and improvement of soil, water, air, energy, plant and animal life on Tribal and private working lands.

The current program, which provides stewardship payments to producers, has increased the level of conservation across the country as producers seek to become eligible for the program. However, statutory changes in the program and a complex structure have hindered its potential.

CSP emphasizes water quality and soil quality as nationally significant resource concerns. Currently, the CSP rewards three levels of conservation treatment. Tier I participants must address water quality and soil quality concerns to the sustainable level *on part of their operation prior to application.* Tier II participants must have addressed water quality and soil quality concerns to the sustainable level *on their entire operation prior to application.* Tier II contract participants must also treat an additional significant resource concern by the end of the contract period. For Tier III, the contract participant must have addressed *all existing resource concerns to the sustainable level on their entire agricultural operation before application.*

USDA currently uses a watershed approach to administer CSP. Watersheds are prioritized based upon a nationally consistent process that uses existing natural resource, environmental quality, and agricultural activity data. Sign-ups for CSP participation are rotated between watersheds on an annual basis. This priority watershed delivery approach has reduced the administrative burden on applicants and minimized the cost of processing a large number of applications that could not be funded.

Technical assistance is available to the participants through USDA or an approved Technical Service Provider. These services include application assistance, conservation stewardship plan development, and conservation application. CSP financial assistance payments include:

- An annual stewardship component for the base level of conservation treatment;
- An annual existing practice component for the maintenance of existing conservation practices;
- An enhancement component for exceptional conservation effort and additional activities that provide increased resource benefits beyond the prescribed level; and
- A one-time new practice component for additional needed practices.

PRIVATE LANDS PROTECTION PROGRAM

Recommendation in Brief
Consolidate three existing easement programs for working lands into one new Private Lands Protection Program to streamline processes, eliminate redundancies, and expand the strengths of each program. Invest an additional $900 million over 10 year baseline in this new easement program.

Problem
USDA has multiple working-lands easement programs with the shared goal of protecting agricultural lands and open spaces. Each has unique land and producer eligibility requirements, regulations, policies, applications, and administrative actions. Multiple programs result in increased administrative costs, which reduce the efficiency of the programs and resources available to expand environmental benefits.

A concern commonly expressed during Farm Bill Forums was articulated by Gordon in Connecticut, who said, "We have some of the best farmland in the world...But, we are rapidly losing it irretrievably to development." Wayne in Missouri added, "the reason grassland is so expensive depends less on the price of cattle than the amount speculators are willing to pay for it to turn it into 10-acre ranchettes and strip malls." While Bruce in Montana noted a consolidated program would provide additional benefits for producers suggesting, "The Wetlands Reserve Program, the Farmland Protection Program, the Grassland Reserve Program might be combined under one umbrella."

Currently, flexibilities and strengths of individual programs are not applied across all easement programs, such as the leveraging of Federal funds with State, local, and private contributions under the Farm and Ranchland Protection Program (FRPP). Additionally, regulatory assurances, such as those provided under the Healthy Forest Reserve Program (HFRP), are not currently available when protecting and restoring native grasslands under the Grasslands Reserve Program (GRP).

Recommended Solution
The Administration proposes consolidating the existing working-lands easement programs (FRPP, GRP, and HFRP) into a new Private Lands Protection Program.

The new easement program would invest an additional $90 million in annual mandatory funding over the current baseline of $97 million. This near-doubled funding commitment would preserve prime and unique cropland, open space, grazing lands, native prairie, floodplains, and associated private non-industrial forest lands. The single program would reduce the variety of standards and regulations that result in increased complexities and add to the length of time to consider applications. The program also would provide mechanisms to support the monitoring necessary to ensure compliance and demonstrate the long-term benefits of the program. The program would provide additional consideration in the ranking process for landowners who provide open access for public recreation on easement lands.

The program would build on the popular attributes of existing programs:

- As with GRP, it would allow for third parties to hold easements while preserving the option for the federal government to hold the easement, as well.
- The new program would incorporate market-based features, such as including landowner contributions and other leveraging opportunities of FRPP as a key feature of the new combined program and a means of gaining the maximum benefit for the investment of taxpayer dollars.
- As with HFRP (and similar to the Wetlands Reserve Program), a key feature of the combined program would involve allowing the landowner to perform restoration of the site.
- As with HFRP, the new program would provide assurances and certainty in compliance with Federal and State regulations using a cooperative conservation approach.

Background

The 2002 farm bill contains two voluntary conservation easement programs for working-lands; each provides a federal payment to secure certain rights desired by the public. While the statutory purposes of each program slightly differs, there is a common theme to each of the programs – protect the Nation's agricultural lands, including its natural resources, from land fragmentation and transition to other land uses.

The current programs pay eligible producers for specific rights on their land. FRPP addresses protection of prime and unique farm and ranch land; GRP addresses grasslands; and HFRP, which was authorized in the Healthy Forest Restoration Act, addresses forest land which provides habitat for threatened and endangered species.

These easement programs are implemented through landowners who voluntarily agree to a deed restriction and some degree of landscape and resource restoration. Each program has unique regulations, unique programmatic requirements for participation, and unique application, contracting, and payment processes.

CONSERVATION RESERVE PROGRAM

Recommendation in Brief

Reauthorize and enhance the Conservation Reserve Program (CRP) to focus on lands that provide the most benefits for environmentally sensitive lands. And in addition, give priority within whole-field enrollment for lands utilized for biomass production for energy.

Problem

As CRP contracts expire in the coming years, high commodity prices and other market forces within agriculture will likely provide incentives for producers to convert current CRP land into agricultural production. Growing demands for agricultural commodities globally and for use in energy production have increased the competition for land. As Eric from Alabama told us during a Farm Bill Forum, "Many of the landowners in my area... appreciate it. However... our area needs that land back in production... We suggest that you take a deeper look at this program in the future." And many wanted the CRP program to have a stronger focus on environmentally-sensitive lands, such as Jane, from Montana who said, "The Conservation Reserve Program should place its highest emphasis on environmentally-sensitive land and practices that will improve the soil and water quality in the long term."

Recommended Solution

The Administration proposes to focus CRP on lands that provide the most effective environmental benefit. Under the proposal, these environmentally sensitive lands would continue to be enrolled in continuous CRP and the Conservation Reserve Enhancement Program (CREP). The criteria for continuous CRP would be revised to ensure at-risk landscapes would be considered, such as enrollment of partial fields or irrigated land in areas where water availability is limited.

General CRP sign-ups would continue to give priority to environmentally sensitive land. However, USDA would also prioritize farmland planted in a biomass reserve of perennial crops used for cellulosic energy production. Currently, over 27 million acres of Conservation Reserve Program (CRP) contracts are on farmland capability classes I to IV, lands that are suited for growing crops. These lands could continue to provide various environmental benefits while being used for biomass production. These lands would also retain the ability to fulfill wildlife habitat needs. The program would establish clear requirements that biomass could only be harvested after nesting season. The rental payment would be limited to income forgone or costs incurred by the participant to meet conservation requirements in those years biomass was harvested for energy production.

Background

The CRP was established by the Food Security Act of 1985 with the dual purposes of preventing soil erosion and achieving crop supply control. The program grew into its current emphasis on soil erosion, water quality, air quality, and wildlife habitat through a succession of Farm Bill amendments over the years. The CRP and the CREP are voluntary programs for agricultural landowners or operators. Both programs provide annual rental payments based on the agricultural rental value of the land and cost-share assistance. The program currently has 37 million acres of agricultural land, with about 7 million acres reserved for continuous CRP and CREP.

The CRP is notified to the World Trade Organization (WTO) as a program of structural adjustment through resource retirement. Under WTO criteria, to be eligible for "green box" status, such payments must be part of a well-defined government program that removes land or other resources from marketable agricultural production for a minimum of three years (permanently for livestock). Payments shall not require or specify an alternative use for the retired resources that involves the production of marketable agricultural products. CRP is notified as "green box" by the United States.

Because biomass would be harvested for commercial use, the payments made to biomass reserve participants would not qualify for "green box" status as a structural adjustment program. However, the payments under the biomass reserve would be designed to qualify for "green box" status as an environmental program. To be eligible for green box status as an environmental program, payments must be part of a clearly-defined government environmental or conservation program and must fulfill specific conditions under the program, including those related to production or inputs. In addition, payments must be limited to the extra costs or loss of income involved in complying with the program.

WETLANDS RESERVE PROGRAM

Recommendation in Brief

Reauthorize the Wetlands Reserve Program (WRP) and consolidate the floodplain easements program of the Emergency Watershed Program into the WRP. Increase the total enrollment cap to 3.5 million acres, but maintain a fiscal year enrollment goal of 250,000 acres. This increase in acreage equates to an investment of $2.125 billion over ten years. Also introduce popular attributes of other easement programs into WRP.

Problem

The WRP has active projects in all 50 States and Puerto Rico and a total acreage enrollment of 1,893,671, with an additional 250,000 acres expected to be enrolled in calendar year 2007. The program is scheduled to expire in 2007. USDA heard broad support for this program in the farm bill forums; comments like those of Cheryl in Georgia, "these programs provide benefits to all taxpayers by providing clean water and air, healthy soil, recreation opportunities and wildlife habitat...these conservation programs should be reauthorized...the level of funding should be increased and the allowable acreages for these programs should be increased."

Currently, flexibilities and strengths of working lands programs, such as leveraging of federal funds with state, local, and private contributions under the Farm and Ranchland Protection Program (FRPP), are not applied to the WRP. The Federal government pays the entire cost of the easement and incurs all the long-term costs associated with managing the easement. The program offers no regulatory protections for performing activities that result in a net-benefit to the environment. For example, under the Healthy Forest Reserve Program (HFRP), landowners can receive certain regulatory protections when performing activities that will result in a net-benefit to species. However, WRP participants do not receive these same regulatory assurances.

Recommended Solution

The Administration proposes consolidating the floodplain easement function of the Emergency Watershed Program into a new WRP and increasing the enrollment cap from 2,275,000 acres to 3,525,000 acres. Similar to the 2002 farm bill, the authorization for WRP would only extend for the five years covered by the new farm bill, adding $2.125 billion in mandatory funding to the program.

This expansion would be critical to meeting the Nation's environmental goals, including the President's Wetlands Initiative to restore, protect, or enhance 3 million acres of wetlands by 2009. The single program would reduce the variances in standards and regulations, which result in increased complexities and length of time required to review applications.

Additionally, we recommend maintaining the annual enrollment goal of 250,000 acres, but basing the goal on fiscal year instead of calendar year. This policy change would be consistent with how funds are appropriated by Congress and would improve overall program administration. Enhanced WRP monitoring and compliance activities should be explicitly authorized to demonstrate the long-term environmental and taxpayer benefits of the program.

This enhanced WRP should also build on the popular attributes of other existing programs:

- Like FRPP, it would allow for third parties to hold easements while preserving the option for the federal government to hold easements, as well.
- The new program would incorporate market based features, such as including landowner contributions and other leveraging opportunities of FRPP as a key feature of the new combined program and a means of gaining the maximum benefit for the investment of taxpayer dollars. For example, the reverse auction piloted in WRP in 2006 reduced easement acquisition costs by 14 percent.
- As with HFRP, the new program would provide assurances and certainty in compliance with federal and state regulations using a cooperative conservation approach.
- The Wetlands Reserve Enhancement Program (WREP) should be modified to model the Conservation Reserve Enhancement Program, which would encourage partnerships with States to provide flexibility and cost-share for easement acquisition and activities associated with wetland restoration, creation, or enhancement within the state.

Background

The WRP and the WREP are voluntary programs that provide technical and financial assistance to enable qualified landowners to address wetland, wildlife habitat, soil, water, and related natural resource concerns on private lands in an environmentally beneficial manner. This program offers landowners an opportunity to establish, at minimal cost, long-term conservation and wildlife habitat enhancement practices through permanent easements, 30 year easements, and restoration cost-share agreements. WRP was reauthorized in the 2002 farm bill with a total enrollment cap of 2,275,000 acres.

A national shift from substantial wetlands losses to wetlands protection has occurred over the past 50 years, driven by changing public perception, scientific understanding, and policy direction. In April 2004, the President announced a national Wetlands Initiative to accelerate net-wetlands gains over the next five years and restore, protect, or enhance 3 million acres of wetlands by 2009.

The WRP goal is to achieve the greatest wetland functions and values, along with optimum wildlife habitat on every acre enrolled in the program. At least 70 percent of the wetland and upland areas will be restored to the original natural condition to the extent practicable. The remaining 30 percent of the project area may be restored to other than natural conditions. The WRP focuses on:

- Enrolling marginal lands that have a history of crop failures or low yields
- Restoring and protecting wetland values on degraded wetlands
- Maximizing wildlife benefits
- Achieving cost effective restoration with a priority on migratory bird benefits
- Protecting and improving water quality
- Reducing the impact of flood events

IMPLEMENT "SOD SAVER" TO DISCOURAGE THE CONVERSION OF GRASSLAND INTO CROPLAND

Recommendation In Brief
Expand conservation compliance to include "Sod Saver" to discourage conversion of grassland to crop production.

Problem
Properly managed grasslands provide important ecological functions. Grasslands help to maintain habitat and migration corridors for wildlife, supporting a rich biodiversity of plant and animal species. Since grasslands account for large acreages in many U.S. river basins, they are important in hydrologic processes involving stream flow, aquifer recharge, and water filtration. In addition, grasslands sequester substantial amounts of atmospheric carbon. In addition, grasslands support livestock production and contribute importantly to rural economies, including hunting and fishing, wildlife viewing, and ranch-based recreation.

According to USDA's Natural Resources Conservation Service, acreage in non-Federal grasslands fell by 24 million acres from 1982-2002. A major factor contributing to the loss of grasslands in recent years has been urban development and the conversion of grasslands to roads, shopping centers, and housing developments. In addition, cropland expansion has contributed to grassland conversion, particularly in years of strong crop demand. The rate of conversion of grassland to cropland could increase greatly over the next several years as increased production of biofuels boosts the demand for corn and other crops.

Under current conservation compliance provisions, producers must adopt soil and wetland conservation practices on fragile lands to be eligible for farm price and income support and other USDA program benefits. However, current conservation compliance provisions do not apply to the conversion of grassland to cropland, unless the converted grassland is considered to be highly erodible. Even in this situation, a producer can elect to convert the grassland to cropland and remain eligible for farm price and income support and other USDA program benefits, if the converted grassland is farmed according to a USDA-approved conservation system that provides for a specified level of erosion control.

Recommended Solution
The Administration recommends broadening conservation compliance provisions to include "Sod Saver." Under the proposed sod saver provision, grassland (rangeland and native grasslands, not previously in crop production) converted into crop production would be permanently ineligible for farm price and income support and other USDA program benefits.

Background
The 1985 and succeeding farm bills have included conservation compliance requirements for farmers who utilize certain USDA benefits. Conservation compliance provisions for highly erodible land (HEL) are commonly referred to as Sodbuster, and wetland conservation (WC) compliance provisions are often called Swampbuster. While the legislation has been amended

several times over two decades, the central premise of wetland and highly erodible land preservation remains in place.

The objectives of conservation compliance are to: (1) reduce soil erosion on the Nation's cropland; (2) protect the Nation's long-term capability to produce food and fiber; (3) reduce sedimentation and improve water quality; and (4) preserve and protect the Nation's wetlands.

To be eligible for a USDA program benefit when producing an annual agricultural commodity, USDA program participants must apply an approved conservation system that provides a substantial reduction in soil erosion or a substantial improvement in soil conditions on a field or fields that contain highly erodible land. To maintain program eligibility, in most cases participants must also certify that they have not produced crops on wetlands converted after December 23, 1985, and did not convert a wetland to agricultural production after November 28, 1990.

The following USDA benefits may be affected:
(a) Direct and Counter-Cyclical Payments
(b) Marketing assistance loans, including loan deficiency payments and marketing loan gains
(c) Farm storage facility loans (not subject to WC)
(d) Disaster payments
(e) Farm Operating Loans authorized under the Consolidated Farm and Rural Development Act
(f) Conservation Security Program (CSP)
(g) Conservation Reserve Program (CRP)
(h) Environmental Quality Incentives Program (EQIP)
(i) Farm and Ranch Land Protection Program (FRPP)
(j) Grassland Reserve Program (GRP)
(k) Wetlands Reserve Program (WRP)
(l) Wildlife Habitat Incentives Program (WHIP)
(m) Agricultural Credit Act of 1976 payments (not subject to WC)
(n) Public Law 83–566, Small Watershed Program contracts

CONSERVATION ACCESS FOR BEGINNING AND SOCIALLY DISADVANTAGED PRODUCERS

Recommendation in Brief

Designate a portion of each conservation program specifically for beginning farmers and ranchers, as well as socially disadvantaged producers.

Problem

Natural resource concerns are indiscriminate with regard to landowner boundaries. Beginning farmers and ranchers, as well as socially disadvantaged producers, often have less exposure to USDA programs and less familiarity with conservation practices. However, when provided information and tools to assist them with their long-term conservation goals, they take full advantage of the assistance.

Beginning farmers and ranchers, as well as socially disadvantaged producers, are underserved by USDA programs. Beginning farmers and ranchers are an important component of all principle operators, yet less than one percent of this producer group applied for the Environmental Quality Incentives Program in fiscal year 2006. These producers have not traditionally worked with farm bill programs and are often not aware of the types of practices needed to address common soil and water conservation problems. Extensive outreach is appropriate to ensure these producers are aware of these programs and practices. As Lorette noted at the North Carolina Farm Bill Forum, "the current programs cannot be accessed by small and particularly minority farmers. We need a lot more resources to work one-on-one with farmers to eradicate all the problems in the system, to get farmers into the programs that do exist."

Economies of size enable larger commercial farms to have low unit costs when implementing conservation measures while addressing large resource concerns. As with socially disadvantaged producers, the majority of beginning farmers and ranchers have small operations (the majority of beginning farmers and ranchers have operations of fewer than 50 acres). Without special incentives, these producers are less likely to have competitive applications for farm bill programs that target more complex resource needs.

Recommended Solution

To increase adoption of conservation practices, the Administration proposes reserving 10 percent of farm bill conservation financial assistance for beginning farmers and ranchers, as well as socially disadvantaged producers under a new Conservation Access Initiative. This new initiative would maintain the higher rates of Federal cost-share, but also direct a greater technical assistance percentage than the traditional program to better address the needs of socially disadvantaged agricultural producers.

Funds set-aside under the Conservation Access Initiative within the Conservation Innovation Grants would be used for technology transfer, farmer-to-farmer workshops, and demonstrations of conservation success to further adoption of innovative conservation practices.

Demonstrating benefits of conservation in communities without high adoption of conservation practices is critical to national conservation goals. To expand the horizons of USDA conservation activities, setting aside funds specifically for competition among beginning farmers as well as socially disadvantaged producers will result in greater environmental benefits for society.

The Administration also supports statutory flexibility within this program to allow the Secretary to reallocate these reserved funds if projections indicate that some of this funding will go unused.

Background

The 2002 farm bill recognizes the unique challenges of farmers and ranchers who are just beginning their agricultural businesses. These beginning farmers and ranchers are given special recognition in the farm bill to encourage Americans to take up careers as farmers and ranchers and help them succeed.

The number and percentage of beginning farmers and ranchers drops as operation size increases. Minorities represent around 5.1 percent of all farmers and ranchers in the United States. They operate almost 80 million acres, 8.4 percent of U.S. farmland, which is an 8 million acre increase from 1997 to 2002.

MARKET-BASED APPROACH TO CONSERVATION

Recommendation in Brief

Invest $50 million over 10 years to encourage new private sector environmental markets to supplement existing conservation and forestry programs. Introduce market forces into existing conservation programs to provide greater environmental returns from Federal and landowner investments in conservation.

Problem

Many conservation and environmental benefits produced on U.S. farms and private forestlands do not have an assigned value in the market place or lack a private market altogether. Consequently, farmers, ranchers, and forestland owners have little financial incentive to provide these public goods and services.

While private markets for environmental goods and services are emerging, their viability has been hampered by several barriers including; high transaction costs, the small quantity of benefits that can be provided by individual farmers or landowners, performance risks and liability, and uncertainties in quantifying benefits. New authorities could overcome these barriers and promote the establishment of markets for agricultural and forestry conservation activities.

In addition, several current conservation programs use static payment systems for cost-share, rental, and easement payments. Under more market-based approaches, existing conservation programs could be restructured to foster competition, allowing resources to reach more farmers and landowners.

Support for this concept was articulated by John from California who said, "We urge consideration of programs that leverage private dollars for the provision of public benefits and we look forward to exploring options such as carbon sequestration, threatened and endangered species mitigation banking, and other possibilities that can help landowners continue to provide natural resource services and goods to the nation."

Recommended Solution

The Administration recommends USDA and other federal agencies be authorized to ensure that environmental goods and services produced by agriculture and forests can be used as offsets in regulatory, voluntary partnerships and incentive programs. Generating substantial private-sector demand for environmental goods and services hinges on the ability to use environmental credits generated by agricultural and forest conservation activities. For example, a business that is a point source of water pollution could pay a farmer to establish buffer strips to reduce nutrient runoff. These buffer strips might also rehabilitate wetlands, sequester carbon and provide wildlife habitat.

Mandatory funding of $50 million dollars is recommended to be available until expended to be utilized to develop uniform standards for quantifying environmental services; establish credit registries; and offer credit audit and certification services. Additionally, existing programs should be amended to allow for market-based and price discovery mechanisms, such as bidding and reverse auctions.

Background

Agriculture and forestry conservation activities can produce environmental services, such as clean air and water, at lower costs than conventional pollution controls on industrial emissions and effluent. Traditional environmental regulations require firms to reduce pollution to a set level or to install specific technologies and practices. While fairly straightforward, this approach can be costly both to the firms and to society because firms with high costs of pollution reduction and those with low costs are required to meet the same requirements, which may waste resources. In addition, voluntary private-sector partnerships, and incentive programs, both public and private, are generating demand for environmental goods and services associated with agricultural and forest conservation activities. Private sector environmental markets can offer efficiency improvements over traditional regulations and could result in overall increases in environmental and conservation benefits.

In current programs such as the Environmental Quality Incentives Program, the Conservation Security Program, and the Farm and Ranchlands Protection Program, USDA does not have the authority to rank applications based on bidding and consideration of an applicant's willingness to increase their share of funding contributed. As part of the continued efforts to improve the efficiency of conservation programs, market-based and price discovery mechanisms should be added to USDA's authorities.

MERIT-BASED FUNDING ALLOCATION

Recommendation in Brief
Repeal Section 1241(d) of the 1985 Food Security Act, the regional equity provision, to allow funding to be allocated based on the highest need and best use of conservation funding.

Problem
Section 1241(d) of the 2002 farm bill, the regional equity provision, fails to allocate funding based on the highest need and best use of limited conservation funding. Section 1241(d) allocations have also resulted in questionable program projects and diverted USDA attention and capacity away from other priority conservation initiatives.

Using non-merit based factors in allocating resources results in inefficient allocation of resources and less benefit per dollar invested. From fiscal year 2004-2006, more than $150 million have been diverted to other regions compared to a merit-based, resource allocation process. As John, from Oregon, suggested, "Dollars for conservation and environmental objectives should be prioritized to ensure resources are addressing the most important needs of the landscape."

Recommended Solution
The Administration recommends the elimination of Section 1241(d) of the 2002 farm bill, the regional equity provision. This policy change will recognize merit-based, quantitative program allocation and ranking processes as the most efficient and cost-effective method of allocating Federal resources.

Background
The 2002 farm bill requires that "*Before April 1* of each fiscal year, the Secretary *shall* give priority for funding under the conservation programs under subtitle D *to approved applications* in any State that has not received, for the fiscal year, an aggregate amount of at least $12,000,000 for those conservation programs." Programs covered by this regional equity provision include the Environmental Quality Incentives Program (EQIP), the Wildlife Habitat Incentives Program (WHIP), the Farm and Ranchland Protection Program (FRPP), the Grassland Reserve Program (GRP), and the Conservation on Private Grazing Lands Program.

In FY 2005, the regional equity provision was fully implemented. A total of $80 million was shifted from initial allocation totals and redistributed to 13 states which fell below the $12 million threshold. More meritorious applicants in other states were denied $40 million in EQIP funding, $10 million in WHIP funding, $15 million in FRPP funding, and $15 million in GRP funding due to this provision.

EMERGENCY LANDSCAPE RESTORATION PROGRAM

Recommendation in Brief

Consolidate two emergency response programs - the Emergency Watershed Protection (EWP) and the Emergency Conservation Program (ECP) -- into a new Emergency Landscape Restoration Program. Provide a one-stop source for landowners who need assistance after a catastrophic event to restore land to its productive state and prevent further land and water impairments.

Problem

Although natural disasters are unpredictable, the fact that they will occur is certain. The devastation caused by Hurricane Katrina demonstrated that the distinction is not always clear between activities covered under the ECP and those covered under the EWP, leading to further confusion and frustration among citizens facing a natural disaster. Lines of authority between individual federal disaster programs sometimes lead to duplication or gaps between programs.

Recommended Solution

The Administration proposes a new Emergency Landscape Restoration Program to restore agricultural landscapes from the devastation of fire, drought, flood, and other resource impacting natural events. The new program would provide a one-stop source of assistance for restoring land back into its productive state, preventing further impairment of land and water, and further protecting our natural resources.

The Emergency Landscape Restoration Program would eliminate unclear areas in statutory authority between rehabilitating watersheds versus rehabilitating agricultural lands. Providing this comprehensive landscape approach will allow better and more comprehensive natural resource benefits to be realized in the wake of disasters.

Funding for this new program would be subject to appropriations, similar to current law funding of the ECP and the EWP. Funding would be provided for an individual assistance pool and a public assistance pool. Over the ten year period from 1997-2006, annual appropriations have averaged $158 million for EWP and $58 million for ECP.

Background

EWP implements recovery measures to address natural disasters that have caused an impairment of a watershed. The program works through providing assistance to local sponsors such as neighborhood associations, cities, counties, watershed councils, and conservation districts. EWP provides financial and technical assistance to remove debris from streams, implement measures that protect destabilized streambanks, establish cover on critically eroding lands, repair conservation practices, and purchase flood plain easements.

ECP provides emergency funding and technical assistance for farmers and ranchers to rehabilitate farmland damaged by natural disasters and for carrying out emergency water conservation measures in periods of severe drought. The funds are utilized to rehabilitate farmland, which may include debris removal, restoration of fences and conservation structures, and the providing of water for livestock in drought situations. The program works on a reimbursable basis of up to 75 percent of the cost to implement the approved conservation practices. Funds are available when appropriated by Congress.

TITLE III
TRADE

SUMMARY OF TRADE TITLE REFORM

Recommendations In Brief
Improve farm bill policy to expand and ensure fairness of international trade.

Problem
Developing countries and developed countries alike are increasingly using unscientific sanitary, phytosanitary, and technical standards as non-tariff trade barriers to imports of U.S. agricultural products. This is especially true for specialty crops and meat and poultry products. This practice has had a significant impact on the U.S. export market.

At the same time, American agricultural productivity continues to expand at a consistent rate of about two percent per year, while the U.S. population, and therefore consumption, is increasing by only about one percent per year. Additionally, 95 percent of the world's population, the majority of consumers, lives outside our borders. This population represents market opportunities for U.S. agriculture if we appropriately respond to unfair practices as well as strengthen our efforts to revitalize the agricultural sectors in fragile regions.

USDA heard about trade challenges at many Farm Bill Forums. For example, Dan from Montana pleaded, "We have a huge production machine in the U.S. ag industry, and it just feels like there's a lot of hidden barriers and things there that are out of our control as producers."

Recommended Solution
The Administration is recommending several proposed changes and new initiatives to Title III – entitled "Trade." Following is a list of the major components of the package.

1. Expand mandatory funding for the Technical Assistance for Specialty Crops (TASC) grant program to $68 million over 10 years and increase the maximum allowable project award to $500,000. (For further information, see the proposal entitled "Expand Technical Assistance for Specialty Crops" on pages 67 – 68.)
2. Expand mandatory funding for the Market Access Program (MAP) by $250 million over 10 years and focus the additional funds on non-program commodities. (For further information, see the proposal entitled "Enhance the Market Access Program" on pages 69 – 70.)
3. Establish a new grant program investing $20 million over 10 years to further focus resources on addressing international sanitary and phytosanitary (SPS) issues for all agricultural commodities. (For further information, see the proposal entitled "Grant Program to Address Sanitary and Phytosanitary Issues" on page 71.)
4. Authorize and provide long-term mandatory funding of $15 million over 10 years to enhance USDA staff support for international standard-setting bodies, such as the *Codex Alimentarius*, the International Plant Protection Convention, and the World Animal Health Organization. (For further information, see the proposal entitled "Support International Trade Standard Setting Activities" on page 72.)
5. Provide enhanced monitoring, analytical support, and other technical assistance to support U.S. agriculture in bringing forward or responding to significant trade disputes

and challenges. (For further information, see the proposal entitled "Technical Assistance to Resolve Trade Disputes" on pages 73 – 74.)

6. Expand trade capacity, food safety, and agricultural extension programs in fragile regions through $20 million of mandatory funding over 10 years. (For further information, see the proposal entitled "Trade Capacity Building and Agricultural Extension Programs in Fragile Regions" on page 75.)
7. Reform the Commodity Credit Corporation's (CCC) export credit guarantee programs to bring them into compliance with the findings of the World Trade Organization dispute resolution panel in the Brazil cotton case. Terminate the Supplier Credit Guarantee Program (SCGP) due to approximately $227 million in defaults and evidence of fraudulent activity. (For further information, see the proposal entitled "Reform Export Credit Guarantee Programs" on pages 76 – 77.)
8. Revise the Facility Guarantee Program (FGP) to attract additional users who commit to purchasing U.S. agricultural products. These program improvements are estimated to increase usage of the program by $16 million over the next 10 years. (For further information, see the proposal entitled "Facility Guarantee Program Revisions" on page 78.)
9. Repeal the Global Market Strategy mandate and the Export Enhancement Program, which are redundant or inactive, allowing USDA to focus resources on priority issues. (For further information, see the proposal entitled "Repeal the Export Enhancement Program and Global Market Strategy Report" on pages 79 – 80.)
10. Authorize the use of up to 25 percent of P.L. 480 Title II funds for the local or regional purchase and distribution of emergency food to assist people threatened by a food security crisis. (For further information, see the proposal entitled "Provide Cash Authority for Portion of Emergency Food Aid" on pages 81– 82.)

EXPAND TECHNICAL ASSISTANCE FOR SPECIALTY CROPS

Recommendation In Brief
Expand mandatory funding for the Technical Assistance for Specialty Crops (TASC) grant program to $68 million over 10 years and increase the maximum allowable project award to $500,000.

Problem
International trade in specialty crops has expanded more rapidly than trade in other agricultural commodities, especially since the 1980s. For example, fruits and vegetables have claimed an increasing share of world agricultural trade, from $3.4 billion in 1961 to nearly $70 billion in 2001. However, trade in specialty crops continues to face increasing challenges especially in the area of sanitary, phytosanitary, and technical barriers in other countries.

These challenges tend to be complex, multi-region issues that are not easily addressed. However, current law caps TASC project awards at $250,000, which can limit the effectiveness of efforts to address these complex problems. Greater flexibility in the TASC program to accept larger, multidisciplinary projects would allow for better quality proposals and improved assistance to specialty crop growers.

Trade barriers were cited as top concerns by some specialty crop producers who commented during USDA Farm Bill Forums. Barry from California said, "...our ability to increase exports is hindered by the reality of non-tariff trade barriers...our efforts have been assisted by the existence of TASC...funds and this is an area that should be expanded."

Recommended Solution
In order to increase usage of the TASC grant program, the Administration recommends increasing the maximum allowable annual project award from $250,000 to $500,000 and allowing more flexibility to allow project timeline extensions. Additionally, the Administration proposes a phase-in of enhanced annual mandatory funding for the TASC program including $4 million in FY 2008; $6 million in FY 2009; $8 million in FY 2010; and $10 million thereafter through FY 2015.

Background
The 2002 farm bill created the TASC program and authorized the use of $2 million of Commodity Credit Corporation (CCC) resources in each fiscal year from 2002 to 2007.

TASC assists U.S. food and agricultural organizations by funding projects that address sanitary, phytosanitary, and technical barriers that prohibit or threaten the export of U.S. specialty crops. For purposes of the TASC program, a "specialty crop" is defined as all cultivated plants and the products thereof, produced in the United States, *except* wheat, feed grains, oilseeds, cotton, rice, peanuts, sugar, and tobacco. These grants may cover activities such as seminars and workshops, study tours, field surveys, pest and disease research, and pre-clearance programs.

TASC proposals are accepted from any U.S. organization, including, but not limited to - U.S. government agencies, State government agencies, non-profit trade associations, universities, agricultural cooperatives, and private companies. USDA provides these grant funds as direct assistance to U.S. organizations. Applicant contributions are not required, but strongly encouraged.

Each year, USDA announces via the *Federal Register* an application period for participation in TASC. Funds are awarded to applicants that demonstrate how their project will overcome trade barriers resulting in market access retention or expansion for specialty crops. Current law award maximums are $250,000 per year for activities of up to three years. Proposals may target any eligible export market, including single countries or a regional grouping of countries. No TASC participant may have more than three projects underway at the same time.

ENHANCE THE MARKET ACCESS PROGRAM

Recommendation In Brief
Expand mandatory funding for the Market Access Program (MAP) by $250 million over 10 years and focus the additional funds on non-program commodities.

Problem
Specialty crop production receives very little cash benefit from the farm bill. More than 90 percent of the commodity program subsidy payments go to five crops -- corn, wheat, rice, soybeans, and cotton. However, specialty crops are now equal in value to these program crops. During Farm Bill Forums, Secretary Johanns heard frequently about this disparity from specialty crop producers who made a compelling case for a more equitable share in the next farm bill, often requesting an increase in market access efforts. Allison, a strawberry farmer in New York said, "What I need to stay competitive is more agricultural and marketing research and promotion – on specialty crops. There is a tremendous imbalance between money spent on program crops and money spent on specialty crops…" Tom from California said, "This program has proven to be very successful in assisting U.S. fruit and vegetable exports to be more competitive in world markets, and it is critical that the Administration and Congress fund MAP at the maximum authorized level." Dale from Washington State said, "We…hope that the new farm bill will increase the MAP funding…that helps us open foreign markets and sell our fruit crops abroad."

While specialty crop producers specifically requested an expansion of MAP, the program benefits more than specialty crop producers, supporting the full range of food and agricultural commodities. This support is important at a time when American agricultural productivity continues to expand at a consistent rate of about two percent per year, while the U.S. population, and therefore consumption, is increasing by only about one percent per year. Additionally, approximately 95 percent of the world's population, the majority of consumers, lives outside the U.S. borders. This population represents new and expanding market opportunities for U.S. agricultural products. Currently, agricultural exports are equal to about 25 percent of U.S. farm cash receipts, so programs that open new markets and strengthen overall U.S. agricultural trade are essential. MAP is one such program. It helps to ensure the U.S. agricultural trade balance remains positive.

Recommended Solution
The Administration recommends increasing Market Access Program funding from $200 million to $225 million annually. USDA will apportion this additional funding to address the inequity between farm bill program crops and non-program commodities. Additionally, organic agriculture should be allowed to compete for MAP funding to help develop and increase the organic export market.

Background
The Market Access Program assists in the creation, expansion, and maintenance of foreign markets for U.S. agricultural products. MAP is authorized by Section 203 of the Agricultural Trade Act of 1978.

MAP forms a partnership between USDA and non-profit U.S. agricultural trade associations, U.S. agricultural cooperatives, non-profit state-regional trade groups, and small U.S. businesses to share the costs of overseas marketing and promotional activities such as consumer promotions, market research, trade shows, and trade servicing.

Each year, MAP helps launch and expand sales of U.S. agricultural, fish, and forest products overseas. MAP uses funds from the USDA's Commodity Credit Corporation to partially reimburse program participants for foreign market promotion activities. MAP applications undergo a competitive review process.

The 2002 farm bill authorized MAP at an annual funding level of $90 million for FY 2001, $100 million for FY 2002, $110 million for FY 2003, $125 million for FY 2004, $140 million for FY 2005, and $200 million for FYs 2006 and 2007.

Agricultural cooperatives and small companies can receive assistance for branded product promotion under MAP, but individual companies must provide at least 50 percent of the funding to participate. For generic promotion activities under MAP, trade associations and others must meet a minimum 10-percent match requirement. Participants are required to certify that federal funds used under the program supplement - and do not replace - private sector funds.

USDA has approved MAP proposals to promote a wide variety of U.S. commodities in almost every region of the world. Among these U.S. food and fiber products are apples, asparagus, canned peaches and fruit cocktail, catfish, cherries, citrus, cotton, dairy products, dry beans, eggs, feed grains, frozen potatoes, grapes, honey, hops, kiwifruit, meat, peanuts, pears, pet food, pistachios, poultry meat, prunes, raisins, rice, salmon, soybeans, strawberries, sunflower seeds, surimi, tallow, tomato products, walnuts, watermelons, and wheat.

GRANT PROGRAM TO ADDRESS SANITARY AND PHYTOSANITARY ISSUES

Recommendation In Brief

Establish a new grant program investing $20 million over 10 years to further focus resources on addressing international sanitary and phytosanitary (SPS) issues for all agricultural commodities.

Problem

Developing countries and developed countries alike are increasingly using unscientific sanitary and phytosanitary standards as non-tariff barriers to U.S. agricultural products. Examples include biotechnology restrictions, maximum residue standards, and restrictions on U.S. beef due to BSE. USDA needs technical expertise on an ad-hoc basis to address SPS barriers as they arise and before they burgeon into larger problems.

This problem was highlighted repeatedly during USDA's Farm Bill Forums and in comments submitted to USDA. Ross from Texas stated, "We must be able to remove unfair trade barriers in a more timely manner." Paul from Hawaii said, "Continue to support and increase support for programs that remove, resolve, or mitigate sanitary and phytosanitary barriers to trade."

Recommended Solution

The Administration proposes creation of a new grant program focused on SPS issues, supported by $2 million in annual mandatory funding. This program would allow for new or expanded focus on such issues as foreign governments' acceptance of antimicrobial treatments; wood-packaging material; irradiation; biotechnology; science-based maximum residue level standards; and testing procedures and controls for mycotoxins.

Background

With an increasing number of non-tariff trade barriers in both developed and developing countries, the SPS issues grant program would be designed to fund projects that address sanitary, phytosanitary, and technical barriers that prohibit or threaten the export of U.S. food and agricultural products, including meat, poultry, and specialty crops. The grants program would reduce the need to hire technical staff permanently, bring the creativity of the private sector to USDA technical problem solving, allow the USDA to commission targeted scientific reports, or otherwise make use of outside technical expertise to address technical trade barriers.

SUPPORT INTERNATIONAL TRADE STANDARD SETTING ACTIVITIES

Recommendation In Brief
Authorize and provide long-term mandatory funding of $15 million over 10 years to enhance USDA staff support for international standard-setting bodies, such as the *Codex Alimentarius*, the International Plant Protection Convention, and the World Animal Health Organization.

Problem
Technical trade barriers that are not scientifically justified are constraining U.S. agricultural exports. USDA heard about these struggles at various Farm Bill Forums. For example, Dan from Montana pleaded, "We have a huge production machine in the U.S. ag industry, and it just feels like there's a lot of hidden barriers and things there that are out of our control as producers." And Jeremy, from South Dakota, wrote, "Ag countries around the globe are penalizing or threatening to penalize our producers with trade barriers."

Increasing U.S. representation in and ensuring full funding of standard setting bodies at the Food and Agriculture Organization (FAO) and other similar international agricultural health organizations are critical to harmonizing multilateral food, plant, and animal safety standards. A lack of U.S. funding for staff support has led FAO to take a more Eurocentric approach to its analysis, which may be in conflict with U.S. objectives.

Recommended Solution
The Administration proposes to enhance USDA support for the *Codex Alimentarius*, the International Plant Protection Convention, and the World Animal Health Organization - the three respective international standards setting bodies for food, plants, and animals. This initiative would close compensation gaps between USDA and international organizations. Additionally, it would increase funding from $200,000 to $1.5 million to fund up to four Associate Professional Officers a year to support U.S. sanitary and phytosanitary (SPS) priorities.

Background
International bodies establish and harmonize SPS standards and minimize technical barriers between countries and regional organizations. By ensuring these international health and safety protection standards are properly designed and implemented, the U.S. can avoid unwarranted technical barriers that threaten opportunities for two-way trade.

It is imperative that USDA place seasoned director-level staff in international organizations that have the experience, background, and savvy to effectively influence decision-making. Because these positions are employed by the international organizations, the USDA needs authority to close the gap between international organization and U.S. salaries, cost of living adjustments, and accrued service benefits, which would allow the U.S. to place more senior level personnel in policy positions.

TECHNICAL ASSISTANCE TO RESOLVE TRADE DISPUTES

Recommendation in Brief

Provide enhanced monitoring, analytical support, and other technical assistance to support U.S. agriculture in bringing forward or responding to significant trade disputes and challenges.

Problem

When industries are faced with unfair practices by our trading partners, they are often at a disadvantage due to limited information and resources. At the same time, U.S. industries may be challenged by other trading partners. Although the preferred route to address unfair trading practices may be to initiate a World Trade Organization (WTO) case, this may be impossible for limited resource industries. This situation adversely affects smaller groups and industries much more than larger, more resourceful entities. Trade dispute cases are typically very lengthy and resource intensive, often spanning several years. USDA can provide needed technical and analytical expertise to assist in the event of such action.

USDA was repeatedly encouraged to focus on lifting trade barriers during Farm Bill Forums held across the country and in written comments submitted to the Department. For example, Wendy from Iowa wrote, "Efforts should be continued to reduce trade barriers, providing a level playing field for U.S. exports in international markets." Larry in Missouri, wrote, "...the removal of unfair, legally questionable foreign interventionist practices and highly-protective tariff and non-tariff trade barriers are essential for the U.S. industry to be competitive."

Recommended Solution

The Administration proposes giving USDA broad discretionary authority to provide enhanced monitoring, technical assistance, and analytical support to limited resource agriculture groups if the Secretary of Agriculture determines that it would be beneficial to U.S. agriculture.

Background

As U.S. agriculture has become increasingly part of a global economy, more and more agricultural industries may face unfair competition or be challenged by other trading partners. U.S. industries have recourse through trade remedy laws – antidumping, countervailing duties, or safeguards – to address potential unfair competition. In addition, trade actions in the WTO are increasing and are another avenue to address unfair competition. Over the past decade, many U.S. agricultural industries have brought challenges through U.S. trade laws and worked with USDA and the U.S. Trade Representative (USTR) to resolve WTO cases. Conversely, some U.S. agricultural sectors have faced challenges in either the WTO or by other countries' trade remedy laws. USDA currently assists in such efforts by providing legal and analytical support, often working closely with USTR. Such actions are complex, lengthy, and time-consuming.

The impact of foreign trade competition was discussed at Farm Bill Forums. For example, Al from Rhode Island said, "Let's just try and keep our farms competitive with farms from overseas." And Tim of Minnesota added, "We cannot compete, farmer against nation."

Agricultural beneficiaries of the Trade Adjustment Assistance (TAA) Program have been few and decreasing while USDA operational costs for the program have been high in comparison to producer benefits. For example, in fiscal year 2006, TAA expenditures were $7.9 million, including $5.9 million in USDA operating costs (including technical assistance provided by the Cooperative State Research, Education, and Extension Service to eligible participants). Direct payments to eligible producers were only $2 million. Legal authority for Trade Adjustment Assistance recently expired. If Congress chooses to re-authorize this program, the Administration would like to be engaged to ensure this program is more useful and a better use of taxpayer dollars.

TRADE CAPACITY BUILDING AND AGRICULTURAL EXTENSION PROGRAMS IN FRAGILE REGIONS

Recommendation In Brief
Expand trade capacity, food safety, and agricultural extension programs in fragile regions of the world through $20 million of mandatory funding over 10 years.

Problem
International economic development is one of the three pillars of U.S. foreign and national security policy. In recent years, USDA has worked with the U.S. State Department, the Department of Defense, and the National Security Council to assist in the reconstruction and stabilization of Afghanistan and Iraq. Revitalization of the agricultural sector is essential in fragile regions, particularly those dependent on agriculture for food and employment. While USDA has provided technical assistance through agricultural extension programs, USDA has not received direct funding for such programs, limiting their reach and effectiveness.

Recommended Solution
The Administration proposes providing $2 million annually in direct mandatory funding for agriculture reconstruction and extension efforts for purposes of trade capacity. While USDA is engaged in significant activities in Afghanistan and Iraq, additional funds should be provided for future assistance needs in fragile and/or potentially unstable environments, such as Sudan or Somalia.

Background
In recent years, USDA has worked with the U.S. State Department, the Department of Defense, and the National Security Council to assist in the reconstruction and stabilization of post-conflict Afghanistan and Iraq.

Program benefits include:
- Supporting Presidential commitments to current and future international aid, such as agricultural extension projects or agriculture knowledge initiatives.
- Supporting U.S. foreign policy and national security goals of reconstruction and stabilization efforts in fragile regions.
- Preparing for future assistance needs in potentially unstable environments, such as Sudan or Somalia, where agriculture is a major sector for livelihoods and economic activity.
- Building bilateral partnerships with strategically important countries and agricultural sectors engaged in global trade.

REFORM EXPORT CREDIT GUARANTEE PROGRAMS

Recommendations in Brief

Further reform the Commodity Credit Corporation's (CCC) export credit guarantee programs in light of the findings of the World Trade Organization (WTO) in the Brazil cotton dispute. Terminate the Supplier Credit Guarantee Program (SCGP) due to approximately $227 million in defaults and evidence of fraudulent activity.

Problem

The WTO found that the CCC export credit guarantee programs are not consistent with U.S. obligations under international trade rules. Although the Administration has taken certain administrative steps to bring the programs into conformity with U.S. obligations, additional legislative changes would complement those actions and ensure that the programs remain WTO compliant. As Kid, from Texas noted at a Farm Bill Forum, "We have got to abide by those trade agreements that we made."

The Supplier Credit Guarantee Program has incurred a large number of defaults and has been subject to fraud. Total defaults over the life of the SCGP (1996 to present) equal approximately $227 million, with the largest losses occurring in FY 2004 (approximately $79 million) and FY 2005 (approximately $122 million). These recent defaults prompted USDA to withhold announcement of a SCGP program in FY 2006. Of the $227 million in default, approximately $7 million has been recovered.

Recommended Solution

The Administration recommends removing the one percent cap on fees that can be collected under the short-term Export Credit Guarantee Program (GSM-102) and eliminating the specific authority for the Intermediate Export Credit Guarantee Program (GSM-103). The Administration also proposes termination of the Supplier Credit Guarantee Program.

Background

In the Brazil cotton dispute, the WTO found that the CCC export credit guarantee programs are export subsidies provided in a way that is inconsistent with U.S. trade agreements. The WTO's findings apply not just to cotton, but also other U.S commodities that receive export credit guarantees. To comply with these findings, the Administration took a number of steps in July 2005 to bring the programs into conformity with U.S. obligations. With respect to the GSM-102 program, the Administration implemented a more risk-based fee structure that better reflects country risk ratings and length of guarantee coverage and eliminated the highest risk countries from the programs altogether. The Administration further suspended additional guarantee applications under the GSM-103 program. To complement these actions, the Administration submitted legislative proposals to Congress in July 2005 and again in March 2006.

The Administration proposes eliminating the cap on GSM-102 fees to provide greater flexibility and assist USDA in maintaining the risk-based fee structure adopted in July 2005. Eliminating the specific statutory authority for the GSM-103 program is consistent with the suspension of the program in July 2005. Further, participation in the GSM-103 program has been very low in recent years, and repeal of the specific authority is likely to affect few, if any, food or agricultural interests.

The Supplier Credit Guarantee Program is designed to help exporters offer direct, short-term credit to foreign buyers of U.S. food and agricultural products. USDA's CCC reduces the financial risk to exporters by guaranteeing a large portion of the payments due from importers under financing arrangements of up to 180 days. The direct credit extended by the exporter to the importer for the purchase of U.S. agricultural products must be secured by a promissory note signed by the importer. USDA issues the credit guarantee, while the exporter or the exporter's bank provides the financing. A substantially smaller portion of the value of exports (currently 65 percent) is guaranteed under the SCGP than under the GSM-102 program, where the CCC is guaranteeing foreign bank obligations.

FACILITY GUARANTEE PROGRAM REVISIONS

Recommendation In Brief

Revise the Facility Guarantee Program (FGP) to attract additional users who commit to purchasing U.S. agricultural products. These program improvements are estimated to increase usage of the program by $16 million over the next 10 years.

Problem

Emerging markets often lack the infrastructure to support increased trade volume. USDA has a credit guarantee program, the Facility Guarantee Program (FGP), to help meet this need for increased trade capacity and infrastructure. However, the requirements to qualify for this program have discouraged its use. Thus, the program needs to adapt to market realities. As Jeff from Rhode Island said, "(in) the global economy that we live in...innovation is everything."

Recommended Solution

A robust Facility Guarantee Program is needed to facilitate trade in the CAFTA region. Thus, the Administration recommends expanding FGP loan authority to allow lower or no down payments, 98 percent principle and interest coverage, and longer tenor for up to the lifecycle of a facility's depreciation schedule (not to exceed 20 years). Additionally, we propose increased flexibility within the facility construction input origin requirements, including providing authority to the General Sales Manager to waive these requirements on a case-by-case basis where a U.S. equivalent input is not available or practical. These changes will make the program more viable and competitive with similar Export-Import Bank programs and would not exceed $50 million in additional subsidy costs. Project approvals would still be dependent on both the project and country risk assessment.

Background

The USDA Facility Guarantee Program was authorized by section 1542(b) of the 1990 farm bill. The FGP is designed to expand sales of U.S. agricultural products to emerging markets where inadequate storage, processing, or handling capacity limit trade potential. The program provides payment guarantees for one to 10 years to finance commercial exports of U.S. manufactured goods and services that will be used to improve agriculture-related facilities.

Emerging markets often lack the infrastructure to support increased trade volume. Export sales of U.S. equipment or expertise to improve ports, loading and unloading capacity, refrigerated storage, warehouse and distribution systems, and other related facilities may qualify for facility guarantees, as long as these improvements are expected to increase opportunities for U.S. agricultural exports.

Under this program, USDA's Commodity Credit Corporation (CCC) guarantees payments due from approved foreign banks to exporters or financial institutions in the United States. The financing must be obtained through normal commercial sources. Typically, a guarantee covers 95 percent of principal and a portion of interest.

REPEAL THE EXPORT ENHANCEMENT PROGRAM AND GLOBAL MARKET STRATEGY REPORT

Recommendation In Brief

Repeal the Global Market Strategy mandate and the Export Enhancement Program, which are redundant or inactive, allowing USDA to focus resources on priority issues.

Problem

The Export Enhancement Program (EEP) is no longer a useful tool for U.S. agricultural exports. EEP has been inactive for many years; therefore, eliminating EEP would not materially affect U.S. exports. Additionally, the utilization of EEP is inconsistent with the U.S. goal of eliminating export subsidies worldwide.

The Global Market Strategy (GMS) is a redundant mandate to USDA's existing United Export Strategy and Country Strategy programs. The GMS is not as useful or timely but carries administrative compliance costs to produce the report. Administrative costs to comply with the GMS total approximately $250,000 for reviewing and auditing the report.

Recommended Solution

The Administration proposes repealing the Global Market Strategy mandate and the Export Enhancement Program because they no longer serve valuable purposes. These changes would allow USDA to further focus staff and financial resources on priority issues.

Background

The 2002 farm bill requires that within six months after enactment and every two years thereafter, the Secretary of Agriculture consult with Congress on formulating and implementing a global market strategy that identifies growth opportunities in foreign markets for agricultural exports. However, USDA's existing United Export Strategy and Country Strategy programs use real-time market analysis and global intelligence, which more appropriately highlight opportunities for U.S. agricultural exports in global markets in a timelier manner.

The Export Enhancement Program is designed to help U.S. farm products meet competition from subsidizing countries, especially the European Union. Under the program, the U.S. Department of Agriculture pays cash to exporters as bonuses, allowing them to sell U.S. agricultural products in targeted countries at prices below the exporter's cost of acquiring them. The major objectives are to expand U.S. agricultural exports and to challenge unfair trade practices.

Consistent with its World Trade Organization commitments under the Uruguay Round Agreement on Agriculture, the United States has established annual ceilings, by commodity, with respect to export quantities and budget expenditures. The EEP has been inactive in recent years, and no allocations were announced for fiscal year 2005 or 2006. EEP bonuses become available only when USDA announces an operational EEP initiative for a specific commodity or commodities. Commodities eligible for EEP initiatives are wheat, wheat flour, rice, frozen poultry, barley, barley malt, table eggs, and vegetable oil. The 2002 farm bill established a maximum annual program level for EEP of $478 million, the maximum allowable level under the Uruguay Round export subsidy reduction commitments.

PROVIDE CASH AUTHORITY FOR PORTION OF EMERGENCY FOOD AID

Recommendation in Brief
Authorize the use of up to 25 percent of P.L. 480 Title II funds for the local or regional purchase and distribution of emergency food to assist people threatened by a food security crisis.

Problem
The Administration is very concerned about ensuring that food aid and famine prevention are effective and efficient and address the highest priority needs. Food purchased in the United States normally takes four months or longer to arrive at its destination. Food purchased locally, however, can reach beneficiaries within days or weeks in many cases.

Without the ability to use a portion of Title II for local and regional purchase, the U.S. is slower and has less flexibility to save lives and prevent famine. Speed is sometimes necessary when an emergency occurs with little notice (e.g., a natural disaster), food deliveries are unexpectedly interrupted (e.g., a pipeline break), or a cease fire allows rapid access to populations in need.

Under current law, P.L. 480 Title II may only be used to purchase and ship U.S. commodities. The current program is typically able to provide timely and effective assistance, but there have been several recent cases where P.L. 480 Title II could not be procured quickly enough and the U.S. either could not provide food, provided food late. Two notable cases in recent years have been Iraq in 2003 and the humanitarian crisis in Lebanon in 2006. The Administration would also have considered using this authority for the immediate response to the Asian tsunami in 2004, in southern Africa and Niger in 2005, and in East Africa in 2006.

Recommended Solution
The Administration proposes authorization to use up to 25 percent of the P.L. 480 Title II request to procure food from selected developing countries near the site of a crisis. This authority increases Administration tools to quickly meet emergency needs in the most effective way possible. Cash food aid will only be used in those cases where a rapid response is critical to saving lives. The majority of U.S. food aid will continue to rely on U.S. commodities.

U.S.-grown food will continue to play the primary role and will be the first choice in meeting global needs. Local and regional purchases will be used judiciously where the speed of the arrival of food aid is essential. The Administration will be better equipped to deal with emergencies if our tools include cash that can be used to provide immediate relief until US commodities arrive or to fill in when there are pipeline breaks.

Background
The P.L. 480 Title II food aid program, which buys U.S. food to be shipped to developing countries, is funded through the U.S. Department of Agriculture appropriation and administered by the U.S. Agency for International Development. The major use of this program is to address emergency humanitarian needs, save lives and to address the underlying causes of food insecurity.

P.L. 480 Title II is the largest U.S. international food aid program. The FY 2008 request is $1.2 billion (about $80 million higher than the FY 2006 enacted level). Current P.L. 480 legislation requires the use of U.S. commodities. The U.S. alone currently provides almost half of food aid distributed by the UN World Food Program. In FY 2007 and again in FY 2008, the increase in the Administration's request compared to FY 2006 is intended to complement the additional flexibility requested.

The Administration began requesting the authority to use a portion of food aid funding for cash food aid in food security emergencies in FY 2006. In FY 2008, as in FY 2007, the President's budget includes the request that the Administrator of the U.S. Agency for International Development (USAID) be granted authority to use up to 25 percent of appropriated P.L. 480 Title II funds for the local or regional purchase and distribution of food to assist people threatened by a food security crisis.

The principal reason for the proposal is to save lives. USAID's conservative estimate is the authority could feed at least one million additional people for 6 months and could save at least 50,000 lives in acute emergencies.

The Administration expects food would be purchased from developing countries, as defined by the OECD Development Assistance Committee list of ODA recipients. We do not foresee procuring food from Latin American countries because commodities usually can be shipped to the region quickly from the United States. We do not foresee purchasing significant food from East Asian countries because there are few major emergencies in the region that require large emergency food aid programs (e.g., prolonged conflict or wide-spread droughts affecting millions of people, as in Africa). We do not anticipate procuring commodities in one region of the world and shipping them to another distant region because commodities can likely be shipped from the United States just as quickly. We would not procure food from developed countries.

This authority would enable U.S. assistance to be more effective and more efficient. The authority would be used in those instances where the rapid use of cash for local or regional procurement is critical to saving lives in response to an emergency. The intention is not to change the way the United States meets most food aid needs, but rather to enhance the variety of tools at our disposal to address food emergencies.

TITLE IV
NUTRITION

SUMMARY OF IMPROVEMENTS TO NUTRITION PROGRAMS

Recommendations in Brief
Simplify and modernize the Food Stamp Program to improve access and better reflect the needs of recipients and States, while maintaining continued focus on program integrity. Streamline other food assistance programs to improve administration and efficiency of programs. Increase support for healthy eating, including in schools and other facilities that participate in food assistance programs.

Problem
The Food Stamp Program, established in 1964 and revised in 1977, is the largest Federal nutrition program for low-income households. Over the course of time, significant changes have been made in the program -- most significantly, moving from stamps to coupons to electronic benefits. Changes are needed in the law to allow simplification and modernization of this program to keep pace with changes.

Additionally, requirements in other food assistance programs prevent them from being run as efficiently as they could. Changes are needed to allow nutrition assistance programs to effectively and efficiently serve those in need.

Finally, obesity rates in this country continue at alarming levels. The 2005 Dietary Guidelines for Americans recommended higher fruit and vegetable consumption levels for most Americans, yet only one in five Americans consumes the recommended amount of fruit each day. Children under 18 years of age generally consume 50 percent or less of the recommended levels of fruits and vegetables. Providing increased fruit and vegetable options in the food assistance programs can help to increase consumption as well as improve the quality of many Americans' diets.

Recommended Solution
The Administration is recommending a broad package of proposed changes to the Title IV – entitled "Nutrition Programs" – to improve USDA nutrition programs and better serve their beneficiaries. Following is a list of the major components of the package.

Food Stamp Program

1. Improve access to the working poor and elderly by excluding retirement savings accounts when determining eligibility, conducting a pilot to increase support to employed food stamp recipients, eliminating the cap on the dependent care deduction, excluding the value of Internal Revenue Service approved college savings plans from the resource limit when determining eligibility, and excluding combat-related military pay. These reforms are estimated to generate an additional $1.38 billion over 10 years for participant benefits. (For further information, see the proposal entitled "Food Stamp Program: Working Poor and Elderly" on pages 87 – 89.)
2. Revise the name of the Food Stamp Program and de-obligate food stamp coupons to reflect that benefits are now provided electronically. Protect recipients from reimbursing States for overissuances that result from widespread systematic errors and hold States

accountable for these errors. (For further information, see the proposal entitled "Food Stamp Program: Streamlining and Modernizing Proposals" on pages 90 – 91.)

3. Strengthen provisions to further improve program integrity by limiting categorical eligibility to those that receive only TANF or SSI cash benefits. Allow flexibility in the assessment of retailer fines in certain circumstances. Allow the Secretary, in certain egregious trafficking cases, to seize and transfer funds to the Treasury; prohibit the exchange of food purchased with food stamp benefits for cash. Authorize USDA to charge State agencies five percent of administrative costs if the State is more than fifty percent above the national negative error rate for two consecutive years. Remove the new investment option for States sanctioned for improper payments for three consecutive years. (For further information, see the proposal entitled "Improve Food Stamp Program Integrity" on pages 92 – 94.)
4. Strengthen efforts to integrate nutrition education into the food stamp program by recognizing that nutrition education is a component of the program and investing $100 million to establish a five-year competitive grants demonstration program targeted at developing and testing solutions to the rising rates of obesity. (For further information, see the proposal entitled "Food Stamp Program: Improving Health through Nutrition Education" on pages 95 – 96.)

Other Food Assistance Programs

1. Recognize the permanency of The Emergency Food Assistance Program (TEFAP) State plans and remove barriers for local organizations to more effectively compete to participate in the program. (For further information, see the proposal entitled "The Emergency Food Assistance Program (TEFAP)" on pages 97 – 98.)
2. Increase funding by $27 million over 10 years to better reflect the actual administrative costs of the Food Distribution Program on Indian Reservations (FDPIR) and provide a structured method for allocating administrative funds among the Indian Tribal Organizations (ITO). Align nutrition assistance program disqualification policies to ensure that those barred from participation in FDPIR for intentional program violations are also disqualified from participation in the food stamp program. (For further information, see the proposal entitled "Food Distribution Program on Indian Reservations (FDPIR)" on pages 99 – 100.)
3. Exclude the value of the Seniors Farmers Market Nutrition Program benefits for tax purposes and when determining eligibility for any Federal or State means-tested programs; prohibit States from participating in the SFMNP if state or local sales tax is collected within the State on food purchased with SFMNP benefits. (For further information, see the proposal entitled "Seniors Farmers' Market Nutrition Program (SFMNP)" on pages 101 – 102.)

Promoting Healthy Diets

1. Support school efforts to provide meals based on the most recent Dietary Guidelines for Americans. Invest $6 million in mandatory funding to conduct a survey of foods purchased by school food authorities with Federal cash assistance once every 5 years. (For further information, see the proposal entitled "Promoting Healthful Diets in Schools" on pages 103 – 104.)
2. Provide new mandatory funding for the purchase of additional fresh fruits and vegetables for use in the National School Lunch and Breakfast Programs. This $500 million of funding over 10 years represents a net increase in the total purchase of fruits and vegetables for

school meals over levels available under any other authorities. (For further information, see the proposal entitled "Promoting Healthful Diets in Schools" on pages 103 – 104.)

3. Increase Section 32 spending on fruits and vegetables by $2.75 billion over 10 years. (For further information, see the proposal entitled "Promoting Healthful Diets in Schools" on pages 103 – 104 and the proposal entitled, "Increase Purchases of Fruits and Vegetables for Nutrition Assistance Programs" on pages 168 - 169).

FOOD STAMP PROGRAM: Working Poor and Elderly

Recommendation In Brief

Improve access to the working poor and elderly by excluding retirement savings accounts when determining eligibility, allowing states the option of reimbursing work-related expenses, eliminating the cap on the dependent care deduction, excluding the value of Internal Revenue Service (IRS) approved college savings plans from the resource limit when determining eligibility, and excluding military combat pay. These reforms are estimated to generate an additional $1.38 billion over 10 years for participant benefits.

Problem

The working poor and elderly participate in the Food Stamp Program (FSP) at a lower percentage rate than the general low-income population. Several factors, including the complexity of the program and the fact that the Food Stamp Act does not specifically address education savings accounts, affect participation. Farm Bill Forums included recommendations supporting improvements to assist these two populations through policy simplification and expansion. For example, in discussing the importance of improving program accessibility to vulnerable populations, Julie from Florida said, "We need the process to be simplified for administrators and for the recipients." And Jodi from New York City added "We believe strongly in the importance of the food stamp program as a crucial mechanism for providing access to essential nutritional support for lower-income New Yorkers."

Recommended Solution

The Administration proposes improving access to the FSP for the elderly and working poor by:

1. *Encouraging savings for retirement* – This recommendation would exclude all retirement accounts from resources when determining eligibility for the program. This not only will encourage individuals to save for their retirement and help families save for their children's future, even if they experience a temporary need for food stamps.
2. *Strengthening the employment and training component by testing an expansion of the participant reimbursement for work-related expenses* – Current rules provide employment and training (E & T) funding for unemployed households only; the rules do not provide employment and training funds to support employed households. To further strengthen the Program's role in supporting work and moving individuals and families to self-sufficiency, this proposal would authorize the Secretary to conduct a pilot test to allow a limited number of States the flexibility to reimburse (with matching 50 percent Federal funds) work-related expenses for any household with earned income. The Secretary would be authorized to define the range of allowable job-related expenses such as uniforms, tools, and licensing (but not to include child care), and to place a limit on the time during which a working family may be eligible for reimbursement. The pilot would be conducted in no more than three States for a period not to exceed 3 years. The Federal share of newly reimbursed work-related expenses in the pilots shall not exceed $3 million.
3. *Eliminating the cap on the dependent care deduction* – Current policy supports work or participation in work services by providing for limited deductions from the family's gross

income associated with the cost of dependent care when determining food stamp eligibility and benefit amount: a cap of $200 per month for children under 2 and $175 for other dependent children is the current policy. These current caps have not been changed or adjusted for inflation since the provision was implemented in 1993. This proposal would simplify State administration and help working families with children.

4. *Excluding the value of IRS approved college savings plans from the resource limit* – This proposal would expand the plans eligible for exclusion from the resource limit when determining food stamp eligibility and would simplify administration for the States. Most significantly, it supports working poor, encourages focused savings for children's futures, and recognizes that households should not have to deplete college savings plans in order to get nutrition assistance. Current policy allows States to exclude college savings plans in accordance with their Temporary Assistance for Needy Families and Medicaid policies. Otherwise, the issue of account accessibility must be determined. This proposal simplifies a complex policy as requested by States while supporting low-income working families.
5. *Excluding combat-related military pay* – Enhanced pay from military deployment can sometimes cause families receiving food stamps to no longer be eligible for this assistance. Military personnel receive supplements to their basic pay when they serve in combat. Such special pay includes combat or hazardous duty pay which could reduce a family's benefits or make them ineligible. This policy change recognizes this problem and would ensure that military families are not penalized for doing their civic duty. It supports the families of servicemen and servicewomen fighting overseas by ensuring that their families do not lose food stamps as a result of the additional deployment income. This proposal has been a part of the President's budget for several years and was first enacted in the 2005 Appropriations Act; this farm bill proposal would make this annual policy fix permanent.

Background

Authorized by the Food Stamp Act of 1977 (the Act), the Food Stamp Program (FSP) is the cornerstone of the Nation's nutrition assistance programs which serve 1 in 5 Americans. During fiscal year (FY) 2005, the Program served approximately 26 million people in an average month with a total annual benefit cost of approximately $29 billion. The FSP increases the purchasing power of low-income families and individuals by providing electronic benefits redeemed for food in authorized stores.

The program operates in partnership with the States. The Federal Government sets national program standards for eligibility and benefits, funds all benefit costs and approximately half of State administrative expenses, and has responsibility for monitoring and oversight of program implementation, including authorization and enforcement measures associated with the redemption of benefits at authorized retail stores. State agencies, which interact directly with program participants, are responsible for eligibility certification.

Outreach to underserved populations and program integrity have been a primary focus for the Administration. At the same time that there has been an increase in participation, program integrity has also improved. In FY 2005, the FSP reached the highest level of payment accuracy in its history of 94.16 percent. The Food Stamp Program has a Quality Control System that uses a statistically valid sample of State cases to determine the accuracy of food stamp benefits and establish a national error rate. The Program has also seen progress in the area of trafficking (exchanging benefits intended for food purchases for cash), with a recent GAO report stating that trafficking has been reduced to 1 cent of every benefit dollar, down from almost 4 cents.

The purpose of the FSP is to increase the nutritional levels of low-income households who qualify based on criteria associated with income, assets, and household composition. To qualify for benefits the applicant's gross income must be less than 130 percent of poverty (e.g., \$2043 per month for a family of four in 2005), and 100 percent after allowable deductions. The maximum monthly food stamp allotment (\$499 for a family of four in 2005) is based on the cost of the Thrifty Food Plan, a low-cost nutritious model food plan. The Program also provides nutrition education designed to help low-income individuals choose healthy foods and active lifestyles.

FOOD STAMP PROGRAM:
Streamlining & Modernizing Proposals

Recommendation in Brief
Support modernization efforts of States to streamline, simplify, and improve administration of the Food Stamp Program (FSP). Revise the name of the food stamp program and de-obligate food stamp coupons to reflect that benefits are now provided electronically. Protect recipients from reimbursing States for overissuances that result from widespread systematic errors.

Problem
Many States are implementing or considering efforts to modernize and streamline their eligibility systems and business designs to improve FSP administration. In addition, many States are going to need to update or modernize their computer and data management systems as today's systems are becoming outdated. Current requirements in the FSP limit States' ability to modernize and streamline their programs.

In June of 2004, electronic benefit transfer (EBT) was implemented nationwide with food stamp participants accessing nutrition assistance through debit card technology; yet coupons are still used in rare cases, complicating financial transactions for retailers and banks. Paper food stamp coupons are a remnant of the past, yet a small amount of these coupons linger. Changes are needed to de-obligate the use of paper food stamp coupons and change the name of the program to more accurately reflect its purpose as a national food assistance program.

Recommended Solution
The Administration proposes improved administration of the food stamp program by:

1. *Recommending a name change—the Food and Nutrition Program.* State agencies administering the Food Stamp Program have been asking the Department for years to consider a name change that is more descriptive of the current Program. Stamps, later replaced by coupons, have not been used for decades and the name does not reflect the Program's mission of reducing hunger and improving nutrition among low-income people. Further, nationwide implementation of EBT as a benefit delivery mechanism has made food stamps and the Program name outdated. Finally, some stakeholders suggest that the name is a barrier to participation because of stigma, especially among the elderly. FNS began gathering public comments on a new name in June 2004. While there is no consensus on a new name, the vast majority of the comments supported a name change with certain words commonly included in the suggestions—food and nutrition.
2. *De-obligating food stamp coupons as legal tender.* Electronic Benefit Transfer (EBT) has been in place nationwide for two years. Fewer and fewer coupons are being redeemed per month; in December 2005 coupon redemptions accounted for less than .001% of total benefit redemptions. De-obligating coupons reflects the current technological realities of the Program.
3. *Prohibiting States from establishing and collecting claims from recipients for State agency caused overissuances resulting from widespread systemic errors. Require states to repay the Federal government for overissued benefits.* As States have moved to replace outdated computer systems, there have been situations where time and budget

have driven implementation of systems before they have been thoroughly tested. As a result, computer systems have generated overissuances because of design flaws; in some cases, the courts have become involved (e.g. Colorado) and judges have ordered States not to collect overissuances from recipients when the overissuance was an agency error (computer generated) and not a client error. However, current Federal law requires States to establish and collect claims from recipients. This proposal would recognize the unique situation of systemic errors caused by State agencies in the establishment and collection of over-issuances while still holding States responsible for the error.

Background

Authorized by the Food Stamp Act of 1977 (the Act), the Food Stamp Program (FSP) is the cornerstone of the Nation's nutrition assistance programs which serve 1 in 5 Americans. During fiscal year (FY) 2005, the Program served approximately 26 million people in an average month with a total annual benefit cost of approximately $29 billion. The FSP increases the purchasing power of low-income families and individuals by providing electronic benefits redeemed for food in authorized stores.

The program operates in partnership with the States. The Federal Government sets national program standards for eligibility and benefits, funds all benefit costs and approximately half of State administrative expenses, and has responsibility for monitoring and oversight of program implementation, including authorization and enforcement measures associated with the redemption of benefits at authorized retail stores. State agencies interact directly with program participants, are responsible for eligibility certification.

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IMPROVE FOOD STAMP PROGRAM INTEGRITY

Recommendation in Brief

Strengthen provisions to further improve program integrity by limiting categorical eligibility to those that receive only Temporary Assistance for Needy Families (TANF) cash benefits. Allow flexibility in the assessment of retailer fines in certain circumstances. Allow the Secretary, in certain egregious trafficking cases, to seize and transfer funds to the Treasury; prohibit the exchange of food purchased with food stamp benefits for cash. Authorize USDA to charge State agencies five percent of administrative costs if the State is more than fifty percent above the national negative error rate for two consecutive years. Remove the new investment option for States sanctioned for improper payments for three consecutive years.

Problem

In June, 2004, the Food Stamp Program (FSP) transitioned from coupons to nationwide implementation of electronic benefit transfer (EBT) to issue food stamp benefits. EBT works like a debit card; participants have their benefits loaded onto the card each month and access those benefits through the purchase of eligible foods at authorized retail stores. A recent GAO report credits the technology for a reduction in trafficking (exchanging benefits for cash) to around one cent of every benefit dollar. Despite this important, positive trend, new strategies to commit fraudulent activities undermine the advantages of the electronic issuance system. Further policy changes as well as quality control system improvements would help ensure continued progress in the area of payment accuracy and proper use of nutrition assistance benefits.

Additionally, current law allows certain individuals not otherwise eligible for food stamp benefits to receive them through categorical eligibility. For example, certain states allow a person who is eligible to receive TANF in-kind services such as job training to receive food stamp benefits even though under separate food stamp eligibility criteria he/she would not be eligible. Providing benefits to those individuals not otherwise eligible for food stamp benefits limits resources available to those eligible individuals that need it most.

Recommended Solution

The Administration proposes improved program integrity by:

1. *Limiting categorical eligibility to only cash TANF or SSI assistance.* This proposal ensures that those individuals eligible for the program receive the benefits through an equitable determination of FSP eligibility while eliminating categorical eligibility for those who would otherwise not be eligible to receive benefits.
2. *Allowing assessment of fines for certain retailer violations.* USDA often receives requests from stores and their supporters, including public officials, requesting alternative penalties based on specific conditions and circumstances, but current law does not provide any flexibility related to certain retailer violations. For example, if a store clerk accepts food stamp benefits for the purchase of a non-food item without the owner's knowledge and in violation of food stamp rules and the store's policy, the store owner must be disqualified from accepting food stamps in accordance with current law. Regardless of the fact that the owner may have been an authorized retailer for 30 years without any previous violation, action has been taken by the owner to correct the

problem, and there are few opportunities for participants to shop elsewhere, disqualification is required. At the same time, in an egregious trafficking situation, the maximum disqualification can be imposed, but no additional penalties such as assessment of fines are allowed. In other words, under current law, USDA does not have the necessary flexibility to assess fines in lieu of disqualification or to assign appropriate disqualification timeframes, or to impose additional fines beyond the maximum disqualification. Instead, current law specifies minimum and maximum disqualification timeframes without opportunity to assess appropriate penalties in cases where particular circumstances might be considered.

3. *Allowing the Secretary, in certain egregious trafficking cases, to seize and transfer to the Treasury food stamp funds prior to retailer's settlement in cases where expedited disqualification is warranted.* Current law allows retailers to continue their fraudulent activities while enforcement actions are taking place even if those violations are particularly egregious. By allowing the Secretary to seize and transfer food stamp funds to the Treasury in the most egregious cases, trafficking retailers are hurt more quickly where it matters—in their pocketbooks. This proposal increases effectiveness by immediately stopping the flow of funds that allow retailers to continue to finance their fraudulent activities.
4. *Prohibiting the exchange of food purchased with food stamp benefits for cash by making it an intentional program violation on the part of recipients.* Recently, USDA has received an increasing number of reports of food stamp recipients exchanging food purchased with food stamp benefits for cash. For example, a recipient purchases a large number of soft drinks and then sells them at a discount outside the store. In a recent incident, multiple recipients were purchasing baby formula with food stamp benefits at one store and selling the formula to another store. While contrary to the intent of the Program, such actions are not currently identified in the Food Stamp Act of 1977 as an action that leads to disqualification.
5. *Charging State agencies 5 percent of administrative costs if the State is more than 50% above the national negative error rate for two consecutive years.* A negative error occurs when an applicant for benefits is inappropriately terminated, suspended, or denied food stamps. While the active error rate (overpayment or underpayment to food stamp recipient) has potential liabilities associated with being above the national average, there is currently no sanction associated with the negative error rate. Both the active and negative error rates do have associated high performance bonuses based on excellent administration of the program. The negative error rate has been rising over the last couple of years; this provision indicates the importance of proper administration of the program. This proposal would require States to pay the associated sanction when their negative error rate is 50% above the national average for two consecutive years.
6. *Removing the new investment option for those States sanctioned for improper payments for 3 consecutive years* – This proposal emphasizes the importance of State accountability and expected results associated with improper payments while still maintaining the three consecutive years as the measure for having to pay the liability associated with the improper payments. Specifically, this proposal would require States pay their "at risk" amount for the second year as well the entire third year liability amount. A state's "at risk" amount is defined as a portion of its improper payments liability. This at risk liability is placed in abeyance and may be forgiven if the State

improves program payment accuracy in accordance with a written agreement between the State and USDA by the third year. These funds can also be changed from "at risk" and invested in new state improvements in program administration (the so-called investment option). These new investments are State-only dollars and are not eligible for federal matching funds. This proposal would strengthen the penalties associated with improper payments by requiring the States pay their liabilities without the option of new investment of year two at risk dollars when their improper payments rates are above the formula prescribed in law for errors three years in a row.

Background

Authorized by the Food Stamp Act of 1977 (the Act), the Food Stamp Program (FSP) is the cornerstone of the Nation's nutrition assistance programs which serve 1 in 5 Americans. During fiscal year (FY) 2005, the Program served approximately 26 million people in an average month with a total annual benefit cost of approximately $29 billion. The FSP increases the purchasing power of low-income families and individuals by providing electronic benefits redeemed for food in authorized stores.

The program operates in partnership with the States. The Federal Government sets national program standards for eligibility and benefits, funds all benefit costs and approximately half of State administrative expenses, and has responsibility for monitoring and oversight of program implementation, including authorization and enforcement measures associated with the redemption of benefits at authorized retail stores. State agencies interact directly with program participants, are responsible for eligibility certification.

Outreach to underserved populations and program integrity have been a primary focus for the Administration. At the same time that there has been an increase in participation, program integrity has also improved. In FY 2005, the FSP reached the highest level of payment accuracy in its history of 94.16 percent. The Food Stamp Program has a Quality Control System that uses a statistically valid sample of State cases to determine the accuracy of food stamp benefits and establish a national error rate. The Program has also seen progress in the area of trafficking (exchanging benefits intended for food purchases for cash), with a recent GAO report stating that trafficking has been reduced to 1 cent of every benefit dollar, down from almost 4 cents.

The purpose of the FSP is to increase the nutritional levels of low-income households who qualify based on criteria associated with income, assets, and household composition. To qualify for benefits the applicant's gross income must be less than 130 percent of poverty (e.g., $2043 per month for a family of four in 2005), and 100 percent after allowable deductions. The maximum monthly food stamp allotment ($499 for a family of four in 2005) is based on the cost of the Thrifty Food Plan, a low-cost nutritious model food plan. The Program also provides nutrition education designed to help low-income individuals choose healthy foods and active lifestyles.

FOOD STAMP PROGRAM: IMPROVING HEALTH THROUGH NUTRITION EDUCATION

Recommendation in brief
Strengthen efforts to integrate nutrition education into the Food Stamp Program (FSP) by recognizing that nutrition education is a component of the program and investing $100 million to establish a competitive grants program targeted at developing and testing solutions to the rising rates of obesity.

Problem
Obesity and overweight are conditions that have reached epidemic proportions in this country. According to research, low-income individuals are particularly at risk. The outcomes of obesity and overweight are numerous and include multiple health risks such as diabetes, heart disease, and cancer.

Although nutrition education in the FSP has increased over the years, many Farm Bill Forum participants called for program changes intended to encourage healthier eating habits. For example, Inger, a registered dietician, said, "The public needs an uncompromising commitment from their government to advance nutrition knowledge and to help people apply that knowledge to maintain and improve their health….." While Connie from Massachusetts suggested "a better approach would be the development of some sort of incentives to encourage Food Stamp recipients to purchase healthy foods."

Recommended Solution
The Administration proposes improving the Food Stamp Program's role in supporting positive nutrition and health outcomes for participants by:

1. Adding language to the Food Stamp Act recognizing nutrition education as a component of the Program, reinforcing the importance of nutrition education.
2. Establishing a "USDA Initiative to Address Obesity among Low Income Americans" -- a five-year $20 million per year competitive grant demonstration program to develop and test solutions to the rising problem of obesity. These efforts would include rigorous independent evaluations to identify effective approaches, such as incentives at point-of-sale for purchases of fruits and vegetables by food stamp participants, grants to connect food stamp shoppers with farmers markets, and integrated communication and education programs to promote healthy diets and physical activity. This grant program would sunset after five years.

Background
Authorized by the Food Stamp Act of 1977 (the Act), the Food Stamp Program (FSP) is the cornerstone of the Nation's nutrition assistance programs which serve 1 in 5 Americans. During fiscal year (FY) 2005, the Program served approximately 26 million people in an average month with a total annual benefit cost of approximately $29 billion. The FSP increases the purchasing

power of low-income families and individuals by providing electronic benefits redeemed for food in authorized stores.

The program operates in partnership with the States. The Federal Government sets national program standards for eligibility and benefits, funds all benefit costs and approximately half of State administrative expenses, and has responsibility for monitoring and oversight of program implementation, including authorization and enforcement measures associated with the redemption of benefits at authorized retail stores. State agencies interact directly with program participants, certify eligibility, and issue benefits.

In FY 2005, the FSP reached the highest level of payment accuracy in its history of 94.16 percent. The FSP has a Quality Control System that uses a statistically valid sample of State cases to determine the accuracy of food stamp benefits and establish a national error rate. The Program has also seen progress in the area of trafficking (exchanging benefits intended for food purchases for cash), with a recent GAO report stating that trafficking has been reduced to 1 cent of every benefit dollar, down from almost 4 cents.

The purpose of the FSP is designed to increase the nutritional levels of low-income households who qualify based on criteria associated with income, assets, and household composition. To qualify for benefits the applicant's gross income must be less than 130 percent of poverty (e.g., $2043 per month for a family of four in 2005), and 100 percent after allowable deductions. The maximum monthly food stamp allotment ($499 for a family of four in 2005) is based on the cost of the Thrifty Food Plan, a low-cost nutritious model food plan.

The Program also funds state-provided nutrition education designed to help low-income individuals choose healthy foods and active lifestyles. The goal of Food Stamp Nutrition Education (FSNE) is to improve the likelihood that FSP participants and applicants will make healthy choices within a limited budget and choose active lifestyles consistent with the current Dietary Guidelines for Americans and the Food Guide Pyramid. States provide Food Stamp nutrition education plans to USDA for approval that consider the specific needs of their low-income population. USDA reimburses States 50 percent of the administrative costs associated with nutrition education materials and activities.

THE EMERGENCY FOOD ASSISTANCE PROGRAM (TEFAP)

Recommendation in Brief

Make TEFAP State plans permanent and provide national uniform rules for TEFAP contracts allowing greater competition for program participation among local organizations, including faith-based organizations. Increase the availability of fruits and vegetables through the TEFAP Program.

Problem

The requirement to file TEFAP State plans every four years is burdensome for administering State agencies and is not consistent with the State plan requirements for many other nutrition programs. For example, the National School Lunch Program, Commodity Supplemental Food Program, Summer Feeding Program, and After School Snack Program all require plan updates only as warranted.

Additionally, TEFAP administering agencies are not required to use a competitive solicitation process for selecting local organizations to participate in TEFAP. As a result, many of the same organizations continue to participate year after year unless administrative problems occur. Failure to provide for a competitive solicitation process results in a barrier to certain local organizations, including faith-based organizations, that wish to participate in TEFAP. The lack of competition may result in a less efficient and effective system to distribute commodities within each State.

Until recently, TEFAP received large amounts of bonus donations of fruits and vegetables. Since 2005, bonus donations, including fruit and vegetable donations, have declined. As a result, TEFAP has not provided emergency feeding organizations the quantity of fruits and vegetables that sponsor organizations and its beneficiaries might expect. TEFAP can be a source of foods for the low-income population, and providing a stable and sufficient source of fruits and vegetables through TEFAP is consistent with the direction of the 2005 Dietary Guidelines for Americans.

Recommended Solution

The Administration proposes the following changes to the TEFAP program:

1. *Make TEFAP State plans permanent, requiring States to submit revisions to the plan only when warranted by changes in the State.* This approach is consistent with State plan requirements for other commodity programs and the child nutrition programs.
2. *Require States to use a competitive selection process for selecting local organizations and re-compete grants at least once every three years.* Requiring States to use the competitive solicitation process for selecting local organizations with which they enter into contracts for TEFAP would help to ensure that the most efficient and effective system is used to distribute commodities within the State and would likely result in potential recipient agencies lowering their charges for services to food pantries and soup kitchens in order to secure the contract with the State agency. A competitive process also

will remove barriers to the participation of local organizations, including faith based organizations.

3. *Increase the amount of fruits and vegetables made available to TEFAP beneficiaries.* The Department's proposed increase in fruit and vegetable purchases under Section 32 (see paper entitled, "Increasing Purchases of Fruit and Vegetables for Nutrition Assistance Programs" on pages 168-169), would result in a sufficient and on-going stream of fruits and vegetables available to the low-income recipients of TEFAP, thus bringing their diet more in line with the recommendations of the Dietary Guidelines.

Background

The TEFAP Program helps supplement the diets of low-income Americans, including elderly individuals, by providing participants with emergency food and nutrition assistance at no cost to the recipient. The program provides food aid in all 50 States.

USDA makes commodity foods available to State agencies for distribution to local organizations, which make the food available to eligible individuals for household consumption, or prepare and serve meals in congregate settings. Over 50 types of food were made available in FY 2006, including canned and dried fruits, canned vegetables, meat, poultry, fish, and pasta.

To be considered eligible for TEFAP, recipients of food for home use must meet income eligibility criteria set by the State agency. Recipients of prepared meals at congregate sites are not subject to an income test.

Authorized by the Food Stamp Act of 1977 and the Emergency Food Assistance Act of 1983, TEFAP operates as a Federal-State partnership. The Federal government provides commodities and administrative funds to State agencies. In addition to the commodities purchased with TEFAP appropriations, commodities purchased under agricultural support programs are made available to States for distribution through TEFAP. State agencies are responsible for establishing a distribution system and for allocating the resources within the State. In order to participate, State agencies must submit a State plan every four years. The State agencies provide food to local agencies that they select, usually food banks, which in turn distribute the food to soup kitchens and food pantries that serve the public.

In FY 2006, Congress appropriated $189.5 million for TEFAP. Of the total appropriation, $140 million was made available to purchase food and $49.5 million was provided for administrative support to State and local agencies.

FOOD DISTRIBUTION PROGRAM ON INDIAN RESERVATIONS (FDPIR)

Recommendation in Brief

Increase funding by $27 million over 10 years to better reflect the actual administrative costs of the Food Distribution Program on Indian Reservations (FDPIR) and provide a structured method for allocating administrative funds among the Indian Tribal Organizations (ITO). Align nutrition assistance program disqualification policies to ensure that those barred from participation in FDPIR for intentional program violations are also disqualified from participation in the food stamp program.

Problem

The current allocation of FDPIR administrative funding does not correlate with participation levels. As a result, ITOs with higher FDPIR participation levels may not receive administrative funds proportionate to the number of persons served.

Individuals who are disqualified from FDPIR for intentional violations may be eligible for the FSP, which provides comparable benefits to participants.

Recommended Solution

The Administration proposes revising the current FDPIR formula to provide a structured and equitable method for allocating administrative funds among ITOs and States participating in FDPIR. Additionally, an increase in funding is proposed for FDPIR administrative costs to better reflect the actual participation rates in FDPIR. This proposal is consistent with the recommendations from a FDPIR work group charged with identifying plans to reduce regional disparities in the administrative funding provided per participant. Re-allocating funds based primarily on program participation has wide support. An estimated $26 million increase over 10 years in the level of FDPIR funding for administrative costs would ensure that any change to the current funding formula would allow all states or ITOs to continue their current allotments or receive a modest increase depending on their level of participation.

This proposal would ensure a more consistent level of service across FDPIR programs and would improve program access, promote healthy eating, and enhance program integrity. Currently, some tribes are better capable of serving their participants because they benefit from the historical inequity in the distribution of existing administrative resources. Many ITOs cannot provide a wide variety of foods or readily serve eligible participants because they lack funds needed to buy and maintain expensive equipment and other items. For example, some programs do not offer fruits, vegetables and meats because they lack the ability to properly store them, and their participants are not receiving as nutritious a food package as they could be. Some programs cannot serve homebound or individuals living in remote areas because they do not have reliable delivery equipment. FDPIR was designed to serve participants who may be located in areas where access to stores is difficult so it is important to be able to effectively transport foods. Food safety also is a concern; programs that cannot maintain adequate storage facilities risk providing spoiled or damaged foods to participants.

Additionally, the Administration proposes expanding the list of Food Stamp Program (FSP) disqualifications to include persons disqualified from FDPIR for intentional program violations. This proposal will support program integrity by ensuring disqualified individuals cannot participate in either program.

Background

FDPIR provides commodity foods to low-income American Indian and non-Indian households that reside on a reservation, and in other approved areas. There are 257 tribes receiving benefits through 98 Indian Tribal Organizations (ITO) and 5 State agencies.

Each month, participating households receive a food package (generally by pick-up at a designated site or home delivery) to help them maintain a nutritionally balanced diet. Commodities are distributed to eligible households from warehouse facilities located on reservations. In some cases, trucks are dispatched from the warehouse to serve households in remote locations on or near reservations. Eligible households may choose from over 50 types of food, including meats and fish, fruit, vegetables, grain and oil products, and a range of prepared foods. Participants also receive information about nutrition, food storage, sanitary food preparation methods, and suggestions for recipes using donated food.

Eligible individuals are part of a household residing on a participating reservation and meet income and resource eligibility criteria. FDPIR eligibility criteria are similar to those used for the FSP, but differ in that the monthly benefit level is not based on a sliding income scale—the amount of food an eligible household receives each month under FDPIR is based exclusively on the size of the household.

Authorized by the Food Stamp Act of 1977 and the Agriculture and Consumer Protection Act of 1973, FDPIR is operated as a partnership between USDA and participating ITOs and State agencies. Congress originally established FDPIR as an alternative to the FSP for households residing in remote areas of reservations where FSP-authorized food stores were not readily accessible. In areas where both FDPIR and the FSP are available, households may not participate simultaneously in both programs, although households may switch from one program to the other.

The Federal government pays 100 percent of the cost of commodities distributed through the Program, along with cash payments to distributing agencies to assist them in meeting the program's administrative expenses, such as local warehousing and transportation of commodities, utilities, salaries, and equipment. The current methodology for allocating administrative funds is based on historical precedent and results in some regions and ITOs receiving administrative funding well above or below the national per participant average. For FY 2006, Congress appropriated $79,500,000 for FDPIR, which was sufficient to provide nutrition assistance to an average of 101,000 persons per month.

SENIOR FARMERS' MARKET NUTRITION PROGRAM (SFMNP)

Recommendation in Brief
Exclude the value of the Senior Farmers' Market Nutrition Program (SFMNP) benefits when determining eligibility for any Federal or State means-tested programs. Prohibit States from participating in the SFMNP if state or local sales tax is collected within the State on food purchased with SFMNP benefits.

Problem
The value of the SFMNP benefit must currently be counted as income for eligibility determination in other means tested programs. This requirement is inconsistent with all other USDA nutrition assistance programs, which have specific statutory authority to exclude the value of nutrition assistance benefits when determining eligibility for federal or state means tested programs. The 2002 farm bill authorized the SFMNP for fiscal year (FY) 2003 through FY 2007 and provided funding at $15 million for each of those years. This legislation gave USDA the authority to develop regulations for the operation and administration of the SFMNP. However, it provided no statutory authority to exclude SFMNP benefits from other programs' eligibility requirements. Also, SFMNP benefits are not consistent with the benefits in other Federal nutrition programs because the food purchased with SFMNP benefits is not exempt from state and local sales tax.

Recommended Solution
The Administration proposes establishing the statutory authority to:

1. *exclude the value of the SFMNP benefits when determining eligibility for any federal or state means-tested program*. This recommendation would ensure that the value of the benefits provided to eligible recipients could not be considered as income in the process of determining eligibility for any other Federal or State program, such as Food Stamps, TANF, Energy Assistance, and Housing Assistance. In FY 2005, the average annual SFMNP benefit per recipient was $33; and
2. *prohibit States from participating in the Senior Farmers' Market Nutrition Program if state or local sales tax is collected within that state on food purchased with SFMNP benefits.* This recommendation would align the state and local tax status of Senior Farmers' Market benefits with other federal nutrition assistance programs.

Background
The SFMNP provides low-income seniors with coupons that can be exchanged for eligible fresh, nutritious, unprepared, locally-grown fruits, vegetables, and herbs at farmers' markets, roadside stands, and community supported agriculture (CSA). The Program is designed to (a) improve the diets of low-income seniors and (b) increase the consumption of agricultural commodities by expanding, developing, or aiding in the development and expansion of domestic farmers' markets, roadside stands, and CSA.

Benefits to seniors generally do not exceed $50 per growing season. Seniors who are at least 60 years old and who have household incomes of not more than 185 percent of the federal poverty income guidelines are the targeted recipients of the SFMNP.

Authorized by the 2002 farm bill, the SFMNP is operated as a Federal-State partnership. The program operates in limited areas of participating States. The Federal government provides funds to participating States, which support the SFMNP benefit provided to seniors and, starting January 2007, State administrative costs.

In FY 2006, 46 states and federally recognized tribal governments operated the program. In 2005, the program provided coupons to 752,699 low-income seniors for products available from 14,668 farmers at 2,663 farmers markets as well as 2,000 roadside stands and 237 CSA markets.

PROMOTING HEALTHFUL DIETS IN SCHOOLS

Recommendations in Brief

Support school efforts to provide meals based on the most recent Dietary Guidelines for Americans. Invest $6 million in mandatory funding to conduct a survey of foods purchased by school food authorities with Federal cash assistance once every 5 years. Provide $500 million of new mandatory funding over ten years for the purchase of additional fresh fruits and vegetables for use in the National School Lunch and Breakfast Programs. Increase Section 32 spending on fruits and vegetables by $2.75 billion over 10 years.

Problem

Obesity rates among school-age children continue to rise and schools can play a greater role in promoting healthful diets and regular physical activity. The 2005 Dietary Guidelines for Americans recommend even higher whole grain, low-fat dairy, and fruit and vegetable consumption levels for most Americans. Yet only one in five Americans consumes the recommended amount of fruit each day, and children under age 18 generally consume 50 percent or less of the recommended level for fruits and vegetables. Increased intakes of fruits, vegetables, whole grains, and fat-free or low-fat milk and milk products are likely to have important health benefits for most Americans, including school children.

Schools use their cash assistance to purchase the large majority (approximately 80 percent) of the food for school meals, but no current data are available to know what foods are being purchased. Without good information about the foods schools are purchasing, it is difficult for USDA to provide technical assistance to help schools select healthful items that contribute to the goals of the most recent Dietary Guidelines.

Recommended Solution

The Administration proposes the following program modifications to support school efforts to offer meals based on the most recent Dietary Guidelines for Americans:

1. *Conduct a survey of foods purchased by school food authorities with Federal cash assistance once every 5 years.* The most recent data on school food purchases are a decade old. These data would help USDA efforts to 1) provide guidance and technical assistance to school food professionals in the implementation of new rules intended to conform school meal patterns to the most recent Dietary Guidelines for Americans; 2) better manage the types and varieties of commodities procured by the Department on behalf of schools; and 3) assess the economic impact of school food purchases on various commodity sectors.
2. *Provide an additional $50 million annually for the purchase of fruits and vegetables for school meals.* These funds would represent a net increase in the total purchase of fruits and vegetables for the National School Lunch Program over levels available under any other authority. At the Secretary's discretion, a portion of the new funds should be allowed to be transferred to Department of Defense (DOD) for the purchase of additional fresh fruits and vegetables.
3. *Increase the overall Section 32 fruit and vegetable purchase minimum to $2.75 billion over 10 years.*

Programs and policies that improve children's access to fruits and vegetables support USDA's goal to promote dietary patterns that reflect the Dietary Guidelines for Americans and the MyPyramid for Kids. The consumption of fruits and vegetables contribute to a good diet and will serve to ameliorate the obesity rates among Americans.

Background

The National School Lunch Program (NSLP) provides USDA commodities and cash assistance to States for lunches served to students during lunch periods at school and for snacks served to children participating in after school care programs. States are reimbursed for the number of lunches and snacks served to children in participating schools that meet program requirements. In FY 2005, an average of 30 million children received program meals each school day of which about 59 percent are served free or at a reduced price.

Schools use USDA's cash assistance to purchase the foods served in school meals and to pay for direct and indirect allowable costs, such as labor. In addition to cash reimbursements, schools are entitled by law to receive commodity foods, called "entitlement" foods, at a value of 16.75 cents for each meal served in FY 2006-2007. Schools can receive "bonus" commodities when they are available from surplus agricultural stocks. USDA provides schools with USDA commodities to complement the purchased foods. Approximately 80 percent of the foods served are purchased directly by school districts and the remaining 20 percent are provided in the form of entitlement foods to schools by USDA. All foods, whether purchased commercially or provided by USDA, contribute to school meals that must meet specific nutritional standards.

The Richard B. Russell National School Lunch Act (Act) requires participating schools to serve meals that are consistent with the goals of the most recent Dietary Guidelines for Americans and that provide, on the average over a week, 1/3 of the daily recommended dietary allowance. Administering State agencies and school districts provide on-going oversight of the school meals to ensure that every meal meets the nutrition standards set forth in regulations and statute. USDA is in the process of developing a proposed regulation to better align school meal requirements with the 2005 Dietary Guidelines for Americans. While school meals must meet the Federal nutrition requirements, decisions about what specific foods to serve and how they are prepared are made by local school food authorities.

In an ongoing effort to increase the consumption of fruits and vegetables, the 2002 farm bill directed USDA to use at least $200 million of the total funds available to USDA to purchase commodities for the NSLP toward the purchase of fruits and vegetables. USDA must spend at least $50 million of the $200 million to make fresh fruits and vegetables available to schools. Since 1995, USDA has contracted with the DOD, which purchases and delivers perishable fruits and vegetables for the NSLP.

TITLE V
CREDIT

SUMMARY OF CREDIT TITLE REFORM

Recommendations In Brief
Improve farm bill financial credit policies for farm borrowers, particularly beginning and socially disadvantaged producers.

Problem
The average age of farmers continues to climb, creating questions about whether the next generation of producers is equipped to replace the wave of aging farmers as they retire. Barriers to entering production agriculture are high, which is especially burdensome for beginning and socially disadvantaged farmers who have limited financial assets. For example, in 2002, the value of land and buildings averaged $595,000 per principal operator 35-years-old and younger. Access to adequate loan funds can help to level the playing field for these farmers. Loans authorized through the farm bill credit title can play a unique role in supporting first-time farm buyers.

Finally, certain legislative requirements of farm loan programs have not been updated in decades. With the changing dynamics of today's production agriculture, these policies require updating. For example, the two direct loan limits of $200,000 are too rigid and outdated, not having been updated since the 1970s and 80s. Much has changed in over two decades – land prices are higher, equipment is larger and more expensive, and fuel, fertilizer, and other input costs are higher – yet the limits have remained stagnant.

These issues were discussed nationwide during the USDA Farm Bill Forums. For example, Ed from Ohio stated, "The challenges facing new farmers is nearly impossible to overcome...Come up with something innovative that will allow my kids to reach their dream of farming." And Andy, from Idaho, spoke from personal experience, "as a young farmer I used the FSA Guaranteed Loan Program. I recently was able to purchase my first piece of ground with the help of it. However, I'm up to the ceiling, and if I want to expand like I need to, to stay economically viable, I think it would help to raise the ceiling."

Recommended Solution
The Administration is recommending changes to Title V – entitled "Credit." Following is a list of the major components of the package.

1. Double the statutory target for the percentage of USDA direct operating loans that will be prioritized to assist beginning and socially disadvantaged farmers. Prioritize 100 percent of direct farm ownership loans to first meet the needs of beginning and socially disadvantaged farmers. Overhaul the federal repooling procedures to ensure that these targets are reserved only for beginning and socially disadvantaged farmers to the maximum extent possible. (For further information, see the proposal entitled "Loans Targeted to Beginning and Socially Disadvantaged Farmers" on pages 108 – 109.)
2. Enhance the existing Beginning Farmer and Rancher Downpayment Loan Program to increase the opportunities for the next generation of production agriculturalists. Reduce the four percent interest rate to two percent. Defer the first annual payment for one year.

Eliminate the $250,000 cap on the value of property that may be acquired. Decrease the minimum producer contribution from 10 percent of the property purchase price to five percent and add socially disadvantaged farmers and ranchers as eligible applicants. (For further information, see the proposal entitled "Beginning Farmer And Rancher Downpayment Loan Program" on pages 110 – 111.)

3. Increase the existing limits of $200,000 for direct ownership (FO) loans and $200,000 for direct operating loans (OL) to a maximum of $500,000 indebtedness for any combination of the two loan types. (For further information, see the proposal entitled "FSA Direct Loan Limits" on pages 112 – 113.)

LOANS TARGETED TO BEGINNING AND SOCIALLY DISADVANTAGED FARMERS

Recommendation in Brief

Double the statutory target for the percentage of USDA direct operating loans (OL) that will be prioritized to assist beginning farmers and socially disadvantaged (SDA) farmers. Prioritize 100 percent of direct farm ownership (FO) loans to first meet the needs of beginning and SDA farmers. Overhaul the federal repooling procedures to ensure that these targets are reserved only for beginning and SDA farmers to the maximum extent possible.

Problem

The barriers to entering production agriculture are high. With an increasingly aging farm population, these barriers threaten our next generation of agriculturalists. Access to adequate loan funds is a significant barrier to entry for beginning and SDA farmers. These farmers frequently have limited financial means, or have a limited track record in business operations. As a result, commercial loans can be difficult to obtain for beginning and SDA farmers. During USDA Farm Bill Forums, young producers and commercial lenders alike addressed the issue of equity. Brad in Wisconsin said, "The biggest challenge I face as a banker when we address young farmers is lack of equity as it relates to the amount of capital investment it takes you to get into agriculture."

Recommended Solution

The Administration recommends doubling the statutory target for direct OL funds for beginning and SDA farmers from 35 percent to 70 percent. Additionally, we propose increasing the direct FO target for beginning and SDA farmers from 70 to 100 percent. Increasing the target levels would provide additional assurance that beginning and SDA farmers have financing options to purchase farmland and then operate those farms.

Under current law, thirty days before the end of the fiscal year, any unused beginning and SDA direct loan funds are repooled from the States. Section 5315 of the 2002 farm bill required that repooled SDA operating loans must first be re-distributed to those states that have unmet SDA operating loan need. The Administration proposes to expand this repooling method to all other USDA SDA loan programs – direct FO, guaranteed FO, and guaranteed OL. Additionally, we propose a similar repooling regime for all types of USDA beginning farmer loan programs – direct OL and FO as well as guaranteed OL and FO.

Under the new policy, unutilized targeted loan funds would be repooled from the states on the established lifting date and re-distributed in the following order –

1. Unmet SDA or beginning farmer need in other states within type of loan (i.e. repooled SDA direct FO funds used only to address SDA direct FO unmet needs within other states)
2. Unmet SDA or beginning farmer need in other states within category of loan (i.e. repooled SDA direct FO funds used only to address unmet need for any type of SDA loan within other states – direct OL as well as guaranteed FO or OL)

3. Unmet SDA or beginning farmer need in other states between the two categories (i.e. repooled SDA loan funds could be used to meet unmet beginning farmer loan needs and vice versa)
4. Unmet general need within the state of origin
5. Unmet general need nationwide

This new repooling strategy will require additional time for USDA to administer; thus we recommend the target lifting date for these loans be changed from September 1st to August 15th.

Background

USDA loan funds are appropriated by Congress each year. The amount appropriated in some years does not allow USDA to fund all the loan applications received. Beginning farmers often have more difficulty obtaining financing because they cannot meet commercial lender financial requirements. A relatively small number of beginning farmers are entering production agriculture, and they often experience financial difficulties attempting to get established.

Existing beginning farmer funding targets for USDA loans are specified by law as follows:

Program	Funds Targeted	Proposed New Target	Current Date Target Lifted	Proposed New Date Target Lifted
direct FO	70 percent	100 percent	September 1	August 15
direct OL	35 percent	70 percent	September 1	August 15
guaranteed OL (regular)	40 percent	40 percent	April 1	April 1
guaranteed OL (interest assistance)	15 percent	15 percent	March 1	March 1
guaranteed FO	25 percent	25 percent	April 1	April 1

BEGINNING FARMER AND RANCHER DOWNPAYMENT LOAN PROGRAM

Recommendation in Brief

Enhance the existing Beginning Farmer and Rancher Downpayment Loan Program to increase the opportunities for the next generation of production agriculturalists to succeed.

Problem

In 2002, farms with over $10,000 in annual sales and that were operated by individuals under 35 years of age accounted for less than 7 percent of all farms, as compared to 19 percent in 1982. Meanwhile, the share of farms with over $10,000 in sales operated by farmers over 65 increased from 14 to 25 percent. The sharp decline in young farmers has raised concerns that an insufficient pool of new entrants will be available to replace a large and growing pool of retiring farmers.

The cyclical and highly variable nature of farm income creates major challenges for highly leveraged first-time farm buyers. Even when such producers make diligent use of available risk management tools, they experience significant difficulty servicing high levels of debt. This debt service burden often consumes needed operating capital, and results in poor performance or failure.

The existing "Beginning Farmers and Ranchers Downpayment Loan Program" was designed to help mitigate this situation. However, several statutory requirements have limited its use among some beginning agriculturalists. Concerns expressed during USDA Farm Bill Forums included the interest rate being too high, the term being too short, the initial out-of-pocket investment of the beginning producer being too high, and the maximum loan value cap being too low to start a commercially viable farm. For example, the current maximum property value of $250,000 would only allow a beginning farmer to purchase 105 acres of cropland on average (i.e. average cropland value of $2390 per acre times 105 acres equals approximately $250,000). This situation often relegates beginning farmers into an untenable position – forced to purchase the cheapest, most marginal land or attempt to make a living on a less than commercially-viable-sized farm.

In addition, socially disadvantaged (SDA) citizens face many of the same barriers to entry as beginning farmers and ranchers, yet federal programs designed to provide assistance are not always effective.

Recommended Solution

The Administration proposes enhancing the existing Beginning Farmers and Ranchers Downpayment Loan Program in several ways.

1. Change the four percent interest rate to two percent.
2. Defer initiation of first annual payment for one year (i.e. Current law requires repayment in 15 equal installments starting on year one; this proposal would defer the first installment to year two allowing the loan to be repaid in 16 years, instead of 15.)
3. Eliminate the $250,000 cap on the value of property that may be acquired by a beginning farmer wishing to obtain a downpayment loan. Replace it with a maximum

downpayment loan amount of $200,000. This proposal at a minimum doubles the potential beginning farmer or rancher's buying power. (Current law allows a downpayment loan of no more than 40 percent of the $250,000 property value cap, which equates to a downpayment loan of no more than $100,000.)

4. Decrease the minimum beginning farmer or rancher contribution from 10 percent of the property purchase price to five percent.
5. Add socially disadvantaged (SDA) farmers and ranchers as eligible applicants for this program.

Background

Many have raised questions about the adequacy of the future workforce to farm the nation's agricultural lands. There is concern about the fact that there are fewer young, new farm entrants than there are older retiring farmers. Establishing succeeding generations of farmers is an on-going concern. Potential new farmers often face significant barriers to entry. An enhanced federal downpayment program would allow beginning farmers more flexibility to cope with income volatility and increase the likelihood of establishing new successful farm businesses.

Section 310E of the Consolidated Farm and Rural Development Act (CONACT) authorizes the "Beginning Farmers and Ranchers Downpayment Loan Program." This program allows beginning farmers and ranchers to borrow up to 40 percent of the lower of the purchase price or appraisal value. Interest rates are statutorily set at four percent for a maximum loan period of fifteen years. Under the program, the beginning farmer or rancher must contribute a downpayment of at least ten percent of the farm or ranch purchase price. Additionally, the maximum value of the property to be acquired cannot exceed $250,000. Socially disadvantaged farmers are currently not eligible for the program unless they meet the beginning farmer and rancher criteria.

FSA DIRECT LOAN LIMITS

Recommendation in Brief

Increase the existing limits of $200,000 for direct farm ownership (FO) loans and $200,000 for direct operating loans (OL) to a maximum of $500,000 indebtedness for any combination of the two loan types.

Problem

The maximum amount an individual may receive in FSA Farm Loan Programs is specifically prescribed in the Consolidated Farm and Rural Development Act (CONACT). The maximum direct loan amounts specified in the CONACT have not kept pace with increases in the cost of farm land and production inputs. The CONACT direct operating loan limits were last increased in 1984 when the limit went from $100,000 to its current $200,000 limit. Direct FO loan limits were increased from $100,000 to $200,000 in 1978. These loan levels have become insufficient to meet the credit needs of medium-sized family farmers.

During the USDA Farm Bill Forums, producers from across the country commented on the limiting effects of decades old loan limits. Mike from Ohio said, "The current limits of $200,000 for farm loans and $200,000 for operating loans were set over 20 years ago. Production costs and real estate values have greatly increased over the past 20 years...we think the loan limit should be increased."

Recommended Solution

Increase the existing limits of $200,000 for direct FO and $200,000 for direct operating loans to a maximum of $500,000 for any combination of the two loan types. The higher, combined limit will allow a better matching of loan type, amount, and purpose to an individual applicant's credit needs. It will also improve access to capital, and therefore the competitiveness, of beginning farmers and other FSA loan applicants.

A similar action taken in 1998, to establish a combined total limit for guaranteed loans, has been effective.

Background

Since the last increase in the direct FO limit, farmland values have increased significantly. The current loan limit in the direct FO program places many FSA farm loan applicants at a disadvantage when competing with other potential buyers for farmland. FSA applicants characteristically have limited equity and lower net incomes, which prevent them from securing commercial loans.

Input costs for production agriculture and the price of machinery have risen dramatically since the last increase in the direct operating loan limit in 1984. These higher outlays equate to elevated levels of capital investment needed to initiate and sustain a family farming operation. Access to financial capital for beginning farmers is limited by the level of risk and return compared to other lending opportunities for rural banks. The present direct OL limit does not meet the credit needs of an increasing number of farm families and inhibits their efforts to operate and improve the competitiveness of their farm operations.

TITLE VI
RURAL
DEVELOPMENT

SUMMARY OF RURAL DEVELOPMENT TITLE REFORM

Recommendations In Brief

Streamline and increase funding for programs to enhance rural health care and other public services that are vital to our rural communities.

Problem

Without sufficient infrastructure, rural communities struggle to maintain basic services and an appropriate quality of life for rural residents. Rural communities often face serious drinking water issues, limited resources for first responder services, and difficulty attracting broadband Internet providers. Rural communities must maintain the services necessary to attract commercial businesses with good jobs in order to slow the pace of out-migration. As Gabe from California stated, "small cities in rural areas have a hard time being able to provide that quality of life for its residents." USDA programs designed to help mitigate these challenges sometimes overlap, leading to a complex maze for rural residents to navigate.

Additionally, many rural residents live in remote or outlying areas, making it more difficult for them to access needed services. For example, extended travel times for ambulances and long distances to reach emergency rooms can literally mean the difference between life and death in the critical moments following a health emergency. Compounding the situation, rural hospitals often struggle to attract and maintain adequate health care providers and specialists.

While the unmet need is substantial in these rural communities, the programs authorized by the rural development title can help these communities to meet the needs of their citizens. USDA heard almost unanimous support for these programs during Farm Bill Forums throughout the country. For example, Ken from Wisconsin noted, "As I drove down here, I passed scores of rural communities, farming communities, that have benefited from the Rural Development Loan and Grant Programs....As you know a strong farming community will support a strong farming industry." And Rich, of Illinois added, "We also need a farm policy that addresses the challenges faced by rural communities. To remain competitive and productive, farmers and our rural neighbors need access to 21st Century broadband... (and) rural communities face challenges to hold onto the businesses and services...for the next generation."

Recommended Solution

The Administration is recommending several proposed changes to Title VI of the farm bill – entitled "Rural Development." Following is a list of the major components of the package.

1. Complete the reconstruction and rehabilitation of all 1,283 certified Rural Critical Access Hospitals within the five years covered by the farm bill. This proposal would invest $85 million to support $1.6 billion in guaranteed loans and $5 million for grants. (For further information, see the proposal entitled "Address Backlog of Rural Critical Access Hospital Needs" on pages 117 – 118.)
2. Provide an additional $500 million to reduce the backlog of applications for Rural Development water and waste disposal grants and direct loans, emergency community water assistance grants, Community Facilities loan and grant programs that assist rural first

responders, broadband access loans, and distance learning and telemedicine grants. Reauthorize the Broadband Access Program and the Distance Learning and Telemedicine Program. (For further information, see the proposal entitled "Enhancing Rural Infrastructure" on pages 119 – 121.)

3. Consolidate the legislative authorities for certain rural development programs to add more flexibility. Create more measurable performance standards for the programs and make them easier for USDA customers to use. (For further information, see the proposal entitled "Streamline Rural Development Programs" on pages 122 – 123.)

ADDRESS BACKLOG OF RURAL CRITICAL ACCESS HOSPITAL NEEDS

Recommendation In Brief
Complete the reconstruction and rehabilitation of all 1,283 certified Rural Critical Access Hospitals within the five years covered by the farm bill. This proposal would invest $85 million to support $1.6 billion in guaranteed loans and $5 million for grants.

Problem
In the critical moments following a farm accident, heart attack, or other health emergency, time wasted attempting to reach an emergency room or other critical care facility can literally mean the difference between life and death. Unfortunately, many rural residents live in remote or outlying areas that lack reasonable access to critical health care services. These essential services are more than a hundred miles away for some rural residents.

In 2005, a committee report of the National Academy of Sciences Institute of Medicine (IOM) found that rural first-responder emergency services confront major challenges including sizable geographic distances between patients and trauma centers. Additionally, the IOM noted that rural hospitals struggle, even more so than urban hospitals, to attract and maintain adequate numbers of certain health care professionals.

Comments submitted during USDA's Farm Bill Forums urge the department to expand assistance to these hospitals. Kathy of Washington State said, "Rural communities without a strong healthcare infrastructure cannot attract new industry or new residents... The success of the Critical Access Hospital program in addressing serious operational budget crises must be matched with programs recognizing the growing back log of unfunded maintenance and replacement needs. A strong healthcare infrastructure is necessary as we care for our growing population of retirees and keep rural communities attractive to growing families and businesses."

Recommended Solution
The Administration proposes $1.6 billion in direct and guaranteed loans to complete the reconstruction and rehabilitation of all 1,283 currently certified Rural Critical Access Hospitals within the five years covered by the farm bill.

Since fiscal year 2004, the USDA Community Facilities Programs have provided $260 million in loans and loan guarantees to support 53 rural critical access hospitals. Because the credit subsidy costs for Community Facilities direct and guaranteed loans are very low (6.4 percent for direct and 3.7 percent for guaranteed), it would take a relatively small amount of investment to address this problem.

The Administration's proposal would require $85 million in mandatory spending to supplement funding for the USDA Rural Development Community Facilities programs. With a mix of direct and guaranteed community facilities loans, $80 million in budget authority will support $1.6 billion in loans needed to meet the identified capital need of these hospitals over the life of the farm bill. The additional $5 million would be available for grants to meet needs not covered by the loan programs.

Background

Congress enacted the Medicare Rural Hospital Flexibility Program as a part of the Balanced Budget Act of 1997 to encourage the creation of a rural critical access hospital system. Under this program, a hospital with a critical access designation can get higher reimbursement rates under Medicare, which can include a component for capital improvements. As of January 2007, there were 1,283 certified Critical Access Hospitals. These critical access hospitals, as a group, need financial assistance for capital investments to remain viable. USDA rural development experts estimate that the capital needs of these hospitals are approximately $1.6 billion.

ENHANCING RURAL INFRASTRUCTURE

Recommendation In Brief

Provide an additional $500 million to reduce the backlog of applications for Rural Development water and waste disposal grants and direct loans, emergency community water assistance grants, Community Facilities loan and grant programs that assist rural first responders, broadband access loans, and distance learning and telemedicine grants. Reauthorize the Broadband Access Program and the Distance Learning and Telemedicine Program.

Problem

Without sound infrastructure, a rural community cannot provide the basic services required to ensure a good quality of life or encourage sustainable economic development. Rural communities, especially the smallest rural communities, have substantial unmet needs for basic infrastructure assistance. Many of these rural communities are facing serious drinking water issues as they work to meet increasingly stringent quality standards. These communities often lack the resources to find better water sources, thoroughly clean the drinking water they distribute, and properly treat the waste water produced by the community. Some of the most rural states lack the funds to provide enough assistance to these communities to meet this challenge. As a result, the USDA Water and Waste Disposal programs are sometimes the only source to get the assistance they need. Currently, these programs provide the majority of assistance through grants, loans, and technical assistance, funded by an annual appropriation of approximately $530 million. The current backlog of applications is more than $2 billion, often forcing communities to wait years to get the assistance they need.

Rural communities often depend on USDA Rural Development programs to receive needed assistance in developing and improving assets that assist first responders. These assets include police cars, fire and ambulance trucks, and police and fire stations. The distances between first responders in rural areas, especially in remote areas, can be considerable. If a rural community lacks basic first responder assets, the public health and safety of its residents and those living in the surrounding area are at risk. These small rural communities lack the resources to obtain these first responder assets on their own. The Rural Development Community Facilities program provides grants, loans, and loan guarantees to help rural communities obtain vital first responder assets. In fiscal year 2006, the Community Facilities programs provided $240 million in assistance to finance first responder projects. While this level of assistance has been helpful, the unmet need is substantial.

Rural communities are also finding it difficult to obtain broadband Internet services. These communities are often too small and remote to attract the attention of the major private providers, and they lack the funds to bring broadband Internet services to their communities on their own. Rural communities that are fortunate enough to receive some form of access often experience lower quality service at double or triple the price charged in urban communities. Without quality broadband access, these communities and their residents are not able to keep pace with the rest of the country, which is increasingly becoming reliant on broadband Internet. Without high speed Internet services, many rural communities are unable to attract commercial development.

Stakeholders voiced strong opinions about the importance of broadband access during USDA's Farm Bill Forums. Karen of Vermont said, "Access to information in the agricultural arena includes commodity prices, information about weather...techniques for dealing with plant or animal disease...and more. We want our farmers and other rural residents to have this advantage. Without broadband, they are at competitive disadvantage...More and more technology-driven opportunities exist for rural-based entrepreneurship, but it is broadband that makes those opportunities reality."

The USDA Broadband Access program provides loans for the establishment and enhancement of broadband Internet access in rural areas. In addition, the Distance Learning and Telemedicine programs provide assistance, primarily through grants, to the smallest and most remote rural communities. In these communities, loan and loan guarantee programs sometimes are not effective when the communities and their residents lack the ability to repay the loans required to finance providing such services. While there has been adequate funding available for the Broadband Access loan program, the Distance Learning and Telemedicine grant programs have been significantly oversubscribed. For fiscal year 2006, USDA funded $25 million in Distance Learning and Telemedicine grants out of $40 million in eligible applications.

Recommended Solution

The Administration proposes to provide a one-time infusion of an additional $500 million in mandatory funding to reduce the backlog of Rural Development water and waste disposal grants and direct loans, emergency community water assistance grants, Community Facilities loan and grant programs that assist rural first responders, broadband access loans, and distance learning and telemedicine grants. Additionally, we propose reauthorization of the Broadband Access Program and the Distance Learning and Telemedicine Program.

This recommendation is grounded in the positive comments echoed across the country about USDA's rural development programs. For example, Sharon of Missouri said, "USDA Rural Development serves as a catalyst and supporter. It has created the enthusiasm needed to make our community come alive...USDA has been the engine that helped our rural community grow." Paul of North Dakota said, "I'd like to assure you that USDA Rural Development programs are making a big difference...USDA...has helped with...a $2 million water, sewer and gas line replacement project...at the Indian-owned United Tribes Technical College. The lines were in such bad shape that the future of the college was in jeopardy. Now...the college has been able to double its enrollment, teaching more than 800 Native Americans new skills and trades." Wayne of California said, "We have worked with and been a partner of USDA Rural Development for many years...investing in projects to overcome rural poverty, improve housing, and strengthen community development...We believe that federal funding for something as time-proven as this service should be increased and receive the attention it deserves."

Background

The significant unmet need for rural infrastructure was recognized as a serious problem during the consideration of the last farm bill. Section 6031 provided $360 million to address the backlog of USDA Water and Waste Disposal loan and grant applications.

USDA's community facilities program strives to ensure that health care clinics, police and fire stations, schools, and child care centers are readily available to all rural Americans. Rural Development can make and guarantee loans to develop essential community facilities in rural areas and towns of up to 20,000 in population. In FY 2005, the program awarded $52.9 million in grants and loaned $621.2 million for essential community facilities for public use.

Water and environmental programs are authorized under the Consolidated Farm and Rural Development Act to make direct loans and grants to develop drinking water and wastewater systems, including solid waste disposal and storm drainage, in rural areas and in cities and towns with a population of 10,000 or less. Funds are available to public entities, such as municipalities, counties, special-purpose districts, and Indian tribes. In addition, funds may be made available to nonprofit corporations and cooperatives. In FY 2005, this program awarded a total of $485.8 million in grants and $924.3 million in loans and loan guarantees for essential water and wastewater facilities for rural residents and towns.

Section 6103 of the 2002 farm bill established the Rural Broadband Access program—authorizing loans to provide access to broadband service to areas with a population of 20,000 or less. The goal of this program is to ensure that rural consumers benefit from the same quality and range of telecommunications services that are available in urban and suburban communities. USDA has loaned approximately $850 million to provide access to broadband services in rural communities since the start of this program in 2002.

In addition, changes in technology have presented new opportunities for delivering medical care in rural areas. Telemedicine is one innovation currently used to strengthen the likelihood of continued health care in rural communities. Section 6203 of the 2002 farm bill extended the USDA Distance Learning and Telemedicine loan and grant authority through 2007. This program provides funding for "end user" equipment to expand and improve medical services and educational opportunities through distance technology, allowing isolated rural hospitals and schools to utilize expertise that is located in more urban areas of the country.

STREAMLINE RURAL DEVELOPMENT PROGRAMS

Recommendation In Brief

Consolidate the legislative authorities for certain rural development programs to add more flexibility. Create more measurable performance standards for the programs and make them easier for USDA customers to use.

Problem

Historically, when a problem develops in rural America, new programs have been developed to address them. As a result, USDA Rural Development has two loan guarantee programs that can provide assistance to construct renewable energy systems, six grant programs that facilitate commercial business development, and two separate program areas that are designed to assist rural communities in developing rural infrastructure and community assets. These programs generally adopt different approaches to rural development. Because rural development activities are separated into individual legislatively mandated categories, it is difficult for USDA to embrace emerging rural development opportunities, such as renewable energy. This situation has also created a complex and confusing maze of programs for customers to understand and access. Finally, these disbursed authorities make it difficult for USDA to measure the performance and effectiveness of its activities.

Recommended Solution

To facilitate the coordination of rural development activities, the Administration proposes consolidation of certain existing statutory authorities, by grouping authorities to reflect the customers that either directly benefit from the programs or are essential to their operation, as follows:

1. *Create a Multi-Department Energy Grants Platform.* This would start the process of consolidating the renewable energy grant and research programs of USDA into one platform and increase interagency coordination. The first step of this consolidation would be to move USDA Rural Development renewable energy grant and research program authorities into the Biomass Research and Development Act of 2000. This Act has an existing coordinating forum that includes USDA, the Department of Energy (DOE), and other Federal agencies. By moving these programs into this Act, USDA and DOE can more effectively coordinate their research and development activities to better serve the needs of rural America. Key Rural Development programs that would be consolidated under this authority include the Renewable Energy Systems and Energy Efficiency Improvements grant program, with proposed mandatory funding of $500 million over ten years. In addition, mandatory funding for the competitive grant program under the Biomass Research and Development Act of 2000 would be increased to $150 million over ten years.
2. *Create a Business Loan and Loan Guarantee Platform.* Such a consolidation would make it easier for guaranteed lenders to participate in these programs and eliminate confusion. This proposal would consolidate into the existing Business and Industry authority, the authorities to carry out NADBank, Intermediate Relending Program; Prioritize funding for the construction of biorefinery projects in the Business and Industry loan guarantee

program; and consolidate the Section 9006 energy loan and loan guarantee program. Additionally, USDA recommends expanding the 9006 loan guarantee limits for cellulosic ethanol projects to $100 million with additional authority to exempt these cellulosic projects from the cap on guarantee loan fees and investing $210 million to support $2.17 billion in guaranteed loans for the construction of cellulosic ethanol facilities over 10 years.

3. *Create a Business Grants Platform.* This proposal would consolidate the authorities for the Rural Business Opportunity Grants, Rural Business Enterprise Grants, Value Added Grants, Rural Economic Development Loans and Grants, and the Rural Cooperatives Development Grants programs into one legislative authority. Specialty crops projects would receive priority in the Value-added Grants portion of this platform.
4. *Create a Community Programs Platform.* This proposal would consolidate the authorities for the water and waste loans, loan guarantees, and grants (including the assorted supplemental authorities such as the Emergency and Imminent Water Assistance Grants), the Community Facilities loan, loan guarantees, and grants, High Cost Energy Grants, Tribal College Grants, Economic Impact Grants, and the Rural Community Development Initiative Grants programs.

This streamlining of services was recommended in farm bill comments submitted to USDA. For example, Paul of Iowa said, "Federal programs that provide funding for rural development should be consolidated and streamlined for easier access by regions and communities. These programs also should assist communities in meeting infrastructure needs, from basic services to the latest in telecommunications..."

Background

These consolidations are consistent with other consolidation efforts within Rural Development, such as the Rural Housing Assistance Grants, which consolidates a number of housing assistance grants into one account. Grouping like grant programs together or loan and grant programs that work in tandem is an efficient way to provide flexible funding to meet the differing regional needs and demands of rural America.

TITLE VII
RESEARCH

SUMMARY OF RESEARCH TITLE REFORM

Recommendations In Brief

Reorganize and revitalize USDA's research, education, and economics mission and increase investment in high priority areas of research such as specialty crops, bio-energy, and bio-based products.

Problem

The agriculture industry faces unique challenges in the 21st Century. Many of these challenges can only be met through technological advancements driven by high quality agricultural research. While agricultural technology and scientific advancements have been astounding, more should be done to maintain U.S. agriculture's competitive edge.

When talking about the importance of agricultural research, David, from Indiana, said during a USDA Farm Bill Forum, "...we get the highest return on investment on those dollars as about any money that's going to be spent in the farm bill. And that allows us to be low-cost producers of a safe and reliable food and fiber source." And Sara, from Delaware, said, "It's imperative that the next farm bill will provide support for continuing research and education. The future of American agriculture will depend on it. Technological advances in agriculture will help the next generation of American farmers."

One area of particular challenge to agricultural researchers is our nation's dependence on foreign oil. Sixty percent of the petroleum used in the United States is now imported. If farm-raised biofuels and biobased products are to displace a significant portion of the foreign energy sources, conversion efficiency of biomass must be advanced, and top quality research must meet the challenge.

Additionally, specialty crops producers face unique challenges that require technological advancement. Specialty crops are now equal in value to program crops and yet specialty crops producers receive no direct cash assistance from the farm bill. This fact strengthens the case for significant investment in specialty crops research.

USDA's agricultural research structure needs to be updated and streamlined to meet the challenges associated with agriculture in the 21st Century. USDA has two separate agencies overseeing agricultural science with each entity maintaining separate national program staff. This situation leads to redundancy, higher administrative costs, lack of coordination, and an inability to maximize resources. One USDA Farm Bill Forum participant asked, "Is anyone really coordinating the USDA's research funding strategy?" USDA's research title proposals would strengthen coordination, efficiency, and the focus on priorities.

Recommended Solution
The Administration is recommending several reforms and new initiatives for Title VII of the farm bill – entitled "Research and Related Matters." Following is a list of the major components of the package.

1. Consolidate USDA's Agricultural Research Service (ARS) and the Cooperative State Research, Education, and Extension Service (CSREES) into a single agency named the Research, Education, and Extension Service (REES), which will coordinate both intramural and extramural research, extension, and education programs. (For further information, see the proposal entitled "Research, Education And Economics (REE) Mission Area Reorganization" on pages 127– 128.)
2. Rename the Research, Education, and Economics (REE) mission area the Office of Science. (For further information, see the proposal entitled "Research, Education And Economics (REE) Mission Area Reorganization" on pages 127 – 128.)
3. Establish an annual $50 million Agricultural Bio-Energy and Bio-Based Products Research Initiative to advance fundamental scientific knowledge for the improved production of renewable fuels and bio-based products. (For further information, see the proposal entitled "Agricultural Bio-Energy and Bio-Based Products Research Initiative" on pages 129 – 130.)
4. Establish an annual $100 million Specialty Crop Research Initiative to provide science-based tools for the specialty crop industry. (For further information, see the proposal entitled "Specialty Crop Research Initiative" on pages 131 – 132.)
5. Authorize USDA to conduct research and diagnostics for highly infectious foreign animal diseases on mainland locations in the U.S. (For further information, see the proposal entitled "Foreign Animal Disease Research" on page 133.)
6. Invest an additional $10 million in mandatory funding to be available until expended for organic research. This new funding would focus on conservation and environmental outcomes and new and improved seed varieties especially suited for organic agriculture. (For further information, see the proposal entitled "Organic Farming Initiatives" on pages 166 – 167.)

RESEARCH, EDUCATION AND ECONOMICS (REE) MISSION AREA REORGANIZATION

Recommendation In Brief

Consolidate USDA's Agricultural Research Service (ARS) and the Cooperative State Research, Education, and Extension Service (CSREES) into a single agency named the Research, Education, and Extension Service (REES), which will coordinate both intramural and extramural research, extension, and education programs. Rename the Research, Education, and Economics (REE) mission area the Office of Science.

Problem

USDA currently has two separate agencies responsible for agricultural science. CSREES supports extramural programs (external of USDA), while ARS conducts intramural research (internal to USDA). Both agencies support basic and applied research spanning the full spectrum of agriculture related issues including plant and animal systems, food and nutrition, and natural resources. Each agency maintains a separate National Program Staff (NPS) to manage programs and resources across these areas, leading to redundancy and administrative costs that could instead be invested in research and education.

Consolidating agency administrations will ensure that USDA's intramural and extramural science programs are well-coordinated and are maximizing resources. In addition, consolidation of the two agencies will ensure USDA's research arm is able to respond to emerging issues and address some of the most critical issues facing agriculture.

Additionally, the current structure can be confusing to USDA partners and stakeholders. Concern regarding this issue was raised during the Farm Bill Forums. For example, Eugene from Iowa raised the following concern: "The Department's dual research structure ARS/Land Grant Universities has strengths and weaknesses but the intellectual and political challenges it faces have never been more numerous or challenging....Is anyone really coordinating the USDA's research funding strategy?" And Steve, from California, expressed the need for "greater coordination of research between government and colleges."

The Land Grant Universities have also called for more coordination of USDA's research programs. This is reflected in their Creating Research, Extension and Teaching for the 21st Century (CREATE-21) proposal, which advocates a consolidation of USDA's research agencies.

Recommended Solution

The Administration proposes the creation of the Research, Education and Extension Service (REES) through the merger of ARS and CSREES. This new agency would be under the leadership of a Chief Scientist. This person would have authority for REES program offices, program implementation, and administrative and resource management.

We propose retaining authorities for the 1890, 1994 and Hispanic Serving Institutions. However, a new consolidated authorization would be sought to support the overall REES program. Funding under this consolidated line item would be under the authority of the REES Chief Scientist and support both intramural and extramural activities. The REES Chief Scientist, in concurrence with the Office of Science Under Secretary, would have administrative responsibility for allocation of funds.

This integration of programs will provide better coordination and allow for enhanced efficiency and effectiveness of program implementation and resource allocation. Duplication of efforts between intramural and extramural programs would be minimized, while better identifying and utilizing the comparative strengths of USDA's in-house capacity as well as USDA's university partners and other stakeholders.

Additionally, the REE mission area would be renamed the Office of Science. Leadership would continue through the Under Secretary and Deputy Under Secretary. This name change is consistent with several other federal government departments and better identifies the mission area as the one-stop scientific resource for agriculture.

Background

USDA's research, extension, and education programs are concentrated within the Research, Education and Economics (REE) mission area. REE consists of the Agricultural Research Service (ARS), the Cooperative State Research, Education and Extension Service (CSREES), the Economic Research Service (ERS), and the National Agricultural Statistics Service (NASS). Through these agencies, REE supports basic and applied research, economics, and statistics, as well as higher education and outreach.

ARS is the USDA's chief scientific intramural research agency and operates 107 research locations across the country. CSREES has the primary responsibility within USDA to provide extramural research, education, and extension conducted in partnership with state Land Grant Universities (LGUs) and other institutions throughout the country. ERS is a main source of economic research and information for USDA and NASS is the primary USDA statistical agency.

AGRICULTURAL BIOENERGY AND BIOBASED PRODUCTS RESEARCH INITIATIVE

Recommendation In Brief

Establish an Agricultural Bioenergy and Biobased Products Research Initiative with $500 million over 10 years to advance fundamental scientific knowledge for the improved production of renewable fuels and biobased products.

Problem

At present, 60 percent of the petroleum used in the U.S. is imported, primarily from countries in unstable parts of the world. The nation's dependence on these imports poses a threat to our national economy and security. Ethanol and related products produced from agricultural feedstocks (biomass) are beginning to be utilized instead of petroleum as energy and as components of carbon-based products such as plastics and fabrics. Additional research and development on biobased products are needed to advance these alternatives to petroleum-based products, as well as help meet the goals set forward in USDA's BioPreferred Program.

In order to meet the Nation's growing energy demands, production capacity and conversion efficiency of biomass must be improved. Increased support for bioenergy research and development was repeatedly raised as an important issue during Farm Bill Forums across the country. For example, Jocie from North Dakota stated, "More research is needed on increased efficiency of bio-fuels, the development of biobased products, and effective ways to integrate producers and rural communities in the development of biobased businesses." While Duane in Iowa said, "In regard to the 2007 farm bill, we believe that renewable energy should be a focal point. The current energy title should be strengthened." And Allan from Florida advocated "support for a competitive research program for fuels, chemicals and energy from biomass."

Recommended Solution

The Administration proposes the creation of the Agricultural Bioenergy and Biobased Products Research Initiative to enhance the production and conversion of biomass to renewable fuels and related products. Approximately $50 million of annual mandatory funding will support a USDA bioenergy and biobased product laboratory network utilizing existing USDA research facilities as well as engaging universities through a competitive process and connecting them to the laboratory network.

The new initiative will focus research and development efforts on two objectives: 1) improving biomass production and sustainability and 2) improving biomass conversion in biorefineries. This proposal will accomplish the following --

1. Leverage the Department's existing broad scientific capabilities in plant genetics and breeding; crop production; soil and water science; agricultural waste utilization; carbohydrate, lipid, protein, and lignin chemistry and biochemistry; enzyme development; fermentation; and microbiology.
2. Support new bioenergy and biobased product research that will help achieve the goals of the Advanced Energy Initiative and the BioPreferred Program.

3. Identify leading universities in bio-energy and biobased products research and capitalize on the respective strengths of USDA, DOE and the university community.

These three components will take full advantage of the USDA's internal and external research programs together with the network of extensive knowledge and capabilities that reside within the Land Grant universities and other research institutions throughout the U.S. At the same time, these activities will be closely coordinated with the Department of Energy (DOE), and its national labs and centers of excellence to ensure that there is no duplication of effort and that each organization's respective strengths are maximized.

Background

The production of bio-energy and biobased products from the Nation's agricultural resources presents a significant opportunity to reduce our dependency on foreign oil, enhance our economy, improve our environmental quality, and increase our nation's energy security. Fuel ethanol and biodiesel production from corn starch and soybean oil respectively comprised approximately 2.2 percent of U.S. liquid transportation fuel use in 2005, and that percentage will increase in 2006. The number of ethanol and biodiesel plants also continues to grow.

In order to meet the growing demand for biofuels, new varieties of starch and oil-based crops that will grow abundantly nationwide will be needed. New methods must be developed to convert agricultural waste materials such as corn stover and wood chips to produce enough biofuels and other combustible bioenergy products to increase our use of renewable resources and decrease our Nation's dependence on foreign oil. Additionally, significant economic opportunities exist to produce a wide range of industrial products from the byproducts of bioenergy production. To further develop these industrial products, an intense, broad-based research effort is needed.

Research conducted and/or funded by the USDA has already led to significant advances in technology that make agricultural biomass a viable alternative to petroleum. However, as the President outlined in his Advanced Energy Initiative and at the recent renewable energy conference hosted by USDA and DOE, there is a need for more research on bioenergy.

SPECIALTY CROP RESEARCH INITIATIVE

Recommendation In Brief
Invest $1 billion over ten years to establish a Specialty Crop Research Initiative to provide science-based tools for the specialty crop industry.

Problem
Enhanced research, extension, and education programs are needed to help the specialty crop industry address these challenges. The USDA's National Agricultural Research, Extension, Education, and Economics Advisory Board (NAREEEAB) recently recognized this need in their report on specialty crops.

During the Farm Bill Forums, many specialty crop producers spoke about the inequities in the current system and the need for greater investment in research. For example, Charles, from Georgia, noted that "federal investment in agricultural research dedicated to the economic vitality and long-term viability of United States specialty crops has been extremely limited....Federal investments in research for specialty crop production, processing, marketing and consumption which influence public access to these vital commodities must be re-emphasized in the next farm bill."

And Tom, at the California forum, stated: "Specialty crops are vital to the health and well-being of all Americans, and increased consumption of specialty crops will provide tremendous health and economic benefits to both consumers and growers....The next farm bill must address specialty crop issues much more effectively than in the past farm bills....Policy areas that the next farm bill must address, with respect to the unique needs of specialty crop growers, include the following: specialty crop block grants, international trade, nutrition, marketing, invasive pest and disease issues, research, competitive grants, and conservation programs."

Recommended Solution
The Administration proposes investing $100 million in annual mandatory spending to create a new Specialty Crop Research Initiative to address the critical needs of the specialty crop industry. The initiative will support both intramural and extramural programs across the nation and provide science-based tools to address needs of specific crops and regions. Focus areas will include:

1. Conducting fundamental work in plant breeding, genetics, and genomics to improve crop characteristics such as product appearance, environmental responses and tolerances, nutrient management, pest and disease management, enhanced phytonutrient content, as well as safety, quality, yield, taste, and shelf life.
2. Continuing efforts to identify threats from invasive species such as Citrus Greening and Glassy-Winged Sharpshooter.
3. Optimizing production by developing more technologically efficient and effective application of water, nutrients, and pesticides to reduce energy use and improve production efficiency.
4. Developing new innovations and technology to enhance mechanization thus reducing reliance on labor.

5. Improving production efficiency, productivity, and profitability over the long term.

Background

The U.S. specialty crop industry is comprised of producers and handlers of fruits, tree nuts, vegetables, melons, potatoes, and nursery crops, including floriculture. It is a major contributor to the U.S. agricultural economy. Specialty crops accounted for 10 million harvested cropland acres in 2004. The value of total U.S. specialty crops ($49 billion in sales) now exceeds the combined value of the five major program crops ($45.8 billion in sales).

One of the principle opportunities to enable the specialty crop industry to remain competitive in the global environment and to continue contributing to the U.S. economy is to support research programs that facilitate continued advancements in productivity and technology.

FOREIGN ANIMAL DISEASE RESEARCH

Recommendation In Brief
Authorize USDA to conduct research and diagnostics for highly infectious foreign animal diseases on mainland locations in the U.S.

Problem
Research and diagnostics for highly infectious foreign animal disease agents, such as Foot and Mouth Disease (FMD) and Rinderpest viruses, are currently confined to an off shore location, presently the Plum Island Animal Disease Center (PIADC). The Department of Homeland Security (DHS) has initiated a process to move all the functions of PIADC to a new facility to be named the National Bio and Agro-Defense Facility (NBAF). When the new DHS NBAF facility is constructed and operational, all USDA work at Plum Island is expected to relocate to this new mainland facility. In anticipation that this facility will be built on the U.S. mainland, USDA must be authorized to conduct important foreign animal disease research on FMD and other select diseases at the new facility or at other U.S. locations equipped to handle highly infectious diseases.

Research, diagnostics and training, as well as vaccine development and evaluation are critical components to fighting and mitigating the effects of these diseases and securing the U.S. food and agricultural system. Without this research, U.S. farmers and our entire food system would be at greater risk.

Recommended Solution
The Administration proposes specific authorization for USDA to conduct research and diagnostics for highly infectious disease agents, such as FMD and Rinderpest on the U.S. mainland.

Background
Research and diagnostics for highly infectious foreign animal disease agents, such as FMD and Rinderpest viruses, are statutorily confined to an off shore location, i.e. the PIADC. In 1990, the original 1884 statute was amended, 21 U.S.C. 113a, to authorize the Secretary of Agriculture to issue a permit for FMD live virus work on the U.S. mainland when necessary and in the public interest.

Today, modern biocontainment facility construction and rigorous biosafety operational standards allow such work to be safely done without fear of virus escape to the environment or harm to animal and/or pubic health.

TITLE VIII
FORESTRY

SUMMARY OF FORESTRY TITLE REFORM

Recommendations In Brief
Encourage states and private forest owners to proactively manage and preserve their forests through innovative initiatives. Create a wood-to-energy program to support better utilization of low value woody biomass for energy production.

Problem
Complex issues are facing our nation's forest owners, yet only 30 million of the nation's 345 million acres of private nonindustrial forestland is covered by Forest Stewardship Plans to ensure sustainability.

Forest landowners face increased pressures to convert their forestland to development – houses, roads, and buildings continue to encroach. Land covered by urban areas has more than doubled over the last 40 years, and more than 44 million acres of private forests are at-risk of being developed by the year 2030. Much of this development is expected on the urban fringe, threatening open spaces and increasing fire prone areas, potentially putting more people and property in harms way.

Additionally, our nation's forests contain enormous amounts of woody biomass that cause waste disposal problems, degrade forest health, and add fuel that can drive uncharacteristic wild land fires. Often, forest thinning as well as forest fires, insect damage, and disease can generate large quantities of biomass that has little commercial value. Currently, these wastes are not reused or recycled. Technological advancement could provide a pathway to better utilize these products, contributing to forest health and protection while helping to meet our nation's energy needs.

These forestry problems were noted during USDA Farm Bill Forums. Robert from New York said, "The need to invest in sustainable forestry continues and remains a critical tool that will address such modern environmental challenges as global climate change, sprawl, and energy independence. A Forestry Title within the 2007 farm bill is required to promote the sustainable use and management of the nation's private forest lands." And Kristen from Massachusetts added, "Forests provide important ecosystem services like clean air, clean water, wildlife habitat, and serve as a soil bank for high-value soils...The next farm bill must have a major emphasis on forests as well as farmlands, including a separate Forestry Title to ensure that these programs receive adequate attention."

Recommended Solution
The Administration is recommending authorization of several new initiatives within Title VIII of the farm bill – entitled "Forestry." Following is a list of the major components of the package.

1. Provide technical and financial assistance to each state forestry agency for the development and implementation of a Statewide Forest Resource Assessment and Plan. (For further information, see the proposal entitled "Comprehensive Statewide Forest Planning" on page 137.)
2. Create a competitive landscape scale grant program to develop innovative solutions that address local forest management issues; develop local nontraditional forest product markets;

and stimulate local economies through creation of value-added forest product industries. (For further information, see the proposal entitled "Landscape Scale Forestry Competitive Grant Program" on page 138.)

3. Initiate a new $150 million wood-to-energy program over 10 years to accelerate development and use of new technologies to more productively utilize low-value woody biomass resources, offsetting the demand for fossil fuels and improving the forest health. (For further information, see the proposal entitled "Forest Wood to Energy" on pages 139 – 140.)
4. Create a Community Forests Working Lands Program to: 1) provide financial support to communities for the acquisition and conservation of community forests and 2) provide technical assistance to communities engaged in forest resource planning. (For further information, see the proposal entitled "Community Forests Working Lands Program" on page 141.)

COMPREHENSIVE STATEWIDE FOREST PLANNING

Recommendation In Brief
Provide technical and financial assistance to each state forestry agency for the development and implementation of a Statewide Forest Resource Assessment and Plan.

Problem
Even as the public demand for products and amenities associated with forestlands grows, private forest landowners are faced with increased pressure to convert their forestland to development. More than 44 million acres of private forests are at risk of being developed by 2030. Much of this growth is in fire prone areas, adding to the complexity of managing fire adapted ecosystems and potentially putting more people and property in danger.

Recommended Solution
The Administration recommends initiating a program to provide technical and financial assistance for the development and implementation of Statewide Forest Resource Assessments and Plans. This new initiative is modeled after a successful Department of Interior program that provides states with federal financial assistance to develop comprehensive plans to conserve wildlife within their boundaries.

These new assessments and plans would: identify critical forest resource areas; incorporate existing forest management plans; address national priorities and regional cross-boundary needs; and provide a comprehensive framework for management, public participation, monitoring, and grants administration. The plans, which would be reviewed by the Forest Service, would provide a formal multi-year tool to direct programs and funding into a cohesive integrated forest management strategy.

A comprehensive approach to forest management is necessary to sustain the benefits of forestlands in the face of increasing and conflicting demands. While a few states have begun making significant progress towards managing forests on a broad scale, accelerating and expanding strategic landscape-scale forestry planning is needed to fully address the threats facing these lands. USDA proposes up to $65 million in discretionary funding for this new initiative.

Background
Nationwide, 430 million acres of forestlands are privately owned. These lands play a critical role in generating drinking water, controlling floods, storing carbon, producing timber and other wood products, sustaining biodiversity, and providing outdoor recreation for millions of Americans. Comprehensive forest management planning is necessary to ensure forests can continue to provide critical ecosystem services and products.

LANDSCAPE SCALE FORESTRY COMPETITIVE GRANT PROGRAM

Recommendation in Brief
Create a competitive landscape scale grant program to develop innovative solutions that address local forest management issues; develop local nontraditional forest product markets; and stimulate local economies through creation of value-added forest product industries.

Problem
Even as the public demand for products and amenities associated with forestlands grows, private forest landowners are faced with increased pressure to convert their forest land to development. With 63 percent of family forest landowners over 55 years old and 33 percent over 65, a substantial portion of the Nation's private forestlands will be transferred during the next two decades. The Forest Service estimates that 44 million acres of forestland is at risk of conversion or fragmentation by 2030.

While small scale or individual landowner focused programs are helpful, they cannot alone address the complex issues of today's current forestry scenarios - global markets, urban sprawl, and public disconnection with natural environment. As the Kansas State Forester stated at a farm bill forum, "To meet our objectives on priorities and [make] a measurable difference, I believe a landscape approach to implementing programs is needed."

Recommended Solution
The Administration proposes the authorization of a new landscape scale competitive grant program to protect critical forest areas, generate income and employment through niche timber markets, and contribute to the economic health of rural communities. This cooperative conservation approach at the landscape scale is needed to maintain the environmental, social and economic benefits provided by healthy forest ecosystems.

The landscape scale of the grant program would ensure a comprehensive, coordinated approach to forest management and would ensure collaboration across ownership and jurisdictional boundaries. The competitive grant would provide "one-stop shopping" for grantees providing technical and financial assistance for all phases of a landscape level project from planning through implementation and management. The proposed program would authorize appropriations up to $30 million annually.

Background
Landscape scale projects involve multiple watersheds. Competitive projects would be located in critical forest areas; would actively enroll new and underserved family forest owners; and would deliver on the ground projects that integrate private landowner goals, sustainable forestry goals, and sustainable community goals. State, county, local and tribal governments, conservation and environmental organizations and associations, private forest landowners, and academia would be eligible. Public/private partnerships would be encouraged. Grant periods would be for 3-5 years to allow appropriate time to build capacity.

FOREST WOOD TO ENERGY

Recommendation In Brief
Initiate a new $150 million wood-to-energy program over 10 years to accelerate development and use of new technologies to more productively utilize low-value woody biomass resources, offsetting the demand for fossil fuels and improving the forest health.

Problem
Public, private, and tribal forests contain enormous amounts of biomass. In many cases, woody biomass poses waste disposal problems, degrades forest health, and adds to fuel loads that contribute to uncharacteristic wild land fires. Millions of tons of woody biomass are available and must be disposed of at high costs. Because little commercial value is associated with wood generated by thinning operations or wood damaged by forest fires, insects, and disease, this wood is generally not reused or recycled in a sustainable manner.

This unique opportunity was not overlooked at USDA Farm bill Forums. For example, Daniel from Texas requested that the farm bill "invest in woody biomass technologies, including the use of woody biomass for energy, transportation fuels and other value added products. This would help to recover much of the lost infrastructure in logging and timber communities throughout the United States, while at the same time promoting healthy forests, reducing our dependence on foreign oil, creating jobs, and most importantly providing for national security." And Dean from Minnesota echoed, "Agroforestry can contribute to energy independence through production of biomass energy from both herbaceous and woody perennials which also provide environmental benefits...The next farm bill should provide temporary support to biomass energy programs and other agroforestry systems until such systems become self-sustaining."

Recommended Solution
The Administration proposes to establish a new Wood to Energy Program. This new initiative would:
1. Accelerate practical commercial development of cellulosic ethanol conversion from a diverse range of biobased products;
2. Increase use of Forest Service knowledge and technical capacity to advance research and commercialization of woody biomass as a transportation fuel;
3. Develop new or improved processes for wood to ethanol conversion, small scale wood to energy technology, biobased products from low-valued woody biomass sources, and technologies for separating high-value from low-value wood for primary and secondary processing; and
4. Apply new technologies, such as nanotechnology and biorefining, to product development.

The Forest Service would engage forest-based communities, entrepreneurs, small businesses, along with private investors in the implementation of this program to leverage Forest Service staff and other critical resources. The fiscal year 2006 Interior Appropriations Conference Report provides up to $5 million for this type of biomass research grants; we propose supplementing this investment with $15 million annually in mandatory spending.

Background

Woody biomass is defined as woody materials that have historically been too small, scattered, or poor in quality to attract commercial buyers. Converting biomass to higher-value products and/or renewable energy can improve forest health; create thousands of rural-based jobs; millions of dollars in value-added revenue; and reduce dependence on imported oil.

COMMUNITY FORESTS WORKING LANDS PROGRAM

Recommendation in Brief
Create a Community Forests Working Lands Program to: 1) provide financial support to communities for the acquisition and conservation of community forests and 2) provide technical assistance to communities engaged in forest resource planning.

Problem
Forests at the urban fringe are being displaced as U.S. cities and towns are expanding, with new houses, roads, and buildings. The land covered by urban areas has more than doubled over the last 40 years with continued growth expected. The planning decisions of local governments significantly impact whether forests are protected or converted to other uses. Community planners make decisions about zoning, distribution of infrastructure, and development protocols that often affect the conservation of open spaces and forests. However, they are not often equipped to make informed decisions about the impact of land use on current or future forest resources. In some cases, community planners lack the financial or technical resources to create a community forest.

Recommended Solution
The Administration proposes the creation of the Community Forests Working Lands Program to provide financial and technical assistance to communities. The first element of the program would amend and complement the Forest Legacy program by providing funding for the conservation of forested tracts near cities and towns. Funding would enable local governments to designate and protect community forests through conservation easements and/or acquisition. The second element of the program would provide forest resource planning assistance to communities. The program would provide community-specific technical assistance, as well as general resources and training to help state and local planners better understand and manage their community forest resources. Community forests help protect environmentally important land within and near urban areas, provide a local source of timber and forest products, and also provide recreation and education opportunities for urban citizens. The program would be authorized up to $65 million annually in discretionary funding.

Background
This conservation program specifically targets threatened forests near cities and towns because these lands are highly vulnerable to development pressure. Conservation of forests within and near communities play a critical role in protecting riparian habitats, purifying water, controlling floods, storing carbon, and providing outdoor recreation for urban populations. Community forests also enable citizen engagement in the management of their forests and the production of local forest products. As Dennis stated at the Vermont Farm Bill Forum, "We're seeing a groundswell of interest at the local municipal level for communities to purchase and manage their own timberlands."

TITLE IX
ENERGY

SUMMARY OF SUPPORT OF RENEWABLE ENERGY PRODUCTION IN RURAL AMERICA

Recommendation In Brief

Expand Federal research focused on renewable fuels and bioenergy and reauthorize, revise, and expand programs that provide valuable tools for the advancement of renewable energy production and commercialization.

Problem

In fiscal year 2005, U.S. ethanol and biodiesel production made from all sources was nearly 4 billion gallons and 91 million gallons, respectively. Comparatively, 140 billion gallons of gasoline and over 60 billion gallons of diesel fuel were consumed in the U.S. in 2005.

Even with the success of corn and soybean biofuels, to substantially reduce America's dependence on imported oil, biofuels will need to be made from cellulosic processes that use feedstocks such as specialty crop biomass, switch grass, corn stover, straw, and other woody biomass. Some cellulosic conversion processes have been scientifically demonstrated to be capable of producing biofuels and other energy.

Limited government support, in partnership with the private sector, will help to advance commercial application of these innovations. Government support of cellulosic energy is needed because the scale of investment required is very large, the industry is new and thus faces uncertain risks, and there is an urgent need to diversify energy sources for economic and security reasons.

In addition to reducing our nation's dependence on oil, renewable energy is reinvigorating rural America. The agricultural implications of renewable energy were highlighted repeatedly during USDA Farm Bill Forums. For example, John from Illinois said, "Producing cellulosic biomass for base-load renewable energy and other uses will provide farmers and ranchers with a new crop and many rural communities with new processing businesses and allied agricultural services opportunities." Jeffrey of Vermont said, "USDA is uniquely suited to help propel a major renaissance of agricultural economic prosperity through strong action to increase the production of farm based renewable energy of all types."

Developing this technology in a way that enables commercialization depends on quality, highly-focused research. Yet, bioenergy research and development totals only two percent of USDA's entire research and development portfolio. This level of support is inconsistent with our nation's energy supply and security priorities. USDA was repeatedly encouraged to strengthen investment in renewable energy by people like Richard, of Nebraska, who said, "We believe the 2007 farm bill should include a focal point on renewable energy. The energy title should be strengthened." Chad, of Washington State suggested in his written comments, "Now we have the opportunity to help provide energy to offset oil imports. We need to fund the development of renewable energy sources."

Recommended Solution

Funding basic and applied research, as well as sharing the risk through loan and loan guarantee programs, helps to improve the economic, technical, and commercial viability of new, high capacity renewable energy processes. Once a process is recognized as having achieved commercial viability, the Federal government should refocus support on other less developed, yet promising processes. To carry out this approach, the Administration recommends the following:

1. Initiate a new, temporary program to provide $100 million in direct support to producers of cellulosic ethanol. (see proposal entitled "Cellulosic Bioenergy Program" on pages 145 - 146).
2. Reauthorize the BioPreferred program, revise provisions to improve its effectiveness, and invest $18 million over 10 years to expand and improve the program. (see proposal entitled "Expansion of Biobased Products Market" on page 147).
3. Reauthorize the Renewable Energy Systems and Energy Efficiency Improvements loan guarantee program. The Administration proposes a loan guarantee program funding level of $210 million, which would support $2.17 billion of guaranteed loans over 10 years. The loan cap for funding cellulosic ethanol projects would increase to $100 million per project, and these cellulosic projects would be exempt from the cap on loan guarantee fees. Further, the Administration recommends incorporating these programs into the Business and Industry Loan and Loan Guarantee Program. Prioritize funding for the construction of biorefinery projects in the Business and Industry loan guarantee program. (see proposal entitled "Streamline Rural Development Programs" on pages 122 - 123).
4. Reauthorize the Renewable Energy Systems and Energy Efficiency Improvements grant program. The grant program would be funded at $500 million over 10 years. This program will continue to support smaller alternative energy and energy efficiency projects that directly help farmers, ranchers, and rural small businesses. The goals would be consistent with those contained in the Biorefinery Development Grants program, which include providing diversified markets for agricultural and forestry products, increasing the country's energy independence, and enhancing rural development opportunities. (see proposal entitled "Streamline Rural Development Programs" on pages 122 - 123).
5. Enhance the Conservation Reserve Program (CRP) by adding a biomass reserve program to give priority for whole-field enrollment of lands producing biomass for energy production (see proposal entitled "Conservation Reserve Program" on pages 51 - 52).
6. Revise the Biomass Research and Development Act of 2000 to increase the annual competitive grant funding for biomass research, focusing on cellulosic ethanol, with $150 million in mandatory funding over 10 years. (see proposal entitled "Streamline Rural Development Programs" on pages 122 - 123).
7. Expand USDA and university research by authorizing $500 million in mandatory funding over 10 years for the creation of a Bioenergy and Bioproducts Research Initiative to increase the cost-effectiveness of bioenergy by facilitating collaboration between Federal and university scientific experts. The initiative would link USDA Rural Development bioenergy activities to hasten technology transfer (see proposal entitled "Agricultural Bioenergy and Biobased Products Research Initiative" on pages 129 - 130).
8. Accelerate the development of new technologies to better utilize low-value woody biomass by authorizing $150 million in 10 year mandatory funding for Forest Service research (see proposal entitled "Forest Wood to Energy" on pages 139 - 140).

CELLULOSIC BIOENERGY PROGRAM

Recommendation In Brief

Initiate a new, temporary program to provide $100 million in direct support to producers of cellulosic ethanol.

Problem

Ethanol produced from corn is growing rapidly, contributing to diversification of the nation's transportation fuel supply and increasing economic opportunity for farmers and rural areas. However, the need for greater production of renewable energy is enormous, but the ability of corn-based ethanol to supply that need is limited. Efficiently producing ethanol from cellulosic feedstocks such as switchgrass, corn stover, wood, waste, and other biomass materials would provide large, new sources of raw materials for the production of renewable fuel. Economically feasible cellulosic ethanol production would enable ethanol to displace much more imported crude oil than relying on corn-based ethanol alone. In addition, production of the biomass for cellulosic ethanol production would create economic opportunities for many farmers in diverse geographic regions across the United States.

Cellulosic ethanol is not commercially produced in the United States today. However, the technology of production has been improved greatly in recent years and demonstration plants are expected to be producing in the near future. This emerging industry faces start-up risks as new, costly plants are built and the technology is improved to achieve commercial-scale production. Targeted government support is needed to help overcome the initial barriers to commercial production.

Recommendation

Initiate a program that would share the cost of biomass feedstocks used by cellulosic ethanol producers for their increase in production above their previous year's level of production. The program would be modeled after the Commodity Credit Corporation (CCC) Bioenergy Program, which expired in 2006, as authorized by Section 9010 of the 2002 farm bill. The new cost share program would provide $25 million annually in mandatory funding for FY 2009-2012. Eligible biomass feedstocks would include sugar crop and specialty crop waste products.

Background

The CCC Bioenergy Program operated during FY 2001-2006. The initial purpose of the program was to generate demand for surplus farm products, expand biofuel production, and support new biofuel production capacity. The 2002 farm bill funded the program at up to $150 million annually for FY 2003-2006. The program made payments to commercial U.S. ethanol and biodiesel producers. Payments were based on the year-over-year increase in biofuel production made from eligible commodities. Eligible commodities included major field crops, such as wheat, corn, grain sorghum, oats, rice, and soybeans and other oilseeds; cellulosic crops (such as switchgrass and short rotation trees); and animal fats, oils and greases, including recycled oils. The new recommended program would operate similarly to the CCC Bioenergy Program, except that payment eligibility would be limited to the increase in cellulosic ethanol produced from biomass feedstocks. The program would include an annual payment limitation per ethanol producer.

EXPANSION OF BIOBASED PRODUCTS MARKET

Recommendation In Brief
Reauthorize the Federal Procurement of Biobased Products program, revise provisions to improve its effectiveness, and invest $18 million over 10 years to expand and improve the program.

Problem
Section 9002 of the 2002 farm bill created the Federal Procurement of Biobased Products program to encourage Federal government purchases of biobased products. However, several provisions of the authorizing legislation have hampered program implementation and are likely to do so in the future. These provisions include the definition of a biobased product, the limitations on the use of mandatory funding, the lack of funding for program administration, and the lack of authority to designate intermediate production inputs (materials used to create biobased products) for preferred procurement. To increase the Federal market penetration of biobased products, these concerns must be addressed. During USDA Farm Bill Forums, support for biobased products was frequently expressed by people like Suzy of Iowa who said, "...renewable energy and bioproducts are all important things to consider as we head into the 21st Century." Millie, of New Mexico, stated it simply when she said, "Renewable energy and bioproducts need to be priorities."

Recommended Solution
The Administration recommends that the authority in Section 9002 be amended to define "biobased products" as a product determined by the Secretary to be a commercial or industrial product (other than food or feed) that is composed, in whole or in significant part, of biological products including renewable domestic agricultural materials (including plant, animal, and marine materials) or forestry materials. This amends the current definition so that renewable agricultural materials are not limited to domestic sources, thus resolving trade restriction concerns with the current statutory language. The $1 million in annual mandatory funding currently provided for testing should be continued and expanded to include environmental and performance testing for the purposes of public information as well as for designation of items for procurement. In addition, $800,000 in annual mandatory funding would enable USDA to provide assistance to other Federal agencies in implementing the procurement program as well as allow USDA to audit and oversee biobased product manufacturers to ensure that their claims regarding their products are valid and that criteria are met for using the label authorized by the program. Finally, materials used to create biobased products, such as chemical building blocks, should be eligible for biobased product designation and labeling.

Background
The Federal Procurement of Biobased Products program helps develop the market for biobased products by encouraging the purchase of these products by the Federal government. Through Federal government purchases, the commercial viability of these products could be established and government demand for biobased products increased, thus leading to wider public acceptance, increased demand, and increased production of a greater variety of biobased products.

TITLE X
MISCELLANEOUS

SUMMARY OF MISCELLANEOUS TITLE REFORM

Recommendations In Brief

Improve risk management tools for farmers by creating a supplemental insurance program. Increase the efficiency and effectiveness of the crop insurance program. Revise dairy assessment requirements to create a more fair system.

Problem

Risks related to weather patterns and natural disasters are inherent to farming, creating the need for protection. Crop insurance provides this protection, but farmers have voiced concern about crop insurance deductibles and premiums being too high.

For example, Ricky from Alabama said, "While most producers realize that no one should be guaranteed a profit, we do see the need for real crop insurance reform that will give good business men the tools they need to manage the unique risk involved in agricultural production.... (crop insurance was) too expensive at adequate coverage, too many producers were left out, and there was still too much room for fraud." And Gary from Kansas agreed, "The crop insurance program definitely needs revamping. Most insurance programs, such as health or home insurance, reimburse the insured for most of the costs associated with a tragedy. Crop insurance, in no way, provides this insurance, and this became very evident with our continued drought here."

Additionally, certain statutory requirements of the crop insurance program have put its future integrity and actuarial soundness in question. For example, the law requires no further adjustments to the standard reinsurance agreement and mandates an expected loss ratio designed to ensure indemnities paid out exceed premiums paid in.

Crop insurance fraud and abuse continues to be a serious concern. An expansion of program compliance and data mining activities is needed to appropriately identify and sanction "bad actors" who are abusing the program. The law also prohibits certain existing funding sources from being used on high priority crop insurance needs such as program compliance efforts and research on existing crop insurance products. Jocie from North Dakota said, "A crop insurance program that provides risk management and revenue protection...is an important part of any farm bill."

Finally, dairy promotion and research assessments are currently collected on domestic products from the 48 contiguous states, but are not collected on dairy production from Alaska, Hawaii, and Puerto Rico. This domestic inconsistency has prevented dairy assessments from being collected on imported dairy products, putting domestic dairy products at a disadvantage compared to their imported counterparts.

Recommended Solution

The Administration is recommending several additions to Title X of the farm bill – entitled "Miscellaneous." Following is a list of the major components of the package.

Subtitle A – Crop Insurance

1. Allow farmers to purchase supplemental insurance that would cover all or part of their individual policy deductible in the event of a county or area wide loss. This proposal would increase the Administration's commitment to crop insurance by $350 million over 10 years. (For further information, see the proposal entitled "Crop Insurance Supplemental Deductible Coverage" on pages 151 – 153.)
2. Reduce the expected loss ratio for the crop insurance program from 1.075 to 1.00. (For further information, see the proposal entitled "Revise Crop Insurance Expected Loss Ratio" on page 154.)
3. Allow private crop insurance companies direct access to data mining information that reveals potential fraud and charge a user fee for this access. (For further information, see the proposal entitled "Access to Crop Insurance Data Mining Information" on pages 155 – 156.)
4. Allocate up to $10 million in annual funding to strengthen crop insurance compliance efforts. (For further information, see the proposal entitled "Strengthen Crop Insurance Program Compliance" on pages 157 – 158.)
5. Provide the Federal Crop Insurance Corporation (FCIC) broader authority to contract for research and development to improve existing crop insurance programs. (For further information, see the proposal entitled "Crop Insurance Research and Development" on pages 159 – 160.)
6. Provide the authority for USDA to renegotiate the financial terms of the Standard Reinsurance Agreement once every 3 years. (For further information, see the proposal entitled "Crop Insurance Standard Reinsurance Agreement" on pages 161 – 162.)
7. Implement a series of crop insurance reforms to increase program participation, reduce the need for ad hoc disaster assistance programs, and control program costs. (For further information, see the proposal entitled "Increase Crop Insurance Participation While Controlling Program Costs" on pages 163 – 164.)

Subtitle B -- Marketing

1. Enable the collection of research and promotion assessments on imported dairy products, as called for in the 2002 farm bill, by requiring these assessments on a consistent basis domestically. (For further information, see the proposal entitled "Ensuring Fairness of Dairy Research and Promotion Assessments" on pages 165 – 166.)
2. Re-authorize and expand the Organic Certification Cost Share Program and provide funding for organic farming research and comprehensive market price information gathering. These organic farming initiatives total $61 million in additional funding over 10 years. (For further information, see the proposal entitled "Organic Farming Initiatives" on pages 166 – 167.)
3. Utilize an additional $2.75 billion of Section 32 funds over ten years to specifically purchase fruits and vegetables for the National School Lunch Program and other nutrition programs. (For further information, see the proposal entitled "Increase Purchases of Fruits and Vegetables for Nutrition Assistance Programs" on pages 168 – 169.)

CROP INSURANCE SUPPLEMENTAL DEDUCTIBLE COVERAGE

Recommendation in Brief

Allow farmers to purchase supplemental insurance that would cover all or part of their individual policy deductible in the event of a county or area wide loss. This proposal would increase the Administration's commitment to crop insurance by $350 million over ten years.

Problem

During USDA's Farm Bill Forums, producers expressed concern that crops with high premiums and significant deductibles leave producers with unacceptable risk management options. Jayme from North Dakota said, "Modifying the crop insurance program to account for regional disasters may be able to help beginning farmers through their most difficult challenges."

Producers can minimize deductibles by purchasing higher coverage levels (lower deductibles) but they face significantly higher premiums as a result. For some farmers, the deductibles on their crop insurance policies might exceed their profit margin. For example, the smallest deductible offered on USDA individual coverage crop insurance policies is 15 percent, meaning that a 15 percent loss must be incurred and absorbed by the producer before any indemnity is paid.

Loren in Kansas said, "I think that less subsidy should go to the type of crop insurance that the farmer has to verify yields, and more to the group risk and GRIP type policies."

Recommended Solution

The Administration proposes to amend the Federal Crop Insurance Act to allow the USDA crop insurance program to offer a new insurance option. This supplemental coverage would pay some or all of a grower's individual deductible if the producer is in a county that has suffered a high rate of loss. The sum of the indemnities payable under the individual and the group deductible policies could not exceed the value of the crop. This supplemental deductible coverage would function similarly to existing policies such as the Group Risk Plan (GRP) and the Group Risk Income Protection (GRIP). The supplemental policy would be offered at several coverage levels such that all or only a portion of the deductible would be covered.

Deductibles require producers to share in the risk of loss, thus encouraging them to operate their farms using best management practices. However, an individual producer's activity has little impact on countywide losses. Therefore, by triggering the supplemental deductible coverage based on county or area-wide losses, the integrity of the Federal crop insurance program is maintained. The supplemental deductible coverage is not paid in the event of individual substandard farming practices.

The Supplemental deductible coverage would strengthen the safety net provided by crop insurance by providing full coverage in the event of area-wide disasters. For example, if a producer selects 65 percent coverage under an individual policy and purchases supplemental deductible coverage, the producer could be compensated for 100 percent of his or her loss in the event of a devastating drought.

The threshold at which the supplemental insurance would be activated is a county-wide loss of 10 percent or more. When the loss under the group policy is sufficiently large, the grower's deductible would be completely covered, resulting in 100 percent of losses being covered. No existing crop insurance policy offers 100 percent coverage.

This approach would help to address the "hole in the safety net" that exists due to the fact that current crop insurance products fail to cover crop losses that are less than the size of the deductible. Supplemental deductible coverage, combined with changes in the crop insurance program designed to increase participation (see "Increase Crop Insurance Participation While Controlling Program Costs") and the counter-cyclical revenue payment program (see "Revenue-Based Counter-Cyclical Payment") will help eliminate the need for costly supplemental disaster assistance that potentially undermines crop insurance participation.

In addition, the proposal will help to address the concerns producers raised about high premiums for higher levels of coverage. Because an area-wide event is necessary to trigger the supplemental deductible coverage, the premium would be substantially lower than the premium for higher levels of standard coverage.

Background

Basic Federal crop insurance is designed to address two types of risk: 1) localized risks of a specific producer's farm, such as an excessive rainfall or other natural disaster and 2) risks that cause widespread production losses, such as a county-wide drought.

A deductible on individual coverage in crop insurance provides an incentive to mitigate losses and protect program integrity. However, it creates a gap in the protection offered by the program. Allowing farmers to purchase a supplemental group deductible policy, for which the insured cannot control the loss outcome, would provide more comprehensive coverage of risks. At the same time, it would avoid the incentive problems that true 100 percent individual coverage would entail.

Under the Administration's proposal, if the county yield is at or below 70 percent of the county average, producers would receive a payment equal to 100 percent of the loss not covered by the crop insurance payment under their individual policy. If the county yield is between 90 and 70 percent of the county average, the producer would receive a proportional amount of the loss not covered by the crop insurance payment. And if the countywide loss is less than 90 percent, no deductible payment would be triggered. Producers would also receive whatever indemnity is triggered under the individual policies as well; thus under a complete loss scenario, producers would receive 100 percent indemnity for their losses.

Looking at some specific examples, assume a producer takes advantage of this proposal and purchases both an individual yield policy and a supplemental deductible option based on county yield. For every one percentage point indemnity calculated under the county yield policy, the producer would receive a payment equal to 5 percent of the loss not covered by a crop insurance payment. If the county yield is 80 percent of the expected yield, the county yield would be ten percentage points below the county yield indemnity trigger of 90 percent, and the producer would receive a payment under the county yield policy equal to 50 percent (10 times five percent) of the loss not covered by the crop insurance payment. Under this same scenario, if the county yield fell to 70 percent of the county average, the policy would cover 100 percent of the uncovered loss, and if the county yield fell to 86 percent of the county average, the group policy would pay 20 percent of the uncovered loss.

REVISE CROP INSURANCE EXPECTED LOSS RATIO

Recommendation in Brief
Reduce the expected loss ratio for the crop insurance program from 1.075 to 1.00.

Problem
Sections 506(o) and 508(d) of the Federal Crop Insurance Act mandate that the expected loss ratio for the crop insurance program should be not greater than 1.075. Consequently, an assumed underwriting loss is built into the budget for the crop insurance program, bringing into question its actuarial soundness.

Recommended Solution
The Administration recommends a revision of the expected loss ratio in the Federal Crop Insurance Act downward from 1.075 to an actuarially balanced level of 1.00. This policy change will reduce the budgeted cost of the crop insurance program and ensure a more actuarially sound. Program changes in recent years have moved the program steadily toward an expected loss ratio of 1.00. The recommended change will ensure actuarial integrity in the program, thus encouraging continued participation by producers and private insurance companies.

Background
Expected loss ratios are simply the projected indemnity claims paid out by the insurance program divided by the insurance premium paid into the program (both producer and government portions of the premium). During the 1990's, the Federal Crop Insurance Act was revised to require the crop insurance program to operate with an expected loss ratio of not greater than 1.10 by 1995 and 1.075 by 1998. Consequently, the USDA assembled an 'Actuarial Blueprint' of changes to the program in order to improve actuarial performance. These measures included:

- Improved analysis of loss experience, resulting in general premium rate increases.
- Reduced yield guarantees for new producers who do not produce documentation of their past yield performance.
- The development of a taxpayer identification database that allows RMA to better track producers and their loss performance. This helps to prevent growers with poor loss experience (and high premium rates) from leaving the crop insurance program and then re-entering as a different entity with more favorable premium rates.
- Reviewed the language of crop insurance policies in order to clarify definitions, tighten underwriting rules, and clarify loss adjustment standards so that inappropriate indemnity payments are avoided.
- Increased the emphasis on program compliance and fraud prevention.
- Required Federally-reinsured crop insurance companies to retain more of the insured risk so that they have a clear incentive to assure the integrity of the crop insurance program.
- Expanded participation in the crop insurance program through improved marketing and the development of new products, allowing the crop insurance program to better diversify its risk, resulting in more stable actuarial performance.

ACCESS TO CROP INSURANCE DATA MINING INFORMATION

Recommendation in Brief
Allow private crop insurance companies direct access to data mining information that reveals potential fraud and charge a user fee for this access in order to fund improvements to the data mining system.

Problem
Fraud and abuse continue to be a serious concern for USDA and the crop insurance program. USDA uses computer technology to identify "bad actors" who may be abusing the program. These data mining activities have yielded significant results with an estimated $456 million in savings from crop years 2001- 2006. However, crop insurance companies, who share in the responsibility of identifying fraud and abuse, have only limited and often untimely access to this data.

Enhancements to the data mining system would further improve the ability of USDA and the crop insurance companies to expose fraud and abuse, but such enhancements require funding. Currently, USDA has no statutory authority to establish a fee system that would allow crop insurance companies to share in the costs associated with this shared benefit.

Recommended Solution
The Administration proposes enabling USDA's Risk Management Agency (RMA) to allow private crop insurance companies to directly query data mining information that reveals potential crop insurance fraud and abuse. Companies would be allowed to query information related only to their respective clientele. In order to fund enhancements to the data mining system, the Administration also proposes requiring RMA to charge a user fee for this service.

Background
USDA has developed an extensive and successful data mining capability that is currently used to identify potential fraud and abuse in the program. The Department has also identified a number of other uses for this capability such as underwriting assistance and program analysis.

The crop insurance program is delivered to producers through a complementary relationship between the government and the private sector. Some of these private insurance companies have requested the ability to directly query this system to assist in their own fraud detection programs. The companies could also use this information to assist with its own program underwriting and risk retention formulations.

USDA's data mining effort utilizes a contractor to build a data warehouse and develop queries to identify anomalies in the program. These anomalies are then vetted to determine if they result in fraud or abuse. This program has been very successful in maintaining program integrity. Additional uses of this system for program analysis allow USDA to study program performance and make rate recommendations to strengthen financial results and improve program performance.

Private crop insurance companies must have a program compliance function to participate in the program. The companies can use this data mining system to target its resources to areas with the highest probability of uncovering program abuse.

This information could be a valuable tool to assist private crop insurance companies in determining what level of risk they will take on policies they sell and service. Improved underwriting analysis could lead to additional profits for the companies, which could be used to share the cost of the data mining system through payment of the proposed user fee.

STRENGTHEN CROP INSURANCE PROGRAM COMPLIANCE

Recommendation in Brief

Allocate up to $10 million in annual funding to strengthen crop insurance compliance efforts.

Problem

Crop insurance fraud and abuse impact farmers and ranchers who buy the insurance, taxpayers who support government's share of the program and insurance companies that help underwrite the program. When fraud occurs, all of these groups share the resulting increased costs of such abuse.

Over the past 20 years, crop insurance program participation has doubled to 1.3 million policies, the amount of coverage provided has quadrupled to $50 billion, and the program has expanded into new models of insurance, such as revenue coverage and group coverage policies. While crop insurance has grown exponentially, funding for compliance activities has not significantly changed. The program is expanding beyond the ability of the current compliance technology and staff to maintain effective oversight and identify, assess, and correct program violations.

Recommended Solution

The Administration recommends redirecting up to $10 million annually to improve the integrity of the crop insurance program. This proposal would permit the use of existing funds, authorized by Section 522(e) of the Federal Crop Insurance Act, to increase compliance personnel, increase training, and expand and add analysis tools to make the compliance program more efficient and effective.

This funding would be used to strengthen the Risk Management Agency (RMA) compliance program, including identifying and utilizing innovative compliance strategies and technologies. For example, satellite imaging is currently only used as part of prosecutions to validate fraudulent program reporting. This additional funding would be used to expand this technology for detection and prevention in addition to deterrence. This additional funding would be used to expand this technology for detection and prevention in addition to deterrence. In addition, the funding can be used to support data mining efforts through development of the Comprehensive Information Management System (CIMS).

RMA would also use this funding to expand the use of other methods to identify and deter fraud and abuse in the crop insurance program. The Compliance Division would initiate training in Geographic Information Systems and other information technologies to improve data gathering and analysis. Limited training resources have restricted access to these tools and other technologies. Additionally, there is a critical need to place approximately 30 more compliance staff in the field.

Background

RMA's Compliance Division is responsible for identifying cases of non-compliance, recovering funds on behalf of the government, referring cases for criminal prosecution when appropriate, and adjusting the program to correct identified vulnerabilities. Currently, the RMA Compliance Division has a staff of approximately 100 people to monitor 1.3 million crop policies with a combined liability, or risk, of nearly $50 billion. RMA uses data mining to identify policies and policyholders whose program experience appears inconsistent with their peers. Currently, the compliance staff is unable to investigate all of the results rendered by the data mining activities. The compliance staff must also assist in criminal prosecutions, investigate complaints, and conduct random reviews to assess program performance.

Section 522(e) of the Federal Crop Insurance Act provides $15 million annually to reimburse the research and development costs and cover maintenance costs of private submitters of approved insurance products and $25 million annually to carry out research and development for states that are underserved, states that have low participation, or for underserved agricultural commodities, including specialty crops. Funds not used for these purposes may be used for partnerships with public and private entities to increase the availability and use of risk management tools by producers. Each year, a substantial portion of the $40 million has not been used for the primary intended purposes of research contracting and reimbursement of research costs for privately submitted products. These funds have been redirected for use in other approved activities. The Administration is proposing that these funds instead be redirected to focus specifically on crop insurance compliance.

CROP INSURANCE
RESEARCH AND DEVELOPMENT

Recommendation in Brief
Provide the Federal Crop Insurance Corporation (FCIC) broader authority to contract for research and development to improve existing crop insurance programs.

Problem
Section 522(e) of the Federal Crop Insurance Act provides $15 million annually to reimburse the research and development costs of private submitters of approved insurance products and $25 million annually to carry out research and development for states that are underserved, states that have low participation, or for underserved agricultural commodities, including specialty crops. FCIC insures over 360 commodities not considered as underserved or specialty crops, and many states are not considered underserved due to high participation levels. Funds not used for these purposes may be used for partnerships with public and private entities to increase the availability and use of risk management tools by producers. Each year, unused funds have been directed toward risk management partnerships to the point that the Risk Management Agency is stressing its limited resources to manage these partnerships.

Meanwhile, FCIC needs to continually evaluate and improve its existing programs, including contracting for reviewing of actuarial rating methodologies, analyzing program performance, improving existing coverage, and including quality coverage, to assure these programs continue to meet the risk management needs of producers. With ever-changing agronomics, crop varieties, genetic improvements, and alternative uses of many traditional crops, FCIC has many research and development needs to maintain and improve its many existing insurance programs to ensure their effectiveness. Meeting the ever-changing needs of agricultural producers cannot be fully accomplished due to the limitations on contracting authority and available funding provided by Section 522(c) and 522(e) of the Act.

Recommended Solution
The Administration proposes amending section 522(c) of the Federal Crop Insurance Act to provide greater flexibility and broader authority for using the available $25 million for contracting to maintain and improve existing risk management products. Another provision within 522(c) would provide the additional contracting authority, while still ensuring adequate funding for low participation states, low participation commodities, and specialty crop producers. This proposed solution would provide FCIC with the contracting authority and funding necessary to 1) continually review, evaluate, and improve its existing programs to keep pace with technology, changing farming practices, alternative crop uses, and genetically modified crops, and 2) provide improved coverage for added value commodities and food grade quality crop production.

Background
The Agricultural Risk Protection Act of 2000 provided significant funding to FCIC for contracting for research and development and prohibited FCIC from doing its own research and development. However, the authorities and funding provided were limited and targe

underserved states, commodities, and specialty crops. These limitations and the prohibition on research and development do not provide FCIC the authority and available funding to contract for research and development to evaluate and improve many of its existing risk management programs. This recommendation would give FCIC the flexibility and financial capabilities to maintain and improve existing risk management programs for American agricultural producers, while still remaining diligent in addressing the needs of specialty crop producers.

CROP INSURANCE
STANDARD REINSURANCE AGREEMENT

Recommendation in Brief
Provide the authority for the USDA to renegotiate the financial terms of the Standard Reinsurance Agreement no more than once every 3 years.

Problem
The Agricultural Research, Extension, and Education Reform Act of 1998 contained provisions that prohibited changes to the financial terms of the Standard Reinsurance Agreement. The Agriculture Risk Protection Act of 2000 (ARPA) provided authority for USDA to renegotiate the financial terms once between 2001 and 2005. USDA did renegotiate the terms in 2004 with the new Standard Reinsurance Agreement implemented in 2005. USDA now is prohibited from making any further changes indefinitely. These financial terms include critical program cost components, such as the administration and operating cost allowance provided to the reinsured companies for program delivery expenses and risk sharing formulas that establish underwriting gains and losses. As the participation levels change and crop programs are adjusted to improve their financial performance, corresponding changes are necessary to ensure a balance of potential gains and losses between the reinsured companies and USDA.

Recommended Solution
The Administration recommends providing legislative authority for USDA to renegotiate the SRA financial terms and conditions once every three years. It is critical that USDA have the ability to adjust the Standard Reinsurance Agreement in response to the changing environment of the program. For example, the crop insurance program participation has grown significantly since the implementation of ARPA. Producers utilized the new subsidy rates to purchase crop insurance for the first time or purchase higher levels of coverage than they had in the past. These higher participation rates have resulted in more stable program performance. In addition, the inception of the catastrophic level of insurance has the effect of improving program financial performance far more than originally anticipated. As a result, the reinsured companies have enjoyed historically large underwriting gains in the last two years of the program. However, due to the statutory prohibitions in the adjustment of the financial terms and conditions, USDA cannot rebalance the risk sharing provisions to ensure that taxpayer investment is well utilized.

This provision would also permit the renegotiation of the SRA if the reinsured companies experience an unexpected adverse impact. For example, if a drastic change was made to the subsidy rate for catastrophic coverage and a large movement of growers exited the program, companies would find themselves in a negative situation that would be difficult to mitigate due to the prohibition on changes to the SRA.

Background
The Risk Management Agency enters into a SRA with private insurance companies that sell and service the crop insurance program. The companies are provided with options to cede risk from individual crop insurance policies to USDA prior to inception of insurance coverage. In essence, these private insurance companies share in the risk of the program with the Government They

have the opportunity for profit and the opportunity to suffer financial losses. The specifics of how the risk is shared are contained in the financial terms of the SRA. Historically, the USDA has renegotiated the reinsurance terms with the private industry on an as needed basis. However, that situation was changed in the Agriculture Research, Extension, and Education Reform Act of 1998, and USDA is now prohibited from negotiating changes to the SRA.

INCREASE CROP INSURANCE PARTICIPATION WHILE CONTROLLING PROGRAM COSTS

Recommendation in Brief
Implement a series of crop insurance reforms to increase program participation, reduce the need for ad hoc disaster assistance programs, and control program costs.

Problem
The Federal crop insurance program has been amended over the years to help farmers deal more effectively with the effects of natural disasters and to reduce the need for ad hoc disaster assistance. While program participation and coverage levels purchased by farmers have increased, Congress has still provided ad hoc disaster assistance. Since 2000, over $10 billion has been provided in ad hoc disaster assistance, indicating further program changes are needed to obviate the need for such assistance. As Gene from Nebraska suggested, "Require nationwide participation by all ag producers in the crop insurance program. The goal here is to eliminate all crop disaster programs."

As program participation has grown, the administrative and operating expense reimbursements paid by the Federal Crop Insurance Corporation (FCIC) to the reinsured companies to cover their costs of program delivery have also increased. During 2000-2005, administrative and operating expense reimbursements averaged over $700 million per year. In addition, underwriting gains by the reinsured companies have increased dramatically in recent years. Underwriting gains averaged $430 million annually during 2000-2005 and exceeded $940 million in 2005. In addition, the government subsidizes about 60 percent of producer premiums. These large and growing costs have raised concerns about the high level of program costs per dollar of assistance provided to producers.

Recommended Solution
Implement a series of Federal crop insurance program reforms including:
1. Require program crop producers to purchase crop insurance at additional levels of coverage to be eligible for benefits under farm price and income support programs.
2. Reduce premium subsidies by 5 percentage points for coverage levels of 70 percent or below and 2 percentage points for coverage levels of 75 percent or higher.
3. Reduce the imputed premium on catastrophic coverage (CAT) by 25 percent and charge an administrative fee equal to or greater than $100 or 25 percent of the new, reduced imputed premium, with a maximum fee of $5,000.
4. Reduce the administrative and operating expense reimbursement to the reinsured companies by 2 percentage points for all policies other than CAT policies.
5. Increase the net book quota share (USDA FCIC's share of risk on premiums currently retained by the companies) from the current 5 percent to 22 percent and provide a ceding commission to the reinsured companies of 2 percent of premium.

Background
Currently, participation in the Federal crop insurance program is voluntary. This proposal would require producers of program crops to purchase crop insurance that covers 50 percent or higher

of the expected market value of their crop or lose farm program benefits. Producers now can voluntarily buy CAT coverage for an administrative fee, with the FCIC paying a 100-percent subsidy on the CAT premium. CAT covers 50 percent of yield and 55 percent of the market price, which is equivalent to 27.5 percent of the producer's expected value of production. Under this proposal, a producer would have to purchase at least 50 percent coverage on yield and 100 percent coverage on market price, which would be equivalent to covering 50 percent of the expected market value of the crop. Requiring participation at additional levels of coverage, in combination with the Supplemental Deductible Coverage option also being proposed on page 6-7 under this title, would greatly mitigate any need for ad hoc disaster assistance.

Premium subsidies currently vary from 67 percent at lower levels of coverage to 38 percent at higher levels. Reducing the subsidy level by 5 percentage points on lower coverage levels and 2 percentage points on higher coverage levels, as proposed, would still leave government subsidy levels quite high. In addition, a producer choosing to reduce coverage levels could still achieve protection from the higher deductible by purchasing the new Supplemental Deductive Coverage option.

Program costs under CAT coverage have been low, so reducing the imputed premium would bring the premium in line with actual losses. Charging 25 percent of the imputed premium for CAT coverage would only affect nonprogram crop producers who choose CAT coverage, since program crop producers would be required to buy higher levels of coverage. Since some very large producers have been purchasing CAT at the current low-level fee of $100 per crop per county, charging a premium-based fee reflects a more appropriate sharing of risk between the producer and the government.

Reducing the administrative and operating expense reimbursement to the companies and raising the net book quota share would reduce the expected gains received by reinsured companies, which have been substantial in recent years. The current reimbursement rate is 7 percent of premiums for CAT policies, 24.5 percent for higher levels of coverage, and 20.8 percent for revenue policies with coverage levels of 75 percent or less. Each of these levels, except for CAT policies, would be reduced by 2 percentage points. Expense reimbursement would also be reduced 2 percentage points for revenue policies with coverage above 75 percent and for group risk and other policies as well. The increase in net book quota share effectively means reinsured companies would have to reinsure 22 percent of their retained premium with FCIC rather than with private companies. This would enable FCIC to attain any underwriting gains or losses on this business that otherwise would have accrued to the companies. In return, FCIC would pay the companies a commission, similar to what companies receive when they reinsure their risk in private reinsurance markets.

ENSURING FAIRNESS OF DAIRY RESEARCH AND PROMOTION ASSESSMENTS

Recommendation In Brief

Enable the collection of research and promotion assessments on imported dairy products, as called for in the 2002 farm bill, by requiring these assessments on a consistent basis domestically.

Problem

The 2002 farm bill amends the National Dairy Promotion and Research Program to collect assessments on all imported dairy products similar to the current assessments levied on domestic dairy products. This provision also requires USDA to consult with the United States Trade Representative (USTR) to ensure that this requirement is consistent with the international trade obligations of the Federal government.

During this consultation, an issue was identified that requires statutory changes to address. Current law allows domestic dairy assessments to be levied only in the 48 contiguous states, exempting Alaska and Hawaii, as well as Puerto Rico. U.S. trading partners have claimed this limitation treats domestic industries more favorably than importers, thereby violating U.S. trade obligations. This unanticipated issue has prevented the implementation of dairy import assessments, as suggested in the 2002 farm bill.

As Larry at the Virginia Farm Bill Forum contended, policy-makers "should implement the collection of Dairy Promotion and Research check-off dollars on imported dairy products. The production of Alaska and Hawaii make up 0.00014 of the total U.S. production." Greg from Utah called for, "...the total enforcement of the dairy check-off dollars for imported dairy products...Right now we've got an uneven playing field in that area."

Recommended Solution

The Administration proposes amending Subtitles B and C of the Dairy Production Stabilization Act of 1983 to ensure that dairy promotion and research assessments apply to Puerto Rico, Hawaii, and Alaska. This proposal would change the definition of United States in this Act to be consistent with the definition used by USTR and our trading partners, which includes all 50 States, the District of Columbia, and Puerto Rico. This policy change will allow dairy research and promotion assessments on imports, as envisioned in the 2002 farm bill, without concern of potential World Trade Organization disputes.

Background

Section 1505 of the Farm Security and Rural Investment Act of 2002 amends the National Dairy Promotion and Research Program, authorized by the Dairy Production Stabilization Act of 1983, to provide for an assessment to be collected on all imported dairy products to fund research and generic advertising and promotion activities. The level of assessment would be equivalent to 15 cents per 100 pounds of farm milk, the rate currently paid by dairy farmers located in the 48 contiguous states. Section 1505 also requires the consultation with USTR.

ORGANIC FARMING INITIATIVES

Recommendation in Brief
Re-authorize and expand the Organic Certification Cost Share Program and provide funding for organic farming research and comprehensive market price information gathering. These organic farming initiatives total $61 million in additional funding over 10 years.

Problem
There is increased demand for organic supply and more farmers are interested in transitioning from traditional farming to organic farming but barriers exist. The requirements to be certified organic are lengthy and can be quite costly, especially for small farmers. In addition, a key deterrent to transition is the lack of solid production and market data to inform farmers, processors, wholesalers and retailers about the supply of key organic commodities and pricing data for those commodities.

Organic food consumption now constitutes about 2.5 percent of the food market. Retail organic sales are currently at $15 billion and growing by about 15-20 percent annually. U.S. sales of organic food and fiber now constitute one of the fastest growing segments of U.S. agriculture.

Organic farmers, just like traditional farmers, are also looking for opportunities in the global market place. More and more trading partners are seeking organic certification recognition to gain access to the U.S. organic consumer market.

Finally, with rapid growth in the organic market comes an inevitable increase in the number of alleged violations – many due to lack of knowledge about the program and the regulations. But a growing number are due to willful attempts to circumvent the regulations to capture profits at consumers' expense. In some cases, the regulations themselves appear insufficient to support enforcement activity. To address these problems, gaps in the regulations must be addressed and compliance and enforcement activity must be increased.

Recommended Solution
The Administration proposes enhancing the role of U.S. organic production agriculture and organic markets through the following authorities:

1. Increase the cost share program from the current 15 states to all 50 states and permit producers and handlers to be eligible. Increase cost share reimbursement from $500 to $750 maximum or 75 percent of costs incurred, whichever is lowest. This provision is helpful to small organic farmers who have trouble with the cost of the certification. The program should be authorized to expend up to $5 million annually in mandatory funding.
2. Reauthorize and fund data collection to identify and publish organic production and market data initiatives and surveys. Additionally, authorize and fund comprehensive price reporting. Organic farmers and those wishing to transition into organic farming lack solid production and market data about the supply of key organic commodities as well as pricing data for these commodities. Conventional farmers have access to USDA data which they can use to

plan crop plantings and make marketing decisions. Similar data is not available to organic farmers. The farm bill should authorize $1 million in mandatory funding to be available until expended for this data collection and publication.

3. Invest an additional $10 million in mandatory funding to be available until expended for organic research. This new funding would focus on conservation and environmental outcomes and new and improved seed varieties especially suited for organic agriculture.
4. Eligibility for the proposed enhanced Environmental Quality Incentives Program (EQIP) cost-share assistance would include a broad range of land uses including organically farmed land. (For further information, see the proposal entitled "Environmental Quality Incentives Program" on pages 43 – 45.)
5. Expand mandatory funding for the Market Access Program (MAP) by $250 million over 10 years and focus the additional funds on non-program commodities. Organic agriculture would be allowed to compete for Market Access Program funding to help develop and increase the organic export market. (For further information, see the proposal entitled "Enhance the Market Access Program" on pages 69 – 70.)

Background

The National Organic Program (NOP) originated with passage of the Organic Foods Production Act of 1990. The NOP regulations provide voluntary, uniform marketing standards for the production and processing of organic products that are to be labeled as "100 percent organic," "organic," or "made with organic ingredients," based on their final organic ingredient content. Essentially, the standards are a set of sustainable agricultural production and processing practices, using little or no chemicals, synthetics, irradiation, genetically modified organisms, or sewage sludge. All operations must be certified, by an accredited USDA certifying agent – a private entity licensed by USDA that verifies that each operation is producing to the NOP standards. Products that meet the standards are eligible to apply a USDA seal, for "100 percent" and "organic" (95 percent) content product. Additionally, the Certification Cost Share Program helps defray the cost of annual organic certification, particularly important to smaller producers and processors. Current NOP resources include an annual budget of approximately $2.3 million.

INCREASE PURCHASES OF FRUITS & VEGETABLES FOR NUTRITION ASSISTANCE PROGRAMS

Recommendation in Brief

Utilize an additional $2.75 billion of Section 32 funds over ten years to specifically purchase fruits and vegetables for USDA's domestic nutrition assistance programs, including the National School Lunch and Breakfast Programs, The Emergency Food Assistance Program, and other commodity distribution programs.

Problem

The most recent Dietary Guidelines for Americans recommends increasing fruit and vegetable consumption to 4-½ cups per day for a reference 2,000-calorie diet, yet research shows that average consumption of fruits and vegetables among the adult population is 2 to 2-1/2 cup equivalents per day and among school children is approximately 2 cup equivalents per day. Consumers commonly note that they limit consumption of fruits and vegetables because they are perceived to be expensive, time consuming to prepare and perishable. USDA nutrition assistance programs reach one in five Americans. Therefore providing readily accessible servings of fruits and vegetables to low-income populations and schools could significantly increase overall consumption and improve health.

Additionally, five program crops (rice, cotton, wheat, corn and soybeans) continue to receive the vast majority of Federal agriculture assistance even though U.S. specialty crop production is now equal in value to U.S. program crops. In fact, 60 percent of U.S. farmers and ranchers do not receive direct cash support from the farm bill, simply because they do not raise a program crop. These specialty crop producers face the same weather and other production challenges as their program crop counterparts.

This equity issue was raised at farm bill forums across the country. For example, James of New York testified, "Historically, the farm bill has benefited a small but crucial group, farmers. However, by supporting expansion of...(fruit and vegetable purchases), we have the unique opportunity to use the 2007 farm bill to directly and positively impact the health of our children and begin to reverse a dangerous trend toward obesity."

Recommended Solution

The Administration proposes to increase Section 32 purchases of fruits and vegetables by an additional $200 million in fiscal year 2008, $225 million in FY 2009, $250 million in FY 2010, $275 million in FY 2011, and $300 million in FY 2012 and thereafter above the last five-year annual average level of approximately $291 million.

Under this proposal, USDA would survey the National School Lunch Program and other nutrition assistance programs to determine which traditional fruit and vegetable products are most in demand. USDA intends that this additional money be used to purchase products that are currently provided to all nutrition assistance programs.

USDA would also consider offering value-added items to schools if there is demand. Some of the products USDA might offer include fruit cups, juice boxes, ready-to-eat fresh-cut vegetables in bags, and ready-to-eat fresh-cut fruits in bags. Fresh-cut vegetables and fruits provided by this proposal would support schools' efforts to increase the utilization of salad bars.

Background

The Agricultural Risk Protection Act of 2000 provided USDA $200 million in funding for the support of fruit and vegetable markets. Most of this funding went to food banks and other feeding programs, in addition to schools. This proposed purchase program would operate in much the same manner.

Purchasing traditional fruit and vegetable products also supports domestic markets, and helps reduce surplus inventory by producers. When balancing purchases of lower cost traditional items with purchases of higher cost value-added items, USDA is better able to support producer markets while providing products most attractive to school children to increase their consumption.

SUMMARY XI
SPECIALTY CROPS

SUMMARY OF SPECIALTY CROP SUPPORT

Recommendations In Brief
Create greater equity in farm policy by increasing assistance for specialty crop growers through an array of changes that will enhance their ability to compete in the marketplace.

Problem
Specialty crop producers have traditionally been under-represented in farm bill policy. Five program crops receive 93 percent of direct farm bill cash subsidies, yet the value of U.S. specialty crops is equivalent to the combined value of these five crops. Sixty percent of all farmers do not raise program crops and therefore do not receive direct subsidies.

At Farm Bill Forums across the country, specialty crop producers did not ask for direct subsidies similar to the program crops, but they did request additional support to address sanitary and phytosanitary issues, market promotion, and targeted research. For example, Chris in Washington State said, "Potato growers do not want traditional programs with direct payments but need assistance in other program areas." Mike in Rhode Island said, "We need equitable distribution of federal funds to the areas and to an array of producers that do not grow program crops." Comments made by Charles in Georgia reflect the comments shared by many other producers. He said, "Mr. Secretary, your assistance is paramount in assuring the U.S. specialty crop industry remains competitive, through proper support of research, nutrition, promotion and conservation efforts."

Recommended Solution
The Administration is recommending a broad package of proposed changes to several titles of the farm bill to provide additional support to specialty crop producers. Following is a list of the major components of the package.

Conservation Title
Enhance several conservation programs that assist specialty crop producers in managing natural resources. These include: significant increases to the Wetlands Reserve Program, Environmental Quality Incentives Program, and the Private Lands Protection Program. (Details of each proposal may be viewed under the Conservation Title, pages 40 - 63.)

Trade Title
Phase-in $68 million in enhanced mandatory funding for the Technical Assistance for Specialty Crops (TASC) program including $4 million in FY 2008; $6 million in FY 2009; $8 million in FY 2010; and $10 million thereafter through FY 2013. Increase the maximum allowable annual project award from $250,000 to $500,000 and allow more flexibility to grant TASC project timeline extensions. (For further information, see the proposal entitled "Expand Technical Assistance for Specialty Crops" on pages 67 – 68.)

Expand mandatory funding for the Market Access Program (MAP) by $250 million over 10 years and focus the additional funds on non-program commodities. MAP funding has shown to be an effective use of funds to expand markets for U.S. agricultural products. While specialty crops are already a significant user of this program. USDA will apportion this new, additional funding to help address the inequity between crops that are directly subsidized and those commodities that are not directly subsidized. (For further information, see the proposal entitled "Enhance the Market Access Program" on pages 69 - 70.)

Increase support for a number of initiatives that help to address sanitary and phytosanitary (SPS) issues and other trade restrictions that affect specialty crop and other producers:

1. Establish a new grant program investing $20 million over ten years to further focus resources on addressing international sanitary and phytosanitary issues. (For further information, see the proposal entitled "Grant Program to Address Sanitary and Phytosanitary Issues" on page 71 - 72.)

2. Authorize and provide long-term mandatory funding of $15 million over ten years to increase U.S. presence at international standard-setting bodies, such as the *Codex Alimentarius*, the International Plant Protection Convention, and the World Animal Health Organization. (For further information, see the proposal entitled "Support International Trade Standard Setting Activities" on page 72.)

3. Provide enhanced monitoring, analytical support, and other technical assistance to support U.S. agriculture in bringing forward or responding to significant trade disputes and challenges. For example, U.S. specialty crop exports are sometimes threatened by rampant trademark piracy in international markets like China and Hong Kong. USDA technical assistance could help the specialty crop industry address these challenges. (For further information, see the paper entitled "Technical Assistance to Resolve Trade Disputes" on pages 73 – 74.)

Nutrition Title

Provide new mandatory funding for the purchase of additional fresh fruits and vegetables for use in the National School Lunch and Breakfast Programs. This $500 million of funding over 10 years represents a net increase in the total purchase of fruits and vegetables for school meals over levels available under any other authorities. (For further information, see the proposal entitled "Promoting Healthful Diets in Schools" on pages 103 – 104.)

Encourage food stamp nutrition education and establish a new "USDA Initiative to Address Obesity among Low Income Americans," a five-year $20 million competitive grant demonstration program to develop and test solutions to the rising problem of obesity. These efforts could include rigorous independent evaluations to identify effective approaches, such as incentives at point-of-sale for purchases of fruits and vegetables by food stamp participants. (For further information, see the paper entitled "Food Stamp Program: Improving Health through Nutrition Education" on pages 95 – 96.)

Support school efforts to offer meals based on the most recent Dietary Guidelines for Americans, including the encouragement of the increased consumption of fruits and vegetables. (For further information, see the paper entitled "Promoting Healthful Diets in Schools" on pages 103 – 104.)

Reauthorize the Emergency Food Assistance Program (TEFAP) and provide more fruits and vegetables within the program. (For further information, see the proposal entitled "The Emergency Food Assistance Program" on pages 97 - 98.)

Rural Development Title
Prioritize consideration of project applications that involve specialty crops in the Rural Development Value-added Grants awards-process. (For further information, see the proposal entitled "Streamline Rural Development Programs" on pages 122 - 123.)

Energy Title
Initiate a new, temporary program to provide $100 million in direct support to producers of cellulosic ethanol. Eligibility for this program would be restricted to specialty crop wastes and other cellulosic biomass feedstocks. (For further information, see the proposal entitled "Cellulosic Bioenergy Program" on pages 145 – 146.)

Research Title
Invest $1 billion over 10 years to establish a Specialty Crop Research Initiative to provide science-based tools for the specialty crop industry. (For further information, see the proposal entitled "Specialty Crop Research Initiative" on pages 131 – 132.)

Miscellaneous Title
Utilize an additional $2.75 billion of Section 32 funds over 10 years to specifically purchase fruits and vegetables for the National School Lunch Program and other nutrition programs. (For further information, see the proposal entitled "Increase Purchases of Fruits and Vegetables for Nutrition Assistance Programs" on pages 168 – 169.)

SUMMARY XII BEGINNING FARMERS

SUMMARY OF SUPPORT OF BEGINNING FARMERS AND RANCHERS

Recommendations In Brief
Increase assistance to beginning farmers and ranchers through an array of changes that will help them to become established in production agriculture.

Problem
Beginning farmers and ranchers entering production agriculture face many challenges. High land prices, increasing equipment costs, and government payments predominantly delivered to larger, more established farmers serve as barriers to entry.

These issues were raised at many USDA Farm Bill Forums. For example, Devan from Kentucky said, "One of the biggest barriers, I believe, facing a new generation of farmers is the inability to start farming from scratch. Today if anyone wanted to begin farming they either have to marry into a family farm or inherit an existing family-owned farm. It is extremely difficult, if not impossible, to simply start farming." Dan in California said, "The increasingly high investment costs and relatively low return rates associated with production agriculture are some of the most prominent unintended consequences that discourage future generations from entering production agriculture."

Recommended Solution
The Administration is recommending a broad package of proposed changes to several titles of the farm bill to provide additional support to beginning farmers and ranchers. Following is a list of the major components of the package.

Commodity Title
Provide beginning farmers a 20 percent increase in their direct payment rate, adding $250 million to producer income over 10 years. After the initial five years, these producers would no longer be eligible for the higher direct payment rate. (For further information, see the proposal entitled "Increase Direct Payment for Beginning Farmers" on pages 16 – 17.)

Conservation Title
Reserve 10 percent of farm bill conservation financial assistance for beginning farmers as well as socially disadvantaged producers under a new Conservation Access Initiative. (For further information, see the proposal entitled "Conservation Access for Beginning and Socially Disadvantaged Producers" on pages 57 – 58.)

Credit Title
Enhance the existing Beginning Farmer and Rancher Downpayment Loan Program to help ensure the next generation of production agriculture – cutting the interest rate in half to two percent; deferring the initial payment for one year; doubling the potential beginning farmers buying power by increasing the maximum loan value; and decreasing the minimum beginning farmer contribution from 10 percent of the property purchase price to 5 percent. (For further

information, see the proposal entitled "Beginning Farmer and Rancher Downpayment Loan Program" on pages 110 –111.)

Double the statutory target of USDA direct operating loans for beginning and socially disadvantaged farmers and increase the target for direct farm ownership loans for beginning and socially disadvantaged farmers to 100 percent. Overhaul the federal repooling procedures to ensure that these targets are reserved only for beginning and socially disadvantaged farmers to the maximum extent possible. (For further information, see the proposal entitled "Loans Targeted to Beginning and Socially Disadvantaged Farmers" on pages 108 – 109.)

Increase the existing statutory limits of $200,000 for direct ownership loans and $200,000 for direct operating loans to a maximum of $500,000 indebtedness for any combination of the two loan types. (For further information, see the proposal entitled "FSA Direct Loan Limits" on pages 112 – 113.)

SUMMARY XIII SOCIALLY DISADVANTAGED PRODUCERS

SUMMARY OF SUPPORT OF SOCIALLY DISADVANTAGED PRODUCERS

Recommendations In Brief

Increase assistance to socially disadvantaged farmers and ranchers through an array of changes that will help them meet the challenges of today's production agriculture.

Problem

Socially disadvantaged (SDA) farmers and ranchers face many challenges. Increased production costs, lack of economies of scale, and government payments predominantly delivered to the largest farms serve as significant barriers to success for these farmers.

More than the typical U.S. farm, SDA-operated farms tend to raise livestock and specialty crops such as fruits and vegetables rather than field crops. Since commodity program payments have traditionally focused on the six major program crops, minority and other socially disadvantaged farmers have often been underserved by the farm bill safety net. In many cases, farm income contributes less to the SDA household's overall income, so rural development programs and off-farm employment are often more relevant to these producers.

The 1992 farm bill took the important step of establishing the Office of the Assistant Secretary for Civil Rights. This new office has worked with all USDA mission areas to help make tremendous strides in reaching out to help SDA farmers. But more can be done. Extensive outreach and targeted assistance are appropriate to ensure these producers are aware of and participate in these programs. As Catherine from Mississippi said, "Previous farm policies have forced many minority producers to sell their land only to [be] taken in by large corporations." And Lorette noted at the North Carolina Farm Bill Forum, "the current programs cannot be accessed by small and particularly minority farmers. We need a lot more resources to work one-on-one with farmers to eradicate all the problems in the system, to get farmers into the programs that do exist."

Recommended Solution

The Administration is recommending a broad package of proposed changes to several titles of the farm bill to provide additional support to socially disadvantaged farmers and ranchers. Following is a list of the major components of the package.

Conservation Title

Reserve 10 percent of farm bill conservation financial assistance for beginning farmers and socially disadvantaged producers under a new Conservation Access Initiative. (For further information, see the proposal entitled "Conservation Access for Beginning and Socially Disadvantaged Producers" on pages 57 – 58.)

Credit Title

Make socially disadvantaged farmers eligible for the Beginning Farmer and Rancher Downpayment Loan Program. Enhance this loan program in several important ways – cut the interest rate in half to two percent; defer the initial payment for one year; double the potential beginning farmers buying power by increasing the maximum loan value; and decrease the minimum farmer contribution from 10 percent of the property purchase price to five percent. (For further information, see the proposal entitled "Beginning Farmer and Rancher Downpayment Loan Program" on pages 110 – 111.)

Double the statutory target of USDA direct operating loans for beginning and disadvantaged farmers and increase the target for direct farm ownership loans for beginning and disadvantaged farmers to 100 percent. Overhaul the federal repooling procedures to ensure that these targets are reserved only for beginning and disadvantaged farmers to the maximum extent possible. (For further information, see the proposal entitled "Loans Targeted to Beginning and Disadvantaged Farmers" on pages 108 – 109.)

Increase the existing statutory limits of $200,000 for direct ownership loans and $200,000 for direct operating loans to a maximum of $500,000 indebtedness for any combination of the two loan types. (For further information, see the proposal entitled "FSA Direct Loan Limits" on pages 112 – 113.)

SUMMARY XIV
BUDGET SCORE

ADMINISTRATION'S FARM BILL PROPOSAL

Estimated Change from Baseline, Budget Authority, 2008-2017

(Dollars in Millions)

Title and Proposals	***Current Services Baseline*** 2008-2017	***Administration Proposal*** *change from baseline* 2008-2017
Commodities		
Marketing Assistance Loan Program	8,807	-4,500
Posted County Price and Loan Repayment Changes	na	-250
Direct Payment Program	52,491	5,500
Direct Payments for Beginning Farmers	na	250
Revenue-based Counter-cyclical Payment Program	11,245	-3,700
Payment Limits and Eligibility	na	-1,500
Section 1031 Farmland Exchanges	na	-30
Dairy	613	793
Sugar	1,410	-1,107
Special Cotton Competitiveness Program	na	0
Planting Flexibility Limitations	na	0
Retire Crop Bases In Nonagricultural Use	na	0
Conservation Enhanced Payment Option	na	50
Sodsaver	na	0
Continuing WTO Compliance	na	0
Total	74,566	-4,494
Conservation		
Revised Environmental Quality Incentives Program (EQIP), including:	13,640	4,250
Regional Water Enhancement Program	na	1,750
Wildlife Habitat Incentives Program	0	na
Ground and Surface Water Conservation	600	na
Agricultural Management Assistance	100	na
Conservation Innovation Grants	200	1,000
Klamath	0	0
Conservation Security Program	7,977	500
Private Lands Protection Program, including:	970	900
Grassland Reserve Program	0	na
Farm and Ranch Land Protection Program	970	na
Healthy Forest Reserve Program	a	na
Conservation Reserve Program	25,656	0
Wetlands Reserve Program	455	2,125
Conservation Access for Beginning and Limited Resource Farmers	na	0
Market-based Conservation	na	50
Merit-based Funding	na	0
Emergency Landscape Restoration Program	a	a
Total	48,698	7,825

ADMINISTRATION'S FARM BILL PROPOSAL

Estimated Change from Baseline, Budget Authority, 2008-2017

(Dollars in Millions)

Title and Proposals	*Current Services Baseline* 2008-2017	*Administration Proposal* *change from baseline* 2008-2017
Trad		
Technical Assistance for Specialty Crops	0	68
Market Access Program	2,000	250
SPS Issues Grant Program	na	20
Support Trade Standard Setting	na	15
Technical Assistance for Trade Disputes	a	0
Trade Capacity Strategically Important Regions	na	20
Reform Export Credit Programs	na	0
Facility Guarantee Program	0	16
Repeal EEP and Trade Strategy Report	0	0
Cash Authority for Emergency Food Aid	na	0
Total	2,000	389
Nutrition		
Food Stamp Program, including:	436,145	-66
Elderly and Working Poor	na	1,378
Streamlining, Modernization & Program Integrity	na	-1,544
Improving Health Through Nutrition Education	na	100
TEFAP	1,400	0
FDPIR	913	27
Promoting Healthy Diets, including:	na	506
School Lunch F&V Purchases	na	500
School Purchase Study	na	6
Senior Farmers Market	150	0
Total	438,608	467
Credit		
Farm Credit, including:	a	0
Loan Targets for Beginning and Socially Disadvantaged Farmers	a	0
Beginning Farmer and Rancher Down Payment Loans	a	0
Direct Loan Limits	a	0
Total	a	0
Rural Development		
Rural Critical Access Hospitals	a	85
Enhance Rural Infrastructure	a	500
Streamline Rural Development Programs	na	0
Total	a	585

ADMINISTRATION'S FARM BILL PROPOSAL

Estimated Change from Baseline, Budget Authority, 2008-2017

(Dollars in Millions)

Title and Proposals	***Current Services Baseline*** 2008-2017	***Administration Proposal*** *change from baseline* 2008-2017
Research		
Reorganize REE	na	0
Bioenergy and Bioproducts Research Initiative	na	500
Specialty Crop Research Initiative	na	1,000
Foreign Animal Disease Research	na	0
Total	na	1,500
Forestry		
Comprehensive Statewide Planning	na	0
Landscape Scale Competitive Grant Program	na	0
Forest Wood to Energy	na	150
Community Forests Working Lands Program	na	0
Total	na	150
Energy		
Biomass Research and Development Act Initiative	0	150
Renewable Energy Systems and Energy Efficiency--Grants	a	500
Renewable Energy Systems and Energy Efficiency--Loans	a	210
CCC Bioenergy Program for Cellulosic Ethanol	na	100
Federal Biobased Product Procurement Program	0	18
Total	0	978
Miscellaneous		
Crop insurance program, including:	54,641	-2,511
Supplemental Deductible Coverage	na	350
Expected Loss Ratio	na	-1,071
Sharing Data Mining Information	na	0
Strengthening Compliance	na	0
Expand Research and Development Authority	na	0
Authorize Renegotiation of Standard Reinsurance Agreement	na	0
Increase Participation While Controlling Costs	na	-1,790
Dairy Research and Promotion Program Fairness	na	0
Organic Program Initiatives	na	61
Increase Section 32 Fruit & Vegetable Purchases	na	0
Total	54,641	-2,450
TOTAL, Above Items	618,513	4,950

na = not applicable (proposal not in baseline or included in other base or proposed programs);
a = discretionary account; 0 = no mandatory spending.

QUESTIONS AND ANSWERS

FEBRUARY 7, 2007

Senator Harkin

Title I – Commodity Programs

Revise Marketing Assistance Loans

USDA proposes to adjust marketing assistance loan rates to better reflect market prices. The formula suggested would establish the loan rate at 85 percent of the 5-year Olympic average market price. However, the market-price formula would not actually function for most loan commodities. Under the USDA proposal, wheat, corn, sorghum, barley, oats, ELS cotton, rice, soybeans, other oilseeds, small chickpeas, and honey loan rates would all be capped, and for almost all of these commodities, the cap would be lower than the current loan rate. Only upland cotton, peanuts, dry peas, lentils, graded wool, nongraded wool, mohair and honey would have market-based loan rates.

QUESTION

What is the market-based justification, if any, for arbitrarily capping loan rates below the formula levels and lowering loan rates that are already less than 85 percent of the 5-year Olympic average market price?

Increase Direct Payments

USDA proposes modest temporary increases in the direct payment rate for most covered commodities; however, with respect to upland cotton, USDA recommends a permanent increase of 66 percent above the current rate. The latest CBO estimate is that U.S. producers will plant 13 million acres of cotton this year, equivalent to about 72 percent of cotton base acres. That estimate may be high if Congress enacts the changes in loan rates that USDA proposes. If we were to follow your suggestion to increase the direct payment rate for cotton, a significant portion of the increase would go to land that is not expected to be planted to cotton.

QUESTIONS

Would not the practical effect of this proposal be to transfer estimated savings from the marketing assistance loan program to cotton base acres?

Since a significant percentage of cotton base is not planted to cotton and since some cotton is produced on acres that do not have cotton base, wouldn't this proposal over-compensate some cotton base acres and under compensate some cotton producers?

Senator Harkin

Strengthen Payment and Eligibility Limits

USDA proposes to decrease the average Adjusted Gross Income eligibility cap for all farm commodity program payments from the current $2.5 million to $200,000. This proposal will affect more program participants and will require additional monitoring for compliance. Many producers will object to compliance that requires sharing income tax data with local Farm Service Agency personnel. An individual or corporation that owns land could avoid the effect of this limitation by cash renting the land to a tenant who is willing to pay a rental rate that reflects the value of the commodity program payments.

QUESTIONS

Would it be possible to monitor compliance from a centralized location in Kansas City or Washington, DC?

Would USDA be able to obtain from the Internal Revenue Service data to ensure the AGI limit on eligibility is effectively enforced?

If Congress exempts certain income that would otherwise be included in AGI, would USDA be able to obtain sufficient detail about a producer's income tax filings to calculate a modified Adjusted Gross Income?

Would it be technically possible to apply the average $200,000 AGI eligibility cap to the owners of all land enrolled in the commodity programs and disqualify land owned by those exceeding the cap from earning payments?

If so, could you provide us with an estimate of the additional savings?

The current nominal payment limitations are: $40,000 on direct payments; $65,000 on counter-cyclical payments; and $75,000 on marketing assistance loan benefits. Each of these limits can be doubled through either the use of the 3-entity rule or the spousal provisions. USDA proposes a significant increase in the direct payment limit to $110,000 and inconsequential cuts to the counter-cyclical and loan benefits caps. The counter-cyclical payment limit cut is inconsequential because the revenue-based counter-cyclical proposal will be less likely to trigger payments. The loan benefits cap is inconsequential because producers can avoid the limitation through the use of generic certificates or by forfeiting the loan collateral.

QUESTIONS

How will higher limits on direct payments address the concerns of Iowa producers who complain that they cannot compete for land against the largest producers in their area? Wouldn't this proposal exacerbate the problem?

Senator Harkin

How are spouses treated under the USDA direct attribution proposal?

Please suggest ways that we can close the loopholes that allow program participants to exceed the nominal payment limitation on marketing assistance loan benefits through the use of generic certificates or loan forferitures.

Title II—Conservation

Sodsaver

The Sodsaver provision in your proposal would prevent producers from receiving price and income support for land that has been converted from grassland to cropland.

QUESTION

Would your proposal include limiting access to crop insurance?

Program Consolidation

Your proposal would consolidate several programs together in EQIP and in the Private Land Protection Program. The proliferation of programs with similar goals can lead to inefficiency within the agency and inconsistent and complex rules for farmers and ranchers. However, the missions and character still need to be preserved in any consolidation of programs.

QUESTION

What steps would you take to ensure consolidation would not impair the functioning of programs or the achievement of their objectives?

Title III—Trade

Market Access Program

In your farm bill proposal, you suggest an additional $250 million over 10 years for the Market Access Program, with the desire to focus the funds on non-program commodities. In fiscal 2006, groups representing specialty crop producers and regional associations heavily weighted toward specialty crop exports accounted for nearly half of the amount allocated under the program.

Senator Harkin

<u>QUESTION</u>

Why should those groups receive an additional preference under MAP?

Grant Program to Address SPS Issues

<u>QUESTION</u>

How is the new grant program to address SPS issues for specialty crop producers, to be funded at $20 million over 10 years, different from the Technical Assistance for Specialty Crops (TASC), which is currently funded at $2 million annually, but which you propose to increase to $10 million by 2010?

Supplier Credit Guarantee Program

<u>QUESTION</u>

Why not attempt to fix the problems with the Supplier Credit Guarantee program rather than recommend its elimination?

<u>Title IV—Nutrition</u>

Categorical Eligibility

The proposal includes eliminating categorical eligibility for individuals receiving TANF-funded benefits, something that USDA has proposed for several years now but which Congress has repeatedly rejected.

In the farm bill proposal, you have described eliminating categorical eligibility for individuals receiving TANF-funded services as one that would improve program integrity in the Food Stamp Program. The assumption seems to be that the current categorical eligibility rules are somehow undermining program integrity and the quality control system or are providing food stamp benefits to individuals who are not in need of income support or food assistance. This assumption seems at best questionable.

Senator Harkin

QUESTION

Do you have any evidence that the individuals who are currently receiving food stamps through categorical eligibility differ significantly in income, assets, or other eligibility factors from those who receive food stamps through the normal application process, or that that the quality control system has discovered that the cases of households receiving food stamps as a result of categorical eligibility have higher rates of error than other food stamp households?

Additional Funding for School Lunch/Breakfast Reimbursements

You propose spending $500 million on additional reimbursements for fruits and vegetables through the National School Lunch Program and School Breakfast Programs. You indicated in your Committee testimony that USDA is interested in providing schools with flexibility regarding how they can spend such funds.

QUESTION

Would this flexibility extend to allowing schools to utilize the additional funds to establish or expand the Fruit and Vegetable Snack Program?

Competitive Grants to Address Obesity

In your farm bill proposal, you provide $100 million in competitive grants to address obesity among low-income Americans. I want to follow up on this particular point regarding healthy purchases in the Food Stamp Program. Some folks have suggested one could use the EBT system to provide an enhanced benefit when food stamp dollars are spent on healthy food such as fruits and vegetables. For example, in such a scenario, if a food stamp recipient spends $25 of a total $100 in food stamp benefits on fruits and vegetables, he or she will receive a premium, say 25 percent, of that $25 back in order to encourage more purchases of fruits and vegetables.

QUESTIONS

Given the current state of EBT technology, is such an approach technically feasible to operate?

If there are technical challenges or policy considerations that might stand in the way of implementing this idea, what are they and what would need to be done to overcome them?

Senator Harkin

Title V—Credit

Guaranteed loans

Farm Service Agency (FSA) guaranteed loans currently have a limitation on the number of years a barrower is eligible to receive a loan guarantee from the federal government. FSA loan guarantees provide lenders with a guarantee of up to 95% of the loss of principal and interest on a loan. These guarantees allow commercial lenders the ability to make agricultural credit available to farmers who may not meet the lender's normal underwriting criteria. Term limits on FSA guaranteed loans were put in place in the 1996 farm bill. The 2002 farm bill waived these term limits through December 31, 2006. Before the end of the 109th Congress, Congress extended the waiver through September 30 of this year.

QUESTIONS

What is the administration's position on guaranteed loan term limits? Should these term limits be abolished?

Direct Loans

The direct loan program has been instrumental in helping many beginning farmers to get started in agriculture. Beginning farmers and ranchers face many obstacles when entering agriculture such as high land prices, energy costs and equipment costs. The current loan limit for FSA direct ownership and operating loans is $200,000. This limit has not changed in decades despite the rising cost in agriculture production. USDA's farm bill proposal includes increasing the direct loan limit to $500,000. However, the administration's budget released on Monday included less overall money in the direct loan program.

QUESTION

Without increasing funding for the direct loan program, would not increasing the amount of money any one barrower may receive in direct loans have a negative effect on the number of barrowers who benefit from the direct loan program?

Title VI—Rural Development

Broadband

Your proposal to reduce the backlog in rural infrastructure programs from rural water to broadband parallels a provision in the 2002 bill and is well-justified. Most areas have real shortfalls in very necessary infrastructure without which acquiring and keeping businesses and maintaining communities is difficult.

QUESTION

The need in broadband is steadily becoming ever more crucial. Can you outline detail how you would recommend modifying the existing broadband program so it can better reach more communities and the rural areas that surround them, while minimizing competition by companies receiving USDA assistance with those who do not?

Day Care Centers

Rural communities are in desperate need of day care centers. Such centers receive some assistance though the USDA community facility program.

QUESTION

Do you believe that we should increase the emphasis we place upon helping to bring new day care facilities into existence and helping those that are struggling?

Rural Venture Capital

Rural communities continue to suffer from a lack of venture capital.

QUESTION

What are your thoughts on what the farm bill should contain regarding improving the access of rural communities to venture capital and how do you think initiatives for this purpose should be structured?

Title VII—Research & Related Matters

Agency Consolidation

USDA is proposing a consolidation of its two main research agencies: the Agricultural Research Service (ARS) and the Cooperative State Research, Education, and Extension Service (CSREES). There is another proposal that you refer to in your farm bill proposal called CREATE-21, which calls for not only a reorganization, but also a significant increase in investment in agricultural research. I believe we need to take a serious look at our financial commitment to agricultural research because it is simply not enough to keep U.S. agriculture and rural communities competitive now and in the future.

QUESTIONS

Do you believe that this reorganization proposal can help agricultural research obtain more funding?

Are there research projects at ARS that will be cut because similar research is being done outside of USDA with money administered through CSREES, and vice versa? Or will there instead be better coordination between two or more projects in a subject area to ensure that they are not doing the same exact research?

Initiative for Future Agriculture and Food Systems (IFAFS)

The Initiative for Future Agriculture and Food Systems (IFAFS) is a competitive grants program created in the 1998 Agricultural Research Education and Extension Reform Act that focuses on genomics research of agriculturally-important organisms, food safety, human nutrition, natural resource management, and farm efficiency and profitability for small- and medium-sized agricultural operations. IFAFS funding has been eliminated by Congressional action through fiscal year 2009.

QUESTION

Does USDA plan to incorporate the IFAFS priorities into an ongoing or new initiative?

Title IX—Energy

Biobased Products Procurement

The biobased products procurement and labeling program is intended to provide a major market development stimulus to this promising approach to reduce oil consumption with domestic feedstocks, which also improve the environment and support rural economic development. The Administration's farm bill proposal and budget propose a very modest increase, from $1 million per year to $1.8 million per year for the biobased products initiatives.

QUESTIONS

What will this funding accomplish in terms of market-wide

- **Increases in sales volumes of biobased products**

Senator Harkin

- **Increased numbers and varieties of biobased products**
- **Increased number of firms manufacturing biobased products?**

Most importantly, what is the Department's plan for greatly accelerating the broader market stimulus that this federal biobased program is designed to engender?

Cellulosic Bioenergy Program

You propose a Cellulosic Bioenergy Program to be modeled after the CCC Bioenergy Program as authorized in Section 9010 of the 2002 farm bill, and you propose funding of $25 million a year over a four year period. Compared with the $150 million per year that was authorized in 2002, or even the $460 million that was actually spent over 4 years, this seems to be a severe reduction.

QUESTIONS

What's the basis for that level of funding?

How much cellulosic ethanol do you think this will incentivize? What funding rate per dry ton does this anticipate?

Biomass R&D

The farm bill proposals include revising the Biomass R&D Act of 2000 to increase the annual competitive grant funding for biomass research, focusing on cellulosic ethanol, with $150million per year in mandatory funding over 10 years. However, EPACT (the 2005 Energy Bill) authorized $200 million per year.

QUESTIONS

Why doesn't the administration propose funding at least as high as Congress has already authorized?

What do you expect that this funding level would deliver in specific achievements? Can you give examples such as conversion efficiency improvements or crop yields or cost reductions?

Bioenergy and Bioproducts Research Initiative

The farm bill proposal highlights "the creation of a Bioenergy and Bioproducts Research Initiative to increase the cost-effectiveness of bioenergy." For this initiative, which is included in both your energy title section and in your research title section, you propose $500 million over 10 years. I commend the administration on this proposal, and I applaud the call for collaboration among USDA's research centers and universities and the DOE laboratories. The potential of bioenergy and bioproducts to displace oil consumption and to reduce carbon emissions is tremendous, and this research is likely to pay very significant dividends by making those contributions far larger and more economical in the future.

QUESTIONS

How did the Administration decide to recommend only $50 million per year for this vital research?

Do you have a basis for believing that significantly larger levels such as $100M or $200M per year are not sound federal investments in this research?

You have included this funding under your proposed research program. Is this entirely new funding? To what extent will the $50 million per year be used to support on-going research within ARS?

Title X—Miscelaneous

USDA in the past has expressed support for including poultry under the enforcement mechanism of the Packers and Stockyards Act. USDA's farm bill forums had many comments from producers about the need for a competition title and the need for market fairness in production contracts.

Additionally, in a letter to me last year, USDA also concurred with my concerns created by the Eleventh Circuit Court of Appeals decision (London vs. Fieldale Farms) requiring producers to prove competitive harm in every instance of an alleged violation of the Packers and Stockyards Act. Having to show an adverse effect on competition for a producer's region, sets up a standard virtually impossible to meet.

QUESTIONS

Why did USDA not include recommendations in its farm bill proposal to address structural changes in the marketplace and concerns created by the Eleventh Circuit Court of Appeals in the London vs. Fieldale Farms case?

Why did USDA in its farm bill proposal choose not to recommend provisions including poultry within USDA's enforcement authority under the Packers and Stockyards Act since USDA in the past has expressed support for this authority?

Senator Harkin

Crop Insurance

Supplemental Deductible Coverage

I'm interested in the concept of the supplemental deductible insurance policy you have proposed, and would like to learn more about it. However, there has been a lot of concern expressed about the soundness of the current Group Risk Policy (GRP) and Group Risk Income Protection (GRIP) policies, because of the varying reliability of the estimates of county-level yields provided around the country.

QUESTION

What steps do you envision taking to improve the accuracy of the county-level yield data for this new policy, or if better accuracy cannot be achieved, would you consider a higher level of aggregration, such as crop reporting districts?

Statement of Senator Max Baucus
Senate Committee on Agriculture, Nutrition, and Forestry
Wednesday, February 07, 2007

USDA Farm Bill Proposal

Thank-you Chairman Harkin for calling this hearing on the USDA's Farm Bill Proposal. I also appreciate Secretary Johanns attendance here today, along with Deputy Secretary Chuck Connor and Chief Economist Keith Collins. I look forward to hearing your testimony.

I appreciate the effort that Secretary Johanns and his staff have invested in the USDA's Farm Bill Proposals. Many of your ideas are new and unique and deserve consideration. I look forward to finding out how they will work for my farmers and ranchers in Montana.

I specifically appreciate your proposals to help more beginning farmers and ranchers enter agriculture. As I attended listening sessions all around Montana, I heard time and time again that the next generation of farmers aren't coming back to the farms. I'm very concerned that our best and brightest are leaving rural America. When we loose them, we also loose their ideas, enthusiasm, and vision. Qualities that rural America needs.

While parts of your proposal are well thought-out, and you brought some new and worthy ideas to the table, I was disappointed in your ideas for the commodity programs for two reasons. First, your proposal is reminiscent of "Freedom to Farm," which many farmers in Montana now refer to as "Freedom to Fail." When we throw all our resources into direct payments, we can overpay producers when times are good, without providing a "safety net" when prices drop. While it looks good on paper, everybody here should remember the massive Market Loss Assistance payments that were necessary because Freedom to Farm simply did not provide an adequate safety net when times got tough.

Second, your proposal does not address the current inequities that wheat and barley farmers have suffered under the last Farm Bill. Your proposal would decrease wheat and barley's loan rate by 6% and 9% respectively. However, corn, cotton, and rice would only suffer cutbacks of 3%, 1%, and 0%, respectively. To further exacerbate the current inequities, your proposal would increase the direct payments for corn and cotton by 166%, but wheat only sees a 107% increase.

In closing, I appreciate your efforts and some very well thought out ideas, but I do not like the direction you would like to move with the Commodity Title; I believe it is both misguided and unfair. It just does not work for Montana farmers.

But there is far more to your Farm Bill Proposal than just the commodity payments and the provisions for beginning farmers and ranchers. Before I can form an opinion on many of your proposals I need to know how they will work for Montana's farmers and ranchers. I have attached questions hoping to learn more about these ideas. Thank-you for coming here today, Secretary Johanns, I look forward to your responses. Thank-you.

1. On your proposal to retire crop base when cropland is sold for non-agriculture uses, I am concerned about how it could affect some of farmers/ranchers with diversified operations. For example, a Montana farmer/rancher has 500 acres of crop base that is a separate parcel from another 2,000 acres of rangeland. If he sells part of his rangeland, will he loose a proportion of his crop acreage base under your proposal even though he has kept his cropland in tact?

2. You propose two direct payment incentives for farmers who have crop acreage base (Conservation Enhancement Payment Option and Beginning Farmer). Both of them are unique ideas that have potential. With that in mind, can you tell me what similar provisions you propose for our ranchers? I am worried that you have forgotten ranchers who are wise stewards of the land and beginning ranchers.

3. Due to the issues that arise with 1031 land exchanges, you propose to eliminate farm program payments on land that is acquired using a 1031 exchange. Why did you propose to eliminate farm program payments even when the exchanges involve farmland to farmland exchanges?

Senator Saxby Chambliss
Question to be Submitted to Secretary Mike Johanns for the Hearing Record
USDA Farm Bill Proposal Hearing
February 7, 2007

I. COMMODITY PROGRAMS
General

1. You have noted that our farm bill should be able to withstand challenge in the WTO and have even pointed to a comment from a Georgia participant in one of your listening sessions that "we need to trade-proof our programs." Mr. Secretary, is it possible to "trade-proof" our programs in the current environment in which we do not have protection from WTO litigation provided by a peace clause?

2. It has been noted that although USDA did recognize the need for increased investment in rural America with your proposal, the costs are largely borne by two programs that production agriculture relies on most—crop insurance and commodity programs. Obviously you consider your proposal balanced and equitable, although many would consider these changes unfavorable. How do you explain to farmers who rely on these programs that the funding increases in your proposal did not come at their expense?

3. With respect to your revenue-based counter-cyclical payment proposal, have you analyzed the effects of how producers of the covered commodities would have fared under this proposed system if it had replaced the current counter-cyclical program of the 2002 farm bill? If not, do you have a prospective analysis of this safety net on farmers? Does this national revenue based system provide a solid safety net for producers of all of the covered commodities?

4. In the field hearings I held across the country this summer, I asked witnesses to rank the importance of components of the commodity programs for their operations. Cotton producers consistently ranked the marketing loan as their top priority. Is this what you heard in your farm bill listening sessions? And if so, why do you propose focusing program support for cotton into the direct payment mechanism and reducing the marketing loan rate?

5. In your commodity proposals, on one hand, USDA proposes loan rate changes in the name of being more market-based, but on the other, USDA proposes replacing the current system for establishing daily posted county prices (PCP's) used for marketing loan purposes with a monthly PCP for each crop. There appears to be a lack of consistency in your marketing loan proposals if you are trying to be more market oriented. Can you explain this?

6. The President's budget proposes $1.5 billion for FSA's salaries and expenses account, which is $278 million above the 2007 level. We continually hear about FSA's need to update its computer systems, and this is an important topic to

discuss since this will be a farm bill implementation year. Does the President's budget account for these upgrades?

Payment Limitations

1. Under current law, producers who maintain a three-year averaged adjusted gross income exceeding $2.5 million, with less than 75 percent of such adjusted gross income derived from farming, ranching or forestry operations, are not eligible for certain commodity and conservation program benefits. Your new proposal would exclude producers from being able to receive any COMMODITY PROGRAM benefits at a much lower threshold of $200,000 in adjusted gross income, but maintains the higher $2.5 million level for participation in CONSERVATION PROGRAMS. Why?

2. I note that the proposal indicates that USDA will issue rules to institute new procedures to validate producer adjusted gross income. Assuming the use of adjusted gross income as the test for commodity program eligibility, how will the Department validate those farming operations organized as partnerships, trusts or corporations – will you use tax forms for the organized entity or will the individual's 1040 tax return, where any income from such a partnership, trust or corporation is reported as wages or salaries, be used as the eligibility determination?

Peanuts

1. The 2002 farm bill completely changed the peanut program. In an effort to gradually transition away from the previous quota system, we drafted the legislation to take into consideration the drastic changes peanut growers would be facing and provided unique provisions for peanut producers. I note that the Administration's proposal eliminates most, if not all of these provisions. Most notably, the payment limitation allowance for peanut growers is eliminated thereby significantly lowering the total payment threshold under which growers participate in the peanut program in combination with other crop programs. Additionally, if you reduce the marketing loan for peanuts and eliminate the storage and handling fees for peanuts, a peanut grower's ability to fully participate in any of these programs is jeopardized, and we are abandoning the commitment provided to peanut growers under the 2002 farm bill. Why such draconian changes directed at one industry?

2. I note that the proposal suggests lowering the loan rate for peanuts. As you are aware, this new marketing loan system was only recently initiated for peanuts under the 2002 farm bill, and many have found fault with the manner in which it has been implemented. While adjusting the loan rate in your proposal may provide some savings and/or improved WTO compliance, the real question is how do we improve the administration of the peanut marketing loan program so that it is functional? It is my understanding that the national posted price has consistently been disputed as too high, at times causing loan repayment rates to exceed the loan rate and encourage forfeitures in lieu of repayment. What

improvements might we explore to ensure that the national posted price calculation truly reflects market clearing prices?

3. Your proposal would replace the current DAILY posted county prices (PCP) with a monthly PCP for many crops. As you know, the posted price used for determining loan deficiency payments and repayment rates for peanut marketing assistance loans is currently established WEEKLY and on a national basis. Will your revision to the system for establishing these rates change the timing for announcing the national posted price for peanuts?

Sugar

1. What additional suggestions could you propose that would allow you to maintain a no-net cost non-recourse loan program for sugar as we have today but provide maximum flexibility to independent cane refiners in securing sufficient imported raw sugar when domestic supplies are inadequate to meet their existing needs and also allow them to grow their business?

Dairy

1. Secretary Johanns, as you know, dairy is one of the most contentious issues we must confront during the farm bill due to the divergent and varied constituencies involved. Based upon the self-proclaimed "reform-minded and fiscally responsible approach" of your proposal, I was surprised that the dairy proposals were less ambitious. Without making value judgments on the dairy proposals, you propose to extend the MILC program in a diminished capacity, extend the dairy price support program in its current form, and subject dairy imports to the same assessments experienced by domestic products.

    a) During your farm bill forum tour across the country, did you hear from producers about federal milk marketing order reform, forward contracting for dairy producers, or programmatic alternatives to the MILC and dairy price support programs? Why were these issues not addressed in your proposal?

2. You have stated the Administration's farm bill proposal is more trade-compliant than our existing farm bill programs; however, according to the Congressional Research Service, dairy price supports were the largest single category of annual U.S. amber box spending, accounting on average for 42% of spending from 1995-2001. These numbers do not even include MILC payments which began in 2002 and have thus not been reported to WTO.

    a) Since dairy price supports are one of the largest components of our amber box spending, if your goal is to make the farm bill more trade compliant and consistent with the 2005 U.S. WTO proposal, why did the Administration's proposal not include reductions to the dairy price support program or the MILC program?

3. As you know, many dairy producers across the country, and particularly producers in the Southeast, are concerned with the current Federal Milk Marketing Order system. One of the major concerns of producers in the Southeast is the rising cost of producing and supplying milk for customers in the Southeast. USDA recently announced positive decisions that will assist Southeast dairy producer in recovering costs for transporting supplemental milk into Federal Order 5 and increasing diesel fuel prices. However, USDA has yet to rule on an additional proposal that would provide for intra-market transportation credits for Federal Orders 5 and 7. Testimony was provided at a Federal Milk Marketing hearing in January 2006, yet a decision has still not been made on this critical proposal.

    a) Is USDA opposed to streamlining the Federal Order amendment process to include statutory deadlines to ensure that timely decisions are made? Why was this not included in the USDA farm bill proposal?

    b) When can dairy producers in the Southeast expect to receive a decision on their proposal submitted in January 2006? Is it appropriate for USDA to take over a year to announce decisions on proposed amendments to Federal Orders?

II. CONSERVATION

1. Generally, Congress has prohibited farmers from adopting practices on CRP that would tend to defeat the purpose of the program, including the commercial use of the forage from CRP acres. There has been concern expressed that the environmental benefits and wildlife habitat provided by CRP land cannot be maintained while allowing switchgrass or other cellulosic ethanol crops to be harvested from them. Are these contradictions? Has USDA conducted any analysis of the environmental costs of using CRP for biomass production? Perhaps an environmental impact analysis would be appropriate.

2. The proposal's expanded EQIP would provide assistance to cropland, grazing land, agricultural production areas, concentrated animal feeding operations, irrigated land, wildlife habitat, native prairie, and private nonindustrial forestland. Yet, the USDA budget request actually seeks less for technical assistance to deliver these programs. It also indicates there will be fewer staff and fewer conservation systems planned and applied in the next year. Today, NRCS is struggling to deliver the current programs even at their reduced funding levels. We can have all the money in the world for programs, but if the agency does not have the people or mechanisms to deliver them, it does us no good. USDA's budget request once again ignores these fundamental issues in conservation. Why?

3. There is a perception that CRP provides benefits to farmers in the Midwest that are not available to farmers in the Southeast. The few details available on USDA's proposal to use CRP as a biomass reserve do not dispel this notion. Why

does USDA's CRP biomass reserve proposal solely focus on the Midwest? Has USDA looked at the greater potential economic and environmental benefits of using woody biomass, such as pine trees, to meet future cellulosic ethanol demand?

4. Fruit and vegetable growers are proposing to eliminate the adjusted gross income requirements for conservation programs so that more growers will be able to participate. The USDA proposal did not include this. Why?

III. TRADE

1. A cornerstone of the Administration's proposal has focused on making our agriculture programs stronger to withstand challenge in the World Trade Organization. While the proposal recommends lowering loan rates and increasing direct payments, based on the 10 year score, it is unclear if the proposal fits within the parameters of the October 2005 offer in the agriculture negotiations.

    a) Should we view the farm bill proposal as a revision of the U.S. offer in the Doha Round agriculture negotiations?

    b) What is the estimated annual projected AMS in the amber and blue box annually for both the Uruguay Round commitments and the U.S. proposal. Since dairy and sugar remain the same, would LDPs be low enough not to exceed $7.6 billion in any given year?

    c) Given that Dairy and Sugar account for the large majority of amber box spending, does this proposal meet your desire to provide "equity among all commodities" in your farm bill proposals?

2. The recommendation to alter the structure of P.L. 480 Title II includes authority to use up to 25 percent of funds for the local or regional purchase and distribution of emergency food.

    a) As the P.L. 480 Title II food aid program is administered by USAID, how does USDA plan to implement the suggested change?

    b) What details can the Administration provide to inform the Congress how such a change would be implemented?

    c) How will USDA ensure the suggested use of funds for cash purchases in foreign countries will not contribute to market distortion, create new food safety concerns, and encourage corruption?

3. The recommended annual funding level for the Market Access Program is $225 million with the additional funding to address the inequity between farm bill program crops and non-program commodities. Already, specialty crops receive the bulk of current funding.

a) Are recommending less funding for program commodities because additional dollars would have a negligible marginal impact to increase exports in those crops?

4. The proposal recommends authorizing and providing mandatory funding to enhance USDA staff support for international standard setting bodies.

    a) What is the current funding level for this mission area and what was the recommended funding level in the FY 2007 budget request?

    b) Why is the Administration recommending mandatory funding for what is normally provided by discretionary funding sources?

IV. NUTRITION

1. The proposal recommends shifting current Section 32 spending to purchase additional fruits and vegetables totaling $2.75 billion dollars over ten years. What commodities purchased under the existing program would be cut in order to achieve this figure?

2. Eliminating categorical eligibility for food stamps for recipients receiving non-cash TANF benefits is projected to save $1.54 billion dollars over ten years. The goals of welfare reform include personal responsibility and work opportunity. We have encouraged families to get off welfare and get on the road to self-sufficiency. My understanding is the population most likely affected by this provision is low-income working families who receive non-cash benefits to ease the transition from welfare to work. How does this provision interact with the goals of welfare reform, and the good ideas proposed by the Administration to reform food stamp asset limits?

3. The food stamp program benefit error rates have reached a historical low while at the same time monthly participation has reached a near historical high. Is it realistic for Congress to expect the error rates to continue to decrease over time, and what more can USDA do to insure continued improvements in program integrity?

V. CREDIT

1. In the 1996 farm bill, Congress sought to transition farmers away from relying on government-backed loan programs by limiting a farmer's eligibility to receive direct and guaranteed operating loans to no more than 15 years. The 2002 farm bill suspended the term limits for guaranteed operating loans to December 31, 2006. This past December, Congress passed legislation to extend the suspension until September 30, 2007, to coincide with the rest of the 2002 farm bill. How many producers took advantage of the waiver? Does USDA support further extending the term limits for guaranteed operating loans in the 2007 farm bill?

2. For farm operating loans, the budget request would provide about $630 million in direct loans and about $1.3 billion for guaranteed loans. These levels would support about 21,500 farmers; about 14,600 would receive direct loans, while 6,900 would receive guaranteed loans. Direct loans have much higher loss ratios and delinquency rates than guaranteed loans. Did USDA consider changes to the program to encourage more guaranteed and fewer direct loans?

VI. RURAL DEVELOPMENT

1. The proposal includes $500 million to address the backlog of applications for several programs. Can you tell us what impact this amount of subsidy would actually have on the current total backlog?

    a) And if this level of support will not address the entire backlog - and I expect it won't - can you prioritize the programs for which such backlog assistance is most necessary?

2. I commend the Department for proposing improved program delivery and the elimination of program inconsistencies in order to make the rural development programs more user-friendly. However, I am curious how this would work practically, as most of the community programs, such as water and waste, high cost energy and community facilities programs were designed with very distinct purposes?

VII. RESEARCH

1. Why should Congress reorganize agricultural research?

2. If Congress agrees to reorganize USDA's ag research functions, the actual implementation of the change will take time and money. Has USDA developed plans to manage the reorganization process? Will you share them with the committee?

3. What are USDA's goals for its new ag research agency and structure? What results do you anticipate? Better integration, enhanced efficiency and effectiveness of program implementation may be nice side benefits of reorganization, but what practical benefits will they provide for producers, consumers and taxpayers?

4. The land grant universities have developed a proposal to reorganize USDA's ag research functions, called CREATE-21. How is it similar and different from the USDA proposal?

VIII. FORESTRY

1. I found the recommendation for developing Statewide Forest Resource Assessments very interesting, but I note that the recommended discretionary funding is a one time $65 million allowance. I assume this funding is to be

provided to the States for the planning initiative. Are additional funds available to implement these plans?

2. I note that the proposal focuses on the need to devote additional resources to ensuring that our private forest lands are not lost. Obviously, this is very important in my home state of Georgia, and I commend the Department for working with interested stakeholders to develop these suggestions. However, I anticipate that as this legislation is crafted the more controversial matters will center on programs that affect public forest lands. Does USDA intend to propose any changes to the administration of public lands within the context of the farm bill?

IX. ENERGY

1. The use of CRP acres for biomass production is likely to generate significant opposition among environmental groups.

    a) Since the first generation of cellulosic ethanol plants are likely to utilize crop waste from existing production of program commodities, is the use of CRP acreage necessary to incentivize production in the early years?

    b) In your estimation, what is the appropriate amount of CRP acreage that should be eligible for biomass production?

2. The Administration's proposal for the Cellulosic Bioenergy Program recommends $100 million in direct support but does not specify a payment rate.

    a) Since there are no cellulosic ethanol facilities in the demonstration or commercial phase of production, how should the Committee determine the appropriate payment rate per ton of biomass and how should the Committee differentiate between different cellulosic feed stocks?

    b) Should the payment rate differentiate between regions to account for varying costs of production of available feedstocks?

3. The proposal recommends expanding the Renewable Energy Systems and Energy Efficiency Improvements program (Sec. 9006) and incorporating the program into Rural Development's Business and Industry Loan and Loan Guarantee Program.

    a) Should the Committee combine administration of the recommended program and the loan guarantee program at the Department of Energy into the Sec. 9006 of the farm bill?

    b) What benefit is there in maintaining two separate loan guarantee programs focused on the same activity?

4. USDA recommends creating an "Agricultural Bioenergy and Biobased Products Research Initiative" to support a USDA bioenergy and biobased product laboratory network.

    a) What function will this initiative serve compared to the activities funded under the Biomass Research and Development Initiative?

    b) Should the Committee provide funding to create a new initiative rather than use existing networks and university research programs that encourage collaboration between Federal, university and private sector participants?

X. MISCELANEOUS

Crop Insurance

1. USDA's proposal requires the purchase of buy-up crop insurance coverage for farmers participating in commodity programs. Yet, according to the June 2005 issue of USDA's *Amber Waves*, crop insurance participation is highest among field crop and cotton farms. And it notes that in 2004, 75-80 percent of corn, soybean, wheat, and cotton acres were insured with over half of this area insured at coverage levels of 70 percent and higher. It notes that less than one in five specialty crop producers purchased crop insurance. Does USDA's proposal require the purchase of crop insurance by specialty crop producers?

2. Like you, I hosted and participated in a number of farm bill field hearings. With respect to crop insurance, while it is a good risk management tool, farmers aren't shy in expressing their frustrations with the program. One of those frustrations can be classified as declining coverage levels due to successive years of drought or disaster.

    So I find it very interesting that in a time when coverage levels are declining and premiums are expected to increase due to commodity price forecasts, that USDA's farm bill proposal reduces the likelihood of program indemnity and reduces the government's portion of premium assistance.

    Can you explain how these proposed crop insurance reforms improve the program? If you did not include mandatory crop insurance participation as a prerequisite for commodity program participation, would you expect these "improvements" to increase program participation?

Organic

1. The USDA farm bill proposal addresses many areas in regards to increasing initiatives for organic agriculture. Organic agriculture is a growing part of the agriculture sector and all estimates indicate that it will continue to grow throughout the life of the next farm bill. Although USDA addresses areas

involving organic agriculture, the proposal did not address the problems some organic farmers have with the current crop insurance program.

a) One of the areas of concerns from organic producers is the fact that the Risk Management Agency (RMA) reimburses organic producers for a crop loss rate at a rate based on conventional prices instead of organic prices. Will data collected from the publication of organic production and market data initiatives and surveys along with the proposed authorization of funding for comprehensive organic price reporting allow RMA to address this area of concern?

Questions
Senator Mike Crapo
Senate Agriculture Committee
February 7, 2007

Secretary Johanns

1. Many are interested in the Administration's proposal to foster increased renewable fuels production. Programs, such as EQIP and Renewable Energy Systems and Energy Efficiency Improvements (Sec. 9006), have been utilized for projects in Idaho and elsewhere to turn animal waste into energy. Does the Department have any additional proposals that would utilize livestock wastes, such as manure, in alternative power generation? Do you envision increased use of methane digesters? Under your proposal, are there any incentives for dairy producers to implement projects to turn animal waste into energy?

2. I noticed that the proposal includes several provisions important to specialty crop producers. Thank you for recognizing the contribution of specialty crop producers to American agriculture and the important role fruits and vegetables play in a healthy diet.

   The Fresh Fruit and Vegetable Program for schools that provides healthy snacks for students has been very well received in the schools and states it has been made available. I've visited schools in Idaho and received numerous notes from students and teachers expressing their appreciation for the availability of healthy snacks provided to students through the program. It is a great program because it helps not only U.S. agriculture but also the students who benefit from fresh fruits and vegetables. I have supported extending this program to additional states and schools.

   Specifically, the Administration's farm bill proposal would increase funding by $50 million annually for schools to purchase fruits and vegetables. In announcing your Farm Bill proposal, you suggested that schools would have the option to choose whether to use these funds from among the fruit and vegetable snack program or school meal programs. However, it is not clear in your actual proposal whether the snack program is included. Can you please clarify your proposed use of this $50 million? Does the proposal to increase funding to purchase fruits and vegetables for school meals include an expansion of the Fresh Fruit and Vegetable Program for Schools?

Questions from Senator Grassley

Concentration

1. Price manipulation ability: Isn't it true that when you have four competitors bidding for less than 10% of all livestock traded in a day, that the potential for unilateral price effects is greater than when you have four competitors bidding for 100% of all livestock traded in a day?
2. Price manipulation incentive: Isn't it true that when a packer has 50% of its livestock on contract, using a pricing formula pegged to the open market price, that the disincentive to bid higher for a high quality load of livestock is less- because bidding higher will raise the cost for the other 50% of contract livestock?
3. Loss of open market/choice: Isn't it true that the poultry industry open market was eradicated several decades ago so you cannot choose to raise poultry without a contract to the one or two processors in the area?
4. Factual confirmation: Do you agree that less than 10% of the hogs were traded on the open market last year?

Conservation

There has been an increasing discussion in whether to allow early outs from the Conservation Security Program for landowners who may want to get into energy crop production. I notice that your CRP proposal suggests that landowners within the CRP could stay in the program but begin energy crop production. It might be fairer to all involved to allow that activity outside the boundaries of the CRP program, but if we were to allow for early outs, we would need to make sure that strong conservation values remain with the land. For instance, we could require those choosing early outs to enroll in a working lands conservation program or meet strong conservation requirements. It would also make sense, if we chose this option, to make sure that we recapture the dollars not spent on CRP and reinvest them within the conservation title of the farm bill. What are your views on early outs?

Beginning Farmers and Ranchers

I congratulate you for presenting a rather comprehensive set of recommendations with respect to beginning farmers and ranchers. Moving a new generation onto the landscape and reversing the aging of American agriculture should be central issues for us as we take up the new farm bill. I like what I see in your proposal for improving the Beginning Farmer and Rancher Down Payment Loan program, for giving new farmers a leg up in conservation programs, and for giving beginning farmers a bonus on direct payments should they be enrolled in commodity programs. One thing I didn't see in your proposal that I might have expected to see was a program for support for farm bill funding for the Beginning Farmer and Rancher Development Program. I strongly supported the efforts of Senator Harkin and Senator Lugar to put this program in the 2002 Farm Bill and believe we have lost valuable time in not getting this program off the ground. This program would support efforts all across the country, working through extension, farm groups, and community based organizations, to help facilitate innovative projects to help new farmers of all kinds and stripes get started. Would you be willing to work with the Committee to launch of major commitment to the Beginning Farmer Development Program?

Dairy Forward Contracting Pilot Program

Mr. Secretary, recently I sent a letter to my fellow Iowan and Chair of the Senate Agriculture Committee requesting that this Committee consider allowing for a permanent Dairy Forward Contracting Program to be included in the 2007 Farm Bill. This program is important to Iowa dairy farmers and diary companies who used the program. Economist Joe Glauber expressed the Administrations support for this program. However, I did not see any provision in your proposal to reinstitute this successful program. Can you state for the record the Administration's position on permanent authority for dairy forward contracting? Do you support including this provision in the 2007 Farm Bill?

Senate Agriculture Committee Hearing
The Administration's 2007 Farm Bill Proposals and FY 2008 Budget Proposal
Senator Blanche L. Lincoln
Questions for the Record
February 7, 2007

1) Mr. Secretary, can you provide the Committee with a geographical distribution of the farmers that USDA has suggested would be ineligible for Title I farm programs as a result of your adjusted gross income (AGI) "means" test proposal? What percentage of total production is represented by the producers that would be impacted by the proposal, and of that production, what are your estimates for acreage reduction in certain commodities? Do you anticipate that foreign countries will compensate for any expected decline in our production of these commodities, and if so which countries?

2) Mr. Secretary, in your proposal for changes to the counter cyclical program you include a model for how your new approach would operate in a hypothetical year for corn. Could you provide this Committee with a model of how it would operate for other commodities – particularly rice and cotton?

3) Mr. Secretary, in regard to USDA's implementation of the Livestock Compensation Program authorized by the Emergency Supplemental Appropriations Act (PL 109-234), could you provide clarification for why USDA did not consider losses that catfish producers experienced as a result of their not being able to feed for several days during and following these storms? As you know, catfish producers in my state of Arkansas felt the impact of Hurricanes Katrina and Rita, but they were not eligible for assistance from the initial disaster declaration, despite their being located in counties contiguous to those who did receive assistance. Producers have told me that heavy rainfall, high winds, and wave action associated with the storms softened and damaged the levees to the point that fish feeding was impossible for several days, which resulted in significantly lower fish weights, and therefore, lost revenue at harvest.

Senator Richard G. Lugar

Questions to Secretary Johanns regarding February 7, 2007 Senate Agriculture Committee hearing to discuss the Administration's Farm Bill proposal

1. Since the inclusion of soybeans as a program crop in the last Farm Bill I have been trying to pass legislation that would allow the planting of fruits and vegetables for processing on program acres. These farmers would not be able to collect federal payments. However the fresh fruit and vegetable industry has argued it would cause a glut of products and hurt prices. I am happy the administration is proposing a full repeal of planting restrictions. What did the Department's analysis of removing this restriction show? What has the Department's analysis of allowing fruits and vegetables for processing on base acres show?

2. You have proposed to increase direct payments and to reduce and restructure counter-cyclical and loan deficiency payments. How would this address concerns about the regional inequities in farm spending that you have raised in recent months?

3. I have joined others in the past, including my 2002 Farm Bill proposal, in promoting farmer's savings accounts to offset declines in revenue. Have you considered this policy?

4. The President's proposal recognizes a need for nutrition education programs in an effort to curb the rising obesity rate. Is the USDA able to quantitatively measure the correlation between participation in nutrition education programs and the health and/or food choices of Food Stamp recipients? In your opinion, what makes a successful nutrition education program?

5. In 2000 I authored a pilot program to streamline the Summer Food Service Program. It was made permanent in 2004 and has been expanded to 26 states as the Simplified Summer Food Program. Participation in eligible states has greatly increased. I plan to introduce legislation to expand this program nationwide. While the program does not expire until 2009 I would appreciate your thoughts on this program as well as any suggestions on how to further improve the program in eligible states?

6. In 2002, Indiana was one of the 4 states selected for the Fruit and Vegetable Pilot Program with 25 schools in the state participating. The program was considered successful among participating states and, in 2004, this program was made permanent in the Child Nutrition and WIC reauthorization bill. How does the administration's farm bill proposal seek to expand this program nationwide?

7. I currently participate in a market based environmental program by enrolling my farm's black walnut trees with the Chicago Climate Exchange. The exchange connects companies that are trying to reduce their carbon footprint with those that are reducing atmospheric carbon, in this case through the growing of trees. Please elaborate on the idea contained in the Farm Bill proposal with regard to "market based approaches to conservation"? Please provide an example of how this may work within the USDA and for farmers.

8. In 2005 Congress passed an energy bill with loan guarantees for cellulosic ethanol. The Department of Energy has taken, in my opinion, an incredibly long time to roll out a program needed to address a critical energy problem. The USDA has had a good track record in delivering loan guarantees. Could you please explain to what level DOE consulted with USDA on loan guarantees for cellulosic ethanol? Could you also please provide greater detail to the USDA's proposal to administer a cellulosic ethanol loan guarantee program?

9. In 2000 I worked with this committee to pass the Biomass Research and Development Act in order to address what I viewed as a critical and growing dependence on oil. In 2005 I joined Chairman Harkin in authorizing more funding for the program. Each year the Administration's budget proposal has chosen to not fund this program and even to eliminate mandatory funding established by this committee. I am heartened the farm bill proposal seeks to add funding for research and development of bioenergy and biobased products, however the administration's budget again provides mediocre support for these efforts. I would appreciate your thoughts on this issue.

10. In addition to domestic nutrition programs I have also supported international programs such as the McGovern-Dole Program. I also believe you have been supportive of this program, among others. I would be interested in your thoughts and the latest data on how well this program is performing in fighting poverty, providing opportunities to promote girls' education, and helping alleviate hunger?

11. If reauthorized as currently written please explain to me what will happen to federal expenditures under the current "no cost" sugar program after 2008.

12. Could you please provide an update on the current Doha proceedings and how this farm bill proposal has impacted negotiations?

Senator Ben Nelson
Written Questions: 02/07/07 Hearing on USDA Farm Bill Proposal

(1) I, along with many of my colleagues, have been trying for quite some time to get emergency disaster assistance out to our farmers and ranchers impacted by natural disasters such as drought. So far, the Administration has fought us every step of the way. Looking over the USDA proposal and the President's Budget, I do not see anything to address the problems created by natural disasters and drought: no plan for a permanent disaster program; and no funding for those now suffering through natural disasters. What in this proposal is designed to help deal with droughts and other natural disasters, either through programmatic changes, mitigation funding, relief money or otherwise? Will the Administration end its opposition to emergency disaster assistance?

(2) Some commodity groups, including wheat Growers, have expressed concerns with the proposal, namely that they feel they did not get a fair shake in the 2002 farm bill because they haven't received any counter-cyclical or loan deficiency payments. They are concerned that the 7% increase in direct payments is not sufficient to overcome their input costs which have doubled. Can you address the fairness of USDA proposals across all commodities groups as well as the concerns from wheat growers?

(3) Regarding the revenue protection proposal, please explain how this proposal will work for farmers in Nebraska, particularly those suffering from multiple year droughts and in areas with significantly variable production, and how it is more beneficial than current programs. How does this proposal provide a more effective safety net for Nebraska producers that continue to face drought, with declining yields, as well as those areas with significant variations in production? Is it an equitable safety net across commodities?

(4) Please explain the Department's thinking behind its increased reliance on Direct Payments over other forms of support? Is it purely for WTO purposes or are there other reasons?

(5) How much money does USDA estimate it will save with its proposed changes in payment limitations? Any estimate as to how many farmers will be ineligible under the Adjusted Gross Income cap?

(6) The conservation enhancement option seems like an interesting proposal, but I am wondering why the Administration decided to create a new program instead of using existing programs such as CSP? Would it make sense to offer an option to forego counter-cyclical payments and marketing loan assistance for a CSP application? Is that cost prohibitive or otherwise too difficult to implement?

(7) Can you provide further information about the Regional Water Enhancement Program you've proposed and how that will help drought-stressed regions? I am particularly interested in how that proposal would help an area such as the Republican River basin – how would this proposal help keep land in production while also addressing water quantity concerns?

(8) I appreciate that we all continue to talk about bioenergy produced on farms and in our rural areas, and I appreciate that we continue to look for new feedstocks and new sources of bioenergy such as cellulosic ethanol. It is my understanding that you are proposing $500 million for an Agricultural Bioenergy and Biobased Products Research

Initiative, $500 million for rural alternative energy and energy-efficiency grants, as well as providing $2.1 billion in loan guarantees to support cellulosic ethanol projects. My thinking is that we need to move the ball forward on cellulosic as much as possible as soon as possible. We had a loan guarantee program in EPAct 2005 that, to my knowledge, still hasn't provided a single loan guarantee, and we've had provisions in the 2002 Farm Bill. Do you feel that the USDA proposals are advancing the ball for cellulosic fast enough? How do these proposals mesh with previous programs, research and efforts to advance cellulosic ethanol?

Sen. Roberts' Written Questions for Secretary Johanns
Senate Committee on Agriculture, Nutrition and Forestry
Full Committee Hearing on USDA's 2007 Farm Bill Proposal
February 7, 2007

1. Mr. Secretary, as I mentioned during my statement at the hearing, I have some concerns over how your $200,000 Adjusted Gross Income payment limitation plays out in reality. Specifically, I'm interested in how an operation consisting of multiple producers would be treated under this plan. The scenario I gave in the hearing involved three brothers who decided to form Three Brothers, Inc. If Three Brothers, Inc's AGI exceeded $200,000 would your proposal limit payments to the corporation or to the individual producers?

2. USDA proposes a Conservation Enhancement Payment under Title I. I understand this program would increase a producer's direct payment rate by 10 percent if the producer agrees to forgo marketing assistance loans and the counter-cyclical payment. I also understand conservation payments under Title II of the proposal are not subject to the AGI limit.

A. Would this new Conservation Enhancement Payment be subject to the $200,000 AGI limit for commodity payments?

B. If so, why is this conservation payment treated differently than other conservation program payments in that regard?

C. Finally, does a producer have the option to sign up for this program one year, and choose the next year to take the counter-cyclical payment and marketing assistance loan? Would a producer be locked into a multi-year agreement?

Senator Ken Salazar
Secretary Mike Johanns: USDA 2007 Farm Bill Proposals
February 7, 2007

Questions

Question on Commodity Title:

1. Mr. Secretary, in 2005 Colorado wheat growers planted over 2.5 million acres of wheat.with a value of $181 million dollars. I am being told by my wheat growers that the USDA recommendations will further the inequity toward wheat in the 2002 bill. Wheat producers have not received any counter cyclical or loan deficiency payments over the term of the 2002 Farm Bill meaning the only program wheat growers can rely on is the direct payment, and the fact that input costs are up, the proposed 7 percent increase in the direct payment over the final three years of the 2007 bill is insignificant.

2. Mr. Secretary, last year I held a series of Farm Bill listening session across Colorado where, among other things, I heard the need and desire to update program payment bases and yields. The USDA proposes to NOT update bases and yields. Can you tell me about the rationale for that proposal?

3. Mr. Secretary, how did USDA decide that the adjusted gross income (AGI) eligibility cap should be reduced from $2.5 million to $200,000 adjusted gross income? Why $200,000? I ask because Colorado has upwards of 2,000 producers who could be affected by this cap.

Questions on Conservation Title:

1. Would the USDA proposal to consolidate existing conservation programs (Environmental Quality Incentives Program, Wildlife Habitat Incentives Program, and four others) into one program result in the emphasis some goals at the expense of other worthy goals of the existing programs?

2. Mr. Secretary, last year I held a series of Farm Bill listening sessions across Colorado. One of the items that I vividly remember is the story of how landowners near my home- Colorado's San Luis Valley- are utilizing the existing easement programs- specifically the Farm and Ranchland Protection Program to protect the heritage of the San Luis Valley. I am encouraged that USDA's proposal included additional investment in these programs.

   My question is: Would the USDA proposal to consolidate land-easment programs (Farm and Ranchland Protection Program, Healthy Forest Reserve Program, and the Grassland Reserve Program) into one program result in the emphasis some goals at the expense of other worthy goals of the existing programs?

3. I enthusiastically support a national goal of producing 25% of America's energy from renewable sources - including biofuels - by 2025 (25 x 25). With significant acreage enrolled in the Conservation Reserve Program (2,462,084 acres enrolled in Colorado) is there a sound way to utilize that acreage for cellulosic biomass without adversely affecting the positive soil, air, water, and wildlife benefits that CRP provides?

Questions on Energy Title:

1. I appreciate the USDA's proposal to expend new funding on bio-based renewable energy. However, I have to say that I think that the Energy Title needs to be beefed up to support a national goal of producing 25% of America's energy from renewable sources - including biofuels - by 2025 (25 x 25). To get there is going to take tremendous effort and it is my hope that this Farm Bill will play an important role in 25 x 25. Mr. Secretary, will you commit to working with the Committee to attain this ambitious goal?

Questions on Rural Development Title:

1. How would the proposed consolidation of rural development programs focused on renewable energy interact with other renewable energy programs in the Department of Energy?

2. Would the USDA proposal to consolidate existing rural development programs into "platforms" result in the emphasis some goals at the expense of other worthy goals of the existing programs?

Questions on Nutrition Title:

1. **Commodity Supplemental Food Program**
   USDA's 2007 Farm Bill Proposals on nutrition programs do not mention the Commodity Supplemental Food Program. This program serves approximately 20,000 Coloradans and more than 440,000 nationwide. The program is very popular with Seniors, particularly in Rural America, because it provides food assistance to the elderly in a dignified way with much less paperwork than other programs.
   - Earlier this week, the President's budget called for the elimination of this program, would you expect that we do away with this program in the 2007 Farm Bill?
   - Why should we eliminate a program that is so effectively meeting the needs of our Seniors?

2. **Food Stamps Outreach**
   I believe there are several promising ideas in the 2007 Farm Bill Proposals that would increase access to the Food Stamps program. In particular, I think we should exclude retirement savings, college saving plans, and combat-related military pay from Food Stamps assets and income tests.

- o Besides these suggestions, do you think there are other ways to increase participation rates with the already eligible population?
- o Are there other ways we could encourage the millions of Americans who qualify for food stamps? What about setting aside additional money for Food Stamp Outreach?

3. **Lack of Investments in Nutrition Programs**
While we are still attempting to fully digest the numerous proposals that USDA has put forward, I was struck by what was NOT in your recommendations. I have heard from Coloradans across my state about the growing unmet needs of hungry Coloradans. For example, in El Paso County, the Care and Share Food Bank received 477,682 fewer pounds of TEFAP commodities in 2006 than they did in 2005, which means less food for community and faith-based pantries and kitchens serving families in need.

From my review, it appears that funding for the Food Stamp program would be cut by $66 million over ten years. At the same time, overall Farm Bill spending would increase by $5 billion.
- o Are there additional things we can do to limit the program administration costs to ensure that more Americans are given access to benefits?

From the Office of Senator John Thune
Full Agriculture Committee Hearing: USDA 2007 Farm Bill Proposal
9:15 am on February 7, 2007 -- SR328 Russell Senate Office Building

FOLLOW UP QUESTIONS FOR SECRETARY JOHANNS:

1. SODSAVER: New ethanol production facilities are increasing as is the demand for corn and the need for additional corn acres. If the sodsaver provision becomes law won't its intended purpose to discourage conversion of non-cropland to cropland conflict with the President's goal to produce 35 billion gallons of alternative fuel by 2017?

2. BIO ENERGY: The Administration has proposed to increase funding for cellulosic ethanol research by $1.6 billion over the next ten years. Is this investment enough to reach the President's goal of 35 billion gallons of alternative fuel by 2017?

3. BIO ENERGY: The Administration proposes $2.1 billion in guaranteed loans for cellulosic ethanol projects in rural areas. Do you propose any changes to the current loan guarantee programs? Have previous loans been distributed equitably? How would you ensure that these loans are distributed in a geographically equitable manner?

4. EMERGENCY LANDSCAPE RESTORATION PROGRAM: The Administration has proposed consolidating the Emergency Watershed Protection program and the Emergency Conservation Program into a new Emergency Landscape Restoration Program. Which Branch or Agency in USDA would administer this program and how would a consolidated program help improve the response time to natural disasters such as a drought?

5. TRADE WTO: Based on what we have learned from recent WTO filings against the United States are you certain that "Amber Box" payments total under this proposal would not exceed allowable and contestable limits?

6. CSP: Under the Administration's proposal, the Conservation Security Program would be our nation's primary conservation program with 96 million acres enrolled over 10 years. Why did the Administration not include incentives for energy-dedicated crops or other incentives for renewable energy production under the proposed CSP?

7. CSP: On January 17, Arlen Lancaster, NRCS Chief, testified that fully funding the CSP program under the 2002 Farm Bill would cost $9 billion per year. However, the Administration's proposal would cost $8.5 billion over 10 years while increasing CSP acres to 96 million from the current 15.5 million. What are your proposed changes that account for this stark contrast in funding levels?

8. CRP BIOMASS: The Administration's farm bill proposal recommends greater flexibility on CRP acres to harvest biomass material. Do you have information available that demonstrates how biomass can be harvested from CRP-enrolled land without damaging wildlife habitat or undermining other environmental benefits of the program?

9. REVENUE-BASED COUNTER-CYCLICAL PROGRAM: Under the Administration's proposed revenue-based counter-cyclical program, payments would be triggered when the

actual national revenue per acre for the commodity is less than the national target revenue for per acre. Some may argue that a nationally-based program would not adequately respond to events that reduce revenue in a smaller area, such as a flood that ruins the crop in a particular county. What is the advantage of nationally-based counter-cyclical program relative to one that is based on county-wide revenue per acre?

USDA

United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

FEB 27 2007

The Honorable Mike Crapo
United States Senate
239 Dirksen Senate Office Building
Washington, D.C. 20510-1205

Dear Senator Crapo:

This is in response to the question concerning forward contracting for dairy farmers you asked during the Senate Agriculture, Nutrition, and Forestry Committee hearing on the Department of Agriculture's (USDA) Farm Bill proposal on February 6, 2007.

The main advantage of forward contracting to the industry is that it provides an additional tool for managing risk. Forward contracting allows producers and handlers to reduce price variability and income instability.

A USDA report sent to Congress on October 31, 2002, demonstrated the positive effects of forward contracting on the dairy industry during the pilot program. Pilot program data for September 2000 through December 2004 demonstrated that price volatility was reduced for contracted milk. Contracted milk averaged $14.26 per hundredweight with a range of $2.83 between high and low prices, while non-contracted milk averaged $14.33 per hundredweight with a range of $10.79 between high and low prices. The report and pilot program data cited above are available at *http://www.ams.usda.gov/dairy/for_contr_pilot.htm*.

By allowing forward contracting for non-fluid milk, the industry was provided with an additional risk management tool to assist in managing their business. The program was voluntary, and the regulatory requirements were limited and manageable.

Just as USDA has supported past legislative efforts to convert the dairy forward contracting pilot into a permanent program, we would certainly support similar legislation in this Congress. We would be pleased to work with you as Congress considers this issue.

Sincerely,

Mike Johanns

Mike Johanns
Secretary

USDA

United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 1 2007

The Honorable Patrick Leahy
United States Senate
433 Russell Senate Office Building
Washington, D.C. 20510-4502

Dear Senator Leahy:

At the 2007 Farm Bill hearing of the Senate Committee on Agriculture, Nutrition and Forestry on February 7, 2007, you asked whether the Administration supported a 1-month extension of the Milk Income Loss Contract (MILC) program from August 31, 2007, to September 30, 2007. I agreed at the hearing to get back to you regarding the Administration's support of a 1-month extension of the MILC program.

Based on current projections, we estimate that a one-month extension would trigger MILC program payments of $3 million on milk marketed during September 2007. In addition, a one-month extension could lead to the budget assumption of a continuation of the MILC program beyond fiscal year (FY) 2007, leading to an increase in the baseline used for scoring 2007 Farm Bill proposals. We estimate that continuation of the current MILC program would increase projected outlays above the current services baseline released on February 5, 2007, by $1.1 billion during FY 2008-17. The Administration opposes an extension of the MILC program that would lead to this increase in outlays in the baseline.

The Administration's 2007 Farm Bill proposal would extend the MILC program with modifications. Under the proposal, outlays under the MILC program are projected to be $793 million during FY 2008-17. Any change which would increase total estimated costs, baseline plus proposed incremental costs, above $793 million would be objectionable and should be accompanied with offsetting reductions. At this time, the Administration is opposed to extending the current MILC program without modification for the reasons presented on pages 26-27 of the document entitled, "U.S. Department of Agriculture's 2007 Farm Bill Proposals."

In the months ahead, I look forward to working with the members of the 110th Congress in crafting a new farm policy. Let me assure you that I remain open to new ideas and have a strong

The Honorable Patrick Leahy
Page 2

desire to work closely with you and other members of Congress in developing future dairy policy that will be beneficial to dairy producers, processors, consumers and other stakeholders.

I am sending an identical letter to Chairman Tom Harkin and Senator Saxby Chambliss.

Sincerely,

Mike Johanns
Secretary

USDA

United States Department of Agriculture

Office of the Secretary
Washington, D.C. 20250

MAR 7 2007

The Honorable Ken Salazar
United States Senate
702 Hart Senate Office Building
Washington, D.C. 20510-0607

Dear Senator Salazar:

During the Senate Agriculture Committee farm bill hearing on February 7, 2007, you posed a couple of questions on renewable energy. In my response during the hearing I offered to respond in writing with further detail. I appreciate your interest in this matter and am pleased to provide the following additional thoughts and information.

This Administration and Congress both have taken strong positions of leadership on promoting renewable energy and energy efficiency. The President presented a new national policy on energy in the early months of 2001 with many recommendations concerning renewable energy and energy efficiency. In subsequent years, the Administration has launched a new initiative for hydrogen and fuel cells, an Advanced Energy Initiative, and a new proposed Energy Title for the 2007 farm bill. We believe that the President's proposed 35-billion-gallon Alternative Fuel Standard will go a long way toward boosting production of new transportation fuels and creating wealth in rural America.

Our fiscal year 2008 budget proposal includes nearly $2.7 billion for the Advanced Energy Initiative—an increase of 26 percent over the 2007 request and of 53 percent over 2006. The 2008 budget request provides $179 million for the Biofuels Initiative at the Department of Energy, an increase of $29 million compared to the 2007 request. Our new farm bill proposal includes more than $1.6 billion of additional new funding over 10 years at the U.S. Department of Agriculture for bioenergy research and development and for energy efficiency grants as well as support for more than $2 billion in loan guarantees for cellulosic ethanol. Including the 2008 budget proposal, the Federal Government will have spent $15 billion since 2001 to develop cleaner, cheaper, more efficient, and more reliable energy sources.

For its part, the Congress has passed important legislation in this arena, including the Biomass Research and Development Act of 2000; the first-ever Energy Title to a farm bill; and the Energy Policy Act of 2005. These are all critical building blocks to finding new ways to fuel our vehicles and power our homes and offices.

The Honorable Ken Salazar
Page 2

With respect to your question regarding coordination with the Department of Energy, this Administration has strengthened coordination across the Federal Government and has implemented these new policies effectively. I initiated the USDA Energy Council to enhance collaboration between our internal agencies and with external agencies, and the Department of Energy is represented on the Council.

Secretary of Energy Samuel W. Bodman and I have worked in close collaboration to move forward to achieve our Nation's energy goals. For example, Secretary Bodman and I chair the Federal Biomass Board, which was mandated by the Biomass Research and Development Act of 2000. This forum has been an effective tool for coordination, and we are working to broaden and enhance the participation of other agencies on the Board. Additionally, Secretary Bodman and I cosponsored a successful Renewable Energy Conference in October. The conference was attended by Government officials, including President George W. Bush and Environmental Protection Agency Administrator Stephen L. Johnson, as well as by many private-sector leaders.

We have made a lot of progress over the last few years in building a new energy economy, and there is a lot more to come. The Administration is committed to working with Congress on ending our dependence on foreign oil and developing new ways to generate electricity.

Thank you for your questions. I appreciate this opportunity to respond.

Sincerely,

Mike Johanns
Secretary

Question to be Submitted to Secretary Mike Johanns for the Hearing Record
USDA Farm Bill Proposal Hearing -- February 7, 2007

Senator Saxby Chambliss:

1. **(Chambliss 1)** You have noted that our farm bill should be able to withstand challenge in the WTO and have even pointed to a comment from a Georgia participant in one of your listening sessions that "we need to trade-proof our programs." Mr. Secretary, is it possible to "trade-proof" our programs in the current environment in which we do not have protection from WTO litigation provided by a peace clause?

   Response: The proposals we have outlined are not only good farm policy but would diminish any possible trade distortions, which is the concern addressed by the current WTO rules. For example, the marketing loan program is a major contributor to the so-called "amber box," measures that are considered more than minimally trade distorting. Our proposal will reduce budget outlays under that program. At the same time, our proposal would increase direct payments and would remove planting restrictions on base acres. The increased planting flexibility better reflects the considerations underlying the WTO rules for so-called "green box" (non- or minimally-trade distorting programs). Conservation and environmental programs are also entirely consistent with WTO rules for green box programs. Our proposal would increase that funding. On balance, we think these proposals move U.S. farm policy in the right direction in terms of the WTO rules; they minimize possible trade distortions in our programs, decrease funding under programs in the amber box, and replace it with funding under non- or minimally-trade distorting ("green box") programs. Having said that, there is no question that the protections provided by a peace clause are significant. Yet another reason a successful conclusion to the Doha Round is so important.

2. **(Chambliss 2)** It has been noted that although USDA did recognize the need for increased investment in rural America with your proposal, the costs are largely borne by two programs that production agriculture relies on most—crop insurance and commodity programs. Obviously you consider your proposal balanced and equitable, although many would consider these changes unfavorable. How do you explain to farmers who rely on these programs that the funding increases in your proposal did not come at their expense?

   Response: The Administration's Farm Bill proposals would provide $5.0 billion in additional funding over the next 10 years, including nearly $8.0 billion in additional funding for conservation programs. While spending on commodity programs and crop insurance are reduced, they are more than offset by increased spending for other programs.

3. **(Chambliss 3)** With respect to your revenue-based counter-cyclical payment proposal, have you analyzed the effects of how producers of the covered commodities would have fared under this proposed system if it had replaced the current counter-cyclical program of the 2002 farm bill? If not, do you have a prospective analysis of this safety net on

farmers? Does this national revenue based system provide a solid safety net for producers of all of the covered commodities?

Response: The Administration has analyzed how the revenue-based counter-cyclical payment program would have fared over the 2002-06 crop years, compared with the current counter-cyclical program under the 2002 farm bill. In addition, the Administration has conducted a prospective analysis of this safety net beginning with the 2008 crop year. We believe that the revenue-based counter-cyclical payment proposal would provide a much improved safety net for producers of all of the covered commodities. The current price-based counter-cyclical program over compensates producers in years when crop yields are above average and under compensates producers in years when crop yields are below average. The compensation provided under the revenue-based counter-cyclical payment proposal varies with crop yields so that the level of compensation better reflects changes in market revenue. For instance, wheat yields were low and revenue per acre fell in 2002/03, yet wheat producers did not receive a payment under the current price-based counter-cyclical program, since the effective price (season average price plus the direct payment rate) for wheat was above the target price. In contrast, a counter-cyclical revenue payment of $0.33 per bushel would have been triggered under our revenue-based counter-cyclical proposal for the 2002/03 crop. In 2004/05, the season average corn price dropped from $2.42 per bushel the previous year to $2.06 per bushel but, because the national average yield per acre was record high in 2004/05, revenue per acre dropped only slightly (4%) from the previous year. Under the current price-based counter-cyclical program, corn producers received no counter-cyclical payment for the 2003/04 crop and a $0.29 per bushel payment for the 2004/05 crop. No counter-cyclical revenue payment would have been triggered for the 2004/05 corn crop under the revenue-based counter-cyclical proposal, since increased yields largely offset the decline in market price leading to only a slight decline in market revenue.

4. **(Chambliss 4)** In the field hearings I held across the country this summer, I asked witnesses to rank the importance of components of the commodity programs for their operations. Cotton producers consistently ranked the marketing loan as their top priority. Is this what you heard in your farm bill listening sessions? And if so, why do you propose focusing program support for cotton into the direct payment mechanism and reducing the marketing loan rate?

   Response: Producers expressed concerns about maintaining a strong safety net. The Administration's proposal maintains a strong safety net for cotton producers that is predictable, effective and more consistent with WTO rules. Reducing loan rates and increasing direct payments will make the cotton program more market oriented and less trade distorting while continuing to provide a strong safety net for producers.

5. **(Chambliss 5)** In your commodity proposals, on one hand, USDA proposes loan rate changes in the name of being more market-based, but on the other, USDA proposes replacing the current system for establishing daily posted county prices (PCP's) used for marketing loan purposes with a monthly PCP for each crop. There appears to be a lack of

consistency in your marketing loan proposals if you are trying to be more market oriented. Can you explain this?

Response: We do not believe the loan rate proposal and the PCP proposal are inconsistent. The loan rate proposal would set loan rates at 85 percent of the previous 5-year Olympic average of season-average prices. This would reduce the influence of the loan rate on producers' planting and marketing decisions. The loan rate would be more of a marketing tool than a means of income support. More of the income support function would shift to the direct and counter-cyclical revenue payment programs. The PCP proposal would continue to enable producers to obtain a loan deficiency payment (LDP) or a marketing loan gain (MLG) based on a recent average of representative local prices. Instead of a daily loan repayment rate for feed grains, wheat and soybeans, the rate would be set monthly based on an average of selected daily prices. This approach has at least two benefits. First, it is administratively simpler and thus less costly than the current system of reporting tens of thousands of PCPs daily. Second, the use of an average PCP over a month would prevent issuance of excessive LDPs and MLGs on those few days during a month when the PCP happens to dip to an unusually low level. Producers would continue to make market-oriented decisions about when to sell their crop based on current and expected market prices.

6. **(Chambliss 6)** The President's budget proposes $1.5 billion for FSA's salaries and expenses account, which is $278 million above the 2007 level. We continually hear about FSA's need to update its computer systems, and this is an important topic to discuss since this will be a farm bill implementation year. Does the President's budget account for these upgrades?

Response: The budget provides sufficient funds to maintain FSA staffing at the 2007 level and to cover the rising operational costs of the current information technology systems and other administrative needs. FSA's administrative resource requests in the 2008 budget reflect the needs to support the current workload. Once the provisions of the new farm bill are known we will reassess the salaries and expenses budget including potential IT needs to implement new farm bill provisions.

Regarding the need to upgrade the computer systems, FSA has made some progress in modernizing part of its computer systems but has been caught between the pressures to deliver new and additional programs in recent years, such as ad hoc disaster assistance and the tobacco buyout, and the rising costs of operating aging computer systems within a constrained budget. Given the magnitude and complexity of programs operated by FSA, initial efforts have been directed to developing a strong business case for the modernization. This involves assessing business practices to ensure any new system operates as efficiently as possible. The Department's Office of Chief Information Officer and Office of Chief Financial Officer are working with FSA and others to complete these efforts. The business case will provide the analytical basis to support further modernization efforts.

7. **(Chambliss 7)** Under current law, producers who maintain a three-year average adjusted gross income exceeding $2.5 million, with less than 75 percent of such adjusted gross income derived from farming, ranching or forestry operations, are not eligible for certain commodity and conservation program benefits. Your new proposal would exclude producers from being able to receive any COMMODITY PROGRAM benefits at a much lower threshold of $200,000 in adjusted gross income, but maintains the higher $2.5 million level for participation in CONSERVATION PROGRAMS. Why?

   Response: There are important differences between commodity programs and conservation programs which must be taken into consideration. First, commodity programs relate directly to income connected with the farming or ranching operation. As Farm Bill Forum input indicated, and our analysis further verified, there is a current imbalance of commodity program distribution under current law. Conversely, conservation programs currently have a more even distribution across farms of all acreage and size. In fact, most conservation programs are connected with small and mid-size farming operations. Under conservation programs, the government is either sharing in the cost of a particular conservation practice, purchasing an easement, or receiving some sort of new conservation benefit. In the end, wildlife and natural resources do not recognize property boundaries, political boundaries or differences in income. We want to seek out the greatest environmental benefits that can be purchased on behalf of the entire nation.

8. **(Chambliss 8)** I note that the proposal indicates that USDA will issue rules to institute new procedures to validate producer adjusted gross income. Assuming the use of adjusted gross income as the test for commodity program eligibility, how will the Department validate those farming operations organized as partnerships, trusts or corporations – will you use tax forms for the organized entity or will the individual's 1040 tax return, where any income from such a partnership, trust or corporation is reported as wages or salaries, be used as the eligibility determination?

   Response: Our payment limit proposal is based on the concept of direct attribution and will utilize information provided on tax returns of individuals. Payments to an entity such as a partnership, trust or corporation will be attributed to the members of the entity. Any member with an average adjusted gross income (AGI) over the previous three years that is equal to or above $200,000 would not receive payments under Title I programs (price and income support). In addition, if payments are made directly to the entity, those payments would be reduced based on the membership share of the producers that have AGIs equal to or above $200,000.

9. **(Chambliss 9)** The 2002 farm bill completely changed the peanut program. In an effort to gradually transition away from the previous quota system, we drafted the legislation to take into consideration the drastic changes peanut growers would be facing and provided unique provisions for peanut producers. I note that the Administration's proposal eliminates most, if not all of these provisions. Most notably, the payment limitation allowance for peanut growers is eliminated thereby significantly lowering the total payment threshold under which growers participate in the peanut program in combination

with other crop programs. Additionally, if you reduce the marketing loan for peanuts and eliminate the storage and handling fees for peanuts, a peanut grower's ability to fully participate in any of these programs is jeopardized, and we are abandoning the commitment provided to peanut growers under the 2002 farm bill. Why such draconian changes directed at one industry?

Response: The Administration considered equity in payments between commodities an important factor in its 2007 farm bill proposal. Peanut producers have had 5 years to transition to the more market-oriented program that began with the 2002 farm bill. Special allowances, such as separate payment limitations for peanuts, are not consistent with equitable treatment across all program crops.

The peanut industry has prospered with strong growth in domestic use and increased exports under the market-oriented program legislated in 2002, and USDA expects continued progress under the 2007 farm bill proposal. Although loan rates may be established at a lower level, direct payments would increase; and therefore the overall level of support from these two programs is projected to be unchanged and counter-cyclical payments would be much more reflective of changes in market revenue for peanuts.

In the 2002 farm bill, Congress determined that payment of peanut storage and handling fees would provide a transition that ends with the 2006 crop. The Administration's 2007 farm bill proposal continues the directive provided in the 2002 farm bill and does not re-authorize storage and handling fees for peanuts. We believe this will lead to more orderly marketing of peanuts and is consistent with the Administration's goal of equity across program crops.

10. **(Chambliss 10)** I note that the proposal suggests lowering the loan rate for peanuts. As you are aware, this new marketing loan system was only recently initiated for peanuts under the 2002 farm bill, and many have found fault with the manner in which it has been implemented. While adjusting the loan rate in your proposal may provide some savings and/or improved WTO compliance, the real question is how do we improve the administration of the peanut marketing loan program so that it is functional? It is my understanding that the national posted price has consistently been disputed as too high, at times causing loan repayment rates to exceed the loan rate and encourage forfeitures in lieu of repayment. What improvements might we explore to ensure that the national posted price calculation truly reflects market clearing prices?

Response: USDA is committed to improving the quality of peanut price information available to farmers and processors, and to a successful peanut marketing loan program. In this regard, USDA has explored numerous options for administration of the peanut marketing loan program. USDA commissioned independent analysts to provide recommendations on calculating the weekly National Posted Price (NPP) for peanuts. We persistently pursued alternative sources of peanut price information to address the lack of peanut price transparency. These efforts were rewarded with the establishment in October 2006 of a weekly farmer stock price series by peanut type through the National

Agricultural Statistics Service (NASS). USDA believes that this weekly series provides more timely, accurate, and consistent price data than what was formerly available to the industry.

Price transparency issues notwithstanding, it would appear that the NPP has been a good indicator of market clearing prices, as evidenced by a 2 percent average forfeiture rate over the 2002-05 peanut crops. USDA expects few if any forfeitures of 2006 crop peanuts.

11. **(Chambliss 11)** Your proposal would replace the current DAILY posted county prices (PCP) with a monthly PCP for many crops. As you know, the posted price used for determining loan deficiency payments and repayment rates for peanut marketing assistance loans is currently established WEEKLY and on a national basis. Will your revision to the system for establishing these rates change the timing for announcing the national posted price for peanuts?

    Response: The proposed change to the timing of posted county prices (PCP's) for covered commodities does not apply to peanuts. The National Posted Price (NPP) for peanuts will continue to be announced weekly.

12. **(Chambliss 12)** What additional suggestions could you propose that would allow you to maintain a no-net cost non-recourse loan program for sugar as we have today but provide maximum flexibility to independent cane refiners in securing sufficient imported raw sugar when domestic supplies are inadequate to meet their existing needs and also allow them to grow their business?

    Response: The Administration thoroughly reviewed a number of program options before presenting its 2007 farm bill proposal for the sugar program. We believe the Administration's 2007 farm bill proposal provides for a no-net cost non-recourse loan program for sugar that would provide maximum flexibility to independent cane refiners in securing imported raw sugar when domestic supplies are inadequate. At the present time, the Administration does not have any additional suggestions that would allow the Congress to maintain a no-net cost non-recourse loan program for sugar, and at the same time, provide maximum flexibility to independent cane refiners to obtain imported raw sugar when domestic supplies are inadequate.

13. **(Chambliss 13)** Secretary Johanns, as you know, dairy is one of the most contentious issues we must confront during the farm bill due to the divergent and varied constituencies involved. Based upon the self-proclaimed "reform-minded and fiscally responsible approach" of your proposal, I was surprised that the dairy proposals were less ambitious. Without making value judgments on the dairy proposals, you propose to extend the MILC program in a diminished capacity, extend the dairy price support program in its current form, and subject dairy imports to the same assessments experienced by domestic products.

a. During your farm bill forum tour across the country, did you hear from producers about federal milk marketing order reform, forward contracting for dairy producers, or programmatic alternatives to the MILC and dairy price support programs? Why were these issues not addressed in your proposal?

Response: We did hear from dairy farmers and dairy processors from across the country. Our proposal does reflect many of the views we heard on the MILC and the Milk Price Support Program. USDA did indeed propose significant reform to the MILC Program. The proposal converts the MILC to payments based upon historical production rather than current production to make it consistent with all other countercyclical programs. We are suggesting phasing the payment rate down over time from the current 34 percent to 20 percent; this change is also consistent with our proposal to lower loan rates for program crops. It is a simple consistency issue.

As we traveled throughout the country, we heard from dairy farmers that supported the Federal Milk Marketing Orders with changes made in an inclusive and deliberate rulemaking process. There were, however, concerns about the speed of this rulemaking. To address the issue of timeliness, USDA has already instituted changes to streamline the process (such as pre-rulemaking consultations with interested parties to identify key issues, setting internal delivery dates, etc.). Given the support expressed for the orders and their ability to be amended through formal rulemaking, the Department did not feel it necessary to address order reform in our farm bill proposals. However, we remain open to finding additional ways to improve the speed and efficiency of milk order rulemaking.

14. **(Chambliss 14)** You have stated the Administration's farm bill proposal is more trade-compliant than our existing farm bill programs; however, according to the Congressional Research Service, dairy price supports were the largest single category of annual U.S. amber box spending, accounting on average for 42% of spending from 1995-2001. These numbers do not even include MILC payments which began in 2002 and have thus not been reported to WTO.

    a. Since dairy price supports are one of the largest components of our amber box spending, if your goal is to make the farm bill more trade compliant and consistent with the 2005 U.S. WTO proposal, why did the Administration's proposal not include reductions to the dairy price support program or the MILC program?

Response: The proposal recognizes that milk prices have been well above support prices in recent years and that trend is expected to continue. Therefore, our proposal focused on a safety net for dairy farmers to address the variability in milk prices. We maintain the MILC program but propose to make MILC payments consistent with our other counter-cyclical, safety-net programs. The payment rate would be phased down over the life of the program, and payments would be based on 85-percent of historical milk marketings over the fiscal 2004-06 period. This proposal is also good WTO policy, because payments based on historical production are less trade-distorting.

15. **(Chambliss 15)** As you know, many dairy producers across the country, and particularly producers in the Southeast, are concerned with the current Federal Milk Marketing Order system. One of the major concerns of producers in the Southeast is the rising cost of producing and supplying milk for customers in the Southeast. USDA recently announced positive decisions that will assist Southeast dairy producer in recovering costs for transporting supplemental milk into Federal Order 5 and increasing diesel fuel prices. However, USDA has yet to rule on an additional proposal that would provide for intra-market transportation credits for Federal Orders 5 and 7. Testimony was provided at a Federal Milk Marketing hearing in January 2006, yet a decision has still not been made on this critical proposal.

    a. Is USDA opposed to streamlining the Federal Order amendment process to include statutory deadlines to ensure that timely decisions are made? Why was this not included in the USDA farm bill proposal?

Response: Federal milk marketing orders are authorized under the Agricultural Marketing Agreement Act of 1937. The Congress from time-to-time does get involved in major changes concerning Federal orders such as the reform implemented in 2000. However, Federal milk marketing orders are generally and routinely modified using Federal rulemaking procedures. USDA believes that rulemaking using public hearings enhances transparency, including cross-examination of witnesses and issuance of preliminary decisions, and offers the best opportunity for all interested parties to present their ideas and views for consideration.

In large part, the pace of the Federal milk order rulemaking process is due to the statutory requirement for formal rulemaking, conducted under procedures defined by the Administrative Procedures Act. Formal rulemaking ensures maximum public input through very structured procedures that tend to take time. To address the issue of timeliness, the staff of the Agricultural Marketing Service has already instituted changes to streamline the process (such as pre-rulemaking consultations with interested parties to identify key issues, setting internal delivery dates, etc.). However, we remain open to finding additional ways to improve the speed and efficiency of milk order rulemaking.

The Department is committed to continue to improve the rulemaking process. But the complexity of issues often require sufficient time to ensure the perspectives of all stakeholders are thoroughly vetted and considered in an open and transparent process. Setting mandatory timeframes in statute may indeed assist with timelier decision-making, but may also inhibit full participation and transparency.

    b. When can dairy producers in the Southeast expect to receive a decision on their proposal submitted in January 2006? Is it appropriate for USDA to take over a year to announce decisions on proposed amendments to Federal Orders?

Response: The Department implemented inter-market transportation credits seven months following the hearing. This decision increased the monies available to reimburse market participants for costs incurred supplying the Southeast market with milk. In addition, in recognition of the unique marketing conditions in the Southeast, the Department has been actively meeting with dairy representatives and producers from that region to discuss potential solutions to the concerns being raised.

16. **(Chambliss 16)** Generally, Congress has prohibited farmers from adopting practices on CRP that would tend to defeat the purpose of the program, including the commercial use of the forage from CRP acres. There has been concern expressed that the environmental benefits and wildlife habitat provided by CRP land cannot be maintained while allowing switchgrass or other cellulosic ethanol crops to be harvested from them. Are these contradictions? Has USDA conducted any analysis of the environmental costs of using CRP for biomass production? Perhaps an environmental impact analysis would be appropriate.

    Response: We believe that under proper management, some, less environmentally sensitive, CRP land can be utilized for biomass production in a way that will protect soil, water, and wildlife resources with little or no adverse impacts. USDA will work with other Federal, State, and local governments and wildlife groups, conservation organizations, producers and other stakeholders to develop the practices for planting, harvesting and cultivating biomass crops on lands enrolled in the CRP in ways consistent with the overall environmental objectives of the program.

17. **(Chambliss 17)** The proposal's expanded EQIP would provide assistance to cropland, grazing land, agricultural production areas, concentrated animal feeding operations, irrigated land, wildlife habitat, native prairie, and private nonindustrial forestland. Yet, the USDA budget request actually seeks less for technical assistance to deliver these programs. It also indicates there will be fewer staff and fewer conservation systems planned and applied in the next year. Today, NRCS is struggling to deliver the current programs even at their reduced funding levels. We can have all the money in the world for programs, but if the agency does not have the people or mechanisms to deliver them, it does us no good. USDA's budget request once again ignores these fundamental issues in conservation. Why?

    Response: It is important for the Administration's FY 2008 Budget Request and 2007 Farm Bill proposal to be considered in their totality. In developing the FY 2008 Budget, the Department based its request only upon current law and changes to mandatory program requested in the President's Budget. In contrast, the 2007 Farm Bill proposal presents our view of what future programs can and should look like.

    We offer several dramatic new concepts in our Farm Bill proposal relating to the consolidation and streamlining of conservation programs. Moving six cost-share programs into one focused effort, as well as merging three easement programs into a single effort are examples of a new approach and new philosophy. The opportunities for administrative savings and relief to NRCS field offices and staff are tremendous. Under current conditions, field staff spend inordinate amounts of time on differing program applications, computer software and duplicative financial tracking systems. We feel that by freeing up agency personnel from administering twenty-three programs, more time can be spent out on the land with farmers and ranchers. It is also important to note that we also propose additional technical assistance resources related to working with limited resource and beginning farmers.

As you know, technical assistance funding related to farm bill programs is derived from those mandatory accounts. As we proposed to increase conservation title programs, technical assistance funding to support those programs would be expected to increase.

18. **(Chambliss 18)** There is a perception that CRP provides benefits to farmers in the Midwest that are not available to farmers in the Southeast. The few details available on USDA's proposal to use CRP as a biomass reserve do not dispel this notion. Why does USDA's CRP biomass reserve proposal solely focus on the Midwest? Has USDA looked at the greater potential economic and environmental benefits of using woody biomass, such as pine trees, to meet future cellulosic ethanol demand?

    Response: Our intention is for the CRP to be a national program and USDA is open to recommendations on how to make CRP more attractive for farmers and ranchers in under-served regions. For example, USDA has recently begun Quail and Longleaf Pine Initiatives which may be especially attractive to producers in the southeast. We believe that Southeastern and other States outside the Midwest may benefit from a biomass reserve and USDA would be responsive, within statutory limitations, to ensuring that the biomass reserve is nationwide in scope.

    Economic factors including transportation costs, proximity to markets, production costs and biomass yields per acre will also likely impact the potential use of CRP land for biomass production. USDA continues to evaluate the use of a wide range of cellulosic ethanol feedstocks, such as switchgrass, fast-growing poplars, pine trees and other vegetation and crop residues that can be grown and produced outside of the Midwest. Additionally, USDA's farm bill proposal recommends $15 million per year in Forest Service Research to further enhance the use of woody biomass for cellulosic ethanol production.

19. **(Chambliss 19)** Fruit and vegetable growers are proposing to eliminate the adjusted gross income requirements for conservation programs so that more growers will be able to participate. The USDA proposal did not include this. Why?

    Response: We carefully considered the input we heard during the Farm Bill Forums. As our proposal looks to make dramatic changes to the adjusted gross income requirements for commodity programs, we heard input from many producers that conservation programs require a different approach. It is important to note that the adjusted gross income (AGI) is actually a net income figure since it takes into account production costs and other expenses that are part of the operation. At this time, the Department does not see compelling evidence to suggest that many additional conservation benefits can be gained for the public by eliminating the current AGI for conservation programs.

20. **(Chambliss 20)** A cornerstone of the Administration's proposal has focused on making our agriculture programs stronger to withstand challenge in the World Trade Organization. While the proposal recommends lowering loan rates and increasing direct payments, based on the 10 year score, it is unclear if the proposal fits within the parameters of the October 2005 offer in the agriculture negotiations.

    a. Should we view the farm bill proposal as a revision of the U.S. offer in the Doha Round agriculture negotiations?

    b. What is the estimated annual projected AMS in the amber and blue box annually for both the Uruguay Round commitments and the U.S. proposal. Since dairy and sugar remain the same, would LDPs be low enough not to exceed $7.6 billion in any given year?

    c. Given that Dairy and Sugar account for the large majority of amber box spending, does this proposal meet your desire to provide "equity among all commodities" in your farm bill proposals?

Response: In shaping these farm bill proposals, our primary goal has been promoting good farm policy. This means a market-oriented approach that is more predictable and balanced, an approach that provides farmers and ranchers with a safety net, yet doesn't distort market signals.

A better farm bill should be better able to withstand WTO challenge in order to ensure that our farm policy is predictable and being written by the United States, rather than our foreign trading partners. Yet while these farm bill proposals may be viewed as a commitment towards further reform, they should not be confused with our WTO proposal to cut domestic support that we made in October 2005. The farm bill proposal is not a new WTO offer.

Under the current baseline, the annual AMS is projected to be well under $10 billion over the period 2008-2017. Likewise counter-cyclical payments are projected to average $1.1 billion annually. Under the Administration's proposals, amber box spending would be reduced by less than $500 million annually, while spending under the counter-cyclical revenue program is projected to save about $370 million annually. However, it is important to recognize that if prices were to fall below baseline projections, budget outlays (and the reporting of support to the WTO) could be greater.

Under the Administration's proposals, both dairy and sugar support levels would be affected. We maintain the MILC program but propose to make MILC payments consistent with our other counter-cyclical, safety-net programs. The payment rate will be phased down over the life of the program and payments will be based on 85-percent of historical milk marketings over the fiscal 2004-06 period. Under the sugar proposals, support to sugar producers would decline in the event of the imposition of domestic marketing allotments.

21. **(Chambliss 21)** The recommendation to alter the structure of P.L. 480 Title II includes authority to use up to 25 percent of funds for the local or regional purchase and distribution of emergency food.

    a. As the P.L. 480 Title II food aid program is administered by USAID, how does USDA plan to implement the suggested change?

    b. What details can the Administration provide to inform the Congress how such a change would be implemented?

    c. How will USDA ensure the suggested use of funds for cash purchases in foreign countries will not contribute to market distortion, create new food safety concerns, and encourage corruption?

Response: The principal reason for the proposal to use up to 25 percent of appropriated P.L. 480 Title II funds for the local or regional purchase and distribution of food is to save lives. USDA and USAID will work closely on the initiative to ensure that the funds are used appropriately. In 2005, the United Nations World Food Program (WFP) purchased over $225 million in commodities in Africa alone. Private voluntary organizations (PVOs) also conducted a number of local purchases. There is a large body of experience, therefore, that can be drawn upon to develop operational guidelines. If the initiative is approved, to address the specific concern about market disruption, before a purchase is made, USAID would review existing USDA market analyses and require WFP or PVOs to review locally available market data to ensure that the local and surrounding markets have sufficient supplies to absorb the additional demand associated with local purchase. To address concerns about food safety, WFP or PVOs would include appropriate standards when tendering for commodities. To address concerns about corruption, WFP and PVOs would use the same strict accounting and financial controls and safeguards they currently use when tendering for non-commodity purchases (e.g., local storage and trucking) in support of U.S. food aid.

22. **(Chambliss 22)** The recommended annual funding level for the Market Access Program is $225 million with the additional funding to address the inequity between farm bill program crops and non-program commodities. Already, specialty crops receive the bulk of current funding.

    a. Are you recommending less funding for program commodities because additional dollars would have a negligible marginal impact to increase exports in those crops?

Response: USDA proposes expanding mandatory funding for the Market Access Program (MAP) by $250 million over 10 years and focusing the additional funds on non-program commodities. USDA is not recommending less money for program commodities.

Specialty crop production receives very little cash benefit from the current farm bill, yet specialty crops now account for about one-half of farm cash receipts and an increasingly larger share of world agricultural trade. Program commodities already benefit from direct subsidy payments and receive the bulk of the funding under the $34.5 million Foreign Market Development program, as well as a significant share of MAP funding. This is not expected to change. However, more than 90 percent of the commodity program subsidy payments go to five crops -- corn, wheat, rice, soybeans, and cotton. USDA proposes apportioning the annual $25 million increase in MAP funding to address the inequity between farm bill program crops and non-program commodities.

23. **(Chambliss 23)** The proposal recommends authorizing and providing mandatory funding to enhance USDA staff support for international standard setting bodies.

    a. What is the current funding level for this mission area and what was the recommended funding level in the FY 2007 budget request?

    b. Why is the Administration recommending mandatory funding for what is normally provided by discretionary funding sources?

Response: This proposal is intended to strengthen American representation and provide additional staff resources to the international standard setting bodies that play a very important role in international agricultural trade -- *Codex Alimentarius* for food safety, the International Plant Protection Convention (IPPC) for plant health, and the World Organization for Animal Health (OIE).

The Associate Professional Officers (APO) program provides the opportunity for member governments to place their nationals on the staffs of these organizations. By doing so, they are in a position to influence their policies and programs.

European countries have a successful recruitment strategy, which includes financing large numbers of entry-level APOs, who in time rise up the ranks to become decision makers. For example, there are approximately 100 APOs at the FAO which hosts the *Codex Alimentarius* and IPPC. The Netherlands alone funds about 30 APOs, followed by Germany with 11, Italy 9, and Spain 8.

By contrast the United States funded only two APOs last year and is planning to fund one this year. This imbalance is believed to have led FAO to taking a more Eurocentric approach to its analysis and hiring permanently more Europeans in entry-level positions.

This concern was noted in two separate reviews by the Government Accountability Office in 2001 and 2006, which recommended funding of entry-level professional staff where Americans are underrepresented.

In past years, the Foreign Agricultural Service has funded APO positions at approximately $200,000 per year, which has allowed only one or two APOs to serve each year. The 2007 budget requested that $200,000 again be made available.

The lack of dedicated funding and the limited amount available have hindered the ability of the United States to take advantage of the APO program and, therefore, U.S. representation in the organizations has been limited.

Providing mandatory funding of $15 million over 10 years is proposed to ensure regular, annual funding will be available to plan, recruit, and retain long-term U.S. technical and senior-level presence in these influential standard-setting bodies. USDA would expect to target the new APOs to strengthen our voice in these organizations that have a tremendous impact on our ability to export agricultural products overseas. In addition to providing funds towards the APO program, the proposal would provide funding for USDA to place seasoned director-level staff—including from the Foreign Agricultural Service, Animal and Plant Health Inspection Service, Food Safety and Inspection Service, and other technical agencies—in international organizations that have the experience, background, and savvy to effectively influence decision making.

24. **(Chambliss 24)** The proposal recommends shifting current Section 32 spending to purchase additional fruits and vegetables totaling $2.75 billion over ten years. What commodities purchased under the existing program would be cut in order to achieve this figure?

    Response: This proposal is for existing Section 32 funding to be directed toward purchasing more fruits and vegetables for distribution to USDA feeding programs to enhance consumption of these commodities according to the USDA Dietary Guidelines for Americans. The determination of what commodities will be purchased or the precise timing of when a purchase will occur is not forecasted in advance. As a result, additional fruit and vegetables that will be purchased with Section 32 reserve funds have not been allocated to any particular planned commodity purchase; thus reductions in other commodities purchased under existing programs are not proposed.

25. **(Chambliss 25)** Eliminating categorical eligibility for food stamps for recipients receiving non-cash TANF benefits is projected to save $1.54 billion dollars over ten years. The goals of welfare reform include personal responsibility and work opportunity. We have encouraged families to get off welfare and get on the road to self-sufficiency. My understanding is the population most likely affected by this provision is low-income working families who receive non-cash benefits to ease the transition from welfare to work. How does this provision interact with the goals of welfare reform, and the good ideas proposed by the Administration to reform food stamp asset limits?

    Response: While categorical eligibility was originally designed to facilitate the certification of persons who met income and asset tests in other programs with similar eligibility standards, this policy was expanded in 1999 to allow States to provide categorical eligibility to those receiving any TANF funded services, including those provided without income or asset tests. For example, some States distribute pamphlets and brochures to food stamp applicants as a TANF service. As a result, food stamp eligibility has been extended to some who have received pamphlets but may not meet food stamp income and asset requirements.

Expanded categorical eligibility was intended to make it easier for people to own a reliable car and receive food stamps as they move toward self sufficiency. However, more recent changes to the vehicle policy now serve this purpose more effectively.

This proposal, in tandem with our proposal to exclude the value of retirement and educational savings accounts from the resource test, will strengthen the program by creating a more uniform and rational set of national eligibility standards, allowing working poor families to receive the food assistance they need without exhausting their long-term savings.

26. **(Chambliss 26)** The food stamp program benefit error rates have reached a historical low while at the same time monthly participation has reached a near historical high. Is it realistic for Congress to expect the error rates to continue to decrease over time, and what more can USDA do to insure continued improvements in program integrity?

Response: The national food stamp payment error rate for FY 2005, the most recent year available, is 5.84 percent. Historically, a food stamp error rate under 6 percent has been considered the benchmark for excellence in program performance.

The Administration's 2007 Farm Bill proposals include two new incentives to reduce error rates: 1) charging States 5 percent of administrative costs if the state is more than 50 percent above the national negative error rate for two consecutive years; and 2) removing the new investment option for those States sanctioned for improper payments for 3 consecutive years. This builds on the 2002 Farm Bill's new system of sanctions for high error rates and awards for low error rates, which will continue in the 2007 proposals to provide $24 million in total annual awards to States with low error rates, and with significantly improved error rates over prior years.

The Department will continue to focus on maintaining strong performance in payment accuracy, and will continue to work with under-performing States to reach the high standards now achieved in most parts of the country. Maintaining excellence involves a strong State commitment and vigilance. Equally important are roles and responsibilities related to monitoring, oversight, and technical assistance. While it is difficult to predict future performance, FNS will work with its State partners to strive to maintain and improve this level of excellence.

FNS continues to employ effective and efficient strategies and activities to improve payment accuracy and assure program integrity. For the past several years, the agency has received $1.9 million in funding to increase payment accuracy nationwide. FNS also allocates nearly $400,000 annually to support State travel to conferences, workshops, and other meetings between States, to facilitate the sharing of best practices of effective and efficient program management techniques.

27. **(Chambliss 27)** In the 1996 farm bill, Congress sought to transition farmers away from relying on government-backed loan programs by limiting a farmer's eligibility to receive direct and guaranteed operating loans to no more than 15 years. The 2002 farm bill suspended the term limits for guaranteed operating loans to December 31, 2006. This past December, Congress passed legislation to extend the suspension until September 30, 2007, to coincide with the rest of the 2002 farm bill. How many producers took advantage of the waiver? Does USDA support further extending the term limits for guaranteed operating loans in the 2007 farm bill?

    Response: The number of producers who took advantage of the waiver of term limits on guaranteed operating loans is not readily available. We are researching accounting data to determine this number and will supply it as soon as it is determined. USDA's farm bill proposal does not make recommendations regarding loan term limits.

28. **(Chambliss 28)** For farm operating loans, the budget request would provide about $630 million in direct loans and about $1.3 billion for guaranteed loans. These levels would support about 21,500 farmers; about 14,600 would receive direct loans, while 6,900 would receive guaranteed loans. Direct loans have much higher loss ratios and delinquency rates than guaranteed loans. Did USDA consider changes to the program to encourage more guaranteed and fewer direct loans?

    Response: USDA has implemented program changes and continues to make enhancements that have encouraged more guaranteed loans and fewer direct loans. Considerable efforts have been made to make the use of guarantees more attractive to lenders. As a result, approximately 70 percent of FSA farm loan funds obligated are guaranteed loans. Many recipients of direct loans are beginning and socially-disadvantaged (SDA) farmers who cannot obtain commercial credit, even with an FSA guarantee. In fiscal year 2006, over 70 percent of direct loan funds went to beginning and SDA farmers. The Administration's farm bill proposals target the direct loan programs almost exclusively to beginning and SDA farmers.

29. **(Chambliss 29)** The proposal includes $500 million to address the backlog of applications for several programs. Can you tell us what impact this amount of subsidy would actually have on the current total backlog?

    a. And if this level of support will not address the entire backlog - and I expect it won't - can you prioritize the programs for which such backlog assistance is most necessary?

    Response: The proposal will allow for approximately 40 to 50 percent of the applications we currently have on hand to be funded. However, as you know, we continue to receive applications, so there will likely be more prior to farm bill enactment. We have not yet prioritized the applications. However, should this provision become law, we will look forward to working with you to develop a prioritization for the use of these funds.

30. **(Chambliss 30)** I commend the Department for proposing improved program delivery and the elimination of program inconsistencies in order to make the rural development programs more user-friendly. However, I am curious how this would work practically, as most of the community programs, such as water and waste, high cost energy and community facilities programs were designed with very distinct purposes?

    Response: While Rural Development programs are designed with very distinct purposes, they share certain features with other Rural Development programs. For example, the Water and Waste programs and Community Facilities programs quite often serve the same rural local governments with different aspects of their infrastructure needs. By consolidating the legislative authorities of the various loan, loan guarantee and grant programs, we can improve the access to these programs for rural communities. It is not our intent to combine the programs themselves. Aside from the Farm Bill, Rural Development is currently working with the Office of Management and Budget to consolidate and streamline the common elements of our loan guarantee programs within our existing authorities through regulation. We believe this effort will make it easier for our customers to access our programs and for us to administer them. As part of this process, we are developing improved performance measurement standards for these programs so we can better evaluate their effectiveness in order to improve their performance in the future.

31. **(Chambliss 31)** Why should Congress reorganize agricultural research?

    Response: Reorganization of USDA's agricultural research, education and extension programs will help improve the efficiency and effectiveness of existing programs; strengthen linkages and coordination with university partners and other cooperators; and highlight and enhance the quality of USDA conducted and supported science.

32. **(Chambliss 32)** If Congress agrees to reorganize USDA's ag research functions, the actual implementation of the change will take time and money. Has USDA developed plans to manage the reorganization process? Will you share them with the committee?

    Response: USDA is currently developing implementation plans for the reorganization of research, extension and education programs. We will share information with the committee when the plans are finalized.

33. **(Chambliss 33)** What are USDA's goals for its new ag research agency and structure? What results do you anticipate? Better integration, enhanced efficiency and effectiveness of program implementation may be nice side benefits of reorganization, but what practical benefits will they provide for producers, consumers and taxpayers?

    Response: USDA anticipates that the new agency and structure will provide tangible benefits for producers, consumers and taxpayers. For example, producer groups must currently go to two separate agencies within USDA to provide input and solicit assistance to address their needs. The current system can lead to confusion for stakeholders, as well as potentially result in duplication of effort. By having one agency responsible for both intramural and extramural programs, stakeholders will have a more clear pathway to communicate their priorities and the new agency will be better able to allocate resources to intramural and extramural programs. These benefits will extend to consumers through the continued enhancement of our safe, affordable and nutritious food supply. Finally, taxpayers will benefit because taxpayer dollars will be allocated in a more focused and efficient manner that will decrease duplication.

34. **(Chambliss 34)** The land grant universities have developed a proposal to reorganize USDA's ag research functions, called CREATE-21. How is it similar and different from the USDA proposal?

    Response: There are several important distinctions between the USDA proposal and CREATE-21. As proposed by CREATE-21, an independent research agency would be established. The Agricultural Research Service (ARS), Cooperative State Research, Education, and Extension Service (CSREES), Economic Research Service (ERS), and Forest Service (FS) research and development function would be removed from the Department and consolidated into the new independent Institute. Under the USDA proposal, the ARS and CSREES would become a single agency called the Research, Education, and Extension Service (REES) within the Department of Agriculture. This new agency would be led by a Chief Scientist and receive policy level oversight under the current sub-cabinet level position responsible for research and education activities. CREATE-21 would also abolish the National Agricultural Research, Extension, Education, and Economics Advisory Board, which the Administration's proposal would maintain. There are also other major differences between the two proposals concerning budgeting, reporting, and program formulation.

    USDA's proposal will provide better coordination and allow for enhanced efficiency and effectiveness of program implementation and resource allocation. Duplication of effort would be minimized, while better identifying and utilizing the comparative strengths of USDA's in-house capacity as well as USDA's university partners and other stakeholders. Maintaining a scientific research capacity within USDA would continue the existing coordination with the Department's mission/program areas, and is critical to meeting the diverse and competing needs of U.S. agriculture as well as to ensure the ability to respond rapidly and effectively to emerging issues of importance to agriculture.

35. **(Chambliss 35)** I found the recommendation for developing Statewide Forest Resource Assessments very interesting, but I note that the recommended discretionary funding is a one time $65 million allowance. I assume this funding is to be provided to the States for the planning initiative. Are additional funds available to implement these plans?

    Response: The $65 million in discretionary funding is for States to do the planning. Implementation of these plans could come from other sections of the Administration's Farm Bill proposal, such as Forest Wood to Energy. In the Conservation Title of the proposal the Environmental Quality Incentives Program can also provide some forestry cost share assistance.

36. **(Chambliss 36)** I note that the proposal focuses on the need to devote additional resources to ensuring that our private forest lands are not lost. Obviously, this is very important in my home state of Georgia, and I commend the Department for working with interested stakeholders to develop these suggestions. However, I anticipate that as this legislation is crafted the more controversial matters will center on programs that affect public forest lands. Does USDA intend to propose any changes to the administration of public lands within the context of the farm bill?

    Response: We do not propose changes to the farm bill to address issues related to public lands and their management.

37. **(Chambliss 37)** The use of CRP acres for biomass production is likely to generate significant opposition among environmental groups.

    a. Since the first generation of cellulosic ethanol plants are likely to utilize crop waste from existing production of program commodities, is the use of CRP acreage necessary to incentivize production in the early years?

    b. In your estimation, what is the appropriate amount of CRP acreage that should be eligible for biomass production?

    Response: Utilization of CRP lands for biomass production must be done with full consideration of environmental impacts, particularly wildlife and aquatic habitat impacts, local and downstream water quality effects. The Administration's farm bill proposal mentions that 27 million acres of the currently enrolled 37 million acres could potentially be used for energy crop production. This is just the potential acreage, based on land capability class (class 1-4). Many of these acres are very highly erodible, and may not be able to be cropped sustainably with annually cultivated crops. Crops with potential for use in producing biomass for renewable energy production are not, in general, annually tilled. Switchgrass for example is a perennial crop, and once established, does not require tilling for many years.

    Wildlife impacts of utilizing CRP for biomass production could be minimized by not allowing harvest of entire fields and specifying harvesting dates, mowing patterns, mowing heights and warning devices. USDA will consult with wildlife biologists and other experts, and following scientific analyses, USDA will establish appropriate management criteria through rulemaking. This process would include securing input from government and non-government sources. USDA would use this input along with interdisciplinary scientific analysis to evaluate the environmental and economic impacts of options developed.

    We believe the CRP has the potential to be very useful in helping develop the market for cellulosic ethanol feedstocks.

38. **(Chambliss 38)** The Administration's proposal for the Cellulosic Bioenergy Program recommends $100 million in direct support but does not specify a payment rate.

a. Since there are no cellulosic ethanol facilities in the demonstration or commercial phase of production, how should the Committee determine the appropriate payment rate per ton of biomass and how should the Committee differentiate between different cellulosic feed stocks?

b. Should the payment rate differentiate between regions to account for varying costs of production of available feedstocks?

Response: The Administration's proposal envisions a $100 million program with budget authority of $25 million per year during 2009-12. The program is expected to begin in 2009 to allow for rulemaking. Commercial cellulosic ethanol production in the United States and the potential rate of growth of cellulosic ethanol production is uncertain. However, as you know, the Department of Energy (DOE) recently announced six selectees for up toe $385 million in cellulosic biorefinery grants, one in your home state of Georgia. And, there are other examples around the country, like in Louisiana and New York, of progress in moving to commercialization of cellulosic ethanol production. USDA's new cellulosic bioenergy program would help generate feedstock for these plants and others as they come on line.

We suggest establishing the payment rate through rulemaking rather than through legislation. Congress might consider specifying a maximum payment rate, such as the rates used in Section 9010 of the Farm Security and Rural Investment Act of 2002. We do not think the rate needs to vary based on cost of production, because such an approach could interfere with market forces that would normally suggest that production concentrate in the lowest cost areas.

39. **(Chambliss 39)** The proposal recommends expanding the Renewable Energy Systems and Energy Efficiency Improvements program (Sec. 9006) and incorporating the program into Rural Development's Business and Industry Loan and Loan Guarantee Program.

a. Should the Committee combine administration of the recommended program and the loan guarantee program at the Department of Energy into the Sec. 9006 of the farm bill?

b. What benefit is there in maintaining two separate loan guarantee programs focused on the same activity?

Response: By working closely to develop and implement an array of energy programs, USDA and DOE strive to minimize duplication. Currently, USDA programs are differentiated from DOE programs in that:

1. USDA offers loans as well as loan guarantees;

2. USDA offers these financial instruments primarily to renewables, while DOE's programs:

(a) will cover 10 technology areas (including renewables);
(b) is focused on avoiding, reducing, or sequestering air pollutants or anthropogenic greenhouse gas emissions;
(c) can/may support very large-scale commercial production; and
(d) focuses on advanced technologies.

3. USDA offers these financial instruments only in rural areas, while DOE covers projects located in urban, suburban, and rural areas, including Indian lands.

Examples of coordination include DOE's participation in USDA's Energy Council and co-chairing of the Biomass and Technical Assistance Advisory Committee created by the 2000 Biomass R&D Act.

I assure the committee that USDA has a strong track record and commitment to an efficient and timely loan guarantee delivery program. USDA's focus on rural wealth creation opportunities allows these two funding streams to exist simultaneously, and without duplication. The Administration believes that the issue of renewable energy is so important that the additional loans are necessary and the two programs can coexist without redundancy.

40. **(Chambliss 40)** USDA recommends creating an "Agricultural Bioenergy and Biobased Products Research Initiative" to support a USDA bioenergy and biobased product laboratory network.

   a. What function will this initiative serve compared to the activities funded under the Biomass Research and Development Initiative?

   b. Should the Committee provide funding to create a new initiative rather than use existing networks and university research programs that encourage collaboration between Federal, university and private sector participants?

Response: The Agricultural Bioenergy and Biobased Products Research Initiative is designed to enable USDA to better address this high priority issue. USDA's current network of intramural laboratories has an ever increasing capacity in the area of bio-energy and bio-products. This network, coupled with the expertise represented by the Federal-State partnership with the Nation's universities, will ensure that this initiative is conducted in a collaborative way to maximize the strengths of USDA's intramural and extramural science, as well as engage private sector partners and other government entities such as the Department of Energy.

Research conducted through this new initiative will complement the work supported by the Biomass Research and Development Initiative. USDA's intramural and extramural programs are already closely coordinated with the Department of Energy and USDA's Rural Development regarding the Biomass Research and Development Initiative and this continued coordination will help ensure that the programs are complementary. The primary vehicle for this coordination is USDA's Energy Council.

41. **(Chambliss 41)** USDA's proposal requires the purchase of buy-up crop insurance coverage for farmers participating in commodity programs. Yet, according to the June 2005 issue of USDA's *Amber Waves*, crop insurance participation is highest among field crop and cotton farms. And it notes that in 2004, 75-80 percent of corn, soybean, wheat, and cotton acres were insured with over half of this area insured at coverage levels of 70 percent and higher. It notes that less than one in five specialty crop producers purchased crop insurance. Does USDA's proposal require the purchase of crop insurance by specialty crop producers?

    Response: The Administration's proposal would not apply to producers of specialty crops, if they do not receive commodity income and support payments. However, these producers could continue to purchase appropriate coverage as they do today. By linking crop insurance coverage to eligibility for commodity program payments, we anticipate that an additional 20 million acres will be brought into the crop insurance program. This would increase crop insurance participation for major crops from the high 70 percent range currently to the high 80 percent range.

42. **(Chambliss 42)** Like you, I hosted and participated in a number of farm bill field hearings. With respect to crop insurance, while it is a good risk management tool, farmers aren't shy in expressing their frustrations with the program. One of those frustrations can be classified as declining coverage levels due to successive years of drought or disaster.

    So I find it very interesting that in a time when coverage levels are declining and premiums are expected to increase due to commodity price forecasts, that USDA's farm bill proposal reduces the likelihood of program indemnity and reduces the government's portion of premium assistance.

    Can you explain how these proposed crop insurance reforms improve the program? If you did not include mandatory crop insurance participation as a prerequisite for commodity program participation, would you expect these "improvements" to increase program participation?

    Response: We believe the proposal should be considered in its entirety. Crop insurance linkage along with the reduction in premium subsidies and other cost-saving measures are a fiscally responsible approach for helping to protect producers from the adverse effects of drought and other weather-related disturbances. It is important that farmers continue to assume some of the risk associated with farming so that it is appropriately incorporated into planting decisions. In addition, the Administration's proposal would allow growers to purchase a supplemental deductible coverage policy based on the group risk plan of insurance that could cover the deductible portion of the grower's individual policy. Effectively, this supplemental deductible policy would allow a farmer cover up to 100 percent of the crop. With the availability of supplemental coverage, we believe that growers will increase participation in crop insurance.

43. **(Chambliss 43)** The USDA farm bill proposal addresses many areas in regards to increasing initiatives for organic agriculture. Organic agriculture is a growing part of the agriculture sector and all estimates indicate that it will continue to grow throughout the life of the next farm bill. Although USDA addresses areas involving organic agriculture, the proposal did not address the problems some organic farmers have with the current crop insurance program.

    a. One of the areas of concerns from organic producers is the fact that the Risk Management Agency (RMA) reimburses organic producers for a crop loss rate at a rate based on conventional prices instead of organic prices. Will data collected from the publication of organic production and market data initiatives and surveys along with the proposed authorization of funding for comprehensive organic price reporting allow RMA to address this area of concern?

    Response: Funding for additional data collection initiatives to identify and provide organic production and market data and price reporting will have a positive impact on the Federal crop insurance program for insuring organic farming practices. Currently, RMA does not differentiate between organic farming and conventional farming practices for crop value or price election(s) due to the lack of pricing data on organically grown commodities. RMA is providing the maximum coverage available based on the limited data it has on organic farming practices.

    RMA has some positive steps underway to obtain organic production and market data. In August 2006, RMA entered into an Inter-Agency Agreement with the Agricultural Marketing Service (AMS). The AMS has been collecting and reporting prices on a limited number of organic fruits and vegetables at a few wholesale markets around the country. RMA is funding AMS to expand this effort to include a larger number of wholesale and retail operations throughout the country. While AMS makes modifications to its software system to accommodate expanded organic coverage, a pilot project has been initiated to begin collection of retail prices directly comparing organic and conventional fruit. The farm bill proposal would build on these efforts to further expand organic market reporting. As organic price data becomes available from AMS, RMA will analyze and incorporate the empirical information into its crop insurance policies for organically grown crops.

Senator Mike Crapo:

1. **(Crapo 1)** Many are interested in the Administration's proposal to foster increased renewable fuels production. Programs, such as EQIP and Renewable Energy Systems and Energy Efficiency Improvements (Sec. 9006), have been utilized for projects in Idaho and elsewhere to turn animal waste into energy. Does the Department have any additional proposals that would utilize livestock wastes, such as manure, in alternative power generation? Do you envision increased use of methane digesters? Under your

proposal, are there any incentives for dairy producers to implement projects to turn animal waste into energy?

Response: Since the inception of the Renewable Energy program in FY 2003, there have been 91 digester projects funded. Several of those digester projects have been to assist farmers or ranchers construct digesters to handle dairy and other animal waste. We will continue to utilize this program and other USDA Rural Development business programs to support such innovative renewable energy ventures. If the USDA proposal to increase this program by $500 million is enacted, USDA envisions significantly more methane digesters installed in cooperation with rural electric cooperatives and dairy farms. The EQIP program has also been an effective program for helping to construct methane digesters. If additional funding and program improvements are enacted as proposed by the Administration, this important function is expected to expand. Management of animal waste by using the waste for renewable fuels production has the potential to reduce local and downstream water quality impacts and the potential contamination of public drinking water supplies by providing a feasible treatment method with little to no water quality impact.

2. **(Crapo 2)** I noticed that the proposal includes several provisions important to specialty crop producers. Thank you for recognizing the contribution of specialty crop producers to American agriculture and the important role fruits and vegetables play in a healthy diet.

   The Fresh Fruit and Vegetable Program for schools that provides healthy snacks for students has been very well received in the schools and states it has been made available. I've visited schools in Idaho and received numerous notes from students and teachers expressing their appreciation for the availability of healthy snacks provided to students through the program. It is a great program because it helps not only U.S. agriculture but also the students who benefit from fresh fruits and vegetables. I have supported extending this program to additional states and schools.

   Specifically, the Administration's farm bill proposal would increase funding by $50 million annually for schools to purchase fruits and vegetables. In announcing your Farm Bill proposal, you suggested that schools would have the option to choose whether to use these funds from among the fruit and vegetable snack program or school meal programs. However, it is not clear in your actual proposal whether the snack program is included. Can you please clarify your proposed use of this $50 million? Does the proposal to increase funding to purchase fruits and vegetables for school meals include an expansion of the Fresh Fruit and Vegetable Program for Schools?

   Response: The Administration's proposal is intended to support efforts to offer school meals based on the most recent Dietary Guidelines for Americans. In developing this proposal, the Department considered a range of approaches to increase the availability of fruits and vegetables in schools and ultimately selected the approach that has the potential to reach the greatest number of school-age children. Because most schools across the country participate in the National School Lunch Program (NSLP), targeting the fruits and vegetables to the NSLP will reach the greatest number of school children nationwide. On average, over 31 million children eat a school meal each school day. In contrast, if the same level of funding was directed toward the nationwide expansion of the Fresh Fruit and Vegetable Program (25 schools in each state and select Indian and Tribal Organizations), approximately 650,000 children would benefit in about 1,325 schools.

While the Department is not seeking to expand the Fresh Fruit and Vegetable Program, any USDA commodities provided to schools may be used for any purpose that is principally for the service of children, including snack programs operated by the school.

Senator Max Baucus:

1. **(Baucus 1)** On your proposal to retire crop base when cropland is sold for non-agriculture uses, I am concerned about how it could affect some of farmers/ranchers with diversified operations. For example, a Montana farmer/rancher has 500 acres of crop base that is a separate parcel from another 2,000 acres of rangeland. If he sells part of his rangeland, will he loose a proportion of his crop acreage base under your proposal even though he has kept his cropland in tact?

   Response: Base acres are established for a "farm" as it is constituted for FSA program purposes. The proposal requires a reduction of base acres in proportion to the decline in cropland on a farm when a portion of the farm is sold for non-agricultural uses. If the "rangeland" is not considered part of the cropland of the farm, as suggested by your example, a reduction in base acres would not be required. If the "rangeland" is considered part of the cropland on the farm, a reduction in base acres would be required.

2. **(Baucus 2)** You propose two direct payment incentives for farmers who have crop acreage base (Conservation Enhancement Payment Option and Beginning Farmer). Both of them are unique ideas that have potential. With that in mind, can you tell me what similar provisions you propose for our ranchers? I am worried that you have forgotten ranchers who are wise stewards of the land and beginning ranchers.

   Response: The proposal includes recommendations to double the statutory target for the percentage of USDA direct operating loans that will be prioritized to assist beginning and socially disadvantaged farmers and ranchers. Our recommendations also would expand the existing Beginning Farmer and Rancher Downpayment Loan Program to increase the opportunities for the next generation of production agriculturalists, including ranchers. In addition, ranchers who have crop base are also eligible to receive an increase in direct payments under the "conservation enhanced payment option" and the "direct payment for beginning farmers." Ranchers are eligible to participate in a variety conservation programs targeted for increased funding under the Administration's farm bill proposals, such as the Environmental Quality Incentives Program and the Private Lands Protection Program (which includes the goals of the Grassland Reserve Program). Finally, livestock producers are significant beneficiaries of the Market Access Program. The Administration's proposal recommends increasing this program by $250 million and targeting these additional funds to non-program commodities, such as livestock raised by our Nation's ranchers.

3. **(Baucus 3)** Due to the issues that arise with 1031 land exchanges, you propose to eliminate farm program payments on land that is acquired using a 1031 exchange. Why did you propose to eliminate farm program payments even when the exchanges involve farmland to farmland exchanges?

   Response: The Administration proposes to eliminate direct payments, counter-cyclical payments and marketing assistance loan benefits on land purchased after the date of enactment of the 2007 farm bill through a 1031 tax exchange. A farmland-to-farmland exchange would be covered under the proposal. Under a farmland-to-farmland 1031 tax exchange, farmland is being sold often at inflated values because the farmland being sold will be developed for non-agricultural uses. The seller of this farmland is delaying paying capital gains taxes and using the proceeds of the sale to purchase other farmland that may be located some distance from the location of the farmland being sold. The 1031 exchange thereby permits the seller to outbid local producers for farmland. For this reason, the Administration has proposed to eliminate farm program payments on land that is acquired using a 1031 exchange even when the 1031 exchange involves a farmland to farmland exchange.

Senator Charles Grassley:

1. **(Grassley 1)** Price manipulation ability: Isn't it true that when you have four competitors bidding for less than 10% of all livestock traded in a day, that the potential for unilateral price effects is greater than when you have four competitors bidding for 100% of all livestock traded in a day?

   Response: Competition can still be effective if four competitors are active in ten percent of the market. There is no inherent reason to believe that any one competitor would be afforded opportunity for unilateral price effects. In fact, under some conditions bidding might be more aggressive, for example if all the competitors need additional supplies to operate at their optimum (least-cost) scale.

2. **(Grassley 2)** Price manipulation incentive: Isn't it true that when a packer has 50% of its livestock on contract, using a pricing formula pegged to the open market price, that the disincentive to bid higher for a high quality load of livestock is less- because bidding higher will raise the cost for the other 50% of contract livestock?

   Response: A packer regardless of the amount contracted obviously prefers the open market price at a low level. That same packer, however, has a strong interest in meeting its sales obligations in a least-cost fashion, which it can only do by obtaining the necessary supplies to ensure its plants are operating at or near full capacity. Generally, a plant that only operates at 50% of capacity would experience a severe slaughter cost disadvantage. Hence that plant needs to bid aggressively to obtain the necessary additional supplies to operate at the most efficient level.

3. **(Grassley 3)** Loss of open market/choice: Isn't it true that the poultry industry open market was eradicated several decades ago so you cannot choose to raise poultry without a contract to the one or two processors in the area?

   Response: Anyone who wishes to commence commercial-scale broiler production would need to enter into contract with an integrator (processor). In most regions, however, there tend to be more than one or two integrators. Research has generally not found a lack of competition for poultry growers among integrators. Within the poultry industry the target of competition has shifted from the price of broilers to grower services.

4. **(Grassley 4)** Factual confirmation: Do you agree that less than 10% of the hogs were traded on the open market last year?

   Response: In recent years, data reported to USDA under mandatory price reporting (MPR) generally show slightly more than 10 percent of barrows and gilts are traded in negotiated markets. The share seems to have attained market equilibrium at that level. Both buyers and sellers of livestock rely on the negotiated market for price discovery information, and it appears that all entities while searching for optimum values of trade are committing themselves to certain levels of transactions on negotiated markets.

   Some formula-based hog prices are actually determined in a negotiated market, since some swine-pork market formulas may have a base price that is determined in pork meat markets or feed grain markets where prices are negotiated.

5. **(Grassley 5)** There has been an increasing discussion in whether to allow early outs from the Conservation Reserve Program for landowners who may want to get into energy crop production. I notice that your CRP proposal suggests that landowners within the CRP could stay in the program but begin energy crop production. It might be fairer to all involved to allow that activity outside the boundaries of the CRP program, but if we were to allow for early outs, we would need to make sure that strong conservation values remain with the land. For instance, we could require those choosing early outs to enroll in a working lands conservation program or meet strong conservation requirements. It would also make sense, if we chose this option, to make sure that we recapture the dollars not spent on CRP and reinvest them within the conservation title of the farm bill. What are your views on early outs?

   Response: While some are advocating for an early release of a portion of the acreage enrolled in the CRP, others are not. USDA is evaluating the benefits and costs of various options for an early release of some of the acreage enrolled in the CRP. We expect to make an announcement by this summer as whether to authorize an early release and, if an early release is authorized, any limitations or requirements that would apply. Our first priority will be to continue contracts on land having the highest environmental sensitivity. We welcome any additional thoughts that you might have regarding early outs on acreage enrolled in the CRP or other conservation programs.

6. **(Grassley 6)** I congratulate you for presenting a rather comprehensive set of recommendations with respect to beginning farmers and ranchers. Moving a new generation onto the landscape and reversing the aging of American agriculture should be central issues for us as we take up the new farm bill. I like what I see in your proposal for improving the Beginning Farmer and Rancher Down Payment Loan program, for giving new farmers a leg up in conservation programs, and for giving beginning farmers a bonus on direct payments should they be enrolled in commodity programs. One thing I didn't see in your proposal that I might have expected to see was a program for support for farm bill funding for the Beginning Farmer and Rancher Development Program. I strongly supported the efforts of Senator Harkin and Senator Lugar to put this program in the 2002 Farm Bill and believe we have lost valuable time in not getting this program off the ground. This program would support efforts all across the country, working through extension, farm groups, and community based organizations, to help facilitate innovative projects to help new farmers of all kinds and stripes get started. Would you be willing to work with the Committee to launch of major commitment to the Beginning Farmer Development Program?

   Response: The Administration's farm bill proposal includes a variety of programs to assist beginning farmers and ranchers. We believe that these proposals reflect a strong commitment to addressing the challenges facing these producers. The Administration supports reauthorization of the beginning Farmer Development Program and working with Congress to develop programs to assist beginning and socially-disadvantaged farmers and ranchers.

7. **(Grassley 7)** Mr. Secretary, recently I sent a letter to my fellow Iowan and Chair of the Senate Agriculture Committee requesting that this Committee consider allowing for a permanent Dairy Forward Contracting Program to be included in the 2007 Farm Bill. This program is important to Iowa dairy farmers and diary companies who used the program. Economist Joe Glauber expressed the Administrations support for this program. However, I did not see any provision in your proposal to reinstitute this successful program. Can you state for the record the Administration's position on permanent authority for dairy forward contracting? Do you support including this provision in the 2007 Farm Bill?

   Response: In 2004, USDA supported legislation to convert the dairy forward contracting pilot into a permanent program. USDA continues to support reauthorization of the risk management tool and we look forward to working with Congress on this issue. This important risk management tool allows both producers and handlers to reduce price variability and increase income stability.

   A USDA report sent to Congress on October 31, 2002, demonstrated the positive effects of forward contracting on the dairy industry during the pilot program. This report is available on our website at (http://www.ams.usda.gov/dairy/for_contr_pilot.htm). Pilot program data for September 2000 through December 2004 demonstrated that price volatility was reduced for contracted milk. Contracted milk averaged $14.26 per hundredweight with a range of only $2.83 between high and low prices, while non-contracted milk averaged $14.33 per hundredweight with a much larger range of $10.79 between high and low prices.

By allowing forward contracting for non-fluid milk, the industry was provided with an additional risk management tool to assist in managing their business. The program was voluntary and the regulatory requirements were limited and manageable.

Senator Blanche Lincoln:

1. **(Lincoln 1)** Mr. Secretary, can you provide the Committee with a geographical distribution of the farmers that USDA has suggested would be ineligible for Title I farm programs as a result of your adjusted gross income (AGI) "means" test proposal? What percentage of total production is represented by the producers that would be impacted by the proposal, and of that production, what are your estimates for acreage reduction in certain commodities? Do you anticipate that foreign countries will compensate for any expected decline in our production of these commodities, and if so which countries?

   Response: We do not have the data necessary to estimate the percentage of total production by producers who would be affected by the $200,000 AGI eligibility cap. We do know that only about 4.2 percent of farmers had an AGI of $200,000 or greater in 2004. Please note that only about 30 percent of these filers receive agricultural program payments. Therefore, those impacted would be among the wealthiest Americans. We do not anticipate that the cap would lead to a reduction in U.S. crop production or an increase in crop production in foreign countries. The following table provides a geographical distribution of farm proprietors with AGIs of $200,000 or more in 2004 and would potentially be affected by the eligibility cap. In addition, the table reflects one year's worth of tax information. The Farm Bill proposal would use a 3 year average AGI. Therefore, the geographic distributors could be somewhat different than suggested by this table.

Individual Returns with Farm Income and/or Expenses (Schedule F) by Size of Adjusted Gross Income, Tax Year 2004

State	No. returns with Schedule F	No. returns with AGI of $200,000 or more	Share of total returns with AGI of $200,000 or more	State	No. returns with Schedule F	No. returns with AGI of $200,000 or more	Share of total returns with AGI of $200,000 or more
AL	51,969	2,106	4.1%	MT	21,083	551	2.6%
AK	1,331	111	8.3%	NE	48,603	945	1.9%
AZ	8,363	766	9.2%	NV	3,899	449	11.5%
AR	47,479	1,442	3.0%	NH	2,102	150	7.1%
CA	72,225	8,767	12.1%	NJ	9,347	1,253	13.4%
CO	31,617	1,700	5.4%	NM	14,527	494	3.4%
CT	3,096	324	10.5%	NY	29,128	1,039	3.6%
DE	2,353	133	5.7%	NC	49,939	2,032	4.1%
DC	276	80	29.0%	ND	28,987	432	1.5%
FL	39,164	4,342	11.1%	OH	74,755	1,929	2.6%
GA	49,832	3,396	6.8%	OK	80,349	2,032	2.5%
HI	5,695	250	4.4%	OR	36,350	1,851	5.1%
ID	22,418	709	3.2%	PA	42,801	1,445	3.4%
IL	73,041	2,527	3.5%	RI	622	42	6.8%
IN	58,575	1,579	2.7%	SC	21,846	1,327	6.1%
IA	83,398	1,498	1.8%	SD	32,706	667	2.0%
KS	61,894	1,441	2.3%	TN	80,968	3,056	3.8%
KY	91,650	2,460	2.7%	TX	240,000	14,278	5.9%
LA	28,573	1,261	4.4%	UT	14,313	529	3.7%
ME	4,667	139	3.0%	VT	4,219	144	3.4%
MD	12,669	1,176	9.3%	VA	42,473	2,444	5.8%
MA	4,427	381	8.6%	WA	28,151	1,517	5.4%
MI	45,442	1,160	2.6%	WV	14,211	319	2.2%
MN	74,467	1,799	2.4%	WI	64,036	1,456	2.3%
MS	37,128	1,626	4.4%	WY	9,453	442	4.7%
MO	104,224	2,469	2.4%	Other	2,126	256	12.0%
				US	2,012,967	84,721	4.2%

Source: http://www.irs.gov/pub/irs-soi/04in54cm.xls

2. **(Lincoln 2)** Mr. Secretary, in your proposal for changes to the counter cyclical program you include a model for how your new approach would operate in a hypothetical year for corn. Could you provide this Committee with a model of how it would operate for other commodities – particularly rice and cotton?

   Response: Here are some hypothetical examples for rice and cotton similar to the example presented for corn in the document that presents the Administration's 2007 farm bill proposals.

Comparison of Cotton Program Parameters—2002 Farm Bill and Proposal

U.S. Data	2002 Farm Bill	U.S. Data	Proposal
Target Price	$0.7240	Target Price	$0.7240
Direct Payment	$0.0667	Direct Payment	$0.0667
Price Guarantee	$0.6573	Difference	$0.6573
		Olympic Average Yield (2002-2006)	786.3 lb.
		Target Revenue	$517/ac.
		Additional Direct Payment	$0.0441
Loan Rate	$0.52	Loan Rate	$0.457

Cotton Program Payment Example--2002 Farm Bill and Proposal

U.S. Data	Assume Actual Price=$0.473/lb.; Yield=811 lb.; AWP=$0.44/lb. Revenue=$384/ac.	
	2002 Farm Bill	Proposal
Price-Based Payment Rate Per Pound (1)	$0.1373	--
National Average Program Yield	636	636
Revenue-Based Payment Per Acre (2)	--	$133
Revenue-Based Payment Rate Per Pound (3)	--	$0.2091
Direct Payment Rate Per Pound	$0.0667	$0.1108
Loan Deficiency/Marketing Loan Gain	$0.0800	$0.0170

(1) $0.1373 = $0.6573-0.52
(2) $133 = $517 - $384
(3) $0.2091 = $133/636

Comparison of Rice Program Parameters—2002 Farm Bill and Proposal

U.S. Data	2002 Farm Bill	U.S. Data	Proposal
Target Price	$10.50	Target Price	$10.50
Direct Payment	$2.35	Direct Payment	$2.35
Price Guarantee	$8.15	Difference	$8.15
		Olympic Average Yield (2002-2006)	67.25 cwt./ac.
		Target Revenue	$548/ac.
Loan Rate	$6.50	Loan Rate	$6.50

Rice Program Payment Example--2002 Farm Bill and Proposal

U.S. Data	Assume Actual Price=$7.75/cwt.; Yield= 68.00 cwt.; Revenue=$527/ac.	
	2002 Farm Bill	**Proposal**
Price-Based Payment Rate Per Cwt. (1)	$0.40	--
National Average Program Yield Per Cwt.	51.20	51.20
Revenue-Based Payment Per Acre (2)	--	$21
Revenue-Based Payment Rate Per Cwt. (3)	--	$0.41
Direct Payment Rate Per Cwt.	$2.35	$2.35 (4)
Loan Deficiency/Marketing Loan Gain	$0	$0

(1) $0.40= $8.15-$7.75
(2) $21 = $548 - $527
(3) $0.41 = $21/51.2
(4) $2.52 per cwt. for the 2010/11-2012/13 crops.

3. **(Lincoln 3)** Mr. Secretary, in regard to USDA's implementation of the Livestock Compensation Program authorized by the Emergency Supplemental Appropriations Act (PL 109-234), could you provide clarification for why USDA did not consider losses that catfish producers experienced as a result of their not being able to feed for several days during and following these storms? As you know, catfish producers in my state of Arkansas felt the impact of Hurricanes Katrina and Rita, but they were not eligible for assistance from the initial disaster declaration, despite their being located in counties contiguous to those who did receive assistance. Producers have told me that heavy rainfall, high winds, and wave action associated with the storms softened and damaged the levees to the point that fish feeding was impossible for several days, which resulted in significantly lower fish weights, and therefore, lost revenue at harvest.

   Response: The requirement of a feed loss for the 2005 Catfish Grant Program was consistent with the implementation of the 2005 Hurricanes Livestock Compensation Program. Both programs were implemented under the authority provided by section 3012 of the Emergency Supplemental Appropriations Act (PL 109-234). These programs provided monetary assistance to eligible livestock owners and cash lessees for feed losses that occurred as a result of Hurricanes Katrina, Ophelia, Rita and Wilma. The Administration also made available $25 million in block grants to the Gulf States to address a broad array of aquaculture losses suffered as a result of the hurricanes.

Senator John Thune:

1. **(Thune 1)** New ethanol production facilities are increasing as is the demand for corn and the need for additional corn acres. If the sodsaver provision becomes law won't its intended purpose to discourage conversion of non-cropland to cropland conflict with the President's goal to produce 35 billion gallons of alternative fuel by 2017?

Response: We do not believe there is a conflict because we believe the future of ethanol production in the United States is to move from sole reliance on corn-based ethanol to the addition of cellulosic – including waste-based – ethanol and other alternative fuels. This is why we are proposing the investment of billions to cellulosic research and development. Therefore, we do not believe fragile ecosystems need to be put into production to meet the President's goal, given that the adverse impact of native grassland loss to wildlife, particularly migratory birds, are a concern.

2. **(Thune 2)** The Administration has proposed to increase funding for cellulosic ethanol research by $1.6 billion over the next ten years. Is this investment enough to reach the President's goal of 35 billion gallons of alternative fuel by 2017?

   Response: We believe that the President's goal of 35 billion gallons of biofuels and alternative fuels by 2017 is attainable through the Administration's proposed initiatives and aggressive private sector investments. The Administration's proposals include a total of $800 million to support research and development towards achieving the President's goal. In addition, over $700 million is included in the proposals to support renewable energy systems grants and loans and $100 million to provide direct support to producers of cellulosic ethanol. These investments will provide a bridge for promising technologies to reach a level of development to encourage private sector capital investment. These efforts, coupled with funding and programs of other Federal agencies with which we are coordinating, including the Department of Energy and the Environmental Protection Agency, will provide support and encouragement to build the foundation for a domestic renewable fuel industry that can meet the President's goals.

3. **(Thune 3)** The Administration proposes $2.1 billion in guaranteed loans for cellulosic ethanol projects in rural areas. Do you propose any changes to the current loan guarantee programs? Have previous loans been distributed equitably? How would you ensure that these loans are distributed in a geographically equitable manner?

   Response: Unlike other RD programs, Rural Development's renewable energy efforts are facilitating the creation of a nationwide renewable fuel industry based on technologies for diverse feedstocks. We do not contemplate making major changes to the programs, although efforts are already underway to streamline the delivery of our programs. Therefore, we will encourage renewable fuel technologies that will be applicable to various parts of the country. However, it is not practicable to prioritize funds on a strictly geographic basis.

4. **(Thune 4)** The Administration has proposed consolidating the Emergency Watershed Protection program and the Emergency Conservation Program into a new Emergency Landscape Restoration Program. Which Branch or Agency in USDA would administer this program and how would a consolidated program help improve the response time to natural disasters such as a drought?

   Response: We would anticipate the Natural Resources Conservation Service would be the appropriate delivery agency for the Emergency Landscape Restoration Program

(ELRP). With respect to drought, ELRP would build upon the best attributes of both the existing Emergency Watershed Protection Program and the Emergency Conservation Program. Since ELRP would be offered both on agricultural lands and within stream reaches, field staff will spend less time sorting through project eligibility and land criteria. There will also be less confusion and time spent determining whether a prospective project better matches one program's authority. We would also envision the ELRP working toward better mitigation of disasters, thereby alleviating the need for future restoration work and drought recovery.

5. **(Thune 5)** Based on what we have learned from recent WTO filings against the United States are you certain that "Amber Box" payments total under this proposal would not exceed allowable and contestable limits?

   Response: Our estimates indicate that support levels under the current baseline and the Administration's farm bill proposals will be under current WTO amber box limits. Moreover, we believe that our farm bill proposals will ensure that we are consistent with these limits even in the event of unforeseen price declines.

6. **(Thune 6)** Under the Administration's proposal, the Conservation Security Program would be our nation's primary conservation program with 96 million acres enrolled over 10 years. Why did the Administration not include incentives for energy- dedicated crops or other incentives for renewable energy production under the proposed CSP?

   Response: The proposal only proposed changes to current law and procedures. Currently CSP offers payments for several different options related to energy. First, CSP allows for the production of crops that could be used as ethanol feedstocks, such as corn or switchgrass, as long as the production system includes conservation components that meet the minimum level of treatment for soil quality and water quality stewardship.

   Secondly, CSP is the only conservation program that includes payments for on-farm energy management enhancements including:

   - Performing a professional energy audit of farm/ranch operations;
   - Recycling of all farm equipment lubricants;
   - Maintaining a Soil Tillage Intensity Rating (STIR) of less than 60, 30 or 15:
   - Supplying 90% of crop nitrogen needs with legumes, manures, and/or other organic sources;
   - Utilizing biofuels (biodiesel and/or ethanol) for farm operations;
   - Producing renewable energy on farm;
   - Reducing farm or ranch energy consumption by 5, 10, or 15% below an established baseline level (baseline will be established during an energy audit.

7. **(Thune 7)** On January 17, Arlen Lancaster, NRCS Chief, testified that fully funding the CSP program under the 2002 Farm Bill would cost $9 billion per year. However, the Administration's proposal would cost $8.5 billion over 10 years while increasing CSP acres to 96 million from the current 15.5 million. What are your proposed changes that

account for this stark contrast in funding levels?

Response: NRCS Chief Lancaster's response was in relation to the original CSP statutory language prior to the program being capped by Congress. The premise would allow all farmers and ranchers to enroll into CSP and earn their way up in the tier levels. This open-ended program would allow all producers to enroll in CSP and receive some type of payment and assistance, potentially every acre of private agricultural land. Such an open-ended commitment for CSP is inconsistent with the President's goal to eliminate the deficit by 2012.

The Administration's CSP proposal continues to maintain a funding cap on CSP (see Secretary Johanns' February 20, 2007 letter attached) and provides for a finite increase for CSP that balances deficit reduction needs with other priority needs reflected in the Farm Bill. It would offer CSP nationwide every year, rank applications of those farmers and ranchers, who meet minimum stewardship requirements, select the highest ranking applications across the country and make annual payments for conducting actions which achieve a new or annually occurring environmental benefit. We can enroll approximately 96.5 million acres for about $8.5 billion over 10 years.

8. **(Thune 8)** The Administration's farm bill proposal recommends greater flexibility on CRP acres to harvest biomass material. Do you have information available that demonstrates how biomass can be harvested from CRP-enrolled land without damaging wildlife habitat or undermining other environmental benefits of the program?

   Response: Information about wildlife habitat and other environmental impacts of utilizing CRP for biomass production is necessary to determine appropriate harvesting and management measures. Many factors will need to be considered, including harvest dates, mowing heights, whether to allow the whole field to be harvested and whether warm season grasses or cool season grasses are being grown. Of course, lands in different parts of the country will need to be managed differently. We recognize the need for careful and deliberative analysis in establishing the rules for such a program. USDA expects that after consultations with wildlife biologists and other experts, and with public input, we will establish appropriate management criteria that will preserve wildlife habitats and the environmental benefits of the program.

9. **(Thune 9)** Under the Administration's proposed revenue-based counter-cyclical program, payments would be triggered when the actual national revenue per acre for the commodity is less than the national target revenue for per acre. Some may argue that a nationally-based program would not adequately respond to events that reduce revenue in a smaller area, such as a flood that ruins the crop in a particular county. What is the advantage of nationally-based counter-cyclical program relative to one that is based on county-wide revenue per acre?

   Response: A national counter-cyclical revenue program would be more sensitive to both national and regional yield changes than the current counter-cyclical payment program. In addition to accounting for national yield changes (which are affected by regional yield changes in most years, as poor weather years tend to result in systemic yield changes), another benefit of the national program is ease of administration as national prices and yields are readily available. In addition, the national revenue program is consistent with the national concepts used in the current counter-cyclical payment program. The more a counter-cyclical revenue program is tailored to the individual level, the more it looks like crop insurance and the distinction between the two becomes blurred. Our proposal is to protect expected production of the individual through an improved crop insurance program while supporting income using national concepts. The crop insurance program is designed to protect farmers against yield changes that occur due to local-level disasters. Thus, together, the counter-cyclical revenue program and the improved crop insurance program, offer a relatively complete package to guard against the negative effects of unexpected events.

Senator Ken Salazar:

1. **(Salazar 1)** Mr. Secretary, in 2005 Colorado wheat growers planted over 2.5 million acres of wheat with a value of $181 million dollars. I am being told by my wheat growers that the USDA recommendations will further the inequity toward wheat in the 2002 bill. Wheat producers have not received any counter cyclical or loan deficiency payments over the term of the 2002 Farm Bill meaning the only program wheat growers can rely on is the direct payment, and the fact that input costs are up, the proposed 7 percent increase in the direct payment over the final three years of the 2007 bill is insignificant.

   Response: During the 2002-06 crops, wheat producers have experienced stronger market prices relative to other commodities. For example, wheat producers received an average farm price of $3.60 per bushel during the 2002-06 crops, compared with just $2.78 per bushel during 1997-2001 prior to the enactment of the 2002 farm bill. This represents a 29 percent increase in average prices for wheat, compared with lesser increases for other crops (20 percent for corn, 22 percent for soybeans, 8 percent for rice, and a 2 percent decline for cotton).

   To enhance the safety net for all producers of program crops, the Administration's farm bill proposal modifies the counter-cyclical payment program to make it responsive to not only prices but also yields. Thus, if targeted wheat revenue per acre falls below prescribed levels, producers will receive revenue-based counter-cyclical payments. Had the Administration's proposal been adopted in the 2002 farm bill, wheat producers would have received about $810 million more in payments over the 2002-06 crop years under the Administration's proposal than they received under the 2002 farm bill's commodity programs.

2. **(Salazar 2)** Mr. Secretary, last year I held a series of Farm Bill listening session across Colorado where, among other things, I heard the need and desire to update program payment bases and yields. The USDA proposes to NOT update bases and yields. Can you tell me about the rationale for that proposal?

Response: Making commodity programs compliant with our world trade obligations is a theme running throughout the Administration's 2007 farm bill proposals. Bases and yields were updated with the 2002 farm bill. If bases and yields are continually updated, farmers may change their planting decisions to maximize future payments. Thus, updating bases and yields again with the 2007 farm bill could jeopardize the WTO Green Box status of the Direct Payment program.

3. **(Salazar 3)** Mr. Secretary, how did USDA decide that the adjusted gross income (AGI) eligibility cap should be reduced from $2.5 million to $200,000 adjusted gross income? Why $200,000? I ask because Colorado has upwards of 2,000 producers who could be affected by this cap.

   Response: The Administration has proposed to reduce the AGI eligibility cap for receiving farm commodity and other payments from $2.5 million to $200,000 in order to make the distribution of payments more equitable and prevent payments from going to the most wealthy Americans. Internal Revenue Service (IRS) data for 2004 indicate that 97.7 percent of all American tax filers have an AGI under $200,000. Compared to the $2.5 million cap in current law, less than 0.0007 percent of all American tax filers have an AGI of over $2.5 million. Looking at farmers specifically, 2004 IRS data indicate that 2 million tax filers submitted a Schedule F reporting a profit or loss from farming. Of these tax filers, only 25,191 or 1.2 percent reported an AGI of $200,000 or more and received agricultural program payments. These data indicate that farmers and non-farmers alike with an AGI of $200,000 or more have disproportionately high incomes. Reducing the AGI eligibility cap from $2.5 million to $200,000 will affect more producers but those producers that are affected have net incomes that are far above average.

4. **(Salazar 4)** Would the USDA proposal to consolidate existing conservation programs (Environmental Quality Incentives Program, Wildlife Habitat Incentives Program, and four others) into one program result in the emphasis on some goals at the expense of other worthy goals of the existing programs?

   Response: We certainly hope not. When looking at our proposal for a comprehensive cost share program, it is important to examine the utility of the program from at least three perspectives. First, who will access the program? Currently, the Environmental Quality Incentives Program (EQIP) statute mandates that at least 60 percent of the program benefit livestock operations. In fact, more than 60 percent of the program has been benefiting livestock operations. Our proposal suggests that every acre should count, and as private land acreage applies for assistance, including forested acreage, that all possible benefits should be achieved without discriminating by land type. This can be achieved without disturbing the livestock target established under the existing EQIP.

   Second, it is important to consider the kind of resource benefits that can be achieved and the kinds of practices that will be utilized. Our existing EQIP program shows that multiple resource benefits including soil erosion prevention, water quality improvements, nutrient loading reductions, wildlife habitat conservation, and multiple other resources can be addressed in any combination of projects. When EQIP was originally limited to $200 million per year more than a decade ago, meeting multiple national resource priorities was difficult. The new EQIP program will provide more than a billion dollars in annual resources and will therefore be able to address more projects, including those benefiting wildlife habitat and water quantity conservation. In EQIP under the 2002 Farm Bill, $600 million in federal funding was utilized where wildlife was the primary and secondary resource concern in the practices implemented. The WHIP program dedicated nearly $93 million for wildlife as the primary and secondary resource concern. Because the proposed program will focus on the entire agriculture operation and a variety of resource concerns, the combined program would allow for more rigorous project implementation rather than in pieces addressing one issue with one program and another issue with a separate program contract.

Thirdly, our experience with the existing EQIP program suggests that wildlife can benefit from natural resource conservation practices. From migratory birds, to whitetail deer, to the sage-grouse, we feel that conservation practices and wildlife benefits go naturally hand in hand. In turn, we need a single cost share program that is easy for the public to understand, and easy for our field staff to implement. Further, a consolidated program will allow for additional flexibility at the state level to target specific resource concerns relevant to specific states.

5. **(Salazar 5)** Mr. Secretary, last year I held a series of Farm Bill listening sessions across Colorado. One of the items that I vividly remember is the story of how landowners near my home- Colorado's San Luis Valley- are utilizing the existing easement programs- specifically the Farm and Ranchland Protection Program to protect the heritage of the San Luis Valley. I am encouraged that USDA's proposal included additional investment in these programs.

   My question is: Would the USDA proposal to consolidate land-easment programs (Farm and Ranchland Protection Program, Healthy Forest Reserve Program, and the Grassland Reserve Program) into one program result in the emphasis on some goals at the expense of other worthy goals of the existing programs?

   Response: Again, we certainly don't intend for this to happen. Around the nation valuable agricultural and forestlands are being converted to other uses for a variety of reasons. In some parts of the country, valuable grasslands are being converted to cropping. Based upon market trends and the prospect for new energy crops, pressure for this kind of conversion is increasing. In other places, intense development pressure from sprawling communities is consuming some of the nation's most unique and productive soils. Still in other parts of the U.S., forested acreage is being cleared and utilized for a variety of other purposes. Our farm bill proposal focuses on maximizing the opportunities for keeping lands in production. In fact, our proposal requests that more than half of all conservation program spending be dedicated toward working lands conservation.

No matter what the pressure, it is important that we offer a program opportunity to help willing landowners provide the maximum conservation benefit when possible while keeping lands in production. Our consolidated Private Lands Protection Program (PLPP) achieves this goal. We cannot continue on the current path of offering 23 separate programs in our field offices. It is confusing for the customer and inefficient for our staff. If enacted, we can provide a comprehensive program that will consider and counteract all land conversion pressures. In addition, we can gain and benefit from the added features that are currently only offered in select programs – such as third party entities holding easements, regulatory assurances, and leveraging funding. The new PLPP will respond more effectively and more efficiently to the needs that our disparate programs now try to address. The new approach will also provide tremendous additional flexibility.

6. **(Salazar 6)** I enthusiastically support a national goal of producing 25% of America's energy from renewable sources - including biofuels - by 2025 (25 x 25). With significant acreage enrolled in the Conservation Reserve Program (2,462,084 acres enrolled in Colorado) is there a sound way to utilize that acreage for cellulosic biomass without adversely affecting the positive soil, air, water, and wildlife benefits that CRP provides?

   Response: The Administration believes less sensitive CRP lands have the potential to help reach that goal. Information about wildlife habitat and other environmental impacts of utilizing CRP for biomass production is necessary to determine appropriate harvesting and management measures. Many factors will need to be considered, including harvest dates, mowing heights, allowing whole or partial fields to be harvested and whether warm season grasses or cool season grasses are being grown. Of course, lands in different parts of the country will need to be managed differently. We recognize the need for careful analysis in establishing the rules for such a program. USDA expects that after consultations with wildlife biologists and other experts, and with public input, we will establish appropriate management criteria through the rulemaking process.

7. **(Salazar 7)** I appreciate the USDA's proposal to expend new funding on bio-based renewable energy. However, I have to say that I think that the Energy Title needs to be beefed up to support a national goal of producing 25% of America's energy from renewable sources - including biofuels - by 2025 (25 x 25). To get there is going to take tremendous effort and it is my hope that this Farm Bill will play an important role in 25 x 25. Mr. Secretary, will you commit to working with the Committee to attain this ambitious goal?

   Response: Yes, we are committed to a rapid increase in the development and use of domestically produced alternative energy. In fact, President Bush's goal of 35 billion gallons of biofuel and alternative fuels being produced by 2017 will help ensure that we meet the 25 x 25 goal. In order to achieve this goal, the Department of Agriculture is working with the Department of Energy and other Federal partners to work together to enable the Federal government to provide funding for research and loan guarantees to facilitate the financial community's acceptance of new and promising renewable energy sources. Once these sources are accepted by the private financial community, we expect the private sector will provide the necessary financing. We look forward to working with the Committee to help USDA and its partners create the domestic alternative energy industry that can meet these goals.

8. **(Salazar 8)** How would the proposed consolidation of rural development programs focused on renewable energy interact with other renewable energy programs in the Department of Energy?

Response: While Rural Development programs are designed with very distinct purposes, they share certain features with other Rural Development programs. For example, the Water and Waste programs and energy programs serve some of the same rural communities. By consolidating the legislative authorities of the various loan, loan guarantee and grant programs, we can improve access to these programs for rural communities.

Rural Development is already working with the Office of Management and Budget, through regulations, to consolidate and streamline the common elements of our loan guarantee programs within our existing authorities. We believe this effort will make it easier for our customers to fully utilize our programs and for us to administer them. We are developing improved performance measurement standards for these programs so we can better evaluate their effectiveness in order to improve their performance in the future.

By streamlining our programs, we believe we can work more effectively with the Department of Energy and other Federal partners to minimize duplicative programs.

By working closely to develop and implement an array of energy programs, USDA and DOE strive to minimize duplication. Currently, USDA programs are differentiated from DOE programs in that:

1. USDA offers loans as well as loan guarantees;

2. USDA offers these financial instruments primarily to renewables, while DOE's programs:

    (a) will cover 10 technology areas (including renewables);
    (b) is focused on avoiding, reducing, or sequestering air pollutants or anthropogenic greenhouse gas emissions;
    (c) can/may support very large-scale commercial production; and
    (d) focuses on advanced technologies.

3. USDA offers these financial instruments only in rural areas, while DOE covers projects located in urban, suburban, and rural areas, including Indian lands.

Examples of coordination include DOE's participation in USDA's Energy Council and co-chairing of the Biomass and Technical Assistance Advisory Committee created by the 2000 Biomass R&D Act.

I assure the committee that USDA has a strong track record and commitment to an efficient and timely loan guarantee delivery program. USDA's focus on rural wealth creation opportunities allows these two funding streams to exist simultaneously, and without duplication. The Administration believes that the issue of renewable energy is so important that the additional loans are necessary and the two programs can coexist without redundancy.

I assure the committee that USDA has a strong track record and commitment to an efficient and timely loan guarantee delivery program. USDA's focus on rural wealth creation opportunities allows these two funding streams to exist simultaneously, and without duplication.

9. **(Salazar 9)** Would the USDA proposal to consolidate existing rural development programs into "platforms" result in the emphasis some goals at the expense of other worthy goals of the existing programs?

   Response: First, it's a consolidation or merging of common legislative authorities without the loss of any of one of the authorities themselves. It synthesizes the legal authorities for Rural Development programs to make the administrative provisions of these programs as consistent as possible. The legislative provisions which articulate the individual program limitations would remain. Second, the prioritization of programs and activities would not be affected by this legislative proposal. In fact, once fully implemented, this consolidation of authorities will make it easier for Congress and Rural Development to identify how the performance of these programs stacks up to the overall priorities of the Rural Development Mission Area.

10. **(Salazar 10)** USDA's 2007 Farm Bill Proposals on nutrition programs do not mention the Commodity Supplemental Food Program. This program serves approximately 20,000 Coloradans and more than 440,000 nationwide. The program is very popular with Seniors, particularly in Rural America, because it provides food assistance to the elderly in a dignified way with much less paperwork than other programs.

    a. Earlier this week, the President's budget called for the elimination of this program, would you expect that we do away with this program in the 2007 Farm Bill?
    b. Why should we eliminate a program that is so effectively meeting the needs of our Seniors?

    Response: The President's Fiscal Year 2008 Budget Request does not include funding to support continuation of the Commodity Supplemental Food Program (CSFP).

    The CSFP is a relatively small program which operates in limited areas of 32 States, two Indian reservations, and the District of Columbia. It is the Administration's position that those eligible for CSFP– those who live in areas where CSFP operates as well as those who do not – would be served more equitably through nutrition assistance programs that operate nationwide, particularly the Food Stamp Program (FSP) and the Special Supplemental Nutrition Program for Women, Infants and Children (WIC).

All seniors over age 60 also are eligible for both congregate and home-delivered nutrition assistance provided by one of 655 Area Agencies on Aging, which are funded through the Administration on Aging in the U.S. Department of Health and Human Services. In addition to the Administration on Aging programs for seniors, individuals of any age would have access to the Emergency Food Assistance Program and other government and private non-profit programs that offer nutrition assistance.

If Congress adopts the budget request, USDA will work closely with CSFP State agencies to ensure that program participants are transitioned as rapidly as possible to other nutrition assistance programs for which they are eligible. The budget request includes $2 million which will be made available to Food Stamp State agencies in States operating the CSFP, to provide outreach and assistance to individuals enrolling in the FSP. Elderly participants who are leaving the CSFP upon termination of its funding and who are not already receiving food stamp benefits would be eligible to receive a transitional benefit worth $20 per month, ending in the first month following enrollment in FSP under normal program rules, or 6 months, whichever occurs first.

We believe that the transitional benefit, coupled with outreach efforts, will serve to significantly increase elderly participation in the FSP by former CSFP participants. CSFP women, infants, and children who are eligible for WIC benefits will be referred to that program as appropriate.

11. **(Salazar 11)** I believe there are several promising ideas in the 2007 Farm Bill Proposals that would increase access to the Food Stamps program. In particular, I think we should exclude retirement savings, college saving plans, and combat-related military pay from Food Stamps assets and income tests.

    a. Besides these suggestions, do you think there are other ways to increase participation rates with the already eligible population?

Response: To increase participation, the Administration submitted proposals to simplify program administration and reflect the needs of recipients. Beyond those you referenced, we included a proposal to authorize the Secretary to conduct a pilot test to allow a limited number of States the flexibility to reimburse work-related expenses of employed households. Additionally, a proposal to eliminate the cap on the dependent care deduction will simplify State administration and help working families.

    b. Are there other ways we could encourage the millions of Americans who qualify for food stamps? What about setting aside additional money for Food Stamp Outreach?

Response: There are considerable administrative efforts already underway to promote awareness and improve access to food stamps for eligible people through outreach and public education. Current national outreach activities include outreach grants to community and faith-based organizations, a national media campaign in English and Spanish with paid radio advertisements in areas of low participation, a national toll free information number and an online eligibility "pre-screening" tool.

States also devote considerable administrative funding resources to outreach, access and, nutrition education. The Federal government reimburses half of these State administrative costs.

Our view is that the current investment in outreach and public education strikes the right balance between our interest in maximizing program access, and other priorities in light of the limited resources available.

12. **(Salazar 12)** While we are still attempting to fully digest the numerous proposals that USDA has put forward, I was struck by what was NOT in your recommendations. I have heard from Coloradans across my state about the growing unmet needs of hungry Coloradans. For example, in El Paso County, the Care and Share Food Bank received 477,682 fewer pounds of TEFAP commodities in 2006 than they did in 2005, which means less food for community and faith-based pantries and kitchens serving families in need.

From my review, it appears that funding for the Food Stamp program would be cut by $66 million over ten years. At the same time, overall Farm Bill spending would increase by $5 billion.

a. Are there additional things we can do to limit the program administration costs to ensure that more Americans are given access to benefits?

Response: It is important to recognize that, unlike some other programs, Food Stamp Program benefit costs and administration costs are funded separately; the federal government funds all benefit costs, and administrative expenses are shared between the Federal government and the States. Because these funding streams are managed separately, reductions in program administration costs will not change the amount of benefits available to serve eligible people.

Our goals for the administration of the program are to enhance access to program benefits and improve the integrity of program operations. Achieving these goals requires a shared investment in program administration. We believe that the program needs trained caseworkers and effective technological support. Investment in program administration will enhance rather that subtract from program access. Innovations such as internet applications, call centers, and document imaging can make it easier to people to apply for benefits and for States to manage their caseloads, but some up-front investment and training is required.

However, simplifying program administration holds the potential to both streamline program operations and improve access for working families. Currently, States are given a number of options to simplify the program, such as making the program's income and resource tests consistent with Temporary Assistance for Needy Families (TANF) cash assistance, providing transitional food stamp benefits to TANF leavers, and simplifying requirements to report changes in income or expenses while on the program. We encourage States running the program to use these options to improve access and better serve the needs of recipients and States.

Senator Richard Lugar:

1. **(Lugar 1)** Since the inclusion of soybeans as a program crop in the last Farm Bill I have been trying to pass legislation that would allow the planting of fruits and vegetables for processing on program acres. These farmers would not be able to collect federal payments. However the fresh fruit and vegetable industry has argued it would cause a glut of products and hurt prices. I am happy the administration is proposing a full repeal of planting restrictions. What did the Department's analysis of removing this restriction show? What has the Department's analysis of allowing fruits and vegetables for processing on base acres show?

   Response: The adverse ruling in the WTO cotton dispute necessitates removing the planting flexibility limitations. Overall, the market effects of eliminating restrictions are likely to be small for most fruits and vegetables. In November 2006, USDA's Economic Research Service published a study entitled "Eliminating Fruit and Vegetable Planting Restrictions: How Would Markets Be Affected?" This study provides information on the effects of eliminating the planting restrictions from a farm, regional, and national perspective.

2. **(Lugar 2)** You have proposed to increase direct payments and to reduce and restructure counter-cyclical and loan deficiency payments. How would this address concerns about the regional inequities in farm spending that you have raised in recent months?

   Response: The USDA proposal contains significant funding increases and policy changes in various conservation programs, trade assistance programs, nutrition assistance programs, value-added programs, and research programs that are targeted to specialty crop producers. A few specific examples include -- an annual $100 million competitive grant program specifically geared toward specialty crops research; an additional $275 million annually in Section 32 purchases of fruits and vegetables; an additional $50 million in annual spending for purchases of fruits and vegetables through the National School Lunch Programs; and significant increases in both the Market Access Program and the Technical Assistance for Specialty Crops Program.

   Additionally, 85 percent of total farm family income is from nonfarm sources. By investing in rural America through programs outside the Commodity Title, the USDA proposal provides support that aids agricultural producers regardless of their farm size, the crops they raise, or their income. USDAs rural development and energy proposals alone would infuse over $2 billion into rural communities, including $1.6 billion to complete reconstruction and rehabilitation of over 1,200 rural critical access hospitals and

$4 billion in Business and Industry Loans to create jobs and invest in value-added businesses.

By providing bonus direct payments and other incentives for beginning and socially disadvantaged farmers, USDAs proposal will help those who are under-represented in production agriculture and generally have difficulty entering the business due to economies of scale, high land values and rental rates, and lack of capital. In addition to the direct payment bonuses, the USDA proposal targets a significant portion of conservation programs and loan programs to beginning and socially disadvantaged farmers.

USDAs proposed Adjusted Gross Income eligibility requirement and direct payment attribution will help ensure that those most in need receive assistance, while the nation's largest and most wealthy are graduated from direct subsidy programs.

3. **(Lugar 3)** I have joined others in the past, including my 2002 Farm Bill proposal, in promoting farmer's savings accounts to offset declines in revenue. Have you considered this policy?

   Response: While the Administration recognizes that farm income-stabilization accounts could potentially extend the safety net to more farms than current programs, recent research by USDA's Economic Research Service suggests that proposals that require a positive net farm income or a minimum level of farm business receipts would greatly restrict eligibility for many farmers. In addition, many eligible farmers would not have the cash flow capacity to fully fund their accounts after considering living expenses, taxes, and debt service requirements.

4. **(Lugar 4)** The President's proposal recognizes a need for nutrition education programs in an effort to curb the rising obesity rate. Is the USDA able to quantitatively measure the correlation between participation in nutrition education programs and the health and/or food choices of Food Stamp recipients? In your opinion, what makes a successful nutrition education program?

   Response: Assessing the impact of nutrition education interventions – including their correlation with positive dietary changes – and focusing on those shown to be most effective is an important part of food stamp nutrition education as it operates in States and communities across the nation.

   Overall, research indicates that the most effective nutrition education incorporates a number of consistent features: behaviorally-focused messages; content and appeals that are personally relevant to the specific target audience; approaches that provide for active personal engagement; several channels of communication to convey messages; and intensity/duration that provides the opportunity for multiple exposures to the message.

USDA promotes all of these features through two key policy documents – the annual Food Stamp Nutrition Education (FSNE) Plan Guidance and Guiding Principles for FSNE – as well as the Department's review and approval of state FSNE plans.

There are project-level, quantitative measures of the correlation between FSNE participation and the health and/or food choices of food stamp recipients. While the FSNE goal is to increase the likelihood that persons eligible for food stamps make healthy food choices within a limited budget, the delivery model is intentionally decentralized. This enables our State partners to address the specific and evolving nutrition issues of different target audiences and to make use of available educators and other resources.

To foster a better understanding of the impact and effectiveness of FSNE interventions, USDA reimburses half of the costs of evaluations approved through the review of state FSNE plans. In a national study on FSNE activities in Fiscal Year 2004, 74 percent of the implementing agencies reported conducting outcome evaluations of some or many educational services. Among those interviewed, a majority (76%) stated that their evaluations showed positive behavior changes.

The Administration's 2007 Farm Bill proposals include two food stamp initiateves aimed at combating obesity: 1) A nutrition education $100 million 5-year competitive grants demonstration program targeted at developing and testing solutions to the rising rates of obesity, and 2) A $20 million 5-year competitive grant demonstration program to develop and test solutions to obesity, including incentives at point-of-sale for purchases of fruits and vegetables by food stamp participants, grants to connect food stamp shoppers with farmers markets, and integrated communication and education programs to promote healthy diets and physical activity.

5. **(Lugar 5)** In 2000 I authored a pilot program to streamline the Summer Food Service Program. It was made permanent in 2004 and has been expanded to 26 states as the Simplified Summer Food Program. Participation in eligible states has greatly increased. I plan to introduce legislation to expand this program nationwide. While the program does not expire until 2009 I would appreciate your thoughts on this program as well as any suggestions on how to further improve the program in eligible states?

   Response: The Simplified Summer Food Program has been very well received in each of the States in which it is available. We have no suggestions for improving the Simplified Summer Food Program. However, we would note that the single most significant challenge facing the Summer Food Service Program as a whole is the ability of State agencies to attract local organizations to sponsor the Program, even in those States where the Simplified Summer Food Program is available. The Department continues to work with State agencies and members of the anti-hunger advocacy community to identify and implement strategies to increase participation.

6. **(Lugar 6)** In 2002, Indiana was one of the 4 states selected for the Fruit and Vegetable Pilot Program with 25 schools in the state participating. The program was considered

successful among participating states and, in 2004, this program was made permanent in the Child Nutrition and WIC reauthorization bill. How does the administration's farm bill proposal seek to expand this program nationwide?

Response: The Administration's proposal is intended to support efforts to offer school meals based on the most recent Dietary Guidelines for Americans. In developing this proposal, the Department considered a range of approaches to increase the availability of fruits and vegetables in schools and ultimately selected the approach that has the potential to reach the greatest number of school-age children. Because most schools across the country participate in the National School Lunch Program (NSLP), targeting the fruits and vegetables to the NSLP will reach the greatest number of school children nationwide. On average, over 31 million children eat a school meal each school day. In contrast, if the same level of funding was directed toward the nationwide expansion of the Fresh Fruit and Vegetable Program (25 schools in each state and select Indian and Tribal Organizations), approximately 650,000 children would benefit in about 1,325 schools.

While the Department is not seeking to expand the Fresh Fruit and Vegetable Program, any USDA commodities provided to schools may be used for any purpose that is principally for the service of children, including snack programs operated by the school.

7. **(Lugar 7)** I currently participate in a market based environmental program by enrolling my farm's black walnut trees with the Chicago Climate Exchange. The exchange connects companies that are trying to reduce their carbon footprint with those that are reducing atmospheric carbon, in this case through the growing of trees. Please elaborate on the idea contained in the Farm Bill proposal with regard to "market based approaches to conservation"? Please provide an example of how this may work within the USDA and for farmers.

   Response: Market based solutions to environmental problems rely on the use of market mechanisms to achieve an environmental outcome. Emerging markets include those for the sequestration of carbon, water quality credit trading, conservation banking for endangered species habitat, and wetland mitigation banking. Currently, these market opportunities are only just being realized or are limited in scope and scale because of insufficient demand, long-term risks, lack of information and high transaction costs.

   One of several proposals in the Farm Bill is to invest $50 million over ten years to promote market-based conservation that will enhance the structural elements needed but missing in these markets to build market confidence, standardize expectations, increase the security of investments, reduce costs, and eliminate the potential for fraud and abuse. This proposal and the others are not intend to supplant any of the current environmental markets but will support them in such a way as to yield substantial environmental improvements in outcomes. This proposal appears under the Conservation Title and recommends the creation of a federal structure to support free markets and promote their growth.

Other Farm Bill proposals under various Titles offer additional approaches to promote market-based conservation. They include modifications and/or expansions of existing programs to leverage limited federal funds and complement the emerging markets for water quality and quantity, wetlands, and species habitat. They also would promote a focus on larger scale collaborative projects, and market-based mechanisms such as green payments, and biobased labeling.

In summary, these Farm Bill proposals would modify a variety of federally funded programs to enhance the protection, preservation, and restoration of beneficial ecosystem services across the American landscape and establish the necessary authorities consistent with existing law and regulations to address market limitations while encouraging landowners to improve conservation. They would not replace current markets but would create a favorable environment for landowners such as yourself and your neighbors to access those markets.

8. **(Lugar 8)** In 2005 Congress passed an energy bill with loan guarantees for cellulosic ethanol. The Department of Energy has taken, in my opinion, an incredibly long time to roll out a program needed to address a critical energy problem. The USDA has had a good track record in delivering loan guarantees. Could you please explain to what level DOE consulted with USDA on loan guarantees for cellulosic ethanol? Could you also please provide greater detail to the USDA's proposal to administer a cellulosic ethanol loan guarantee program?

   Response: We are working effectively with the Department of Energy and other Federal partners in the development of our renewable energy programs to minimize duplicative efforts. Examples of coordination include DOE's participation in USDA's Energy Council, and co-chairing of the Biomass and Technical Assistance Advisory Committee created through the 2000 Biomass R&D Act. The Department of Energy and USDA share unique synergies.

   I assure the committee that USDA has a strong track record and commitment to an efficient and timely loan guarantee delivery program.

   We believe that the Federal government alone cannot provide all of the financing necessary to develop a national renewable energy industry. In the end, this new industry will need to obtain the bulk of its financial needs from the private sector. Our cellulosic loan guarantee and research programs are part of a broader Federal government strategy with our Federal partners to provide funding for research and loan guarantees to facilitate the private financial community's acceptance of new and promising renewable energy sources. Once these sources are accepted by the private financial community, the private sector will provide the necessary financing.

9. **(Lugar 9)** In 2000 I worked with this committee to pass the Biomass Research and Development Act in order to address what I viewed as a critical and growing dependence on oil. In 2005 I joined Chairman Harkin in authorizing more funding for the program. Each year the Administration's budget proposal has chosen to not fund this program and

even to eliminate mandatory funding established by this committee. I am heartened the farm bill proposal seeks to add funding for research and development of bioenergy and biobased products, however the administration's budget again provides mediocre support for these efforts. I would appreciate your thoughts on this issue.

Response: The President has consistently advocated a comprehensive energy strategy encompassing all potential sources of domestically produced energy. Soon after taking office, President Bush began to address our Nation's energy needs. This effort has been extended in the Administration's Farm Bill proposals. We agree that the Biomass Research and Development Act is a critical part of our research strategy. While we propose an expansion of the mandatory funding for this Act, we are also proposing an additional $650 million in funding in renewable energy research to jump start the Federal government's efforts to develop a cellulosic renewable energy industry. In addition, USDA will coordinate its research efforts with those of the Department of Energy and other Federal partners to prevent duplication of effort and to leverage the research assets of the USDA through our university partners and of the Department of Energy through their national laboratories.

10. **(Lugar 10)** In addition to domestic nutrition programs I have also supported international programs such as the McGovern-Dole Program. I also believe you have been supportive of this program, among others. I would be interested in your thoughts and the latest data on how well this program is performing in fighting poverty, providing opportunities to promote girls' education, and helping alleviate hunger?

Response: The McGovern-Dole program continues to feed 2.5 million to 3.0 million children and mothers each year. The program supports about 20 projects, and the mix of food and nonfood activities varies according to the needs of these projects. The latest information shows increases in enrollment of 14 percent for all children and 17 percent for female children. In Afghanistan, the McGovern-Dole program has contributed to a 123 percent increase in overall school enrollment. USDA's FY 2008 budget requests an appropriation of $100 million for this successful program.

11. **(Lugar 11)** If reauthorized as currently written please explain to me what will happen to federal expenditures under the current "no cost" sugar program after 2008.

Response: In November, USDA's World Agricultural Sugar Estimates Committee forecast the FY 2008 President's Budget assuming extension of the current sugar program. After reviewing both current and historic supply and use parameters, USDA forecast that net expenditures for the sugar program would total $1.4 billion over the next ten years.

With sugar trade between Mexican and U.S. tariff free beginning on January 1, 2008, effective operation of domestic sugar supply control program would be increased by the ability to impose domestic marketing allotments when imports exceed 1.532 million short tons. This would allow action to avoid forfeitures under the sugar price support program.

12. **(Lugar 12)** Could you please provide an update on the current Doha proceedings and how this farm bill proposal has impacted negotiations?

    Response: The United States is currently engaged in a series of bilateral discussions with several WTO members concerning the best way to move the negotiations forward. In January 2007, this bilateral process was endorsed by over 20 Ministers at Davos and subsequently by the Trade Negotiation Committee of the WTO. While the farm bill proposals may be viewed as a commitment towards further reform, they should not be confused with our WTO proposal to cut domestic support that we made in October 2005. The farm bill proposal is not a new WTO offer.

Senator Pat Roberts:

1. **(Roberts 1)** Mr. Secretary, as I mentioned during my statement at the hearing, I have some concerns over how your $200,000 Adjusted Gross Income payment limitation plays out in reality. Specifically, I'm interested in how an operation consisting of multiple producers would be treated under this plan. The scenario I gave in the hearing involved three brothers who decided to form Three Brothers, Inc. If Three Brothers, Inc's AGI exceeded $200,000 would your proposal limit payments to the corporation or to the individual producers?

   Response: Our payment limit proposal is based on the concept of direct attribution and will utilize information provided on tax returns of individuals. Payments to an entity such as a partnership, trust or corporation will be attributed to the members of the entity. If one of the members of Three Brothers Inc. had an average adjusted gross income (AGI) over the previous three years that was equal to or above $200,000, that brother would not receive payments under Title I programs (price and income support). If payments are made directly to Three Brothers Inc., those payments would be reduced based on the membership share of the brother that had an AGI equal to or above $200,000.

2. **(Roberts 2)** USDA proposes a Conservation Enhancement Payment under Title I. I understand this program would increase a producer's direct payment rate by 10 percent if the producer agrees to forgo marketing assistance loans and the counter-cyclical payment. I also understand conservation payments under Title II of the proposal are not subject to the AGI limit.

   a. Would this new Conservation Enhancement Payment be subject to the $200,000 AGI limit for commodity payments?

   b. If so, why is this conservation payment treated differently than other conservation program payments in that regard?

   c. Finally, does a producer have the option to sign up for this program one year, and choose the next year to take the counter-cyclical payment and marketing assistance loan? Would a producer be locked into a multi-year agreement?

Response: Payments under the proposed "conservation enhanced payment option" would be subject to a payment limit of $121,000 annually, up from the proposed payment limit of $110,000 for direct payments. A producer enrolled in the program would also be subject to the $200,000 AGI eligibility cap. Payments under the "conservation enhanced payment option" are treated differently than payments under conservation programs for AGI and payment limit purposes because producers who elect to participate under this program would receive an increase in direct payments in lieu of receiving benefits under the marketing assistance loan and counter-cyclical payment programs. In essence, a participating producer elects to give up payments that are subject to the AGI eligibility cap and to receive an increase in direct payments that are also subject to the same eligibility cap. If payments under the "conservation enhanced payment option" were not subject to the AGI cap, producers could enroll in the program and possibly evade the AGI cap and payment limitations. Under the proposed program, a producer would enter into a long-term contract covering the life of the 2007 farm bill to forgo benefits under the marketing assistance loan and counter-cyclical payment programs. A producer would not have the option to sign up for the program one year and take marketing assistance loan benefits and counter-cyclical payments the next year.

Senator Ben Nelson:

1. **(Nelson 1)** I, along with many of my colleagues, have been trying for quite some time to get emergency disaster assistance out to our farmers and ranchers impacted by natural disasters such as drought. So far, the Administration has fought us every step of the way. Looking over the USDA proposal and the President's Budget, I do not see anything to address the problems created by natural disasters and drought: no plan for a permanent disaster program; and no funding for those now suffering through natural disasters. What in this proposal is designed to help deal with droughts and other natural disasters, either through programmatic changes, mitigation funding, relief money or otherwise? Will the Administration end its opposition to emergency disaster assistance?

   Response: Currently, producers have risk management tools available to them for crop disasters through either Federal crop insurance coverage or coverage through the Noninsured Crop Disaster Assistance Program. The Administration proposes to improve these risk management tools by increasing participation and the level of coverage provided to participating producers. The Administration's proposal would allow growers to purchase a supplemental deductible coverage policy based on the group risk plan of insurance. This supplemental policy would cover the deductible portion of the grower's individual crop insurance policy effectively allowing a farmer to purchase coverage level on up to 100 percent of the crop. In addition, the Administration proposes linking eligibility for commodity program benefits to participation in the crop insurance program. We anticipate these changes will increase participation rates for major crops from the higher seventy percent range currently to the high eighty percent range.

   In addition, the proposed counter-cyclical revenue payment triggers when national revenue shortfalls occur. In years of wide-spread drought when yields are low, commodity prices often increase above the counter-cyclical price trigger resulting in no counter-cyclical program support to farmers. The proposal's national revenue per acre takes into account lower national yields, partially offsetting higher prices and increasing the probability of counter-cyclical payment support to farmers when yields decline, compared with the current counter-cyclical program.

2. **(Nelson 2)** Some commodity groups, including wheat growers, have expressed concerns with the proposal, namely that they feel they did not get a fair shake in the 2002 farm bill because they haven't received any counter-cyclical or loan deficiency payments. They are concerned that the 7% increase in direct payments is not sufficient to overcome their input costs which have doubled. Can you address the fairness of USDA proposals across all commodities groups as well as the concerns from wheat growers?

   Response: The Administration feels very strongly that its 2007 farm bill proposals treat all commodities fairly. The formulas for computing each safety net benefit are the same for each eligible commodity. Providing the same program structure across all commodities is a fair way to assure equitable treatment of all eligible commodities. In addition target prices and program yield factors used to determine program benefits are those used in previous farm legislation.

   For wheat producers specifically, the Administration has estimated that benefits received under the proposed safety net structure would have resulted in increased payments of $810 million for the 2002-06 crops, compared with payments received under the 2002 farm bill's direct payment, counter-cyclical payment and marketing assistance loan programs.

3. **(Nelson 3)** Regarding the revenue protection proposal, please explain how this proposal will work for farmers in Nebraska, particularly those suffering from multiple year droughts and in areas with significantly variable production, and how it is more beneficial than current programs. How does this proposal provide a more effective safety net for Nebraska producers that continue to face drought, with declining yields, as well as those areas with significant variations in production? Is it an equitable safety net across commodities?

   Response: The proposed counter-cyclical revenue payment triggers when national revenue shortfalls occur.

   In years of wide-spread drought when yields are low, commodity prices often increase above the counter-cyclical price trigger resulting in no counter-cyclical program support to farmers. The proposal's national revenue per acre takes into account lower national yields, partially offsetting higher prices and increasing the probability of counter-cyclical payment support to farmers when yields decline, compared with the current counter-cyclical program.

   The mechanics of the proposal are the same across all eligible commodities, consequently commodity-specific market prices and yields will determine the counter-cyclical payments provided to each commodity. We believe this approach is equitable across all program crops.

4. **(Nelson 4)** Please explain the Department's thinking behind its increased reliance on Direct Payments over other forms of support? Is it purely for WTO purposes or are there other reasons?

   Response: Compatibility with WTO rules is an important component of the proposals as more and more challenges to our current system are launched. However, the driving force behind our proposals is good policy. Our proposals to enhance direct payments will be a more effective and efficient safety net.

   Our current tools like marketing assistance loan rates can distort production signals, since these benefits increase as market prices decline and are tied to current production of a commodity. Because direct payments are decoupled from production and price, they provide no incentive to increase production of any particular crop, a producer can respond to market signals. Importantly, the certainty of direct payments is easier for farm management planning and lending decisions.

5. **(Nelson 5)** How much money does USDA estimate it will save with its proposed changes in payment limitations? Any estimate as to how many farmers will be ineligible under the Adjusted Gross Income cap?

   Response: The payment limitation provisions of the Administration's farm bill proposal are estimated to save $1.5 billion over 2008-17. Of the 2.013 million tax returns with Schedule Fs filed in 2004, only 25,191 returns reported farm program payments and also reported Adjusted Gross Incomes greater than $200,000.

6. **(Nelson 6)** The conservation enhancement option seems like an interesting proposal, but I am wondering why the Administration decided to create a new program instead of using existing programs such as CSP? Would it make sense to offer an option to forego counter-cyclical payments and marketing loan assistance for a CSP application? Is that cost prohibitive or otherwise too difficult to implement?

   Response: The conservation enhanced payment option removes any artificial government incentives to raise one crop over another crop. This makes it an attractive option for highly erodible and other environmentally sensitive marginal lands that might be better suited to perennial crop production, such as forage or biomass. Producers participating in the conservation enhanced payment option could also apply to participate in CSP if they were interested in undertaking additional conservation enhancements. Our proposed CSP would eliminate base and maintenance payments, thus reducing any potential overlap between it and the conservation enhancement option. We propose that CSP be available nationwide, so producers will have a variety of options for participating in CSP at various levels.

7. **(Nelson 7)** Can you provide further information about the Regional Water Enhancement Program you've proposed and how that will help drought-stressed regions? I am particularly interested in how that proposal would help an area such as the Republican River basin – how would this proposal help keep land in production while also addressing water quantity concerns?

   Response: The Regional Water Enhancement Program (RWEP) would address an important missing component in the Federal Government's conservation assistance repertoire – large scale, coordinated water quality and water conservation projects.

   The program would target concerted cooperative efforts on working agricultural landscapes and other high priority areas. Landowners and partners in watersheds and irrigation districts, working with the Natural Resource Conservation Service (NRCS) and its advisory State Technical Committees, would identify water quality or water conservation priorities for a project area.

   All RWEP assistance in the project area would be targeted at addressing these priorities. USDA/NRCS would issue competitive grants to program areas based on the priorities identified.

   By allowing landowners and partners in watershed and irrigation districts to play a large role in identifying project area priorities, the RWEP would provide tremendous flexibility to address the most important local issues, such as drought.

   Additionally, the program will use multiple conservation tools (including farmland management practices, easement purchases, and ecosystem restoration assistance) to give partners and landowners many ways to achieve improved water quantity/quality goals. The program would also include performance incentives to encourage high producer participation rates in project areas and achieve cooperative conservation outcomes.

   With priorities for a project area such as the Republican River Basin being determined at the local level, and with the multiple conservation tools available in the proposed program, the RWEP would provide tremendous flexibility to address priorities.

   In the case of the Republican River Basin, depending on the priorities of the project area that are identified locally, the proposed RWEP could potentially provide additional incentive options to bring irrigated lands back into dryland cropping to help meet water allocation requirements.

8. **(Nelson 8)** I appreciate that we all continue to talk about bioenergy produced on farms and in our rural areas, and I appreciate that we continue to look for new feedstocks and new sources of bioenergy such as cellulosic ethanol. It is my understanding that you are proposing $500 million for an Agricultural Bioenergy and Biobased Products Research Initiative, $500 million for rural alternative energy and energy-efficiency grants, as well as providing $2.1 billion in loan guarantees to support cellulosic ethanol projects. My thinking is that we need to move the ball forward on cellulosic as much as possible as

soon as possible. We had a loan guarantee program in EPAct 2005 that, to my knowledge, still hasn't provided a single loan guarantee, and we've had provisions in the 2002 Farm Bill. Do you feel that the USDA proposals are advancing the ball for cellulosic fast enough? How do these proposals mesh with previous programs, research and efforts to advance cellulosic ethanol?

Response: Yes. The rapid development of cellulosic ethanol is critical, especially the development of technologies that will allow the use of a number of different feedstocks in the domestic production of ethanol. Further, we understand that the best role for the Federal government to play is to encourage, through research and financing, the development and acceptance in the private capital markets of new, promising ethanol technologies. USDA's Agricultural Research Service and Cooperative State Research, Education and Extension Service have ongoing programs advancing cellulosic technology and have made significant strides over the past few years. For example, ARS scientists have genetically modified a strain of lactic acid bacteria, that produces increased levels of ethanol from cellulosic biomass. ARS scientists have also developed improved fermentation organisms and are making other significant steps toward achieving the technology needed for commercial production of cellulosic ethanol. In addition, CSREES is supporting cellulosic research such as, genetic engineering of yeast for co-fermenting all five cellulosic sugars to ethanol, which will improve cellulosic conversion. The Administration's Farm Bill proposals include $500 million that will enable USDA to build on this record of success to reach the goal of commercially viable cellulosic ethanol.

These policies are reflected in our Farm Bill proposals and we believe that the resources projected are sufficient, leveraged with investments from the private sector to rapidly develop a strong domestic cellulosic ethanol industry. These efforts are in coordination with DOE efforts to take advantage of synergies between the programs and minimize duplicative effort. The key is positioning the Federal research and financing programs to lead and encourage work with promising technologies. Once a technology or process is recognized as commercially viable by private capital markets and lenders, the Federal government should allow the private sector take over.

The private sector is already moving into this area using woody biomass, an example of which is a plant under construction in Georgia to take advantage of the available feedstock from forest slash. USDA and partners have done considerable research on enzymes and feedstock to move this forward as well. What remains is to provide a program, that we envision, to provide a bridge for early commercialization ventures, where equity capital is unwilling to absorb initial risk of loss, and loan guarantees enables the lender to mitigate construction and commercialization risk sufficiently to participate in the early stage of this industry. The USDA loan guarantee program will be crafted to build upon past and current research and progress that is moving forward at a rapid pace. Our approach to look at the industry holistically, and a long history of business lending, will insure success can be attained.

Senator Tom Harkin

1. **(Harkin 1)** USDA proposes to adjust marketing assistance loan rates to better reflect market prices. The formula suggested would establish the loan rate at 85 percent of the 5-year Olympic average market price. However, the market-price formula would not actually function for most loan commodities. Under the USDA proposal, wheat, corn, sorghum, barley, oats, ELS cotton, rice, soybeans, other oilseeds, small chickpeas, and honey loan rates would all be capped, and for almost all of these commodities, the cap would be lower than the current loan rate. Only upland cotton, peanuts, dry peas, lentils, graded wool, nongraded wool, mohair and honey would have market-based loan rates.

   What is the market-based justification, if any, for arbitrarily capping loan rates below the formula levels and lowering loan rates that are already less than 85 percent of the 5-year Olympic average market price?

   Response: Marketing loans are designed as a safety net, not as an ensured payment and are therefore not needed when prices are high. National loan rates have been fixed for the 2002 through 2007 crops. Compared with fixed loan rates, using 85 percent of the Olympic average market price better mirrors recent price trends. Setting loan rates below average market prices removes some of the marketing loan program's influence over cropping patterns while maintaining a safety net for farmers. Payment uncertainty from year-to-year has WTO implications since it is possible that a large payment would put us above the amber box limitation. A cap gives us more certainty that we will meet our current WTO obligations.

   Loan rates should generally be below market prices. A cap prevents several high price years from locking in a high loan rate which could expose the Commodity Credit Corporation to large outlays if a low price year follows. The proposed cap (loan rates established in the House-passed version of the 2002 farm bill) was chosen because it had already been widely supported by policy makers and many commodity groups in a farm bill debate.

   The proposed cap (loan rates established in the House-passed version of the 2002 farm bill) was chosen because it had already been vetted by policy makers and commodity groups in a farm bill debate. Under the Administration's proposal, any reduction in payments caused by lowering marketing assistance loan rates is offset by an increase in direct payments to producers. Thus, a higher proportion comes in the form of direct payments that are decoupled from price and production and producers are fully compensated for the decline in marketing assistance loan rates.

2. **(Harkin 2)** USDA proposes modest temporary increases in the direct payment rate for most covered commodities; however, with respect to upland cotton, USDA recommends a permanent increase of 66 percent above the current rate. The latest CBO estimate is that U.S. producers will plant 13 million acres of cotton this year, equivalent to about 72 percent of cotton base acres. That estimate may be high if Congress enacts the changes in loan rates that USDA proposes. If we were to follow your suggestion to increase the

direct payment rate for cotton, a significant portion of the increase would go to land that is not expected to be planted to cotton.

a. Would not the practical effect of this proposal be to transfer estimated savings from the marketing assistance loan program to cotton base acres?

Response: Yes. This approach has the added value of moving support from an amber box program to a green box program, making support for cotton producers less subject to challenge in the WTO.

b. Since a significant percentage of cotton base is not planted to cotton and since some cotton is produced on acres that do not have cotton base, wouldn't this proposal over-compensate some cotton base acres and under compensate some cotton producers?

Response: A high percentage of producers with cotton base continue to grow cotton, and cotton producers, along with producers of all program crops, were given the opportunity to update base acres in the 2002 farm bill. The USDA's proposal acknowledges that cotton direct payments are increased more than some other program crops on a percentage basis, and the proposal states (page 14) that cotton prices are not expected to be as high relative to prices of other program crops. The prices of those other program crops are more likely to benefit directly from biofuels and other policy.

3. **(Harkin 3)** USDA proposes to decrease the average Adjusted Gross Income eligibility cap for all farm commodity program payments from the current $2.5 million to $200,000. This proposal will affect more program participants and will require additional monitoring for compliance. Many producers will object to compliance that requires sharing income tax data with local Farm Service Agency personnel. An individual or corporation that owns land could avoid the effect of this limitation by cash renting the land to a tenant who is willing to pay a rental rate that reflects the value of the commodity program payments.

a. Would it be possible to monitor compliance from a centralized location in Kansas City or Washington, DC?

Response: Current procedure allows an individual or entity to certify that the average AGI limitation has not been exceeded. Alternatively, a statement by a certified public accountant or an attorney that the average AGI limitation has not been exceeded may be provided. Tax records are generally only requested from individuals or entities if there is reason to question the accuracy of certification or if the individual or entity is part of an operation which has been selected for an end-of-year review. We will explore the possibility and feasibility of monitoring compliance from a centralized location through rulemaking.

b. Would USDA be able to obtain from the Internal Revenue Service data to ensure the AGI limit on eligibility is effectively enforced?

Response: We will explore that possibility and its feasibility.

c. If Congress exempts certain income that would otherwise be included in AGI, would USDA be able to obtain sufficient detail about a producer's income tax filings to calculate a modified Adjusted Gross Income?

Response: Current procedures exempt certain income from being included in AGI. The definition of what is considered AGI for an individual or a particular type of entity is set forth in regulations at 7 CFR Part 1400, Subpart G. Under current procedure, producers generally certify that their average AGI (as determined according to the regulations) does not exceed the limitation. As indicated previously, tax records are generally only requested from individuals or entities if there is reason to question the accuracy of certification or if the individual or entity is part of an operation which has been selected for an end-of-year review.

The current rules for determining the average AGI are simple and uncomplicated for farmers. The more exemptions and special deductions provided by Congress, the more complicated and frustrating the process will be for farmers.

d. Would it be technically possible to apply the average $200,000 AGI eligibility cap to the owners of all land enrolled in the commodity programs and disqualify land owned by those exceeding the cap from earning payments? If so, could you provide us with an estimate of the additional savings?

Response: Yes, it would be possible to disqualify payments on land owned by those who exceed the $200,000 AGI eligibility cap. We do not have the data to estimate the savings of your proposal at this time. While this would prevent a landowner with an AGI of $200,000 or more from indirectly receiving the benefits of farm programs through cash rents, it would also prevent any tenant who rented the landowner's acreage with crop acreage base from receiving farm program payments.

4. **(Harkin 4)** The current nominal payment limitations are: $40,000 on direct payments; $65,000 on counter-cyclical payments; and $75,000 on marketing assistance loan benefits. Each of these limits can be doubled through either the use of the 3-entity rule or the spousal provisions. USDA proposes a significant increase in the direct payment limit to $110,000 and inconsequential cuts to the counter-cyclical and loan benefits caps. The counter-cyclical payment limit cut is inconsequential because the revenue-based counter-cyclical proposal will be less likely to trigger payments. The loan benefits cap is inconsequential because producers can avoid the limitation through the use of generic certificates or by forfeiting the loan collateral.

   a. How will higher limits on direct payments address the concerns of Iowa producers who complain that they cannot compete for land against the largest producers in their area? Wouldn't this proposal exacerbate the problem?

Response: The average AGI limitation would be lowered from $2.5 million to $200,000 and would not consider the source of the income. Therefore, producers with average AGI in excess of $200,000 would be ineligible for commodity program payments. In addition, the Administration proposal contains several proposals to assist beginning and socially-disadvantaged producers and eliminates commodity program payments on newly purchased land benefiting from a 1031 tax exchange. We believe these provisions in tandem will help level the playing field between small and medium sized producers and the largest farms.

b. How are spouses treated under the USDA direct attribution proposal?

Response: Under the Administration's proposal, spouses would be treated similarly to current treatment. If they have separate and distinct farm businesses, each spouse would be eligible for a separate $200,000 eligibility caps and payment limits. However, if they jointly farm one operation (not separate and distinct) they would have one $200,000 eligibility cap and one $360,000 payment limit.

c. Please suggest ways that we can close the loopholes that allow program participants to exceed the nominal payment limitation on marketing assistance loan benefits through the use of generic certificates or loan forfeitures.

Response: The use of generic certificates could be eliminated or the payment limitation could be imposed on loan forfeitures and certificate gains.

5. **(Harkin 5)** The Sodsaver provision in your proposal would prevent producers from receiving price and income support for land that has been converted from grassland to cropland. Would your proposal include limiting access to crop insurance?

Answer: In accordance with the Common Crop Insurance Policy Basic Provisions, insurance coverage is generally not provided for acreage that has not been planted and harvested in one of the previous three crop years. However, we are still reviewing this matter and will welcome your input on this point.

6. **(Harkin 6)** Your proposal would consolidate several programs together in EQIP and in the Private Land Protection Program. The proliferation of programs with similar goals can lead to inefficiency within the agency and inconsistent and complex rules for farmers and ranchers. However, the missions and character still need to be preserved in any consolidation of programs. What steps would you take to ensure consolidation would not impair the functioning of programs or the achievement of their objectives?

Response: When looking at our proposal for a consolidated, comprehensive cost share program, it is important to examine the utility of the program from at least three perspectives. First, who will access the program? Currently, the Environmental Quality Incentives Program (EQIP) statute mandates that at least sixty-percent of the program benefit livestock operations. In fact, more than 60 percent of the program has been benefiting livestock operations. Our proposal suggests that every acre should count, and as private land acreage applies for assistance, including forested acreage, that all possible benefits should be achieved without discriminating by land type. This can be achieved without disturbing the livestock target established under the existing EQIP.

Second, it is important to consider the kind of resource benefits that can be achieved and the kinds of practices that will be utilized. Our existing EQIP program shows that multiple resource benefits including soil erosion prevention, water quality improvements, nutrient loading reductions, wildlife habitat, and multiple other resources can be addressed in any combination of projects. When EQIP was originally limited to $200 million per year more than a decade ago, meeting multiple national resource priorities was difficult. The new EQIP program will provide more than a billion dollars in annual resources and will therefore be able to address more projects, including those benefiting wildlife habitat and water quantity conservation.

Thirdly, our experience with the existing EQIP program suggests that wildlife can benefit from natural resource conservation practices. From migratory birds, to whitetail deer, to the sage grouse, we feel that conservation practices and wildlife benefits go naturally hand in hand. In turn, we need a single cost share program that is easy for the public to understand, and easy for our field staff to implement.

Beyond this, we would work to establish special funding emphasis targets to ensure achievement of the proper resource benefit mix.

7. **(Harkin 7)** In your farm bill proposal, you suggest an additional $250 million over 10 years for the Market Access Program, with the desire to focus the funds on non-program commodities. In fiscal 2006, groups representing specialty crop producers and regional associations heavily weighted toward specialty crop exports accounted for nearly half of the amount allocated under the program. Why should those groups receive an additional preference under MAP?

   Response: Program commodities already benefit from large direct subsidy payments and receive the bulk of the funding under the $34.5 million Foreign Market Development program. The proposed $25 million increase in MAP funding will help address the current inequity in support between program and specialty crops, which now account for about one-half of farm cash receipts and an increasingly larger share of world agricultural trade.

8. (Harkin 8)How is the new grant program to address SPS issues for specialty crop producers, to be funded at $20 million over 10 years, different from the Technical Assistance for Specialty Crops (TASC), which is currently funded at $2 million annually, but which you propose to increase to $10 million by 2010?

   Response: The primary difference is that the new grant program will cover all agricultural products. Under the Technical Assistance for Specialty Crops (TASC) program, funds may only be used for addressing SPS and technical issues that affect specialty crops. We have been very pleased with the results of the TASC program on behalf of the specialty crops sector. The new grant program is designed to provide us with the same tools to address SPS issues that affect all agricultural products including livestock products, program crops, and processed foods. This program would target issues including foreign governments' acceptance of antimicrobial treatments; wood-packaging material; irradiation; biotechnology; science-based maximum residue level standards; and mycotoxin testing procedures and controls.

9. **(Harkin 9)** Why not attempt to fix the problems with the Supplier Credit Guarantee program rather than recommend its elimination?

   Response: The Supplier Credit Guarantee Prgram (SCGP) is redundant to the GSM-102 Export Credit Guarantee Program. Additionally, current legislative authority for the SCGP states that "...the Commodity Credit Corporation may issue guarantees for the repayment of credit made available for a period of not more than 180 days by a United States exporter to a buyer in a foreign country." Although the SCGP was utilized by U.S. exporters, the Commodity Credit Corporation (CCC) has discontinued use of the program because of a large number of importer defaults. CCC has experienced great difficulty in attempting to recover monies from defaulting importers. In contrast, recoveries from foreign banks, the obligors under the GSM-102 Export Credit Guarantee Program, are more straightforward and easier to obtain due to the existing bank regulatory systems in foreign countries. CCC has a fiduciary responsibility to protect U.S. taxpayer resources and the extreme difficulty in collection of foreign importer debt has proven that this type of program is not in the U.S. government's best interest.

10. **(Harkin 10)** The proposal includes eliminating categorical eligibility for individuals receiving TANF-funded benefits, something that USDA has proposed for several years now but which Congress has repeatedly rejected. In the farm bill proposal, you have described eliminating categorical eligibility for individuals receiving TANF-funded services as one that would improve program integrity in the Food Stamp Program. The assumption seems to be that the current categorical eligibility rules are somehow undermining program integrity and the quality control system or are providing food stamp benefits to individuals who are not in need of income support or food assistance. This assumption seems at best questionable.

    Do you have any evidence that the individuals who are currently receiving food stamps through categorical eligibility differ significantly in income, assets, or other eligibility factors from those who receive food stamps through the normal application process, or that that the quality control system has discovered that the cases of households receiving food stamps as a result of categorical eligibility have higher rates of error than other food stamp households?

    Response: All of the persons affected by this proposal have income or assets above the food stamp limits. This proposal does not affect the national policy applied in States that provides for automatic eligibility for food stamps for those who receive cash benefits such as TANF. However, in the States that extend categorical eligibility to non-cash benefits, this proposal would eliminate that automatic eligibility. We believe that this is equitable and consistent with longstanding Congressional intent to set National standards.

While categorical eligibility was originally designed to facilitate the certification of persons who met income and asset tests in other programs with similar eligibility standards, this policy was expanded in 1999 to allow States to provide categorical eligibility to those receiving any TANF funded services. In some States, these services are provided without income or asset tests. As a result, food stamp eligibility has been extended to some who may not meet food stamp income and asset requirements.

Restricting categorical eligibility to the receipt of TANF, SSI and General Assistance cash benefits helps to ensure that benefits are targeted to persons who meet the program's income and asset limits, improving program equity by creating a more uniform and rational set of national eligibility standards that target the greatest needs.

11. **(Harkin 11)** You propose spending $500 million on additional reimbursements for fruits and vegetables through the National School Lunch Program and School Breakfast Programs. You indicated in your Committee testimony that USDA is interested in providing schools with flexibility regarding how they can spend such funds. Would this flexibility extend to allowing schools to utilize the additional funds to establish or expand the Fruit and Vegetable Snack Program?

    Response: The Administration's proposal is intended to support efforts to offer school meals based on the most recent Dietary Guidelines for Americans. In developing this proposal, the Department considered a range of approaches to increase the availability of fruits and vegetables in schools and ultimately selected the approach that has the potential to reach the greatest number of school-age children. Because most schools across the country participate in the National School Lunch Program (NSLP), targeting the fruits and vegetables to the NSLP will reach the greatest number of school children nationwide. On average, over 31 million children eat a school meal each school day. In contrast, if the same level of funding was directed toward the nationwide expansion of the Fresh Fruit and Vegetable Program (25 schools in each state and select Indian and Tribal Organizations), approximately 650,000 children would benefit in about 1,325 schools.

    While the Department is not seeking to expand the Fresh Fruit and Vegetable Program, any USDA commodities provided to schools may be used for any purpose that is principally for the service of children, including snack programs operated by the school.

12. **(Harkin 12)** In your farm bill proposal, you provide $100 million in competitive grants to address obesity among low-income Americans. I want to follow up on this particular point regarding healthy purchases in the Food Stamp Program. Some folks have suggested one could use the EBT system to provide an enhanced benefit when food stamp dollars are spent on healthy food such as fruits and vegetables. For example, in such a scenario, if a food stamp recipient spends $25 of a total $100 in food stamp benefits on fruits and vegetables, he or she will receive a premium, say 25 percent, of that $25 back in order to encourage more purchases of fruits and vegetables.

a. Given the current state of EBT technology, is such an approach technically feasible to operate?

b. If there are technical challenges or policy considerations that might stand in the way of implementing this idea, what are they and what would need to be done to overcome them?

Response: The Department is interested in exploring multiple approaches to addressing the issue of obesity, including incentive programs to encourage fruit and vegetable consumption. As with the implementation of any technology, an EBT-based system poses a number of technical and policy challenges.

The most fundamental of these is that current food stamp EBT systems operate as benefit issuance and payment mechanisms, but do not distinguish between items purchased. Additional systems or system components must be put in place to identify and capture the purchase of fruits and vegetables. Some examples of related issues that must be resolved to move forward with an electronic bonus system include:

- accounting for and properly documenting the accrual and use of bonus benefits, as distinguished from regular benefits;
- ensuring that participating retailers have the necessary infrastructure to manage these benefit streams electronically;
- establishing standards to identify the specific foods that would earn a bonus for a recipient;
- ensuring recipient privacy and protecting purchase information from non-program uses; and
- establishing a method of evaluation to determine the actual impact of such a system on fruit and vegetable purchases and consumption, in order to assess the costs and benefits of the new system.

We believe that our two 5-year competitive grant proposals- one funded at $100 million, the other at $20 million- will address these and other important issues involving obesity and the importance of greater fruit and vegetable consumption.

13. **(Harkin 13)** Farm Service Agency (FSA) guaranteed loans currently have a limitation on the number of years a barrower is eligible to receive a loan guarantee from the federal government. FSA loan guarantees provide lenders with a guarantee of up to 95% of the loss of principal and interest on a loan. These guarantees allow commercial lenders the ability to make agricultural credit available to farmers who may not meet the lender's normal underwriting criteria. Term limits on FSA guaranteed loans were put in place in the 1996 farm bill. The 2002 farm bill waived these term limits through December 31, 2006. Before the end of the 109th Congress, Congress extended the waiver through September 30 of this year. What is the administration's position on guaranteed loan term limits? Should these term limits be abolished?

Response: Guarantees are generally only sought by lenders for as long as they are needed because of the lender's administrative cost to obtain and maintain the guarantee. Agency regulations limit a lender's ability to recover these costs. Thus, lenders have an incentive to request guarantees only so long as they are absolutely necessary.

14. **(Harkin 14)** The direct loan program has been instrumental in helping many beginning farmers to get started in agriculture. Beginning farmers and ranchers face many obstacles when entering agriculture such as high land prices, energy costs and equipment costs. The current loan limit for FSA direct ownership and operating loans is $200,000. This limit has not changed in decades despite the rising cost in agriculture production. USDA's farm bill proposal includes increasing the direct loan limit to $500,000. However, the administration's budget released on Monday included less overall money in the direct loan program. Without increasing funding for the direct loan program, would not increasing the amount of money any one barrower may receive in direct loans have a negative effect on the number of barrowers who benefit from the direct loan program?

    Response: The increased loan limits will allow FSA to better support America's beginning and small sized farmers. It is possible that an increased loan limit could result in fewer farmers receiving loans.

15. **(Harkin 15)** Your proposal to reduce the backlog in rural infrastructure programs from rural water to broadband parallels a provision in the 2002 bill and is well-justified. Most areas have real shortfalls in very necessary infrastructure without which acquiring and keeping businesses and maintaining communities is difficult.

    The need in broadband is steadily becoming ever more crucial. Can you outline detail how you would recommend modifying the existing broadband program so it can better reach more communities and the rural areas that surround them, while minimizing competition by companies receiving USDA assistance with those who do not?

    Response: We share your assessment that broadband is a critical component to the future of rural America. The Broadband programs have moved us closer to achieving this vision. Through more than $1.1 billion in loans for broadband deployment more than 1,000 rural communities will receive broadband service.

    Even with this level of success, the program needs to be adjusted to better serve unserved or underserved communities. In response, we are proposing new rules that seek to address this and other critical issues, and further facilitate the deployment of broadband service in rural America as directed by Congress. While we are not able to discuss the substance of the proposed regulations, the following is a summary of the major issues addressed by the proposed rulemaking:

    1. Establish requirements to provide service to un-served and underserved areas;
    2. Establish criteria to exclude funding for broadband in certain served areas;
    3. Provide potential applicants with a clear definition of which communities are eligible for funding;

4. Establish equity and cash requirements that mitigate risks; and
5. Impose new time limits for build-out and deployment to ensure prudent use of loan funds and timely delivery services to rural customers.

It is anticipated that the proposed rule will be published for comments this May.

16. **(Harkin 16)** Rural communities are in desperate need of day care centers. Such centers receive some assistance though the USDA community facility program. Do you believe that we should increase the emphasis we place upon helping to bring new day care facilities into existence and helping those that are struggling?

    Response: As communities develop, the infrastructure that we provide should mirror the overall growth and needs of such communities. Day care facilities are one of these infrastructures.

17. **(Harkin 17)** Rural communities continue to suffer from a lack of venture capital. What are your thoughts on what the farm bill should contain regarding improving the access of rural communities to venture capital and how do you think initiatives for this purpose should be structured?

    Response: We believe that rural communities have vast untapped sources of venture capital. The key to creating wealth in rural communities is unlocking these sources of venture capital and investing these funds in rural communities. A major role of Rural Development is providing leadership and encouragement to help unlock these sources of rural capital and applying them to finance rural projects, like renewable energy facilities and infrastructure. We believe that the most effective way of accomplishing this is to work with the existing rural financial community to develop vehicles to unlock investments and channel them to rural communities. Rural residents who hold such capital are more likely to trust existing institutions rather than new ones that might be created in the Farm Bill. We do not believe creating a whole new structure or program would facilitate the unlocking of such investments, rather it can be achieved through our existing programs, such as Business and Industry Guaranteed Loans and Renewable Energy Systems and Energy Efficiency Improvement programs.

18. **(Harkin 18)** USDA is proposing a consolidation of its two main research agencies: the Agricultural Research Service (ARS) and the Cooperative State Research, Education, and Extension Service (CSREES). There is another proposal that you refer to in your farm bill proposal called CREATE-21, which calls for not only a reorganization, but also a significant increase in investment in agricultural research. I believe we need to take a serious look at our financial commitment to agricultural research because it is simply not enough to keep U.S. agriculture and rural communities competitive now and in the future.

    a. Do you believe that this reorganization proposal can help agricultural research obtain more funding?

Response: The USDA reorganization proposal is designed to enhance the efficiency and effectiveness of our research, education and extension programs. While the Department's reorganization proposal does not specifically address funding levels, by operating more efficiently, the Department will be able to maximize the use of existing or enhanced resources. In addition, the Department's proposals do include increased funding in two high priority areas, bioenergy and specialty crops. These funding initiatives, coupled with the reorganization proposal will help strengthen the overall investment in research, while enhancing the efficiency and effectiveness of program management.

b. Are there research projects at ARS that will be cut because similar research is being done outside of USDA with money administered through CSREES, and vice versa? Or will there instead be better coordination between two or more projects in a subject area to ensure that they are not doing the same exact research?

Response: The intent of the proposed reorganization is not to cut ongoing programs or close any ARS facilities. Rather, the reorganization is designed to enhance coordination among ongoing programs to maximize coordination and efficiency. This will help avoid unnecessary duplication and better manage resources for the future.

19. **(Harkin 19)** The Initiative for Future Agriculture and Food Systems (IFAFS) is a competitive grants program created in the 1998 Agricultural Research Education and Extension Reform Act that focuses on genomics research of agriculturally-important organisms, food safety, human nutrition, natural resource management, and farm efficiency and profitability for small- and medium-sized agricultural operations. IFAFS funding has been eliminated by Congressional action through fiscal year 2009. Does USDA plan to incorporate the IFAFS priorities into an ongoing or new initiative?

Response: The priorities from the Initiative for Future Agriculture and Food Systems (IFAFS) are strongly reflected in the USDA Strategic Plan for FY 2005 – 2010. The strategic goals in this plan are:

1. Enhance International Competitiveness of American Agriculture;
2. Enhance the Competitiveness and Sustainability of Rural Farm Economies;
3. Support Increased Economic Opportunities and Improved Quality of Life in Rural America;
4. Enhance Protection and Safety of the Nation's Agriculture and Food Supply;
5. Improve the Nation's Health and Nutrition; and
6. Protect and Enhance the Nation's Natural Research Base and Environment.

USDA's intramural and extramural research programs are focused on finding science-based solutions to achieving the goals in the Strategic Plan, which closely parallel those priorities identified in the IFAFS program.

20. **(Harkin 20)** The biobased products procurement and labeling program is intended to provide a major market development stimulus to this promising approach to reduce oil consumption with domestic feedstocks, which also improve the environment and support rural economic development. The Administration's farm bill proposal and budget propose a very modest increase, from $1 million per year to $1.8 million per year for the biobased products initiatives.

   a. What will this funding accomplish in terms of market-wide
      - Increases in sales volumes of biobased products
      - Increased numbers and varieties of biobased products
      - Increased number of firms manufacturing biobased products?

   Response: The Administration's proposed increase in funds would continue and expand the program, including continuing the designation of items for preferred procurement until all known items are designated. This designation and procurement by Federal agencies will increase the commercial marketability of biobased products, increase the number of biobased products that become commercially feasible, and help more firms enter the biobased product industry.

   The proposed increase in funding will enable future growth in the biobased product industry to surpass past growth. First, Federal agencies are now implementing their biobased procurement programs in response to items designated by final rulemaking and these programs should be fully operational during 2007. Second, new funding will allow more rapid designation of biobased items in the future and expanded education and outreach efforts. In general, the biobased products procurement and labeling program is a market development program that helps the industry in identifying its market response and potential, increases visibility of biobased products, provides information that improves consumer trust in an industry for which public information has been limited, and creates clear signals that there is a market opportunity in biobased products. Consequently, the program will create a platform for increased sales of biobased products, new firm entrance in the biobased marketplace, and greater diversity of products.

   Market research funded by the biobased products procurement and labeling program has identified markets with the highest potential, allowing the program to focus future efforts in these markets. The proposed increase in funding would allow the benefits of these accomplishments to be realized and to leverage them for greater progress.

   Regarding sales and number of firms in the future, the experience of the past several years indicates that item designation has increased producer interest and market entrance and additional funding is expected to continue these trends. Market research conducted as part of BioPreferred indicated that in November 2005, about 450 identified companies were making or selling 2,800 biobased products. As of February 2007, 2,900 manufacturers are making or selling more than 11,200 biobased products. According to interviews conducted recently in a research effort by the United Soybean Board, biobased product vendors have increased sales of biobased products to federal agencies in recent years; nearly half of vendors indicated increased sales by 50+% in the past year. Increased funding for BioPreferred would help sustain these trends.

Regarding future sales volumes and types of products, several examples of potential progress in expanding bioproduct markets were developed through research conducted under BioPreferred. The research indicates that biobased chemicals are expected to grow from 2 percent of the total chemical market to at least 10 percent by 2010, and to 22 percent by 2025. Excluding pharmaceuticals, the global chemical industry is expected to grow to over $2 trillion per year by 2025, with biobased products replacing existing products and providing new revenue sources amounting to more than $500 billion per year.

b. Most importantly, what is the Department's plan for greatly accelerating the broader market stimulus that this federal biobased program is designed to engender?

Response: In an effort to kickoff an aggressive marketing campaign, at the start of the 2007 fiscal year, USDA undertook qualitative research to determine a new brand identity and key messaging for the biobased program. Through that research, the program was renamed "BioPreferred™". The proposed increase in funds will allow USDA to effectively implement this marketing campaign, which will be jointly focused on establishing the Department as a leader in biobased purchases, and providing support and guidance to other Federal agencies and to biobased manufacturers.

Given the wide spectrum audience, the increased funding will be used in the plans to generate awareness, secure support, and assure participation in BioPreferred among all relevant audiences.

The following are a few examples of steps taken throughout the Department to significantly increase its biobased procurements: the required inclusion of biobased cleaning products in janitorial contracts; the initiation of a biobased composting program for the National Capital Region cafeterias; and targeting agencies to encourage the applicable use of specific biobased products (e.g., the Forest Service's potential use of biobased two-cycle engine oils and Rural Development's cooperatives potential use of transformer fluids).

Through USDA's efforts in creating the draft regulation language, the Federal Acquisition Regulation (FAR) Council recently published an amendment to the FAR to include the biobased procurement provisions of FSRIA section 9002 and section 943 of the Energy Policy Act of 2005. Once published as final, the rule will further establish the preference program.

USDA's Federal outreach efforts will include program updates through the Chief Acquisition Officer Council and hosting training sessions and booths at various conferences, such as the General Services Administration Expo and the Joint Services

Environmental Management Conferences, which are attended by the majority of procurement officials throughout the Federal government.

Additionally, understanding the difficulties that many of the biobased manufacturers may experience in trying to market and sell biobased products, USDA will work in direct contact and through trade associations to provide guidance on "How to Do BioPreferred Business with the Federal Government." This series of materials not only covers the Federal procurement system, but it outlines biobased marketing strategies, and explains the BioPreferred designation process.

USDA will continue to create "BioPreferred Procurement Tools" which are made available to all Federal agencies. These tools include online awareness training, sample contracting language used to assist contracting officers in more easily purchasing biobased products, training materials to increase program awareness and ensuring that biobased products can be easily located.

USDA will also continue to revise its Biobased Affirmative Procurement Plan (APP), which serves as a model procurement program to the rest of the Federal departments and agencies. The APP outlines the Department's preferred procurement policies, outreach and training objectives, and includes various procurement "tools" to assist procurement officials in implementing the preference program. The Biobased APP includes a procurement preference program, a promotion program, and a plan to annually review and monitor the effectiveness of the program. Additionally, USDA is establishing a voluntary recognition program for both Federal agencies and private entities that purchase and use a substantial amount of biobased products.

21. **(Harkin 21)** You propose a Cellulosic Bioenergy Program to be modeled after the CCC Bioenergy Program as authorized in Section 9010 of the 2002 farm bill, and you propose funding of $25 million a year over a four year period. Compared with the $150 million per year that was authorized in 2002, or even the $460 million that was actually spent over 4 years, this seems to be a severe reduction.

    a. What's the basis for that level of funding?

    b. How much cellulosic ethanol do you think this will incentivize? What funding rate per dry ton does this anticipate?

Response. Regarding the Cellulosic Bioenergy Program, the proposed level of funding is at a lower level than the CCC Bioenergy Program authorized in the 2002 farm bill because the production of ethanol from cellulosic material is not commercially viable at the present time. When Congress enacted the 2002 farm bill, the process of converting corn into ethanol had been well established. This is not the case for converting cellulosic material into ethanol. Reflecting this knowledge gap, the Administration's 2007 farm bill proposal's primary emphasis is increased funding for research that would improve the economic viability of producing ethanol from cellulosic material. Since little ethanol is currently being produced from cellulosic material, there is no way of knowing how much ethanol production the proposed Cellulosic Bioenergy Program would incentivize. We suggest establishing the payment rate through rulemaking rather than through legislation. However, Congress might consider specifying a maximum payment rate, such as the rates used in Section 9010 of the Farm Security and Rural Investment Act of 2002.

The Administration's proposes to promote ethanol production from cellulosic material by funding research and providing incentives through a variety of program initiatives that augment efforts by the Department of Energy. The initiatives in the 2007 farm bill proposal would promote research and development (R&D), feedstock availability, and cellulosic ethanol production. With respect to R&D, the 2007 farm bill proposal would create an Agricultural Bioenergy and Biobased Products Research Initiative. This initiative would be funded at $500 million over 10 years and would focus research and development (R&D) on: improving biomass production and sustainability, and improving biomass conversion in biorefineries. A second proposal would build on the Biomass Research and Development Act and provide $150 million over 10 years to increase competitive grant funding for biomass research, focusing on cellulosic ethanol.

To insure ethanol producers have access to a reliable feedstock, the 2007 farm bill proposal would provide the authority for a Cellulosic Bioenergy Program. The Cellulosic Bioenergy Program would be funded at $100 million and would share the cost of biomass feedstocks used by cellulosic ethanol producers. In addition, the 2007 Farm Bill proposal includes a Biomass Reserve Program (BRP) operated under the Conservation Reserve Program (CRP). The BRP would establish clear requirements that biomass could only be harvested with sufficient environmental and wildlife protections, and rental payments would be limited to income forgone or costs incurred by the participant to meet conservation requirements in those years biomass was harvested for energy production.

The 2007 Farm Bill proposal would create a Forest Wood-to-Energy Program. This program would be funded at $150 million over 10 years and its goal is to accelerate development and use of new technologies to more productively utilize low-value woody biomass resources, offsetting the demand for fossil fuels and improving forest health.

The 2007 Farm Bill proposal would also reauthorize the Renewable Energy Systems and Energy Efficiency Improvements loan guarantee and grants programs. The Administration proposes a loan guarantee program funding level of $210 million, which would support $2.1 billion of guaranteed loans over 10 years.

22. **(Harkin 22)** The farm bill proposals include revising the Biomass R&D Act of 2000 to increase the annual competitive grant funding for biomass research, focusing on cellulosic ethanol, with $150million per year in mandatory funding over 10 years. However, EPACT (the 2005 Energy Bill) authorized $200 million per year.

    a. Why doesn't the administration propose funding at least as high as Congress has already authorized?

Response: With regard to the Biomass Research and Development Initiative, the 2002 farm bill provided mandatory funding of $14 million per year and authorized additional appropriations of $49 million annually through FY 2007.

In 2005, the Energy Policy Act extended the authorization for appropriations to FY 2015 and increased the authorized discretionary funding level to $200 million. USDA does not propose reducing or eliminating the authorization of appropriations provided by the Energy Policy Act for the Biomass Research and Development Initiative. In addition, USDA proposes an increase in the mandatory funding from $14 million to $15 million per year.

Additionally, USDA's Research Title proposal also includes a major investment in bio-energy research. It provides $50 million annually for the Bio-energy and Bio-based Products Research Initiative. This initiative will be complementary to the Biomass Research and Development Initiative and assist in developing feedstocks and conversion technologies to help make cellulosic ethanol commercially viable.

Finally, our proposal would accelerate the development of new technologies to better utilize low-value woody biomass by authorizing $15 million in annual mandatory funding for Forest Service research.

Therefore, we believe the USDA proposal provides a strong investment in cellulosic ethanol research to help achieve the important national priority of greater energy independence.

b. What do you expect that this funding level would deliver in specific achievements? Can you give examples such as conversion efficiency improvements or crop yields or cost reductions?

Response: Ultimately, we expect to achieve the development of technology that will facilitate commercially viable, low cost and energy efficient production of ethanol from cellulosic feedstocks. This includes the development of commercially-viable, value-added co-products. This achievement will be reached when cellulosic energy is a vital component of the Nation's energy production. Several technologies could contribute to this goal. As with most research and development, several intermediate steps will need to be achieved before final technologies become available. Currently, the Department is assessing past activities to develop measures for evaluating potential benefits that would likely be realized from projects supported by the Department. The Department will coordinate its efforts to develop a renewable energy industry with the Department of Energy and other Federal partners to leverage research assets of the USDA and its university partners and those of the Department of Energy's national laboratories.

23. **(Harkin 23)** The farm bill proposal highlights "the creation of a Bioenergy and Bioproducts Research Initiative to increase the cost-effectiveness of bioenergy." For this initiative, which is included in both your energy title section and in your research title section, you propose $500 million over 10 years. I commend the administration on this

proposal, and I applaud the call for collaboration among USDA's research centers and universities and the DOE laboratories. The potential of bioenergy and bioproducts to displace oil consumption and to reduce carbon emissions is tremendous, and this research is likely to pay very significant dividends by making those contributions far larger and more economical in the future.

a. How did the Administration decide to recommend only $50 million per year for this vital research?

Response: The Administration clearly recognizes the importance of working to achieve greater energy independence. The overall USDA farm bill proposal includes a balanced portfolio that would invest over $1.6 billion supporting bio-energy activities. The $500 million research initiative is a critical part of this package and represents a strong investment to address this high national priority. This research investment will further strengthen USDA's existing bioenergy research program.

b. Do you have a basis for believing that significantly larger levels such as $100M or $200M per year are not sound federal investments in this research?

Response: The Department believes the proposed $50 million per year over ten years is a strong commitment of resources to improving the production of renewable fuels and biobased products. It also represents a significant increase above recent funding for this work. For example, the proposed annual amount is a 75 percent increase in the department's bioenergy and biobased products research portfolio proposed in the 2008 budget and a 128 percent increase over the amount appropriated in 2007. Specifically for fiscal year 2008, the President's budget proposes $70 million in bioenergy and biobased products research. The ARS budget proposes an increase for research focusing on the development of energy crops and efficient conversion to biofuels, and CSREES' proposes an NRI increase to support a portfolio of interdisciplinary projects that will reflect the diversity in feedstock and geography. The CSREES budget also proposes allocation of $10 million of existing Hatch Act funds to support biomass research. The ERS budget requests $1 million to strengthen the agency's research and modeling capacity particularly directed at understanding the market impact associated with bioenergy development, a topic that is attracting increasing attention as more and more corn is being used for ethanol production. With this level of funding, significant gains can be made to achieve the President's goal for greater energy independence.

c. You have included this funding under your proposed research program. Is this entirely new funding? To what extent will the $50 million per year be used to support on-going research within ARS?

Response: The $50 million in annual funding included for the Agricultural Bioenergy and Biobased Products Research Initiative would represent additional funding above the significant increases already provided in the Administration's FY 2008 Budget proposal. Resources will be invested to build on both intramural and extramural efforts in bioenergy research.

24. **(Harkin 24)** USDA in the past has expressed support for including poultry under the enforcement mechanism of the Packers and Stockyards Act. USDA's farm bill forums had many comments from producers about the need for a competition title and the need for market fairness in production contracts.

Additionally, in a letter to me last year, USDA also concurred with my concerns created by the Eleventh Circuit Court of Appeals decision (London vs. Fieldale Farms) requiring producers to prove competitive harm in every instance of an alleged violation of the Packers and Stockyards Act. Having to show an adverse effect on competition for a producer's region, sets up a standard virtually impossible to meet.

a. Why did USDA not include recommendations in its farm bill proposal to address structural changes in the marketplace and concerns created by the Eleventh Circuit Court of Appeals in the London vs. Fieldale Farms case?

b. Why did USDA in its farm bill proposal choose not to recommend provisions including poultry within USDA's enforcement authority under the Packers and Stockyards Act since USDA in the past has expressed support for this authority?

Response: The Department understands that competitive, fair, and transparent markets are important to our nation's farmers. USDA did not recommend competition related proposals because we do not believe that the farm bill is the appropriate vehicle for such endeavors. However, as you know, a number of legislators have introduced legislation on this subject, and USDA has provided our position on these proposals when asked. Some of the provisions of these bills we have offered support for, others we have not.

Also, USDA has invested $4.3 million with the Research Triangle Institute (RTI) to conduct the Livestock and Meat Market Study. The broad purpose of the study is to provide information to support decision-making about procurement and marketing arrangements used throughout the livestock and meat industries. USDA felt that it would be premature to recommend changes on these subjects until the study was completed and released. The study was released on February 16th and we hope it will add objective information to the process as these subjects are further debated and considered.

25. **(Harkin 25)** I'm interested in the concept of the supplemental deductible insurance policy you have proposed, and would like to learn more about it. However, there has been a lot of concern expressed about the soundness of the current Group Risk Policy (GRP) and Group Risk Income Protection (GRIP) policies, because of the varying reliability of the estimates of county-level yields provided around the country.

What steps do you envision taking to improve the accuracy of the county-level yield data for this new policy, or if better accuracy cannot be achieved, would you consider a higher level of aggregation, such as crop reporting districts?

Response: Starting in 2006, RMA has implemented a new set of criteria that limits the counties where GRP/GRIP coverage can be expanded. The criteria include minimum requirements for planted acres, number of farms, and length of NASS historical yield data. These criteria help assure that the county yield data used for GRP/GRIP are reliable and are not unduly influenced by a few large growers.

If coverage were expanded to counties that do not meet the above criteria, higher levels of aggregation would be considered. A disadvantage of greater aggregation is that the average yield for a larger area may not reflect the loss experience of individual growers as closely, making the group-based coverage less effective.

The GRP and GRIP plans of insurance have performed well. The average loss ratio for GRP, since it was implemented in 1992, is 0.86. The average loss ratio for GRIP, since it was implemented in 1999, is 0.81. Even though the performance of the group products has been generally sound, RMA continues to proactively monitor and improve them. For example, RMA is currently contracting for an external review of how the expected yields are calculated from the NASS data.