S. HRG. 110–121

# NORTHERN PLAINS PRIORITIES IN THE 2007 FARM BILL

## FIELD HEARING

BEFORE THE

## COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

ONE HUNDRED TENTH CONGRESS

FIRST SESSION

APRIL 3, 2007

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# C O N T E N T S



**Tuesday, April 3, 2007**

STATEMENTS PRESENTED BY SENATORS



APPENDIX

# NORTHERN PLAINS PRIORITIES IN THE 2007 FARM BILL

**Tuesday, April 3, 2007**

U.S. SENATE,
COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY,
*Fargo, ND*

The Committee met, pursuant to notice, at 10:10 a.m., in room 201, Fargodome, Hon. Kent Conrad, presiding.

Present or submitting a statement: Senators Conrad, Klobuchar, and Coleman; and Representative Pomeroy.

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

Senator CONRAD. The hearing will come to order. First we want to welcome everyone to the field hearing of The Senate Agriculture Committee. I want to especially thank the Chairman of the Agriculture Committee, Senator Tom Harkin for permitting us to have this hearing in Fargo, North Dakota. I want to recognize his staff person who is here from the committee, Kerri Johannson. Kari, welcome.

Ms. JOHANSON. Thank you.

Senator CONRAD. Also representing Senator Chambliss, who is the ranking member of the Senate Agriculture Committee, his staff person Cameron Bruett. Cameron, welcome, good to have you in North Dakota, and we have given you a special North Dakota welcome of this weather. We almost never have weather like this. Typically it would be 70, 75 degrees.

Senator COLEMAN. Except in Minnesota right now.

Senator CONRAD. I also want to very much welcome my colleagues, Senator Klobuchar and Senator Coleman. Senator Coleman and Senator Klobuchar are on the Agriculture Committee in U.S. Senate. We especially appreciate their coming to participate in this hearing.

Also, Congressman Pomeroy who serves on the House Agriculture Committee as well as the House Ways and Means Committee because as, you know, we have got to write a farm bill in both chambers and it is going to be a significant challenge and a real opportunity. We want to make certain that we are in a position to take advantage of the opportunity.

I also want to thank the witnesses who have come to be with us today. We have lost a couple of our witnesses due to the weather but they have been ably replaced by others. I think we are only missing one group that was going to be represented here today. So we are pleased that most of the witnesses are here even though the weather has been not cooperative.

This is the part of the series of outreach that I have made on the Farm Bill. Many of you will recall last year we had an agricultural summit right here at the Fargodome. Incredibly well attended. We had really the leading agricultural policymakers from around the country come and participate in a 2–day event that was in preparation for the Farm Bill.

In February I met with all the farm group leaders in Bismarck and we had a detailed review of where we are headed with the farm bill. That was very helpful.

Then we have had a series of outreach meetings all across the state in town after town, 10 outreach meetings and now an official hearing of the Senate Agriculture Committee. We build a case for what is important for the next farm bill.

The message from those meetings I think has been clear and consistent. The message has been built on the current farm bill. The current farm bill, by and large, is working well. It has been especially beneficial to our part of the country, but we also know there are areas that need to be improved.

We need to strengthen crop insurance. I think we all know the crop insurance especially does not work well in the quality loss provision.

We also need to do more to take advantage of the extraordinary opportunity in energy because we want the country to look to the Midwest instead of turning to the Middle East for our energy supplies.

We also have a chance to put in a permanent provision on disaster assistance. Very often I am asked well, why do you need that? Why can't crop insurance solve that problem? Very simply crop insurance is intended for periodic loss, not repeated loss. It is like if you had house insurance and your house burned down every year, house insurance would not work very well. Unfortunately, when you have a drought, very often those are sustained. They do not just come and go. And when you have loss like that, crop insurance does not work well. So while crop insurance is critically important, it is a place where we need improvement. It is never going to solve the problem of repeated loss from disaster.

We also I think generally recognize that conservation programs need to be improved, especially for our part of the country. Do not work very well in our part of the nation. And we need to improve the fairness of the commodity programs. I was especially disappointed in some of the proposals that had come from the Administration with respect to reducing the counter-cyclical program and taking that money and giving it to cotton. If there is one place that has done very well already in terms of commodity programs it is cotton. It would not be, to me, the first, second or third place that I would move to provide more resources.

We also face significant challenges, and let me just mention a few. I have got a couple of posters here that make the point. First is the hostility of parts of the national news media. And I would single out the Washington Post. They have run a series of stories that I think are unfair, that are misleading, that do not capture the reality of American production agriculture today and I think they have done an enormous disservice to farm and ranch families across the country.

Second, the competition from the European Union. Make no mistake they are outgunning us by more than five to one in terms of their support of their producers. It is hard to believe that the most recent figures show that the European Union is providing $277.00 an acre of support per year. Think of that. $277.00 an acre of support per year. We are at $48.00 an acre on an equivalent comparison. So they are outgunning us there more than five to one.

On export subsidy they are outgunning us 87 to one. 87 to one. That is not a level playing field. That is not fair. It has got to be changed.

But the EU is not the only culprit. We know that Brazil and Argentina and others, China, are gaining unfair market advantage by manipulating their currency values and this has had a very significant effect. It is a key reason we see Brazil now No. 1 in commodity after commodity. Make no mistake, they are securing market advantage by manipulating their currency value.

Third major challenge we face are the budget pressures that the United States is under. Our debt has grown from $5.8 trillion in 2001 to an estimated $9 trillion at the end of this year. I call it building a wall of debt.

Unfortunately, this is happening at the worst possible time before the baby boomers retire and it is putting very significant pressure on all parts of the budget. In order to respond to that, we have tried to provide additional resources for the Farm Bill by way of a reserve fund. There is $15 billion in that reserve fund. But the only way it can be unlocked is if it is paid for. It has got to have offsets. There has got to be someplace else in the budget that we provide the resources to offset that money.

Why is it important to have additional resources for a farm bill? Very simply because under the last farm bill, we are $23 billion below what the estimates were for what it would cost, and future funding is based on what you have spent in the past. One might disagree with that approach but that is the way it works under the Congressional Budget Office scoring of legislative proposals.

So we are in the circumstance where we have $23 billion less than we had last time. If we are going to write a reasonable farm bill, there is going to have to be some additional resources.

Finally, let me make very clear, agriculture is not responsible for our current budget problems. Farm programs spend one-half of 1 percent of the United States budget. One-half of 1 percent. And as I have indicated, we are $23 billion below what was anticipated when the last farm bill was written.

Well, those are challenges, but goodness knows we have overcome tough challenges in the past and I am confident we will in the future.

Let me just say I think this hearing is important to establish a record that we can take to our colleagues as we write the bill about what are the priorities of our part of the country, of North Dakota, of Minnesota. What are the things that are critically important to us. And that is why I am especially pleased that our colleagues from Minnesota come to join us, Senator Coleman, Senator

Klobuchar. Again, both of them are valued members of the Committee.

And we also are delighted that Congressman Pomeroy is with us. I often say there are 435 members of the House of Representatives. We have only got one. I am so glad our one is Earl Pomeroy.

We are pleased that all of these members are with us. Senator Dorgan sent his regrets. He told me the other day, "Kent, I am not going to be able to be there but you will do a good job of representing me." Of course, Byron and I, as all of you know, work very closely together with Congressman Pomeroy, so we will convey what we learned here today to him.

With that I want to call on Senator Coleman for his opening remarks. We will then hear from Senator Klobuchar and then Congressman Pomeroy, then we will get to our first witness, the Governor of North Dakota, Governor Hoeven.

Senator Coleman.

**STATEMENT OF HON. NORM COLEMAN, A U.S. SENATOR FROM MINNESOTA**

Senator COLEMAN. Thank you. Mr. Chairman.

Senator CONRAD. And welcome to North Dakota.

Senator COLEMAN. Great to be here. These tough North Dakota winters. Not like that in Minnesota.

I want to thank Senator Conrad, thank him for bringing this gathering together. The realities, the issues that we face in agriculture, they are not North Dakota, as separate from Minnesota. We are in this together. And the good news is you have got three senators here serving together on the Agriculture Committee.

These issues really, I think, most of the time allows us to then put aside partisan divides, and we see so often the editorial pages and perhaps on CSPAN, and really figure out what is the best thing to do for our growers and producers.

I associate myself with all that Senator Conrad talked about in regard to the Farm Bill and the challenges that we face and the opportunities we have. The 2002 Bill is a good template and so we start with that. But I just, I want to thank Kent. I want to say it is a great pleasure to be here today with Governor Hoeven.

Mr. Chairman, I have a more extensive statement I would like entered into the record but let me just briefly highlight a couple of things.

One, farmers should get credit for being fiscally responsible. They should not be punished for it. And so my concern is that as we look at the Farm Bill and we look at the baseline budget that we have, as Senator Conrad talked about, this is $23 billion less. The concern that I have as I look at that ideas on the table, including those from the Administration, is that we have got right now, these are some good times in terms of where prices are at and a lot of that is fueled by what I think is a wonderful transformation this country is undergoing. That is about energy. We have got to stop putting techno dollars in the pockets of bums and pirates like Chavez. Energy is a national security issue, it is not just helping a bunch of Minnesota corn growers or North Dakota soy bean growers. This is wheat, canola, this is energy, if it is grain it can be converted to energy. We are going to get to a point we are going to see this thing go, the sky is the limit.

But the reality is, and we have seen this, let's not forget history. This is a 5–year Farm Bill and we may have good years, one, two, and three. What happens in the year four? Something bad happens. I have been on the floor of this Senate many times with Senator Conrad and I got on the floor taking the lead on the issue of disaster assistance. He has been out there time and again and I stood with him. And we have got to have a long-term solution to that. We have to have in addition a safety net that is there if things change. You can not build a safe net and fund it thinking the sky is going to be sunny all the time. It may snow in April. So let us understand that.

The 2002 Farm Bill is a good template. There are still some challenges. And I have heard, I have done the same outreach in Minnesota that Senator Conrad has done here. We have the same thing. Good framework, but we need support adjustments on wheat, barley, in particular soy bean farmers, increase in the sugar loan rate is important. We have got a zero cost to taxpayers sugar program. But there are challenges. NAFTA is a challenge out there. And I was not happy with the Administration's handling of the Mexican issue last year just by discussing some of the prospect of increase supply into this country. Prices, all of a sudden, you know, the market is impacted. I do believe that in the end we need something to sop up or sponge and to sop up any excess sugar coming in, potentially may come in from the trade agreements, and that in particular. And so we should be looking at a sugar to ethanol program.

Years ago the corn did not get started would get started without some support. So that where we are today, we have got some support. I just think we need to look to the future so that we are not subject to the whims and caprice of all the various trade agreements or Administration policy that may impact the livelihood, the livelihood, the life blood of folks in the shared community.

I think the good news is that you have got three of us here on the Ag Committee. We have got Collin Peterson as Chair on the House side. We have got incredibly strong representation with Congressman Pomeroy. So I think we are well-positioned. It is not a matter of numbers, it is a matter of folks with an interest and a commitment, and again the kind of strong leadership that Senator Conrad has offered.

So I am optimistic. We started at a good place but our work is not done, and coming here today to listen is really important and I certainly appreciate the opportunity to be part of this family.

[The prepared statement of Hon. Norm Coleman can be found on page 44 in the appendix.]

**STATEMENT OF HON. AMY KLOBUCHAR, A U.S. SENATOR FROM MINNESOTA**

Senator KLOBUCHAR. Thank you. Thank you, Senator Conrad, for having us up here. Nothing would keep us away from the farm hearing. Not the Twins home opener.

Senator CONRAD. You know, I am a Baltimore Orioles fan. I do not think we will have Senator Klobuchar say much more.

Senator KLOBUCHAR. Let me proceed. I wanted to just quickly introduce to everyone our state director is here walking around in the back. Dave Fredrickson, stand up Dave. He is our ag person, former head of the National Farmers Union, came out of retirement. He said he wanted to work for me but then his wife told me she needed to get him out of the house. In any case, we are proud to have him on board.

We are also opening a Moorhead office in the next few weeks and Andy Martin is currently working for Collin Peterson in Washington is coming over to head that up so that will make it even an easier job for us to work with all when we come up to northwestern Minnesota and to North Dakota.

I am going to echo the comments of my colleagues. I first wanted to thank Senator Conrad for the work that he did on the bill. You can not imagine the effort he had to put in day in and day out. This is a national project where he made sure that the farmers in North Dakota and Minnesota were up front and center. He provided $50 billion in additional money for farm programs without raising the deficit.

Those of you in North Dakota should be thanking him for that every day.

I am concerned about the potential for details of the bill that are coming out that include disaster relief, including a recent bill we just voted on last week that includes disaster relief. It is noted the farm bill saved $25 billion rounded up from $23 billion. If you saved that much money, certainly there should be some money left for some disaster relief for our farmers in the upper Midwest, and I am going to continue to fight for that every single day when I am in the Senate.

Other priorities for me include the continuation of the MILC program, the strong sugar program, I think I said up here, Mark, when I was here a few months ago we need sugar in the morning, sugar in the evening, sugar at the supper time. And we make sure—you have used that line.

We have to make sure that we keep a strong sugar program. I am concerned about the sugar coming in from other countries. I am concerned about some of the suggestions that have been made and you can not let the sugar beet producers in the Red River Valley take a back seat to subsidized foreign imports.

With renewable fuels and, I am not only on the Agriculture Committee but also on the Environment and Public Works Committee and the Commerce Committee and all these committees have some jurisdiction over energy issues and I would like to see expansion of our corn ethanol and soy beans but also looking at the other biofuels. That is what I am making sure there are things in there to promote cellulose, ethanol and next step is switchgrass. There is an interest in that now not only from farm States but also from States across the country who are considering the farm exchange issue.

As Senator Conrad mentioned, the issues in our State and North Dakota is getting that CSP money and getting that CRP money. So many applications turned down. We have to refine those programs and focus them on things that are going to matter to this country.

One of them, too, is growing switchgrass and prairie grass on marginal farmland.

What we are going with E85 pumps? As you know there are something only over a thousand E85 pumps in this country. The last I looked there were 25 in North Dakota. Governor, you have updated statistics on that. And about 300, little over 300 in Minnesota. If we are going to expand renewable fuel, we are going to expand it across the country, we need to have the pumps. That is why we are working with Senator Harkin and others to try to get some money in for the Farm Bill so we can build that infrastructures that these fuels are available all across this country.

Thank you for having me.

Senator CONRAD. Thank you, Senator Klobuchar.

Now Congressman Pomeroy, and thank you so much for being here. Thanks so much for all of your leadership on the farm challenges and opportunities. Nobody has been more aggressive on behalf of our part of the country than Congressman Pomeroy.

**STATEMENT OF HON. EARL POMEROY, A U.S. REPRESENTATIVE FROM NORTH DAKOTA**

Mr. POMEROY. Senator Conrad, thank you and thank you very much for allowing me to participate with three members of the Senate Agricultural Committee. I noticed this morning's discussion represents bipartisan cooperation, bicameral cooperation, cooperation across the State lines to pull together on the new farm bill.

Bipartisan cooperation, I flew over in the Governor's airplane. I appreciate that, Governor.

Senator CONRAD. Did the Governor get to fly, too?

Mr. POMEROY. We talked about whatever the Governor wanted to talk about.

Senator Coleman, great to have you on the panel. Whatever partisan differences we might have, we are building a safety net for farmers. It is my friend to the west, Collin Peterson who is chairing the House Agricultural Committee. It has been a long time since the northern plains led the House Agriculture Committee. Typically we have not had an opportunity to restore some to this farm bill. To me the core feature of the farm bill is price protection for farmers, insuring that family farms are the backbone of food production in our country. Farmers can not control what the farms are going to do. So this management assistance through the Federal Farm Bill has been a critical element of the farm policy. Crop insurance and disaster payments are there in case production fails which again is something beyond the reach of what a farmer can control.

So I think we need to keep that in mind, especially in an attempt to recover cyclical price protection as a core item on this farm bill. There are a number of other titles, but it is going to require a lot of effort.

We did get a budget allocation that I think will allow us to continue the existing farm bill. As work on these other titles such as conservation, rural development, research and energy, we need to remember that each of these titles offer really important elements to this farm bill package. We will have to figure out how to do it.

This budget is going to come out of the Senate under Senator Conrad's leadership as the chair and out of the House under the leadership of the House Budget Chair. It gives us a fair shot to get the funding. But you can not make a shirt out of a handkerchief. We have got a lot on the line whether or not we are going to get an allocation. So now we need to pull together.

The disaster coverage, just a final note on that. We are able to reverse the previous policy and get the disaster funding committed in the House in the supplemental appropriation bill. In the past the Senate has, on a bipartisan basis, shown strong support for the disaster support for agriculture. Now we have got the House's support as well. The disaster bill has got some controversy ahead of it. I hope for joint resolve in the House and Senate and in both parties for the disaster program for farmers to have a chance of seeing this passed. I think we have got a 60/40 maybe even better than that of making sure we have the disaster payment flowing, and build it very importantly without the caps, which means you do not have to get all the sign ups and then allocate and pro rate the amount and accelerate the ultimate flowing of relief much more, by a matter of months.

So if we can hold what we pass, House and Senate, we are well on the way to getting relief.

Again that concludes my comments. Thank you very much for allowing me to be here.

Senator CONRAD. Thank you very much, Congressman Pomeroy. I think we should say on disaster relief, there was an attempt the take it out of the Senate package last week and we were able to defeat that move on a vote of 73 to 24. That was an overwhelming vote and I think that sent a very strong message and a hopeful one as well.

Now we are going to turn on our witnesses. I want to again thank Governor Hoeven for being here. Very much appreciate, with the legislature in session, his coming to Fargo to be part of this hearing and to be our lead witness.

Governor Hoeven, we have worked very closely on disaster aid and previous farm legislation. Thank you and please proceed with your testimony.

**STATEMENT OF HON. JOHN HOEVEN, GOVERNOR, STATE OF NORTH DAKOTA**

Governor HOEVEN. Thank you, Senator Conrad. And thank you for holding this field hearing.

Welcome to you, of course, and also to Senator Coleman, Senator Klobuchar. Thank you for being here.

And Congressman Pomeroy, did have a good ride over together so we talked about some farm policy on the way.

I know some folks may see this as, snow storm as a bit of a problem or challenge here in North Dakota. It is no problem out west. We really appreciate the moisture. So it is great in that sense. We are trying to keep an eye on the Red River in the valley with the flooding problems.

But again I want to welcome all of you, and also farm leaders from around North Dakota and probably South Dakota as well. Appreciate you being here and put the input to the Ag Committee on what is going to be an extremely important piece of legislation not just for farmers and ranchers but for our country.

When we think about it, good farm policy is not just about our farmers and ranchers or producers throughout the heartland of America, throughout rural America, this is something that benefits every single American, every single American whether you live on the east coast or the west coast in a large city, small community, wherefore you live.

Americans benefit from the highest quality, lowest cost food supply, safe, dependable food supply in the world in the history of the world. So we talk about writing a farm policy and allocating resources to a good farm policy, there is something that benefits every single American and it is important we do not lose sight of that.

And as the discussion goes on in Washington, DC or New York City or Los Angeles or out here in the heartland, we have to remember this is about something that benefits every American of every age, and it is a sound investment in our farmers and ranchers, in rural America, in our country and in each of our countries. So again I appreciate being honored with testimony you get from farmers and ranchers from the associations that represent them is very important and we appreciate that.

North Dakota is the leading producer of 12 major commodities. That includes things like spring wheat, durum, barley, oats, dry edible beans, flax, dry peas, lentils, sunflowers and canola and others. We are No. 1 in those. We are second and third in many other crops. Some of them you mentioned like sugar. We do get out every year with California to be No. 1 in honey. Soy beans, corn and many other products. The reality is we are part of the bread basket of America that feeds this nation and, to a large degree, helps feed the world and so this farm policy is extremely important.

There are six or seven what I think are very key components to the farm bill, and I will touch on them briefly. I do have written testimony which I will submit for the record. I will paraphrase those comments. I will try to be respectful of keeping it within five or 6 minutes. I know there are people that are going to give very good testimony. I want to be respectful of their time as well.

Those six or seven items I will list off and then I will touch on a couple of them in a little bit more detail. It is my belief that a bill is built on the success of the existing farm bill, and I remember you had a hearing out here six or 7 years ago and we went through this process. You know, really the Farm Bill that was put together in 2001 and 2002, in many respects, was a successful and effective farm bill. We talked about some of the numbers and the cost effectiveness of it. But some of the principles like the counter-cyclical safety net are vital in this next farm bill and we need to build on that success in this farm bill. It needs to be a long-term farm bill so our producers can plan for the future so that young people can get in the business of farming and make commitments and make sure they are able to carry through on those commitments and build a way of life in agriculture.

We need to have planting flexibility so that our farmers and ranchers can produce for the market. That is not only important in terms of them generating income that is making sure that they are responsive to the needs, whether it is food, fuel or fiber, that they are meeting those market needs.

Two of the things I think are the counter-cyclical safety net. We need to build on that. I think there are some adjustments that need to be made in making sure all commodities get a fair pricing structure under that counter-cyclical safety net.

Senator CONRAD. You want more money for cotton?

Governor HOEVEN. No.

Senator CONRAD. I just wanted to get that in.

Governor HOEVEN. And those are some of the adjustments that need to be made and can be made that I think can work well for the entire country.

But in conjunction with that counter-cyclical safety net, we need better risk management safety tools. Absolutely vital in this farm bill that we coordinate crop insurance and/or a disaster title with that counter-cyclical safety net. Paramount importance. If there is one point that I can impress upon you today, we have got to have good risk management tools that are coordinated with the counter-cyclical safety net.

Now USDA has, the Administration has put forward the concept of gap insurance that would work in tandem with crop insurance which, as you know, is a separate law. That is a concept that could perhaps work but USDA and Congress have got to make sure that they are working with our producers and the farm associations to make sure that if we are going to use that gap insurance coverage product that it works, that it is priced reasonably and fairly and it provides the kind of revenue coverage to make sure there is protection there both for quality and quantity losses so that when we have a natural disaster that farmers do not go backward. Think about it. Any other business you can think of the business person insures against risk so if they suffer a natural disaster of whatever kind or they have a fire or any kind of calamity, that insurance makes sure that they stay whole. They do not go backwards 30 percent that year or 40 percent that year or even 20 percent that year. The concept is that insurance is there to bring them back to whole so they can stay in business.

Contrast that with crop insurance where our producers go back 20, 30, 40 percent if they have a disaster, then if they can hang in there the next year their APH, their annual production history is lower so they get less coverage. What kind of a system is that? It needs to be addressed, so either to be addressed through this gap insurance product, if it is done right, and our producers have got to be involved in making sure that works and that it is reasonably priced so it works to properly insure in tandem with normal crop insurance or you have got to have disaster title so we are not in the situation of seeking ad hoc disaster bills like we have this year and very much need to get that done.

I know you are working hard on it but we need to get that done.

We need to have that kind of a program in place, proper risk management for producers so year in and year out they successfully in the business of farming and ranching.

We need a good conservation title. Our farmers and ranchers are a good stewards of the land, they have a good track record. The conservation title needs to be a common sense approach that works for farmers ranchers out of the ground. We have got to avoid some of the red tape and bureaucratic challenges we have had in the past. So it is important but it is important that it be done right.

We need to provide more help for the value added agriculture. The capital requirements for value added agriculture are so high we need to look at those programs and need to increase the assistance we provide to the producers to get involved in those businesses in terms of helping them with the investment and with the capital requirements that go to developing those value added projects. That can be a huge success story for rural America, not only in terms of more income for farmers but in terms of jobs in rural America. We need more with value added.

Then the energy. We are talking about renewable energy that is good for our economy. It is good for our environment. It is good for national security. Already farmers in the area of renewable energy farming are making huge differences. There is so much more we can do, biofuels, well, cellulosic, whether it is biomass, that is the future. We are going there. That needs to be a huge part of this Farm Bill.

Again, I will wrap up here. I think those are certainly key components that need to be in this farm bill. Senator Conrad and I discussed the fact. I know you are focused on those and I believe we have an opportunity. I think this can be a very good positive, very cost effective products for the nation. Has a tremendously positive impact on the future of our country.

Thanks again for holding this field hearing.

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

Senator CONRAD. Governor, thank you very much for your testimony. You know I think you can tell from my opening statement the Governor's testimony, we are very closely aligned on these issues, and it has kept us, very important for our State. I very much appreciate your taking the time to be here and be our key witness.

Let me just say to my colleagues on the Committee, typically out of the respect to the office and respect for the person of the Governor, we do not subject the Governor to questioning but if somebody wanted to make a comment or discuss with the Governor in some way his testimony, that would certainly be appropriate.

Senator Coleman, anything?

Senator COLEMAN. I would note. I will note there is a division here and perhaps there is no question its cyclical programs, conservation and energy, energy. What I would suggest, raise the issue, is these are regional issues. I would hope that on a State to State level as we look at some of the research cellulosity, research in to, in addition, North Dakota does things that Minnesota does not do in terms of some of the research they are doing with coal sequestration. They are looking into Minnesota, not farm but the energy issue of coal gasification. I would hope that we would with our state university that we would look at that since we are on the cutting edge of some of the energy issues and conservation that we have some interests there and we have got to get to cellulosity quickly. I see ethanol plants in Kittson County on grass seed. But there are ways we can use our research facilities to find them I think it would be helpful.

Governor HOEVEN. Absolutely. And our future in energy between North Dakota and Minnesota is closely aligned. We are huge energy producers in the state and we need each other. We are already working on those things and need to do more.

Senator COLEMAN. Thank you.

Senator CONRAD. Senator Klobuchar.

Senator KLOBUCHAR. I appreciate what you said about the Farm Bill that has a safety net and I'm terribly concerned some of the members well we are here. I do say that in North Dakota things happen and very definite. I appreciate what you said.

Also, I want to follow up on some of the situations of crop insurance and proposals and I want to say way that they have figured the offers and look at so that there is county wide offers and I know this is a concern of farmers. That is one of the things we are looking at improvement under the projection and, of course, I appreciate what you said about disaster aid and help Senator Conrad and Coleman.

Senator CONRAD. Congressman Pomeroy.

Mr. POMEROY. My transportation Governor, I felt his testimony was absolutely compelling. Absolutely.

With the Farm Bill, during the time I have been there, we guarantee payments versus risk management. We come down on the side of risk management. Senator Coleman share this, I think we share a vision on this price protection. Again we want price protection as the core of the Farm Bill and that certainly means more help to farmers.

Senator CONRAD. Governor, I noted that you have never given me a ride on your plane.

Governor HOEVEN. I'd like to extend that offer to you then.

Senator CONRAD. OK. That will be accepted.

Governor HOEVEN. As well your fellow senators. It is beautiful, it is white. The wind is blowing a little.

Senator CONRAD. Clear skies.

Any final thoughts, Governor you would like to share for the record?

Governor HOEVEN. Again, I think we really are building on a farm bill that has significant success and so if we can take the things that work, make some adjustments to improve them and add these other elements that we have emphasized here today, we can have a very good farm bill and I think very important that have to keep sight of in this discussion for you, all of us, we need to make sure as we discuss it around the country we emphasize its importance to each and every American, every single American benefits from this farm bill.

Senator CONRAD. I hope the Washington Post is listening. You know, really I must say I have never been so disturbed by a reporting by a national publication as the Washington Post on the Farm Bill. I just think they have misled their readers to suggest that all the support is going to rich farmers, and then they talk about people earning $250,000 to $500,000 a year and they never indicate that that is gross income. Made it look as though that is people's net income. They never indicate that all the expenses have to come out of that, you know, all the land expense, all the operating expenses, all the living expenses, you know, they make it look like these are people who are walking away with $500,000 in their pocket. We know that is not true. I think that does an incredible disservice to present farm policy in that way.

Again, thank you, Governor, thank you very much for coming here and providing your testimony and we look forward to working with you in the days and weeks ahead as we try to write a strong farm bill for this country and for this region and especially for our State of North Dakota. Thank you, Governor.

Next we'll call to the witness stand Roger Johnson, Commissioner of Agriculture of North Dakota. Commissioner Johnson has been selected by his colleagues as the head of all agriculture commissioners in the country at this critical time. When we wrote the last farm bill, Mr. Johnson had been selected by his colleagues to be their leader on writing a new farm bill. I can say without hesitation, Mr. Johnson played one of the most constructive roles in the writing of the last farm bill. I spent hours and hours and hours with Commissioner Johnson on how we would first write the last farm bill and how we would negotiate it and he played just a pivotal role and I think that is why the commissioners have chosen him to be their leader as we go into this farm debate. So welcome, good to have you here and please proceed with your testimony.

## STATEMENT OF ROGER JOHNSON, COMMISSIONER, NORTH DAKOTA DEPARTMENT OF AGRICULTURE

Mr. JOHNSON. Thank you very much, Senator Conrad, for those kind remarks. It has certainly been a pleasure over the years to have the opportunity to work with you and our delegation and our friends across the river in doing public policy that is important and good for family farmers and for all of us. As the Governor I think so aptly put it, this farm policy is not about farmers, it is about all of us as Americans.

My comments are fairly extensive so with your permission, I am going to kind of skip around and summarize them a bit and hit just a few high points. They are a compilation of obviously all things that I believe, but much of what I am about to say is also contained in our national association farm bill proposal which we had the honor of presenting you with, Chairman Conrad, last week, I think, when we were out in Washington D.C.

Those recommendations number something over 200, very specific recommendations and they are available on the web and will be made available hopefully to begin the task of writing this Farm Bill. The highlight of those recommendations are also attached to my testimony and I would be remiss if I did not begin by also saying thank you for the hard work that you and everyone on this panel have done in passing ad hoc disaster relief. I know it is not law yet, but certainly this is the furthest it has come in a long, long time.

At the heart of my testimony is really going to be talking about permanent disaster relief, and I will get to that in just a moment. This singular event of getting ad hoc disaster assistance passed and the length of time in which it took to get it passed and tenacity with which you had to continue to work to get it passed under-scores more than anything else the need for having a permanent disaster title.

In terms of background, you already heard a lot of the background from the Governor. Agriculture is the No. 1 sector in North Dakota's economy. Over $4.7 billion in cash receipts annually. We lead the Nation in the production of 14 different commodities. We have got 30,000 farmers and ranchers in our state. We are also an energy state, as Senator Coleman talked about with respect to coal. In this energy business is providing an enormous opportunity for us in agriculture this time around with this particular Farm Bill.

In North Dakota right now we have four operating ethanol plants. I know it is small by comparison to our neighbors across the river, 135 million gallons of annual production, but we have got another 300 million gallons scheduled to come online. When that happens we will be very close to 100 percent of our current corn production converting into ethanol. Dramatic changes are in store here.

The same thing can be said about bio diesel and other kinds of renewable fuels. There is an enormous potential for biomass production, and I certainly endorse all the suggestions about cellulosic ethanol and the need to significantly wrap up research and developed efforts in that arena. That is an area where North Dakota again would be able to see significant success and we lead the Nation in the production, in the potential to produce perennial energy crops.

But as has been said, what undergirds everything in this Farm Bill in my judgment is a solid safety net. The cyclical programs, the marketing loan programs have performed quite well. It certainly needs to be rebalanced as has been discussed and clearly this feature of the Farm Bill has been directly responsible for this Farm Bill saving taxpayers the $23 billion that has already been talked about. It needs to be continued and improved. We are all coping with the higher prices that we currently are facing in agriculture but I think all of us in this room would also recognize that when prices go up, prices can go down and we had that experience once before, not with the current Farm Bill but with the prior Farm Bill where lots of folks were saying we had high prices structure we were facing in 1996 is going to be here for as long as far as the eye can see and it did not last 2 years before we were in the depths of trying to deal with ad hoc disaster assistance in a whole new area.

Economic assistance, we need to make sure that we maintain and that we improve this safety net in the upcoming Farm Bill. One reason we need to bring the lower prices and target prices higher.

In my testimony, I give you a table that shows some of the cost increases, just two of them, fuel and fertilizer costs alone over the last 3 year period have gone up by 85 and 79 percent respectively. You can not farm and sell commodities for the same prices that you did in 2002 with the kind of escalating cost structures that family farmers and ranchers are faced with.

I do want to suggest that because of the hard work, Chairman Conrad, that you have done on the Budget Committee, you understand probably more than anybody else in this room how difficult it is going to be to put all the features and everything that everyone is talking about in the Farm Bill inside the confines of the budget constraints that you have.

So let me offer a suggestion, and there are not a lot of folks, I think, who have made this suggestion quite as directly as I am making. The direct payment feature which is the remnant of the old Freedom to Farm Bill is a significant part of the current Farm Bill in terms of cost and is in fact one of the parts that the Administration has proposed to increase. I, in fact, would propose the opposite. I think it ought to be significantly decreased and the money savings from those features should be used to bring the safety net higher and put in place a permanent disaster title for the Farm Bill.

Let me just refer to this chart. I only did one for you, Senator Conrad. I know how much you enjoy charts, and I tried to make sure that this was in color and everything. It is a very, very important thing about how a permanent disaster title should be configured.

Senator CONRAD. Can I just say, you know, I do not like that rust color.

Mr. JOHNSON. For the record, I think it is red.

Let me explain what this rust color is. First of all, the bottom, these are three different scenarios of levels of crop insurance that would be provided on a mythical farm, if you will, or sample farm, and so the bottom chunk is the revenue that would be received from the crop sales in the event that we suffered a 50 percent production loss, so that is constant in all three scenarios.

At the lower level of insurance, the first rust colored bar is the insurance indemnity payment that comes if you carry 65 percent coverage and on the far one 75 percent. Obviously your indemnity payment will be higher if you carry a higher level of protection.

But the next chunk is something that everybody talks about but I do not know that I have ever really seen sort of described in some sort of detail, and there is a lot of detail that we put together, Senator Conrad, Scott Stofferahn with your staff and folks from FSA, from risk management, from the insurance industry and others is to develop this proposal.

The green chunk would be the payment received under a permanent disaster title as we are proposing it. And what is noteworthy about it is it is always just a little bit less than what total income would have been had there been a normal crop, which I think is appropriate because actually in a different scenario get right up to the top of that, which would be appropriate. But what is most important about this is that this system does not in any way undermine crop insurance, and in fact it does the opposite, it encourages folks to get higher and higher levels of crop insurance, which is precisely what we want them to do because in the long term that, of course, will reduce government exposure.

Senator CONRAD. That is critical. We can not undermine crop insurance. We are all committed to crop insurance, we are all committed to providing incentives to crop insurance. How does this encourage people to continue and even buy enough?

Mr. JOHNSON. What it does is we developed a factor that is based, I think we base it on everybody is carrying 65 percent level of crop insurance. You can arbitrarily pick whatever level you want. If people carry more than that, the factor is more than one. If people carry a lower level, than that base level and the factor would be less than one. And that factor is applied to the level of the loss, the actual loss that is incurred and that thereby means that your disaster payment is going to be a little smaller than the 65 percent level of coverage than it will be if you carry 70 percent level of coverage and it will be a little larger still if you carry a higher level of coverage. I think that is the critically important feature of how disaster assistance ought to be structured.

Let me take this moment to say that it is this kind of a deliberative approach that I would encourage the committees to take as you write this permanent disaster title unlike trying to get ad hoc disaster assistance where you have to put together a coalition, and we all understand that. We may have an enormous disaster in the upper Great Plains but without hurricanes someplace or the red tide in the far east or forest fires in the west or whatever, you just can not often assemble enough of a coalition to get something passed. So this sort of deliberate exposure is something I think is, it is just something I hope you will spend some time and give serious consideration to.

There are a lot of other provisions, recommendations that are provided in my testimony. I am going to skip through a lot of those because I know that time is getting away from us.

Let me say a word about payment limitations because I think, too, the headlines, Senator Conrad, that you talked about before that are so prevalent on the east coast newspapers, in particular, I think foretell the future of farm programs if we do not get a handle on how some of those benefits are disbursed, and frankly the language that we have in the Farm Bill dealing with payment limitations is twofold and it needs to be tightened up.

My fellow Ag commissioners actually agree with me for the first time ever in all the years we have spent talking about farm policy, this north/south divide, and southerners, as you know, never want to talk about payment limitations, most of us up here support them.

The single recommendation that we would make is you need to eliminate the three entity rule, you need to tighten up the provisions, you need to pull all benefits in under the limitation so the limitation, whatever it is, whatever level you establish it at, is a credible limitation so people can not just sort of get around it at will. That, in my judgment, is so important if we are going to restore public confidence in farm programs so that is one recommendation I would make.

I spent a lot of time in my testimony talking about renewable energy and some of the opportunities but in the interest of time I am just going to suggest that hopefully you are all, everybody is talking about energy in this next Farm Bill and I think that we all see this opportunity that really has not been here for a long, long time. We have some real prosperity in agriculture. We need to do that by making sure we have got a safety net and do the right things in the other areas I recommended.

Finally, let me suggest that in the area of livestock I would hope that country of origin labeling is something that remains in the

Farm Bill, hopefully is implemented very soon. That I would argue that a livestock indemnity program needs to be part of the permanent disaster program as well.

Finally, I know that everybody at the table here has been supportive of removing the ban on interstate shipment of state inspected meat products. I hope that that, certainly is a high priority with my fellow commissioners across the country and I hope you would do that.

In addition, I have not talked a lot about conservation programs or the nutrition title. Those are both just enormously important, as you know, but in the interest of time let me just quit there and hope that if there is a single message that I am able to leave is the safety net is important, enormously important part of the safety net in my judgment is doing something with a permanent disaster title.

I would be happy to respond to any questions.

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

Senator CONRAD. First of all, Mr. Johnson, once again for acceptance of your testimony and extraordinary effort and energy you put into your recommendations.

Let me say to you I appreciate you recognizing the budget pressures. I know there are people in farm country who expected when I became Budget Committee Chairman that I was just able to wave a magic wand and provide whatever resources people thought they might like to have in a Farm Bill. You know, as much as I might like to do that, I cannot do that. I cannot just write a blank check. I cannot write a blank check for any part of the budget because the truth is we are in very serious financial straits. We added over $500 billion of debt last year. We are going to add another $500 billion to the debt this year. This is before the baby boomers retire. I can not be writing blank checks for any part of the budget and I hope people appreciate that.

We did provide the additional $15 billion but it has to be paid for and, you know, I do not minimize the difficulty of doing that. I also know there are places it can be done and I have told my colleagues, I have given them some ideas where we might do it.

But it is critically important we be fiscally responsible. I mean, this is, you know, agriculture has got to set a good example, and the rest of the budget has got to be much more serious about what we are doing in terms of spending peoples' money. So I appreciate your recognition of that.

Let me turn to Senator Coleman for questions he might have.

Senator COLEMAN. Thank you. Thank the Chair.

There are two areas I want to follow up on the energy. I know you have written testimony and some of it you have gone through. I want to support with you, we are talking about the energy opportunities but there are some challenges. One of them you talked about in your testimony is there is a reality. We have got corn, you testified, we have got CRP land and conservation. But we reached the point and possibly continue to make that point it has to be economically beneficial to some of our farmers to take the penalty, take the land out of CRP and plant corn.

So the question becomes how can we allow the use of lands for CRP and at the same time biofuels, particularly as Senator Klobuchar talked about the switchgrass, and there are some opportunities. In your testimony you talked about support the use of conservation reserve program lands for the production of energy and biobased crops with commensurate payment reductions. You talk a little bit more about that. You see a future in which particularly we get to cellulosity. That we can maintain the conservation and maintain the CRP lands and at the same time allow growers to be able to benefit from some of the biofuel opportunities.

Mr. JOHNSON. Senator Coleman, there are two specific recommendations dealing with that question. One says to take portions of CRP and use them for cellulosic energy as you have aptly described. Another one is think about even creating a new program for CRP, like program that says, you know, let's encourage some of these, some of these farmers to put land into permanent vegetative cover and use that product for cellulosic energy. We are faced with a very difficult dilemma here in that we do not have any cellulosic energy production yet happening in this State or region and it is kind of a chicken and egg issue.

One of the world's leading cellulosic ethanol producers that told me repeatedly the single most important thing we can to do encourage them to build cellulosic ethanol plants is to demonstrate that we can grow and can find enough geographical area, enough perennial vegetation to feed a plant. It is an enormously important issue because this cellulose is basically dried up hay and that is about the way it will haul. It is going to be difficult to transport so you have to do it in a confined area. And so that is what those recommendations are trying to do. They are trying to get ahead of the curve and say let's design some programs to encourage folks to grow these crops even though we do not have an ethanol or cellulosic energy plant yet here and see if we can't attract them.

Senator COLEMAN. You think it is important we do not pitt our energy needs against somehow being a conflict without resolution of our conservation needs?

Mr. JOHNSON. I could not agree more. Here is one of the challenges that you have as policymakers. It is very true what you just said. There are folks who have CRP lands that if we do not provide the kinds of opportunities we have just been talking about, they are going to take the land out of CRP and put it in corn. Much of that land probably should not be in corn. Much of that land is more fragile land and just probably should not be used for that reason, so you could legitimately use it for perennial crop production.

It is certainly a better conservation use of the land, and those kinds of things I think benefit everyone in the conservation community as well as the energy, security issue that everyone talks about.

In my judgment it is very important, we do not want to just, I know there are those arguing just get rid of CRP because we have got $4.00 corn and these high prices are going to be here forever. That would be exactly the wrong direction to go in my judgment. We need to be mindful of conservation needs. We need to be encouraging the industry to get on with the development of cellulose.

Senator COLEMAN. Certainly conservation programs allow the farmers to work in concert with folks concerned about habitat.

One other line of inquiry. Again this issue of opportunity that is created by energy but at the same time presents some conflicts. You talk to some of the local ownership. The reality is that Wall Street is involved in energy. There is money to be made. There is a hassle out there. To maximize that, that is a good thing, but we all know that money that is kept in the community, spent in the community, there is a value added for that, tremendous value added. Do you have any thoughts on how we can maintain some aspect of local ownership to keep money in the community as we welcome, you know, the influx of capital into the ethanol, soybean biofuel, cellulosity?

Mr. JOHNSON. Senator, some of the recommendations that we provide in detail in the documents do precisely that. They talk about tax incentives, for example, that can be used by individuals to set up large companies as ways of attracting local ownership and there are other recommendations that are as well.

But you are so right that having local ownership is so important to these local communities. It is not to say we do not all celebrate when we get a big energy company coming in and developing the industry. But the economic multiplier effect is so much larger if you have local ownership, and so I would be happy to share all those recommendations with you.

Senator COLEMAN. You have given my one possibility, that 35 billion fuel standard. Possibility of setting aside a percentage X billion gallons to be locally owned.

Mr. JOHNSON. Sure. Sure.

Senator COLEMAN. That something you looked at.

Mr. JOHNSON. That would be a good example of one of the things we talked about.

Senator COLEMAN. Love to support that.

Senator CONRAD. Senator Klobuchar.

Senator KLOBUCHAR. Thank you. Thank you, Commissioner Johnson. Appreciated your comments on the country of origin, and I just think that we should be talking about not where is the beef but where is the beef from and that has been, to me when I looked at this I now understand that this has just been a delay in implementation. I think just as much will help Minnesota and North Dakota.

Can you expand a little bit on the issue in terms of how you think you can push this, what is in store from your perspective?

Mr. JOHNSON. Well, I think we simply need to send a strong message to the Administration that we want to get more energy. Everybody knows the reason it keeps getting pushed back is there has been pressure and in the form of Congress as well there was just folks got along and said well, just do not write it another year, another 2 years, another 3 years and here we are, another 2 years.

I think the America people, surveys have shown, overwhelmingly in the 80 plus percentile want to know where their beef is coming from. I think it is such an important issue we just frankly need to have the will to do it, the political will to do it, so I guess I would turn that question back to you as policymakers in Congress to simply do not delay it any longer. Insist that the law that was passed as part of the Farm Bill that we currently operate under gets implemented before the Farm Bill expires.

Senator KLOBUCHAR. Very good. Last question is just to follow up on some of your charts here on the disaster payments and then the relationship with the crop insurance. I talked to the Governor about some of the Administration proposals that how they had gotten lost. Can you talk a little bit about that, better do it on individual basis or what you see in North Dakota?

Mr. JOHNSON. Absolutely. This feature works on an individual farm basis and it is based on total revenue on that farm. This example is far too simplified to really capture what happens in the real world, but the idea is that that $140,000 number up there, that is total revenue for the farm from all sources, from all crops, and if you have, for example, a 50 percent loss in one commodity but your insurance payment does not even kick in on that commodity, the disaster payment will be there even though the insurance payment may not.

So this concept to me is about how do you get whole farm coverage on an individual basis. In fact the Administration's proposal which we have carefully looked at on their counter-cyclical revenue part, they talk about that on a national level instead of a local or individual level and, I mean, the concept makes a lot of sense but if you have a pocket in the country where there is no production and the revenue then is much lower, there is no advantage to calculating these numbers on the national level. You need to get it to where the need, and that I think should always be the purpose of disaster payments. Let's get it to where folks actually suffered the disaster and let's be careful that we try not to spread it to anybody else.

Senator KLOBUCHAR. Thank you.

Senator CONRAD. Can I just emphasize how important that is. One of the things we got to get out of these Washington Post stories is precisely that. We are casting too broad a net. It is undifferentiated assistance and we are always going to get told that it is wrong.

Mr. JOHNSON. It is.

Senator CONRAD. We have got some of our colleagues, we will not say what part of the country they are from, they are not from our part of the country, who want disaster assistance when they have not suffered a disaster. We have had a very, very tough fight with those folks. That is not right. That is going to kill the whole approach when we have got colleagues who want disaster aid when they have not suffered a disaster.

Congressman Pomeroy.

Mr. POMEROY. Commissioner, you talked about how I have to zero in on the core purpose in the Farm Bill, which is to protect family farms. They have to have some kind of meaningful payment and not dilute the assistance to most family farms. It politically exposes the program and frankly they underwrite the consolidation of the farms, and help chase the family farms out of existence. I think it is extraordinary you were able to get consensus across the Ag commissioners for payment limits. You have not been very successful in getting acceptance across the Ag Committee for payment limits.

In testimony 2 weeks ago before the House Agriculture Committee, a very diverse group of commodities did have consensus against the Administration's proposal where on adjusted gross income less than $200,000 is needed to be eligible to participate in the Federal farm program. We thought that was too stringent. Do you have a formula?

Mr. JOHNSON. Well, one of things that we recommend, Congressman Pomeroy, is that the very first step in payment limitation is that your calculations have got to be solid. You can not have all the enormous loopholes around them. That is, in my judgment that is step one.

You can talk about squashing that number down to, any number you want, if in the end people can get around it by creating multiple entities on top of multiple entities and getting a limit on top of a limit, on top of a limit, on top of a limit, it does not matter what the number is.

So how we got consensus among the Ag commissioners, what we really did on this issue, I mean, it was unusual in this Farm Bill and the last time on the current Farm Bill we tried and we could not get any, I mean, we basically have a rule if somebody really strongly disagrees they get to field the idea, so among all the 50 States we agreed that the most important thing is let's be honest about what the numbers are and let's make sure that you get rid of these loopholes, the three-entity rule, let's bring in the trading, certificate trading opportunities under the limitation so that they all count.

So the assistance that is provided really is limited by whatever the number is that you folks choose is appropriate.

Mr. POMEROY. Thank you.

Senator CONRAD. Thank you. Thank you, Commissioner Johnson, deeply appreciate you talking the time to be here and presenting testimony.

Next I am going to call the third and final panel. Robert Carlson, President of the North Dakota Farmers Union; Jocie Iszler, representing North Dakota Renewable Energy Partnership; Mike Martin, Chairman of the North Dakota Grain Growers Association; Bill Hejl, Red River Valley Sugar Beet Growers Association; Kevin Waslaski, President of the Northern Canola Growers Association; Paul Thomas, Director of Northern Pulse Growers Association; Brian Kramer, Director of Public Policy representing the Farm Bureau; and Dr. Jason Hill, Department of Ecology, Evolution and Behavior; University of Minnesota.

Let me indicate to you we are asking each of the witnesses to restrict your testimony to 5 minutes. Your full statement will be made part of the record. We also indicate we have a clock on the table to your left and the timer will hold up a 1–minute card when you have 1 minute remaining. Where is our timer?

We want to indicate that because of the weather the Stockmen's Association, their president could not get here because of the weather. We certainly understand that. And Jocie is here replacing Mike Clemens, who could not come because of the weather. And Brian Kramer is here replacing Eric Aasmunstad who I understand had a family emergency.

Robert, welcome.

## STATEMENT OF ROBERT CARLSON, PRESIDENT, NORTH DAKOTA FARMERS UNION

Mr. CARLSON. Thank you, Senator Conrad. Thank you, Senators Coleman and Klobuchar and Congressman Pomeroy for being here as well and for this opportunity to address the issues surrounding the new Farm Bill that is currently being developed in both the House and the Senate.

Let me just get right at it. I will summarize the written testimony that has been submitted to your Committee.

In general, the 2002 Farm Bill is popular among farmers and ranchers in North Dakota. It needs some updating, it needs some improvement in some areas, some increase in the loan rates and so forth. The biggest lack was the, or biggest deficiency was the lack of a permanent disaster program and we need to fix that in this Farm Bill. We need a permanent disaster program and we would suggest, as did the Ag commissioners, that a source of revenue for that program could be to take some of the, a couple payments we are currently getting, which I think runs at a little over $5 billion a year average, funding disaster program, I am told if we fund we have in the past would probably run about $2 billion a year.

So maybe a portion of that, unless we sweeten the disaster program and take more, a portion of that, a couple payments could be used for funding permanent disaster programs and we would support that.

On farm program changes, the most important thing in the farm program is a counter-cyclical safety net. Farmers do not need Government support when prices are good and production is good, we do need it when prices fall.

And again, like a lot of farmers, we also tend to think when we have prosperity and when we have got prices they are going to last forever. Never in my history, which is getting to be a little bit longer than it used to be, have we ever had sufficient prices. So we need to be ready to provide a safety net in those times when prices drop again, as they surely will.

A popular myth, Senator Conrad, you mentioned this a little bit, a popular myth in the urban press is that farmers get money from the Government just because they can. They really do not understand the counter-cyclical nature, the economics of agriculture and they think that somehow Government funding and Government programs are making farmers rich, and I would like to address that for just a minute.

According to USDA, in 2005 the average farm income was about $76,000 but what wasn't considered is that 80 percent of that total was off farm income, leaving just around $12,000 to account for actual farm income. We can do better than that. Farm policy should insure the producers can earn the income equivalent to families in other sectors of our national economy. In the current Farm Bill the counter-cyclical safety net approach works well and should be continued.

The loan program, we believe, is the most important part of the counter-cyclical safety net and according to NDSU, the Center for Ag Policy and Trade Studies, the impact of the loan program is much larger than other parts of the farm program in terms of providing a safety net to farmers, $16.00 an acre for medium sized farm.

Probably just as important is some sort of indexing of loan rates, or payment rates to account for the increasing cost of production especially in times of high-energy costs. In the past loan rates were based upon historic prices, an average of past market prices. We believe this formula is out of date due to vastly higher production costs and escalating energy prices. We call for the loan rate to be based on the cost of production and we would call for the loan rates to have equity among commodities.

Wheat, for example, has a loan rate right now at 70 percent of the cost of production. Barley is, or corn is at 85 percent. Some of the oil seeds are close to a 100 percent. We need to find a formula that achieves equity in the loan rates and we need to increase those loan rates based upon the cost of production.

On conservation, very briefly, we want to see the conservation security program funded fully. We believe that does hold some promise for producers in our state. We would like to see CRP continued but only on the most environmentally sensitive lands, and we would like to see a CRP program that would offer shorter contracts for specific conservation needs. We would also encourage a conservation program that rewards producers for adopting practices that reduce greenhouse gases.

On energy, we would like to see an energy title in this Farm Bill. It should include provisions, as we have talked about, or talked about somewhat already that would incentivize local ownership of the value added energy products, whether projects, what would they be, ethanol, biodiesel, or wind energy, cellulosic production, and so forth. We think that is important that ownership should be incentivized to be local.

And, finally, members of the Committee, our vision of the success of any Farm Bill has to be the level of net income that is provided for producers. Farm policy should not be developed for multinational corporations, processors, importers or exporters. The family farm is the keystone for a free progressive democratic national societies as well as the strong America.

Above all, the farm policy needs to recognize and build on the strengths of our nation's agriculture.

Thank you.

[The prepared statement of Mr. Carlson can be found on page 57 in the appendix.]

Senator CONRAD. Thank you, Robert. Welcome. Thanks for taking over this assignment on short notice. We appreciate it very much.

**STATEMENT OF JOCIE ISZLER, ON BEHALF OF MIKE CLEMENS, CHAIRMAN, NORTH DAKOTA RENEWABLE ENERGY PARTNERSHIP**

Ms. ISZLER. Thank you, Senator Conrad and members of the panel. I appreciate this opportunity to testify on behalf of the North Dakota Renewable Energy Partnership.

Mr. Clemens, who is from Wimbeldon, North Dakota was unable to be with us today, and I do feel comfortable being here because last year I was here as well.

It has been my privilege, Mr. Clemens and I have served as chair to this group. North Dakota Renewable Energy Partnership consists of a cross-section of over 55 organizations representing both public and private sectors and has devoted enormous amounts of time and energy to promoting the development of renewable energy in North Dakota.

Included in the written testimony is a list of partnership's members. The memberships range from private citizens to groups representing a large consistency such as Xcel Energy, North Dakota Association of Rural Electric Cooperatives, and the North Dakota Farmer's Union. The membership represents a significant portion of agricultural groups; however, the benefits of developing North Dakota's renewable energy positively affects every North Dakota citizen's life. Increased use of renewal energy means cleaner air for all citizens in North Dakota, not just farmers. And it will be all citizens, not just farmers, who will benefit from the higher paying jobs and additional state tax revenue and enjoy reducing our dependence on foreign oil.

I would like to start referencing a study that the North Dakota Renewable Energy Partnership conducted this last summer in cooperation with the North Dakota Department of Commerce. The study, conducted by the UND Department of Governmental Affairs, assessed the opinions of 600 North Dakotans regarding renewable energy in North Dakota. The results indicated that 93 percent of the North Dakotans surveyed believe that renewable energy should be a priority for our State legislature. 96 percent believe that we should reduce our dependency on foreign oil by promoting renewable sources of energy and energy conservation.

And all of the results of this study are summarized in this document which is provided in the back of the room.

81 percent would support a law requiring utilities to generate 10 percent of their electricity from renewable sources. Only 13 percent favored fossil fuels for new electricity if they had to choose only one source, while 80 percent preferred wind or other renewables and energy conservation. More than half are concerned about out-of-state interests owning North Dakota wind projects.

In response to the results of this survey, the Partnership's main focus this legislative session has been Senate Bill 2288. The main objectives of this bill are the establishment of a comprehensive renewable energy policy for North Dakota, a Renewable Energy Research Counsel has developed a fund incentive and appropriations for those provisions by the State of North Dakota. The original legislation called for $20 million. The original, the written testimony includes 22 projects that could be funded via a competitive process established by the Renewable Energy Research Counsel and many of these projects do refer to a State and Federal partnership.

First of all, funds advanced renewable energy commercialization. Provide competitive rewards to companies that would assist in commercializing promising technology in North Dakota, and I think that what Commissioner Johnson referenced in terms of glycerin is an appropriate project that fits with this. Eligible awards would include front-end engineering and design for a cellulosic ethanol and nanowhiskers project. These projects could range in the category of $2.5 million to $5 million.

Another project is a dairy waste anaerobic digestion demonstration project. Mature technology now exists to provide low cost renewable energy to dairy farms that handle their manure as liquids and slurries. The EPA's AgStar program estimates that many anaerobic digester bio gas systems can be installed with a simple payback of three to 7 years. A range of investment would be $200,000 to $300,000.

Another project is cost-share assistance for the installation of infrastructure to sell and distribute ethanol blends greater than 10 percent and biodiesel with a range of $570,000.

Support of ethanol processing for hydrogen production-system integration. A range of $30,000 to $50,000.

The message of the NDREP to your Committee, distinguished guests, is that North Dakota citizens are very aware of the State's potential to producing renewable energy and are very supportive of using public funds for the develop of renewable energy. The Partnership is passionate about the growth of renewable energy in North Dakota and looks forward to supporting and advancing your work toward growing the nation's renewable energy resources and the energy title of this next Farm Bill.

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

Senator CONRAD. Thank you very much.

Next we'll hear from Mike Martin from the Grain Growers.

**STATEMENT OF MIKE MARTIN, CHAIRMAN, NORTH DAKOTA GRAIN GROWERS ASSOCIATION**

Mr. MARTIN. Thank you, Mr. Chairman. Welcome members of the Ag Committee and Congressman Pomeroy.

Senator CONRAD. Can you pull your microphone a little closer to you, Mike.

Mr. MARTIN. Sure. In recent testimony I provided to the Congress' Subcommittee it was demonstrated that Specialized Wheat farms saw a 58 percent deficit in net income compared to other wheat farms. The disparity between the two wheat farm types is quite apparent. It cannot be attributed to any one factor.

However, it does indicate that Direct Payment and Target Price levels need to be adjusted in the upcoming Farm Bill. Recent estimates by USDA painted a similarly gloomy outlook for the next 10 years for the industry in general. All wheat net income for the 10–year projected timeframe comes in at 49 percent of the average of competing crops.

It has been acknowledged by the Secretary and numerous Congressional leaders that wheat was not treated equitably in the 2002 bill. The 2007 Farm Bill proposal endorsed by our association and our national organization would bring some equity back to the wheat industry. The proposal would raise direct payments and target prices.

We at North Dakota Grain Growers feel this is justifiable in order to maintain a healthy and sustainable state of wheat.

Recent studies performed at Texas A&M indicate that without upward revisions and price support mechanisms for wheat in 10 years, even wheat producers who are in healthy financial condition will be at the point ever financial collapse. So the question of what direction farm policy takes in the near term will inevitably determine the future existence of North Dakota Dakota's No. 1 agricultural commodity.

Mr. Chairman, another concern I have with the 2007 Farm Bill is the direction it takes concerning environmental policy.

I feel the safety net that past farm bills have provided may well be lost to conservation programs. Commodity titles such as LDP's and CCP's provide the safety net that is sorely needed when producers face a negative market fluctuation. They not only provide financial stability to producers but also allow agriculture export trade and infrastructure to perform more efficiently.

In addition it must be required that all climate change legislation be based on sound, peer reviewed science.

The recent move toward biodiesel and ethanol only emphasizes the good decisions made in the past Farm Bills. The ability of our nation's producers to respond to the market factors such as the corn demand for ethanol and oilseeds for biodiesel would not be possible without planting flexibility afforded in recent farm bills. The America farmers has shown throughout history are built to raise adequate amounts of food, fiber and now bio energy fuel supplies.

In return for this adaptability, it is appropriate that our Federal Government provide an adequate safety net to agriculture when situations such as market aberrations caused by weather, disease and yes, even political decisions both here and overseas throw curve balls at our producers.

In the very near future our producers will be asked to enter into a new phase of the food, fiber and fuel equation. The cellulosic ethanol industry will not be able to grow and develop without the aid of committed producers. It is therefore imperative that forward thinking industry leaders be supported when new ideas are introduced to this infant industry. One such effort includes a proposal that has been spoke of by Commissioner Johnson.

NAWG has embraced this policy and it is promoting it nationwide. In a nutshell this proposal may well solve the perceived question of which comes first, the chicken or the egg, when it is determined where and when industry will develop new cellulosic ethanol production areas and plants.

Mr. Chairman, in summary we must take a hard look at history when looking to the future regarding agricultural policy. The recent relative strength in commodity prices must not be assumed to be a new plateau in prices. We need only to look at a historical wheat chart to prove that point. It is quite apparent that the price levels we are now seeing have been exceeded twice and equalled once in the last 30 years. The decline in prices following those price peaks shows the need to be prepared for what most certainly will occur in the future.

Mr. Chairman, thank you again for this opportunity.

[The prepared statement of Mr. Martin can be found on page 88 in the appendix.]

Senator CONRAD. Thank you, Mike, thank you for that excellent testimony.

Bill Hejl, Bill is known in North Dakota as a television star. Commercials and a campaign.

**STATEMENT OF BILL HEJL, PRESIDENT, RED RIVER VALLEY SUGARBEET GROWERS ASSOCIATION**

Mr. HEJL. Members of the Committee, Congressman Pomeroy. I am Bill Hejl, a farmer from Amenia, North Dakota and serve as President of the Red River Valley Sugarbeet Growers Association. We represent the farmers that grow sugar beets for American Crystal Sugar Company. Sugarbeet growers look forward to working with you to develop viable sugar provisions in the next Farm Bill.

We also appreciate Chairman Conrad working with others in leadership in maintaining accurate baseline funding for the new bill. Additionally we understand the importance of a united agriculture and work shoulder to shoulder to develop commodities that allow American farmers to provide our nation's food security. We support the no net cost structure of U.S. sugar policy and oppose corporations $1.3 billion a year subsidy plan we are certain subsidy checks for sugar would not result in lower grocery prices.

The sugar industry in our region is comprised of three farmer owned cooperatives operating 10 factories in four states. Growers have owned these cooperatives since the 1970's. We invest in new equipment and technology to efficiently produce and process our crop to keep U.S. sugar prices lower. The U.S. sugar industry has not had an increase in our support rate in 20 years. Yet our costs for fuel, fertilizer, and virtually every other input have increased substantially over that time. This has taken a toll on the America sugar farmers and the people who turn our crops into sugar and we have lost thousands of American jobs and more than 35 beet and cane factories have closed. The Farm Bill must address these higher costs.

As we struggle with higher costs, we also fight to keep a share of our own market. Trade Agreements threaten us with more and more subsidized foreign sugar. We fight because without adequate raw materials our production costs increase dramatically.

The current example of this fight is the trade relationship with Mexico. Our sugar prices have plunged since last year when the Administration committed to import 250,000 tons of sugar from Mexico and another quarter million from our WTO trade partners. This action on top of a bumper crop in the United States has significantly over supplied our market. Mexico does not have excess sugar to ship to us so they are buying it from neighboring countries. They are shipping sugar they do not have and we do not need. That just is not right. It especially is not right when American farmers have stored 300,000 tons of American sugar this year to balance ou r market. We could send it to Mexico but they have a 12 cent a pound tariff. The U.S. tariff on Mexican sugar is only a penny and a half. 12 cents versus one and a half cents, once again that is not right. We believe that the USTR and USDA should ask the Mexican government to increase its duty free tariff rate quota for U.S. sugar to 100,000 metric tons raw value and give the U.S. sugar producers duty free right of first refusal to fill any additional Mexican needs. If Mexico refuses that would clearly call into question their commitment to NAFTA.

Our growers are also deeply concerned about Mexico's long history of noncompliance with their sweetener trade obligations. Our government must insure the trade between our nations allows no cost sugar policies to continue. Failing that our Government must act swiftly as no industry can wait months or years to seek justice. There is no justice or victory in winning if you watch your businesses die.

Finally, beet farmers are deeply concerned that the developing nations that export 75 percent of the world's sugar do not have the same labor, safety and environmental laws we do. Those foreign producers will gain an advantage simply because of trade agreements. Please watch trade negotiations closely. Do not allow any agreement to ignore these differences.

With the 2007 Farm Bill we agree with USDA's proposal to retain the basic no cost structure in the existing sugar program. However, we object to the USDA's request they be given sole discretion to reduce domestic sugar production. Secretary Johanns and USTR Ambassador Portman pledged to dispose of the surplus imports to balance the market only for the current Farm Bill. Now Secretary Johanns proposes instead to balance the market on the backs of American farmers. He should look out for American farmers and extend his commitment to dispose of surplus foreign sugar for the life of the new Farm Bill.

Efficient U.S. farmers should not take a back seat to subsidized foreign sugar producers. As the world's second largest sugar importer, it is trade agreements, not U.S. producers that over supply the American market. Therefore, we need a mechanism to efficiently use surplus sugar if we are to remain no net cost. U.S. producers are in the business of providing sugar for the food market. However, when the market is oversupplied as a result of excessive access provided by trade agreements, one of the few alternative uses for that sugar may be bio-fuels. Sugar, as an addition to America's bio-fuel needs will take some time to develop, and may require Government interventions similar to those used in competing countries such as Brazil and the European Union.

Finally we are working to make the sugar program more predictable to improve the Secretary's ability to properly administer it. We will share those details with you in the near future once we finalize our recommendation.

Thank you for this opportunity to share our views.

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

Senator CONRAD. Thank you, Bill. Appreciate very much your testimony and we all know we have got challenges in various sectors of the industry. We have got special costs for our neighbors from the south in Mexico. Been a series of what I would characterize as misrepresentations by them in our negotiations and we simply have to adjust for that in the new Farm Bill.

Next is Kevin Waslaski, President of Northern Canola Growers Association. I hope I pronounced your name right.

Mr. WASLASKI. Yes.

Senator CONRAD. You tell me how do you say it.

Mr. WASLASKI. Waslaski.

Senator CONRAD. Welcome.

## STATEMENT OF KEVIN WASLASKI, PRESIDENT, NORTHERN CANOLA GROWERS ASSOCIATION

Mr. WASLASKI. Thank you. Thank members of the panel for inviting me here.

I would like to thank you at this time for your funding of these farm research projects and as you know they are earmarked so we did get funding. Very valuable piece of work for us and keep that in our Farm Bill every commodity can use research funding.

And we also like to thank you for your continued effort on the disaster. It shows a need for crop insurance reform and disaster title.

Oilseed producers support the basic structure of the 2002 Farm Bill. However, they are not satisfied with the level of support provided oilseeds under the 2002 act, and urge Congress to adjust these levels.

There has been no counter-cyclical payment to oilseed producers under 2002 Farm Bill. These distortions can cause major shifts in planting decisions between crops. To address these inequities, oilseed producers support adjusting marketing loan rates and target prices upward to common percentages of recent average prices. The 5 year period of 2000 to 2004 is selected because it includes several low price years as well as several high price years. An olympic average of season average prices.

For the marketing loan program, the proposal sets loan rates not less than 95 percent of the Olympic average. The counter-cyclical program target price would not be set less than 130 percent of the 2004 Olympic price average.

On the energy title of it, the Northern Canola Growers supports authorizing a biodiesel incentive program under which the Commodity Credit Corporation would make commodity reimbursements to domestic biodiesel producers to offset foreign government incentives provided to biodiesel exported to the United States.

Unlike ethanol, biodiesel does not have an import tariff to offset the value of its tax incentive. Biodiesel importers who pay U.S. duty of only 4.5 percent are eligible for the one dollar per gallon agri-biodiesel tax credit. We are starting to see ships coming into our gulf with T–100 and they are getting the tax credit, blending it, sending it back overseas. It is not even used in our domestic uses. Is so we need to support this biodiesel incentive. Argentina taxes biodiesel exports at 5 percent but they tax exports of soybean oil at 24 percent so they are supporting 19 percent, having it crushed over in their own country and shipping it over as biodiesel. There is a differential there.

Under the expiring bio energy program, biodiesel incentive program would authorize CCC to use eligible commodities to reimburse U.S. biodiesel producers on all domestic biodiesel production. The reimbursement would equal the 43 percent per gallon benefit to biodiesel exported under Argentina's DET export subsidy program.

The biodiesel incentive program would also help new U.S. biodiesel industry survive periods when the price relationship between soybeans or canola oil diesel and petroleum diesel is negative for biodiesel production. This is particularly important as investors are responding to the new biodiesel tax incentive by building biodiesel plants in rural America.

And last I would like to mention a little bit on the beginning farmer. I do not see a lot of people my age that their sons are graduating from high school even considering letting their kids start farming. They are all pushing away from farming. We need to get incentives there to keep the beginning farmer.

[The prepared statement of Mr. Waslaski can be found on page 102 in the appendix.]

Senator CONRAD. Thank you, Kevin.

Next, we will hear from Paul Thomas, Director of the Northern Pulse Growers Association. Welcome, Paul.

**STATEMENT OF PAUL THOMAS, DIRECTOR, NORTHERN PULSE GROWERS ASSOCIATION**

Mr. THOMAS. Thank you, Chairman Conrad and members of the Committee. I am providing testimony for the Northern Pulse Growers who is a member of the U.S. Dry Peas and Lentil Council. We work together with growers in Montana, Minnesota, South Dakota and across the northern tier. They come together with a united front for representing our program.

First of all, I would like to say that you know a lot of us in our industry and in our neighborhood are starting to use the P word again. That P word is not necessarily yellow pea or green pea but it is profit. That is here now. We believe that that is not always going to be here. That is why we need to keep the fundamental parts of the Farm Bill the way they are now with the counter-cyclical provision, the loan rate and build off that success and improve upon that.

The 2002 Farm Bill was the first time our crops peas, lentils and chickpeas were included in the farm program. There are loan rates support payments that we as producers of peas, lentils and chickpeas support the current levels of the loan rates in the farm program right now and we would like to maintain those levels where they are at for our specific crops. In the 2002 Farm Bill, one crop that did not get provision in that was the large chickpeas. Small chickpeas are supported but the large chickpeas were not. We would like to resupport removing large chickpeas from the fruit and vegetable list and including them with the support price in this next 2007 Farm Bill.

In my testimony I have the support levels that are there and support levels we are proposing on chickpeas which is $18.00 and go through how we came up with that in the support levels of justifying that.

Also, in that last Farm Bill the pulse crops were not included with the direct and counter-cyclical payment provisions. Now if there are ways that we can work with the Committee and involves pulse crops in those direct payments levels we would like to make that equal to wheat payment levels, and then also the counter-cyclical provision that royalty groups are proposing are very supportive of that.

One new concept that we have in the pea, lentil and chickpea industry developed is called the pulse energy conservation incentive payment and we even got Nate Ackerman to support.

Senator CONRAD. That is the Nate Ackerman?

Mr. THOMAS. Yes.

Senator CONRAD. We will take your word for it.

Mr. THOMAS. In order to reduce our incentives on foreign oil, we certainly support energy enhancement programs that support renewable energy developing renewable energy projects. We also think there should be a provision that supports reduction in the use of fossil fuel and in fertilizers and programs such as that. And we feel that pulse crops, ones that do not require adding fertilizer, nitrogen, phosphorous should be produced should also be rewarded in reduction on the nonreliance on not natural materials that we have to purchase through energy making products. So we have developed a program that is in our testimony there, too, with the 40 pound rate of nitrogen credit saving at nitrogen levels that would pay producers $15.00 an acre for producing pulse crops.

Senator CONRAD. Your group came and presented this proposal some weeks ago. I really think you have been very creative. It is a new approach. You know, anything new is going to be extremely difficult to get but there is a strong rationale for what you put forward and if it fits into the basic concept of this Farm Bill, it is going to be very energy oriented, so I salute you and your group for being creative.

Mr. THOMAS. With the Ackerman group?

Senator CONRAD. No.

Mr. THOMAS. So in summary on the main things, we are very supportive of where we are at and be included.

There is a couple other things I would like to note that our organization would really like you to consider is an increase in MAP and FMD funding. We are proposing increases of MAPs of $325 million, FMD of $50 million. Those marketing programs really help us in promoting our crops overseas and helping to compete with other countries.

The other thing is food aid. Our crops sustain food aid and the inclusion of the aid programs and we are strong supporters of remaining, or keeping that program, purchasing U.S. commodities with cash and not just providing that cash out there.

We noted a couple and, in my testimony I have got a lot more things. I appreciate the opportunity to speak today.

[The prepared statement of Mr. Thomas can be found on page 94 in the appendix.]

Senator CONRAD. Thank you, Paul.

Next we will hear from Brian Kramer from the Farm Bureau. Brian, again thanks for filling in on short notice.

**STATEMENT OF BRIAN KRAMER, ON BEHALF OF ERIC AASMUNSTAD, PRESIDENT, NORTH DAKOTA FARM BUREAU**

Mr. KRAMER. Thank you Chairman and members of the Committee.

As Senator Conrad said, my name is Brian Kramer and I am standing in for our state president today. We certainly thank you for holding the hearing here in the State of North Dakota.

The Farm Bureau believes that a continued maintenance of the structure and funding that we have in current Farm Bureau, or current Farm Bill is a high priority. The Bill provides a safety net for producers, provides leverage for the trade negotiators and provides needed conservation program support.

Since the WTO talks were suspended it is uncertain and it is uncertain whether they will resume. We seek an extension of the current Farm Bill.

Senator Conrad spoke of some of the talk in D.C. and Washington Post in their taking a hit at producers for farm program payments, but we need not apologize for our farm program payments to our farmers. Farm program payments are a public investment in the nation's food, environmental and economic security. They help provide some measure of stability to a volatile business of food production and keeping the Americans supplied with the safest and most affordable food in the world. The consumers think they are getting a good deal by spending less than 12 percent of their disposal income on a nutritious, safe and quality food supply, then they should conclude that it is a good policy to provide a measure of stability in our food production system.

There has been some talk of the Farm Bill payment limitations. The Farm Bureau opposes changes in the current Farm Bill payment limitation. One of the primary objectives of the Farm Bill was to improve the financial safety of our farmers. Proponents argue that Farm Bill causes farmers to enlarge their operations. This oversimplifies farm economics. Farmers expand in order to achieve economy of scale and to be competitive in domestic and international markets. Limitations and increased regulatory burdens do not promote efficiency or competitiveness but they do increase the cost.

Despite the big payments that are always highlighted in the press reports, the vast majority of farm program payments go to family farm operations.

I would like to turn now to conservation programs. The current Farm Bill is the greenest Farm Bill in history in terms of authorized conservation funding. Improved environmental practices will benefit everyone through improved soil, water and air quality and wildlife habitat. Voluntary and incentive-based programs have historically worked the best for our producers.

We need to be careful as we consider a more conservation-based program to keep in mind the income support that the current program provides. Conservation programs are not a perfect substitute. Consider the CRP program. It could be argued that it actually displaces farm income on a dollar-for-dollar basis. Working conservation programs such as the EQIP program and CSP program share the cost of environmentally friendly investments in farm capacity. Conservation programs are critical but they have to work in conjunction with rather than as a substitute for current commodities programs.

We expect working land programs to become linchpins of conservation titles. As such they must be made available to all producers and adequate funds must be appropriated to make it effective programs. CSP in North Dakota has not been made available to all of our producers. And there have not been adequate funds for that program. A lot has been talked about renewable fuels. Renewable fuels, renewable energy must play a major role in the next farm Bill. Funding for projects, research and biodiesel and wind energy are very important. Expansion of renewable energy in North Dakota is encouraging. The opportunity for ample agriculture must be considered in light of that.

Mr. Chairman and members of the Committee, there is a number of other things that I have listed here but it is in our complete testimony and with that I will stop.

[The prepared statement of Mr. Aasmunstad can be found on page 52 in the appendix.]

Senator CONRAD. Thank you, Brian. Thank you for your testimony. Thanks again for filling in for Eric, who had a family emergency.

Next we will hear from Dr. Jason Hill from the Department of Applied Economics for the University of Minnesota. Welcome to Dr. Hill.

**STATEMENT OF JASON HILL, RESEARCH ASSOCIATE, DEPARTMENT OF ECOLOGY, EVOLUTION AND BEHAVIOR, UNIVERSITY OF MINNESOTA**

Mr. HILL. Thank you very much, Mr. Chairman, and members of the Committee. Thank you for the opportunity to speak with you today about the research on biofuels my colleagues and I conducted at the University of Minnesota.

There I am part of a diverse team of economists, agronomists, engineers, ecologists and policy experts who are collaborating to better understand the various facets of renewable energy production.

The rapidly expanding biofuels industry in this nation has been led by corn ethanol and soybean biodiesel. Together these have offset a portion of our gasoline and diesel use while boosting farm profits and reducing greenhouse gases. Although both of these biofuels are and will continue to be integral parts of our transportation energy portfolio, we need to expand and diversify our biofuel supplies. We need to develop biofuels produced from feedstocks grown on land other than our most fertile farmland. We need to do this in ways that benefit both farmers and the environment.

Our work has identified one such system that is ideally suited to production on our marginal and degraded lands. We found that biofuels with tremendous energy, economic, and environmental advantages can be produced from mixtures of native prairie plants including grasses, legumes and other wildflowers. Allow me to briefly describe the experiments we have conducted.

This is our plot in East Bethel, Minnesota. Each one of those little squares there is 10 yards by 10 yards.

We wanted to learn which mixtures of native prairie plants are best for producing biofuels such as ethanol. Which mixture, for example, would produce the most energy and which mixtures would reduce greenhouse gases the most. Also how much new energy and greenhouse gas reduction would a mixture of species provide compared to a single species such as switchgrass?

To answer these questions we planted 168 plots with either a single species like switchgrass or a mixture of species (2, 4, 8 or 16) on this agriculturally degraded farmland. For over a decade we measured the total amount of biomass each plot yielded and the total amount of carbon dioxide that each plot removed from the air and stored in the soil.

We found at our study sites mixtures romoved large amounts of 16 native prairie plants species produced 238 percent more energy on average than a single species such as switchgrass. We also found the highly diverse mixtures of carbon dioxide from the air and stored it in the soil, but that a single species did not. Why do we see these trends? Essentially highly diverse mixtures use available resources more efficiently—resources such as light, water and nutrients.

Also in highly productive mixtures legumes, such as pulses, purple praireclover and wild lupine, were able to pull nitrogen from the atmosphere and make this important nutrient available to grasses such as big bluestem and little bluestem, which grew much larger as a result.

The environmental benefits of producing biofuels from diverse prairie biomass are striking. Most amazingly producing and using ethanol from diverse prairie biomass can actually reduce the amount of carbon dioxide in the atmosphere. This is because a diverse prairie removes more carbon dioxide from the air and stores it in the soil than is released into the air when fossil fuels are burned to farm prairie biomass and convert it into ethanol.

Senator CONRAD. How much of an advantage is there? What are we talking about, 5 percent or 10 percent?

Mr. HILL. With a single species we saw no carbon dioxide removed, but with 16 species we found it was many tons per acre. So there is a definite benefit to the synergy of the species in carbon storage.

Senator CONRAD. So it really works.

Mr. HILL. It really does. There is a copy of the paper.

Senator CONRAD. What page of your testimony would have that?

Mr. HILL. It would be, I have a handout here that summarizes the results from this paper that has the actual numbers behind this. If you are interested——

Senator CONRAD. That has already been published.

Mr. HILL. This has already been published and peer reviewed and made the cover of Time.

Senator CONRAD. That is great.

Mr. HILL. The carbon dioxide prairie plants removed from the atmosphere is stored as soil organic matter. This, along with the nitrogen added to the soil by native legumes——

Senator CONRAD. You are doing better work down at this University of Minnesota.

Senator KLOBUCHAR. And I also wanted to note just to make it worse, Dr. Tillman works for Dr. Hill and also had an article in the Washington Post.

Senator CONRAD. The back page.

Senator KLOBUCHAR. They actually had gotten beyond the scientific journal and we are very helpful to be helping us in Washington as we develop the cellulosic ethanol.

Mr. HILL. We certainly appreciate it. Should I quickly summarize the rest of this or is there time to keep going?

Senator CONRAD. This guy may be running for the U.S. Senate. Briefly summarize. That is very good.

Mr. HILL. The conservation benefits can be maintained if we mow prairie at the end of the growing season and leave portions for wildlife. It positively affects both wildlife use and energy use.

The advantages for producing prairie biomass both to farmers and the biomass industry are remarkable. We can grow this on marginal and highly erodible lands such as those often put into CRP or CSP, and leave fertile farmland for traditional crop production.

Also an acre of prairie biomass grown on marginal land can yield as much or more net energy in biofuels as an acre of corn ethanol produced on fertile cropland. This is because the fossil fuel energy requirements for growing prairie biomass and converting it into ethanol are so low relative to the amount of energy, fossil energy, to grow corn and convert it to ethanol. Once the prairie is established, it can be grown at considerably less expensive to farmers than either corn or switchgrass. This is because a prairie needs to be planted once, and maintaining it requires no pesticides or herbicides and only trace amounts of fertilizer.

The advantages are clear. How can we best promote cellulosic biofuels such as ethanol from diverse prairie biomass as valuable complements to our existing crop-based biofuels. The question has taken on particular importance now that high corn prices are enticing farmers to take marginal lands out of conservation programs and place them back into corn production. This acreage shift has negative consequences not only for erosion and wildlife habitat but also for the carbon cycle. This is because land taken from conservation programs and returned back to production loses its ability to sequester carbon, even if no-till or reduced-till corn cultivation practices are followed.

Making diverse prairie biomass ethanol or any other next generation biofuel a reality hinges upon recognizing that land can provide valuable ecosystem services such as carbon sequestration and soil restoration. We must reward those who treat the land in ways that provide these services to society. Incentive support may flow either to the farmers who manage the land or to biofuel producers who purchase biomass grown in environmentally beneficial ways. Such incentives may be in the form of direct support for farmers who grow diverse prairie biomass and I have seen drafted in legislation that Senator Klobuchar is putting forward. I am very pleased you are taking the lead on turning this opportunity into reality.

We are now at a time when the rapidly expanding biofuel industry has effectively wed together three of our fundamental needs, energy, food and the environment. Our challenge is to find and promote solutions that mutually benefit our nation on all three fronts.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Hill can be found on page 67 in the appendix.]

Senator CONRAD. Thank you, Dr. Hill. Were you raised on a North Dakota farm?

Mr. HILL. No. I was raised on a Minnesota farm. My father sold corn seed for a living.

Senator CONRAD. We appreciate very much your testimony. I appreciate this entire panel. I know Congressman Pomeroy has to——

Mr. POMEROY. The Governor is taking an airplane so I am driving. We have a meeting in Grand Forks tonight.

This is very diverse and the prospectus is being extremely illuminating to us. I thank you and thank you again for your participation.

Senator CONRAD. I would like to ask the panel, now the whole thrust of this Washington Post series is that farm program is a waste of money, that it's going to buy rich farmers and they are getting paid to do nothing. What would your answer be to people who are really, frankly our colleagues are reading this and those who do not know, are not intimately familiar with agriculture policy, they are wondering gee, has the Washington Post got this right. Robert, what would you say?

Mr. CARLSON. Well, the Washington Post, obviously, does not have it right. They are, as you suggested, printing very misleading statistics in talking about the total number of U.S. farms and what percentage of those get farm program payments and, of course, you can make it look as if a few large farms, and do not often define what they call a large farm. So it is misleading, it is inaccurate. If they took a sample, let's say they took a sample of a county in North Dakota or in Minnesota and said where do these farm program payments go and what is the average, that would be a truer picture and I wish they would do that. The other thing they do that really, I think is also threatening, they being the Washington Post and New York Times and Los Angeles Times is saying our farm program keep the Third World or developing nations in poverty, nation's farmers in poverty and a lot of cases those Third World countries 70 percent or more of the population lives pretty much on a subsistence basis in rural areas and not technically farmers. That is not true either. We demonstrated that.

We had a large group in last week, Senator, in Washington, DC from around the world, Africa, Asian farmers who were saying basically Cargill does not speak for me and your farm programs are not hurting our farmers. It is what the trade agreements did to us that are hurting us, requiring us and the developing countries import foods that they had been more self-reliant with producing themselves. So there is a lot of misinformation out there. We have, I think farm organizations need to do a better job of explaining what these programs actually mean to our producers.

Senator CONRAD. I am going to go right down won't too ask this question. This is your area. I would ask the other go right down and we will go to Senator Coleman. What would you say to the general thrust of these Washington Post articles?

Ms. ISZLER. I think it is important to fight misinformation with solid facts and I think the facts that the average American totally spends 9.9 percent of the disposable dollar on food versus Europeans at 18 percent speaks volumes. You have the cheapest food supply in the world and people need to be reminded of on that.

Senator CONRAD. Very good point.

Mike.

Mr. MARTIN. Thank you for the question, Senator.

Perhaps this issue will never go away so we must address it straightforward and honestly. The biggest question is the percentage of cost of food for our people in our country. And one of the things we might want to really take a hard look in defending that policy is the experience we just had these past 3 weeks regarding dog food and cat food from imported wheat by-products, not domestic products.

Senator CONRAD. Very good point.

Mr. HEJL. Thank you for asking the question, Senator. I have got a political cartoon showed up in the local paper recently. I retired from 34 years, almost 34 years of military service recently and I do not appreciate the misery of farmers being associated with the denying of our troops funding. It is a disaster of some of these national articles. The misery of farmers should have nothing do with funding our troops. If they go that far, you know they are telling lies about the rest of it. Thank you.

Senator CONRAD. Thank you.

Kevin.

Mr. WASLASKI. Yes. Thank you.

I have farmed for 27 years now and I would dare say that of all the years most of my input and what I get out of this crop is it takes most of my input. What I have received from Government payments has been my farm income most of those 27 years. Without that farm income I think I would have a net farm loss every year.

Senator CONRAD. Well, that is a pretty powerful point.

Paul.

Mr. THOMAS. Kind of like to reiterate what Kevin said. I worked for 7 years for commodity groups in North Dakota before returning home to the family farm 3 years ago.

Senator CONRAD. Where is your place, Paul?

Mr. THOMAS. Velva, North Dakota.

You know, I have always heard what Kevin just said, and after working for commodity groups and hear that and hear that, it does not really mean that much to you until you are actually there and full time and your life depends on that income from that farm, and after 3 years I know our family would not be there if it was not for Government support.

Senator CONRAD. Brian.

Mr. KRAMER. Thank you. As I said earlier, we do not need to apologize for our farm programs. U.S. consumers reap many benefits from our farm programs and payments we receive for those, including a top quality stable economical food supply, including an environmental security that is next to no one in the world, including an economical food supply, better soil and water quality, air quantity, those types of things. If the American public wants those types of things and wants an inexpensive, very good food supply, then we need to have a farm program.

Senator CONRAD. I appreciate that. I appreciate the answers by all of you and I appreciate the passion you bring to this and the effort and energy you have put into helping agriculture be successful in this State and in this region.

Senator Coleman.

Senator COLEMAN. Thank you, Senator. That was a great question. I'm going to delve into a part of it. I think you summed it up. Great question and thank the panel.

I do have another thing to factor into it. If you had a pulse energy conservation and nitrogen credit program you can have a cheese cake program which would be very powerful. Lots of ideas that are out there. One of the number of constants I want to share with you throughout these panels, one, obviously the reports of a safety net and the sun does not always shine. I think we got that message so we will be able to act on it.

The other obviously is energy issue and the energy opportunities that are out there.

Dr. Hill, how soon do you think we could move to some commercialization of some of the cellulosic opportunities that are out there?

Mr. HILL. We can begin today. One of the things we are putting together is on the back of the handout I have here—is using biomass in existing ethanol facilities to provide process heat and electricity. This helps us resolve that chicken and the egg scenario where we have a market already existing for biomass. When the processes for making cellulosic ethanol come online, biomass will alreasy be available. Ethanol plants can make that transition later.

So we need to begin establishing the prairies, the lands today and provide incentives for ethanol producers to utilize the biomass as an energy source in their current production.

Senator COLEMAN. The ability to pull together energy and food, environmental its just pleased I am at the center of all the topics.

Mr. Hejl, I wanted to comment on, I had the Undersecretary of Farm and Agricultural Services, Dr. Keanon come before our committee for confirmation. I asked him about the issues you talked about, the resolution the dispute resolution of his predecessor handled and he apologized in front of me. Said that, and these are his words that they at USDA had underestimated sugar yields based on estimates. They allowed more imports than they needed. The reality, of course, is these people's lives are affected by this. I think the actions of the predecessor outrageous and hopefully we have learned from that experience.

Also on the energy issue, I have raised this issue, sugar ethanol, and I notice there is concern about doing anything that undermines the validity of a no course program, no course tax base. Kind of hold your breath. The reality, and that has to be preserved. At the same time I do not see any conflict with that. I guess my question, it is not in conflict but the reality with these trade agreements, with NAFTA, in 2008 we face the prospect of significant input of Mexican sugar, that we need something to soak it up so we keep our sugar program in way that continues to be so important to taxpayers. There has been a lot of discussion about that. What is your position on the prospect of the sugar ethanol program, something that we should take a look at.

Mr. HEJL. Sugar ethanol or any biofuel program is something we are currently talking with our brethren about and we are not quite ready with a national position on that. We are certainly looking forward to working in a bipartisan way with the Committee on that when you come up.

Senator COLEMAN. I am told that 100 million gallons of sugar ethanol production would take could be, in Florida, but could take care of all the conditions of imported sugar and allow us then to preserve that no course program. I look forward to working with you.

Mr. HEJL. We look forward to working with Congress and every Member of Congress.

Senator COLEMAN. Mr. Martin, your full testimony is in your oral testimony, your written testimony. Again, looking at cellulosic, you recommended 40 percent the cost of cellulosic feed stock for the first year of cellulosic ethanol refineries life be offset. I would like two questions on that.

One, the 40 percent figure, where does that come from? And do you think that will be enough of an incentive in year terms, question is, in year terms two to 3 years investment in cellulosic ethanol products?

Mr. MARTIN. The 40 percent is a figure that can be raised, can be lowered. We have to start somewhere in trying to decide how we can solve this problem of developing cellulosic energy. I was very encouraged not necessarily by who got the funds but recent grants from the energy department to Iogen and to several different companies to help move forward with a cellulosic initiative. Now companies such as Iogen are looking at additional funding, loan guaranties for their ventures. Iogen itself has been looking at starting their plant in Idaho last fall. Now it has been put off to next spring. We are encouraging quick action in order for them to move forward with their pilot program, and we are also encouraged by work we are seeing in Iowa where a corn based plant is being converted into a cellulosic plant.

Senator COLEMAN. One other question. You know if there is survey in Minnesota similar to what, I would suspect Minnesotans would have the same strong public support for renewables. Are you aware of any similar data on a regional basis or is it simply something you have done in North Dakota and they have not done in Minnesota.

Mr. MARTIN. Are you speaking of the energy title?

Senator COLEMAN. The survey work. I am trying to find out what Minnesota, and I like to if strong public overwhelming some of the numbers, including, by the way, North Dakotans looking at obviously renewables over the oil based platform, but the numbers were pretty extraordinary. Do you know if there is any work in Minnesota?

Mrs. ISZLER. I am not aware of a similar survey in Minnesota. I think that the North Dakota survey was, an inspiration behind doing the survey was to confirm what many people in the industry believe to be present in public opinion. Of course, Minnesota has been very much a leader in actually doing some of the things that North Dakota is working on. So perhaps the survey was not necessary in Minnesota.

Senator COLEMAN. She should be a senator.

Senator CONRAD. Wait a minute. Wait a minute. You know, you know, we are so pleased with the representation.

Senator COLEMAN. I could ask many more questions but I am not going to ask you any questions. I see Kevin from the Minnesota Farm Bureau is here. I ask him questions all the time. I will do that off the record.

Thank you again. Extraordinary panel. If we had time I would have more questions. This has been very, very great help for us and we have questions and we will take this back to Washington and what you said here will make a difference.

Senator CONRAD. Thank you. Thanks for being here, Senator Coleman.

Senator Klobuchar.

Senator KLOBUCHAR. Thank you and thank you, Senator Conrad, for making my first farm field hearing so pleasant.

I just wanted to talk to our Minnesotans down there, Dr. Hill. To expand a little on Senator Coleman's question about when can we start seeing some commercial use and you talked about how we could see it now. But my question is more about how, why we need support for this project.

You can not just put it out there on market, but my understanding you do not reap the benefits immediately from the switchgrass in terms of the harvest and it takes time to do that. Can you expand on that a little bit?

Mr. HILL. It does take some time for the farmers to establish the perennial prairie system. It is a system that requires essentially killing off what is on the land already and planting seed and reestablishing it in native species and waiting for a few years. Mowing it every so often at first gives some biomass, but not as much as you get later as the prairie becomes more established. So it is the sort of thing where you begin establishing the land to produce biomass at the same time that industry is moving forward on the efficiency of converting biomass to ethanol and other biofuels. Together they will progress one along side the other.

Senator KLOBUCHAR. Thank you. Thank you for your work on the issue. You know we are proposing some legislation that not only focuses on some incentives and work for farmers but continues with your work and land grant researchers, I think, Dr. Hill. Thank you. With Minnesota and North Dakota we need to focus on these issues.

Mr. Hejl, I wanted you state earlier talking about the issues related to the fact there has been some violations, Mexico sending their sugar up and at the same time they might be taking sugar from other countries. I heard Guatemala, but other countries have got cheaper sugar. Could you talk the effect that would have on farmers and families in the Red River Valley?

Mr. HEJL. I can talk about the effect it is having already. It dropped our sugar prices dramatically since the announcement was made last August. It depressed the market in United States since that announcement was made. If the same thing continues to happen after January 1 it is going to be that much more devastating. Continuing to ship sugar they do not have and we do not need up here, it is just not right.

Senator KLOBUCHAR. You called it to the attention besides us today of the Administration should be enforcing this agreement.

Mr. HEJL. We have. We appreciate the bipartisan support we are getting to try to fight this issue, especially with a 12 cent tariff going that way and penny and a half coming back here. That is crazy.

Senator KLOBUCHAR. I also wondered about this issue of the E85 pumps and attempt to try to get more ethanol pumps in our field stations across the country and I wondered if, Mr. Martin, do you have any comments you would like to make about that and what happened where North Dakota and efforts to try to spread the availability of renewable fuel pumps at the stations.

Mr. MARTIN. I will defer to Jocie, our expert.

Ms. ISZLER. In terms of expanding the E85 stations, your question was in terms of the nationwide or in North Dakota?

Senator KLOBUCHAR. I wonder if there was effort going on in North Dakota and any thoughts you had to expand the availability.

Ms. ISZLER. I think the biggest challenge that North Dakota has had in E85 expansion of stations goes to availability. Much of the expansion that we experienced a couple years ago when we had 21 cent tax break was due to the fact that our stations were sources of ethanol from Minnesota and South Dakota. That was abruptly shut off when ethanol prices went to $3.00 a gallon because those ethanol plants did need to provide for their spot markets which made good economic sense. They could not afford to be generous with North Dakota stations anymore, and so when that ethanol supply went away and ethanol prices went through the roof, unfortunately at the same time as our tax breaks, and so that really did account for some of the stations that came on during that time, so availability——

Senator KLOBUCHAR. I wanted to thank all the panel for your forward thinking and all of the information we have gotten. Like Senator Coleman, I take away from this the shared idea we have to make a strong safety net. You think with the Commissioner Johnson who talked about we can not bet the farm, with high prices so good prices in the place we have to have a strong safety net. I want to thank you Mr. Carlson and other North Dakota farmers for the Agaria restaurant in Washington, DC and what a great idea that is. I hope to eat there again soon.

Senator CONRAD. I thank my colleagues, Senator Coleman and Senator Klobuchar to be here and thank you for the service on the Senate Agriculture Committee.

We are going to work shoulder to shoulder on the Farm Bill as we fought for disaster assistance. They will be successful. I think you will be pleased with the results.

This hearing has been important for your efforts. I want to thank the witnesses starting with the Governor, Commissioner Johnson, this third panel of some of the best farm group leaders and best farm thinkers in the upper Midwest. I deeply appreciate your taking the time to be here.

I understand there is Dewy and wants to introduce Scott Stofferahn. Scott Stofferahn is the former head of the Farm Service Administration in North Dakota. Jim Miller was the clever numbers person in the last Farm Bill for the National Farmers Union. I was able to attract him to my Budget Committee staff. They are two lead negotiators, Scott was a lead negotiator in the last Farm Bill.

We could not have a better team and I am extremely confident about the team that we are putting out on the field in this fight. Scott and Jim are just outstanding. So they are people you will want to be communicating with as we go through this. And, of course, I am always open to your suggestions and comments on questions as well.

I want to indicate that the record will remain open for five business days. Additional testimony will be accepted until April 10th. And may be submitted to my myself and I will make certain it is forwarded to the appropriate committee.

With that I again want to close by giving special thanks to Senator Harkin, the Chairman of the Senate Agriculture Committee, who has permitted this official hearing in North Dakota today. It was very good of him to do that. And to thank both Senator Harkin and Senator Chambliss for sending key aides to this hearing today so they could hear firsthand the concerns of people of North Dakota and Minnesota.

With that we will conclude the hearing. Thank you all.

[Whereupon, the Committee was concluded.]

# APPENDIX

APRIL 3, 2007

**Senator Norm Coleman**
**OPENING STATEMENT**

We have a big job ahead us in reauthorizing the farm bill, but we have a great farm bill to start from. The existing farm bill has proven to be an effective safety-net for farmers.

In fact, I think the 2002 Farm Bill safety-net has performed so well it has enabled agriculture to prosper, and some have viewed that prosperity as reason to make drastic changes to current policy. But I believe we must not forget the lessons of the not-so-distant past. If down the road we witness unanticipated, persistently low commodity prices like we did in the late 1990s, I believe we'll be faced with the same undesirable consequences on Capitol Hill – remember, we had 3 years of multi-billion dollar ad hoc emergency farm aid packages during that time. Prices may be high now, but I don't believe we should craft a safety-net built for prosperous times.

And, it turns out that good farm policy is also good fiscal policy – current farm policy has saved taxpayers over $20 billion. Some folks in the Beltway would like to cut existing farm bill programs, but I think America's farmers should get credit for being fiscally responsible, not punished for it. This is especially true when there are new needs out there that must be met.

That's why I lead a budget letter with Senator Lincoln, a Democrat from Arkansas, calling for additional funds for the farm bill budget. The letter was signed by a bipartisan group of 24 senators, and I know it had the support of both Senators beside me here today.

The fact is we have a good safety-net, but we need additional funding above the baseline in order to make the safety-net a little stronger and make an increased investment in renewable energy. We need increased support adjustments for wheat, barley, and soybean farmers and we need an increase in the sugar loan rate. Meanwhile, we need to diversify our biofuel feedstocks, keep farmers in the ethanol business, grow E-85 infrastructure, and improve the transportation of ethanol.

Finally, we must provide an insurance policy against the NAFTA sugar that Mexico can send our way in 2008 and should look at sugar ethanol as way to diversify our biofuel feedstocks and ensure we can maintain our existing sugar program for years to come.

The good news is that with Congressman Peterson Chairman of the House Agriculture Committee and the three senators here before you on the Senate Agriculture Committee, our region will be well positioned to deliver a farm bill that empowers America's farmers to provide for the nation's food and fuel security.

I look forward to hearing all of your testimonies and working with you to craft a farm bill for our future.

The Honorable Kent Conrad
Statement for the Record
Field Hearing of the Senate Committee on Agriculture, Nutrition, and Forestry
April 3, 2007
Fargo, ND

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Good morning, everyone. I want to welcome you all to this Field Hearing of the Senate Agriculture Committee.

Joining me this morning are two of my colleagues on the Senate Agriculture Committee, Senators Amy Klobuchar and Norm Coleman of Minnesota. I am glad you could make the trip across the Red River to Fargo. We're happy to have you with us.

And joining me as my guest this morning is Congressman Earl Pomeroy, who represents North Dakota on the House Agriculture Committee. I am very happy he is with us this morning and look forward to hearing what he has to say.

Most importantly, I want to extend a sincere thanks to all of our witnesses this morning. I'm happy that we have such a broad range of viewpoints with us today. Your testimony will be critically important as I work to craft the best possible Farm Bill for North Dakota and our region.

In order to write a good Farm Bill, it is important to know the thoughts, needs, and concerns of those who are farmers themselves. I have made it a priority to reach out to North Dakota producers over the past few years to hear what they want in a Farm Bill. This hearing is an additional step in my effort to have a discussion with North Dakota's farmers, ranchers, and agriculture community about the next Farm Bill.

I started this outreach effort in October 2005 when I held my Agriculture Policy conference right here in Fargo at the Fargodome. We gathered many of the nation's leading agriculture policy experts to hear what they thought would be the driving forces behind a new Farm Bill. We also invited the public to join us, and several hundred producers attended this event.

This past February, I convened my agriculture advisory committee in Bismarck. This panel consists of representatives from North Dakota's commodity, conservation, general agriculture, and other farming-related groups. I heard many good comments, concerns, and suggestions on what should drive the 2007 Farm Bill.

Last month, my agriculture staff traveled all across North Dakota to hear directly from our producers. My instructions to them were simple: get out in our rural areas and hear what our farmers want in a new Farm Bill. The overriding message from those meetings was strong support for keeping the 2002 Farm Bill structure intact and building on that base. Specifically, our producers suggested:

- Fixing crop insurance and providing a permanent disaster program;

- Strengthening the energy title so that we can look to the Midwest rather than the Middle East for our energy needs;
- Enhancing conservation; and
- Improving the commodity programs.

My staff also reported to me that many producers have very serious concerns about rising input prices. It is no secret that farmers and ranchers all across the country are paying far higher amounts for fuel, seed, and fertilizer than they were just a few years ago. As a Regent, N.D., farmer noted:

> "...input costs are just killing us. Anything energy-related and petroleum-related is just going through the roof. When you look at that, and the price is feeble, we just can't get ahead of that."

Other producers noted their desire for tightening payment limitations. A farmer from New Rockford noted that the legal definition of a farmer needs to be changed to make sure non-farmers aren't collecting farm program payments.

As I mentioned earlier, the desire to fix crop insurance was the top concern my staff heard in their travels around the state. Tanner, a young farmer from Minot noted the different treatment he receives under crop insurance makes it harder for him to recoup from crop losses. Specifically, he noted that his father's cropping history gives him a more historically accurate yield, while he does not enjoy accurate yield adjustments. And Paul from Portland noted that recurring disasters have reduced his actual production history to the point where it doesn't reflect historical production.

These meetings also solicited some interesting general quotes about farm policy:

> Brian from Anamoose: "How could we compete with Europeans when they support their farmers way more than us, if we reduce farm subsidies?"
>
> Mark from Drake: "The current farm bill we've got, I think, is working fairly good."
>
> Don from Carrington "It's nice to talk about having these [ethanol] plants, but if there aren't sufficient dollars injected in to make it to research and development, that's not going to get us...to some higher percentage of renewable energy."

I think the general acceptance and positive feelings of the current Farm Bill in our state can be directly attributed to how well it has worked for North Dakota's farmers and ranchers. No state has done better under the 2002 Farm Bill than North Dakota. Through 2004, North Dakota received $2,368 per person per year in payments under the current Farm Bill, which is $704 better than the second best state, South Dakota. And through 2005, North Dakota producers have received $2.25 billion in payments from major crop, conservation, and export programs. Of this amount, $960 million in safety net programs have been distributed to North Dakota producers in the form of LDPs, direct payments, and counter-cyclical payments.

One of the most interesting statistics I have run across with respect to the Farm Bill is a study by NDSU researchers that showed average net farm income for over 500 representative small, medium, and large farms was $77,597 in 2004. Their study goes on to say that, without the farm bill, net farm income would have averaged $13,354 in 2004. That is a decrease of over $64,000.

While this Farm Bill has assisted North Dakota producers greatly, we still face several challenges in writing a new Farm Bill.

**[REFER TO HEADLINES CHART IN CHART PACKET]** First, the urban press is bashing the Farm Bill with misleading, inaccurate and contradictory articles like the ones in this chart from the Washington Post. We have also seen similar stories that do not properly represent farm programs in the New York Times, Wall Street Journal, and the Los Angeles Times. While these stories don't generally get much traction here at home, they do raise the eyebrows of many of my colleagues.

One of the most sensational claims I have seen in the Washington Post stories listed here is that a farmer's gross income should be compared to the average American's wage or salary income. Of course, anyone who farms knows that this is not true. And what this does is drastically overstates what a farmer actually takes home.

For example, just because a farmer has a gross income of $250,000, that doesn't account for his operating and input expenses needed to raise a crop. In fact, that farmer could actually have a negative net income. These misrepresentations are an outrageous overstatement of a farmer's actual income.

**[REFER TO EU/U.S. COMPARISON CHART]** Second, we face international competition. As my second chart shows, historically, the E.U. has outspent us 5 to 1 in farm program support. Our farmers are the most efficient and competitive in the world. They can compete with anyone in the world. But we can't expect them to compete with foreign governments.

**[REFER TO EU/US EXPORT CHART]** And on export subsidies, the E.U. is outspending us 87 to 1.

But the E.U. is not the only culprit. Brazil, Argentina, China, and others are gaining unfair market advantages through hidden subsidies, not subject to WTO discipline, such as currency manipulation. This advantage has dramatically hindered American efforts to open new markets.

And, agricultural tariff barriers in most other countries are substantially higher than ours.

**[REFER TO WALL OF DEBT CHART]** Third, we face huge budget pressures. Our debt has grown from $5.8 trillion in 2001 to an estimated $9.0 trillion at the end of this year. It is projected to be $12.2 trillion within five years. This explosion of federal debt just cannot be sustained.

While I was able to secure a $15 billion deficit-neutral reserve fund for the Senate Agriculture Committee to write the 2007 Farm Bill, budget pressures will be a significant obstacle to further enhancing our current farm policy.

**[REFER TO USDA PIE CHART]** In order to solve these problems, some of my colleagues have suggested that we make deep cuts into agriculture. Well, agriculture is not responsible for our budget problems. In fact, the current Farm Bill is expected to cost $23 to $25 billion less than was projected in August 2002.

USDA's total outlays, including nutrition and forestry, are about 3.0 percent of the federal budget. Spending for the commodity, crop insurance and credit programs totals only one-half of one percent of all federal spending. Even if we completely cut all commodity programs, it would make a very small dent in bringing our finances back in line.

Even though agriculture represents a very small amount of our overall budget, it will still be under pressure to contain spending.

I would like to close by thanking you all once again for coming out today. I look forward to hearing from our witnesses on how to improve our farm programs in the face of these challenges.

I now recognize Senator Coleman for five minutes for his opening statement.

**Opening Statement Remarks by Congressman Earl Pomeroy (ND-At Large)**
**at Senate Agriculture Committee Field Hearing on**
**North Dakota Priorities in the 2007 Farm Bill**
**April 3, 2007**

Thank you, Senator Conrad, for inviting me to participate in today's hearing. Your leadership in crafting a fiscally responsible budget is to be commended and I look forward to working together to advance a farm bill that meets North Dakota's needs. I would also like to thank everyone who has come from so far to take part in today's event. I look forward to hearing your priorities for the upcoming farm bill and will be taking them back to DC with me.

North Dakota farmers and ranchers have been met with many challenges over the last two years. Excess moisture in 2005 and widespread drought in 2006 tore through North Dakota. Because of these agricultural disasters, farmers where hit with large financial burdens and were expecting that disaster payments would soon follow.

Well relief is finally on the way. Under new House leadership, we have successfully secured agriculture disaster relief in the House emergency supplemental package. While the fight is not yet over, a significant hurdle has been crossed in the quest for agricultural disaster assistance. I will continue to advocate for this much needed relief for North Dakota's farmers.

Congress is now preparing to reauthorize the farm bill, which will determine the United State's agricultural policy for the upcoming years. The farm bill is by far the most important legislation to affect agricultural producers and all of the industries that depend on these businesses. The biggest challenge for Congress is to write a Farm Bill that can best the 2002 version in terms of producer satisfaction, overall market stability, and total funds.

North Dakota's economy greatly relies on our family farmers. Over the past year I held meetings across North Dakota, discussing with farmers what is important for them to see in the new farm bill. The priorities that I was able to take away from those conversations will be invaluable while writing the upcoming farm bill.

I will work to ensure that the new farm bill will have a strong safety net with countercyclical price protection, realignment of commodity support levels to ensure that crops in North Dakota such as wheat, corn, and soybeans receive their fair share, and protection of the overall gains made during the 2002 debate.

A permanent disaster assistance program that works in close concert with a crop insurance program is something I will continue to push for in this year's farm bill. North Dakota's farmers deserve to have adequate price protection and production safety, and a permanent disaster assistance program will provide that.

Finally, the 2007 Farm Bill provides a continued opportunity to strengthen the United States' development of renewable energy and to decrease our dependence on foreign oil. North Dakota could greatly benefit for the energy title in the upcoming farm bill, as our state has the potential to lead the nation in the production of biofuels.

I look forward to hearing your testimonies today and working with you as we advance a farm bill that meets North Dakota's needs.

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Bringing ag home

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North Dakota Farm Bureau
Comments to the
U.S. Senate Agriculture Committee
On the Farm Bill

April 3, 2007
Fargo, North Dakota

Good morning Mr. Chairman and members of the committee. My name is Eric Aasmundstad. I am the President of North Dakota Farm Bureau. Thank you for holding a hearing on the Farm Bill in our state.

Continued maintenance of the structure and funding for the 2002 Farm Bill is a high priority for Farm Bureau. The 2002 Farm Bill provides a long-term commitment to U.S. producers. The bill provides a safety net for producers, provides leverage for international trade negotiators and provides needed conservation program support.

Since the WTO talks were indefinitely suspended in July and it is uncertain when the talks will resume, Farm Bureau is seeking an extension of the current farm bill for at least one year. We will support making minor adjustments to the bill in order to comply with recent WTO rulings. In the meantime, U.S. farm policy should continue to help level the playing field with assistance to America's farmers until trade negotiations achieve a truly fair world market.

**FARM PROGRAM PAYMENTS:**

The United States has tried agriculture policies that idled acreage as a means of improving farm income. They did not work. We idled acres, but we farmed the remaining acres more intensely to make up for the lost market opportunities from idling land. When we idled land, our competitors kept increasing acreage. We must not forget the lesson we learned 20 years ago. In the 1980s, the United States cut back production by 37 million acres and our competitors increased their production by 41 million acres. When we changed our policies in the 1996 Farm Bill to stop set-asides and paid diversions, the whole picture changed. From 1996 to 1999, the U.S. cut back production two million acres and our competitors reduced their production 28 million acres. We must not return to supply management programs.

We also tried storing our way to prosperity. That did not work either. We tried having the Commodity Credit Corporation store grain in bins across the country. We tried having farmers store the grain on their farms. The results were the same. We stored grain and cut acreage while the rest of the world increased production and took our markets. We must not implement a farmer-owned reserve or any federally controlled grain reserve with the exception of the existing, capped emergency commodity reserve.

The 2002 Farm Bill has not increased taxpayer cost. However, even if costs had risen, farm policy has traditionally addressed the goal of producing a safe, abundant, domestic food supply. We've paid for our dependence on foreign oil. Imagine if we had to depend on foreign countries for our food. If consumers think they're getting a good deal by spending less than 12 percent of their disposable income on a nutritious, safe, quality food supply, then they should conclude it's a good policy to provide for a measure of stability in our food production system.

Farm program payments are a public investment in the nation's food, environmental and economic security. They help provide some measure of stability to the volatile business of food production, keeping Americans supplied with the safest and most affordable food in the world. U.S. consumers reap many benefits from these payments, including a top quality, stable and economical food supply that takes less of the consumer's dollar than in any place else in the world. Funding better environmental practices benefits all of society through improved soil, water and air quality. Dollars received by farmers are reinvested in communities and businesses that would often wither without a stable local agricultural industry.

Farm Bureau continues to oppose any changes in current farm bill payment limitations. One of the primary objectives of the 2002 Farm Bill was to improve the financial safety net available to farmers

Proponents of tighter, more restrictive limitations argue that farm programs cause farmers to enlarge their operations. They also argue that a few producers are receiving most of the benefits. This oversimplifies farm economics. Farmers expand in order to achieve economy of scale and to be competitive in domestic and international markets. Randomly established limitations and increased regulatory burdens do not promote efficiency or competitiveness, but they do increase costs and increase the workload for USDA employees.

Despite the seemingly big payments that are always highlighted in press reports and by various "think tanks," the vast majority of farm payments go to family farm operations. In addition to paying for machinery, seed and fertilizer, some of this money goes to pay household bills, interest on farm loans and ordinary living expenses.

**CONSERVATION PROGRAMS:**
The 2002 Farm Bill provides a strong measure of progress on the environmental front. It is the "greenest" farm bill in history in terms of authorized conservation funding. Improved environmental practices will benefit everyone through improved soil, water and air quality and wildlife habitat. Voluntary and incentive-based programs have historically worked the best for producers.

We need to be careful as we consider a more conservation-based program to keep in mind the income support that the current program provides operators in a volatile market setting. Conservation programs are not a perfect substitute. Some retirement conservation programs—such as the Conservation Reserve Program—actually displace farm income on a dollar-for-dollar basis. Farmers lose operating revenue or rental payments roughly equal to the payments they receive in return for long-term retirement. Some working conservation programs—such as the Environmental Quality Incentives Program (EQIP) or the Conservation Security Program (CSP) --share the costs of environmentally friendly investments in farm capacity. Conservation programs are critical, but they have to work in conjunction with rather than as a substitute for current commodity programs.

We expect programs like the Conservation Security Program (CSP), or programs applying conservation practices on "working lands," to become the linchpin of conservation titles, and possibly an important means of supporting farm income, in years to come. 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. Producers must receive assistance to help defray the cost of ongoing environmental improvements and regulations.

**RENEWABLE FUELS:**

A cornerstone of our nation's energy policy is the major role that renewable fuels can provide. Agriculture can provide fuels that improve air quality and make the nation less dependent on foreign oil. Funding for projects, research and activities that take ethanol, biodiesel and renewable electricity to the next level are important. This would be a win for the environment, a win for rural communities as it brings in new jobs and an expanded economy to rural areas, and a win for farmers as it gives them a new demand for their crops and livestock byproducts. Energy contribution improves the environment, decreases reliance on foreign oil, creates jobs, dramatically increases agricultural markets, and decreases farm program costs as markets grow.

The increased production of ethanol and biodiesel in North Dakota is encouraging. So to is the opportunity for expanding our animal agriculture industry. The synergy between renewable fuels and animal agriculture must be promoted and encouraged if we are to see the best return on the investment dollar. While the farm bill does not directly deal with programs to support livestock, the type of farm policy we develop should enhance livestock production across the U.S. While the farm bill does not directly deal with programs to support livestock, the type of farm policy we develop should enhance livestock production across the U.S.

Livestock production often is overlooked as organizations prepare for the next farm bill. As we look at trade in the future, meat and meat product trade should be expected to grow in significance. We need a high quality supply to meet that demand. Regulations that negatively impact opportunities for livestock producers should be reexamined so that our producers can maintain a competitive position in the world.

**RESEARCH:**

One of the keys to the success of U.S. agriculture has been basic research and an ability to rapidly disseminate that knowledge to those who need it most. In many respects, we have fallen down in public funding in these areas. It appears that most new seed research is conducted with private rather than public funds. Consequently, private dollars go to areas where the markets offer the prospect of the largest return, leaving a number of crops behind. Wheat, oats, barley and several other crops with similar acreages and lesser acceptance of biotech-enhanced varieties have seen very little yield improvement over the last several years. This lack of yield growth is putting several of these crops at an economic disadvantage and is leading to noticeable acreage shifts.

**CROP INSURANCE/DISASTER ASSISTANCE:**

Farmers place an incredible amount of their equity and assets at risk each year to produce a safe, dependable food supply. Managing that risk through the growing season is critical. The current crop insurance program, though improved, still leaves much to be desired. Hence, there has been a necessity for disaster assistance. North Dakota Farm Bureau has supported disaster assistance, but we do not want to see a permanent disaster program in the next farm bill. Creating a permanent disaster program will only ensure that we <u>will have</u> a permanent disaster.

What is sorely needed is a crop insurance program that provides adequate coverage at an affordable price. Multi-year disasters wreak havoc on the producers' bottom line. The end result is that cost of insurance increases, while coverage for the farmer decreases. Crop insurance coverage for quality losses must be addressed. A producer may have bushels, which render the producer ineligible for payment, but the quality is poor and the value of the crop is far below what is needed. Yet the producer receives no compensation through crop insurance.

We understand the difficulty getting innovative, effective products developed, approved and made available in a timely manner. The Risk Management Agency should streamline their research and development process to deliver products that reflect the changes in farming practices. With the increased emphasis on biofuels, North Dakota farmers are being encouraged to plant crops for that industry. However, they may be reluctant if they are unable to insure those new crops. RMA should develop a "fast-track" system for these crops as they expand into geographic areas where the crops haven't historically been planted.

North Dakota Farm Bureau has promoted a "whole farm" cost of production crop insurance as a means to provide the needed coverage. Our research has led us to believe that this type of risk management can be actuarially sound, affordable and, most important to the producer, effective.

The concept we support considers all commodities produced in a given year including crops and livestock. This spreads the risk across the farm making the coverage more actuarially sound thus lowering the cost. We believe this can be accomplished and we encourage further research into this type of coverage.

The bottom line is that crop insurance reform can be realized, and if properly done, farmers will not need a permanent disaster program.

Mr. Chairman and committee members, thank you for the opportunity to add our input and comments on the farm bill debate.

COMMENTS OF

# Robert Carlson

PRESIDENT OF

# North Dakota Farmers Union

ON THE

# 2007 Farm Bill

PRESENTED TO

# Senator Kent Conrad

Fargo, ND
April 3, 2007

**Senator Conrad:**

My name is Robert Carlson. I am a producer from Glenburn, North Dakota, and also serve as the president of the North Dakota Farmers Union, the state's largest general farm organization. Thank you for the opportunity to appear before you and your committee, and for focusing on the critical task of writing the next farm bill.

We, as family farmers and ranchers, are at a critical juncture in our profession. With more spouses than ever having to turn to off-farm income to make ends meet, farming has become an uphill battle that producers are still committed to fight. State and federal programs must be targeted to benefit and protect the family farm. On the behalf of North Dakota Farmers Union, I submit the following suggestions for the 2007 Farm Bill:

**Disaster Assistance**
Since the 2002 farm bill, natural disasters have been on the rise. Farmers and ranchers in 2005 alone faced drought, wildfires, hurricanes, and flooding with nearly 80% of counties in the United States receiving a disaster designation. In North Dakota, 100% of our counties last year were declared disasters due to flooding and drought. This year our producers, like much of the country, are facing a statewide drought.

We believe the 2007 farm bill should include a permanent disaster assistance program. The last farm bill did not include a weather-related provision. Disaster relief provides an economic lifeline to those who have sustained a massive reduction of income that weather-related losses cause.

In order to fund disaster aid, we realize there must be some "give and take." A plausible funding solution for offering a permanent disaster program would be to replace decoupled payments to producers with permanent nationwide disaster assistance.

**Farm Payments and Programs**
Farmers Union members believe farm policy should provide meaningful measure of price protection, be targeted toward family farmers and ranchers, and ensure competition in the marketplace.

A popular urban myth is that farmers are essentially being taken care of by the federal government and are getting rich from government payments. This is not true. According to the USDA, average farm income for 2005 was more than $76,000. What wasn't considered was that 80% of that total was off-farm income, leaving just around $12,000 to account for actual farm income. We can do better. Farm policy should ensure that producers earn income equivalent to families in other sectors of our national economy.

In the current farm bill, the counter-cyclical safety net approach works and should be continued. A counter-cyclical mechanism is important to reducing program costs when commodity prices are high. Loan rates and Loan Deficiency Payments (LDPs) are essential to producers. Historically low commodity prices have forced producers to rely heavily on LDPs to supplement their income. According to the Center for Agricultural Policy and Trade Studies at North Dakota State University, the impact of the Loan Program is much larger than other parts of the farm program; about $9/acre for a small farm and $16/acre for a medium-sized farm. Almost as important is some sort of indexing of loan rates or payment rates to account for increasing costs of production, especially in times of high-energy costs. For example, indexed costs of 20% would be indexed at a higher loan rate.

In the past, loan rates were based on an average cost of past market prices. We believe this formula is out of date due to vastly higher production costs because of escalating energy prices and loan rates should be figured at a higher rate. In order to do this, we call for the loan rates to be based on cost of production in order to enhance net farm income and provide a safety net.

Farmers Union believes the conservation programs of this current farm bill should not only be continued, but also expanded. Conservation programs should be good for the environment, reward stewardship, discourage speculative development of fragile land resources, strengthen family farming and enhance rural communities. Expansion of conservation programs should include:

- Fully funding the Conservation Security Program, one of the most innovative attempts at rewarding producers for conservation practices on working lands.

- Continuing CRP only on the most environmentally sensitive lands, and offering shorter term CRP contracts for specific conservation needs. (The enrollment of whole farm CRP should be prohibited however, due to the detrimental effects on rural communities.)

- Encouraging conservation practices that reduce greenhouse gas emissions (e.g. carbon sequestration) through conservation tillage, wetland restoration/creation and grassland management.

**Trade**
Free trade and fair trade are incongruent terms in today's world. Farmers Union believes that the expansion of trade, especially agricultural trade, can only be achieved by first stabilizing current trading conditions and by long-term planning and commitments toward expanding the world's economy. Our current trade agenda does nothing to level the playing field or provide opportunities for farmers to make a profit from the marketplace. Trade negotiations must include labor standards, environmental standards and currency manipulation.

Free trade establishes a "race to the bottom." Fair trade ensures an adequate, high quality, safe and affordable food supply. We call for a thorough analysis of current agricultural trade agreements to determine their success at meeting their stated goals before any new bilateral or regional trade agreements are negotiated or approved. The measure of the success of a trade agreement has to be its benefit to agriculture and producers' net income.

**Country of Origin Labeling (COOL)**
COOL has been enacted since 2004, but it has yet to be implemented. Although we take pride in phrases like, "American as apple pie," can we really be sure that the apples used in the pie are from the United States?

We have seen the positive effects of country-of-origin labeling for diverse products, ranging from apparel to seafood. There has been much ado about the high costs of implementing this program, which have not occurred. As one Farmers Union member puts it, "At my local grocery store, they are now carrying seafood with the COOL label. Consumers are still buying seafood, retailers are still selling it and fisherman are still catching seafood. The sky didn't fall when COOL went into affect for seafood and consumers are given a choice."

Despite this, packer and processors with deep pockets still have a larger influence on congress than the surveys that show both consumers and farmers want it implemented. According to a 2004 National COOL Poll, 82% of consumers think food should be labeled with country-of-origin information, and 81% would be willing to pay a few cents more for food products grown and/or raised in the U.S.

**Energy**
Energy is vital to securing out nation's needs for food and fiber. NDFU

supports a balanced, comprehensive energy policy in the next farm bill which seeks energy independence for the United States, protects our nation's environment and recognizes the special needs of America's agricultural sector.

In order to reduce our dependence on fossil fuels, development of renewable sources of energy must be a priority. This must include economic technical assistance for family farmers wanting to transition into increased application of alternative forms of energy.

Not only should the future farm bill contain an energy title to build upon the progress already made in the arena of renewable fuels, it should also promote exploration of the unlimited potential that exists in alternative sources such as wind and solar energy. An energy title should include provisions that prioritize and facilitate farmer, rancher, and community ownership of renewable energy and value-added projects, including ethanol, biodiesel, and farmer and community-owned wind energy, and a farmer-owned Strategic Biofuels Feedstock Reserve tied to the needs of producers. Harnessing these renewable energy resources and mandating their increased usage is a much needed paradigm shift from our current petroleum-dependent society.

**Our Vision of Farm Policy**

The measure of success of any farm bill has to be the level of net income for producers. Farm policy should not be developed for multinational corporations, processors, exporters, integrated livestock producers and firms who profit from low commodity prices. We expect higher loan rates, better targeting and oversight of farm program payments to family farms, defined as a unit using land and other capital investments operated by one family who provides stewardship and management, take economic risk, and provide the majority of the supervision and work on the farm or ranch. A vertically-integrated or multinational grain and food conglomerate is not a family farm.

The family farm is the keystone of a free, progressive, democratic national society, as well as a strong America. Above all, farm policy needs to recognize and build on the strength of our nation's agriculture, not throw it on the altar of globalization and the trade agreements that put our producers at an economic disadvantage.

NDREP

Testimony by Mike Clemens, Wimbledon, ND; Chair of the ND Renewable Energy Partnership
April 3, 2007, Fargo, ND

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Senator Conrad and members of the Senate Agriculture Committee,

Thank you for this opportunity to testify on behalf of the ND Renewable Energy Partnership and our vision that ND can be a national leader in the production of renewable energy.

It has been my privilege this past year to serve as chair of the ND Renewable Energy Partnership. This group consists of a cross section of over 40 organizations representing both the public and private sector and has devoted enormous amounts of time and energy to promoting the development of renewable energy in ND. Included in my written testimony is a list of the partnership's members. The membership ranges from private citizens to groups representing a large consistency such as Xcel Energy, ND Association of Rural Electric Cooperatives, and the ND Farmer's Union. The membership represents a significant portion of agricultural groups. However, the benefits of developing North Dakota's renewable energy industry positively affect every North Dakota citizen's life. Increased use of renewable energy means cleaner air for all ND citizens not just farmers. And it will be all citizens, not just farmers, who will benefit form the higher paying jobs and additional state tax revenue from renewable energy industries. It is North Dakota citizens across the state, not just farmers, who support reducing our dependence on foreign oil.

I'd like to start by referencing the study that the NDREP conducted this past summer in cooperation with the ND Department of Commerce. The study, conducted by the UND Dept of Governmental Affairs, assessed the opinions of 600 North Dakotans regarding renewable energy in ND. The results indicated that:

- 93 percent of North Dakotans surveyed believe that renewable energy should be a priority of our state legislature.
- 96 percent believe that we should reduce our dependence on foreign sources of oil by promoting renewable sources of energy and energy conservation.
- 87 percent support a tax advantage for ethanol that makes ethanol cheaper than regular gasoline.
- 83 percent believe the state legislature should provide incentives that encourage the production and use of biodiesel.
- 80 percent say that the legislature should provide funding for research and incentives for biomass.
- 81 percent would support a law requiring utilities to generate 10% of their electricity from renewable sources.

- Only 13 percent favored fossil fuels for new electricity if they had to choose only one source, while 80 percent prefer wind or other renewables and energy conservation.

- More than half were concerned about out-of-state interests owning North Dakota wind projects.

In response to the results of this survey, the Partnership's main focus this legislative session has been SB 2288. The main objectives of this bill are the establishment of a comprehensive renewable energy policy for ND, a Renewable Energy Research Council, development fund, incentives, and appropriations for those provisions by the state of North Dakota. The original legislation called for $20 million.

My written testimony includes 22 projects that could be funded via a competitive process established by a Renewable Energy Research Council. Briefly, nine of the 22 projects include:

- Fund advanced renewable energy commercialization. Provide competitive awards to companies interested in commercializing promising technologies in North Dakota. Eligible awards would include FEED studies, grants to be matched with private-sector, and federal or other non-state investment in demonstrations. **Range: $2,500,000-$5,000,000**
- FEED study. Provide funds for a front-end engineering and design study for a cellulosic ethanol and nanowhiskers project. **Range: $1,500,000-$2,000,000**
- Dairy waste anaerobic digestion demonstration project. Mature technology now exists to provide low cost renewable energy to dairy farms that handle their manure as liquids and slurries. The EPA's AgStar program estimates that many anaerobic digestor biogas systems can be installed with a simple payback of 3-7 years. **Range: $200,000-$300,000**
- Cost-share assistance for the installation of infrastructure to sell and distribute ethanol blends greater than 10% and biodiesel. **Range: $750,000**
- Support of ethanol processing for hydrogen production – system integration. **Range: $30,000-$50,000**

(next four focus on biodiesel)

- Study and develop new feed rations using glycerin as a feed supplement. **Range: $125,000**
- Develop newer, better and faster testing methods for biodiesel analysis. **Range: $75,000**
- Support of biodiesel cold flow and fuel property quantification with Ultra-low sulfer diesel (ULSD). This is important in cold weather climates like North Dakota. **Range: $60,000 - $160,000**
- Cold Room testing of biodiesel blends in vehicles. This relates to how biodiesel blends work with ULSD diesel fuel **Range: $100,000**

The message of the NDREP to your committee, distinguished guests, is that ND citizens are very aware of the state's potential for producing renewable energy and are very supportive of using public funds for the development of renewable energy. The Partnership is passionate about the growth of renewable energy in ND and looks forward to supporting and advancing your work toward growing the nation's renewable energy resources in this next Farm Bill.

**Testimony of**
**William Hejl**
**President**
**Red River Valley Sugarbeet Growers Association**
**Before the**
**United States Senate Committee on Agriculture, Nutrition, and Forestry**
**Fargo, North Dakota**
**April 3, 2007**

Mr. Chairman, members of the Committee, welcome to the Red River Valley of North Dakota and Minnesota. My name is Bill Hejl. I am a farmer from Amenia, ND and am currently serving as President of the Red River Valley Sugarbeet Growers Association. Like all beet growers I also raise other crops on my farm. In my case those crops are spring wheat, soybeans and this year corn.

The sugarbeet growers in our region look forward to working with you to develop the sugar provisions for the 2007 Farm Bill. Our industry supports the current no net cost structure of U.S. sugar policy. We appreciate the leadership put forward by Chairmen Conrad and Harkin and others to maintain an adequate baseline to fund the new Farm Bill. We understand the importance of keeping Agriculture united when developing this legislation. It is our intention to continue to work diligently with other commodities to enhance the current bill in ways that will allow American farmers to remain in business and provide the food security that is so essential to our nation.

We are also working to make the program more predictable in order to improve the Secretary of Agriculture's ability to properly administer U.S. sugar policy. We will be happy to share those technical details with you in the near future once the beet and cane industries finalize our legislative recommendations.

The sugar industry in our region is comprised of three farmer owned cooperatives operating 10 factories in 4 states (Minnesota-4, North Dakota-3, Montana-1, California-2). Growers have owned these cooperatives since the 1970's and continue to work to be efficient low cost producers in a highly competitive business. This requires continual investment and updates in plants and equipment to maintain efficient processing of our crop.

Our growers have all felt the direct impact of higher costs both on the farm and in our factories. The increased demand for corn and other commodities has driven up land costs substantially. As a cooperative, we know the acres have to be planted, but we also know there is a limit on the amount of land which is suitable for sugarbeet production. Without adequate sugarbeet throughput for our factories, our cost of production for sugar increases dramatically and we lose our efficiencies. In our factories we face higher energy, transportation and environmental costs.

The U.S. sugar industry has not had an increase in our support rate in 20 years. Yet our costs for fuel, fertilizer, and virtually every other input have increased substantially over that time. This has taken a toll on the industry and we have lost more than 35 beet and cane factories during that time. This problem needs to be addressed in the new farm bill.

Our fourteen year trade relationship with Mexico remains problematic. Sugar prices have plunged since last summer, when the USDA announced on July 27, 2006 a commitment to import 250,000 tons of sugar from Mexico and an additional 250,000 tons from our WTO trading partners. This action, on top of a bumper crop in the U.S., has significantly over-supplied our market. Mexico had a short crop and doesn't have 250,000 tons to ship to us, so it is buying sugar from neighboring countries at world prices to use as a substitute domestically so that Mexican sugar can be shipped to our market. The bottom line is that Mexico is shipping us sugar that it doesn't have and that we don't need. That just isn't right.

Sugar farmers from North Dakota and Minnesota have plenty of sugar to ship to Mexico if it is short. Growers nationwide expect to have approximately 300,000 tons of sugar that they will have to store in order to balance the market. That is sugar we would like to send to Mexico, but Mexico has a 12-cents-per-pound tariff in place that effectively prohibits our exports. The U.S. has a non-restrictive 1.5-cent tariff on Mexico's exports to us. Twelve cents versus one and a half cents; once again, it isn't fair and it isn't right. We believe that USTR and USDA should ask the Mexican Government (1) to increase its duty-free tariff-rate quota (TRQ) for U.S. origin sugar from the current 21,774 metric tons, raw value, to 100,000 metric tons, raw value, and (2) to give U.S. sugar producers the right of first refusal to fill any additional Mexican import needs on a duty-free basis. Mexico's refusal under these circumstances would clearly call into question its commitment to the principles embodied in the NAFTA.

Our growers are also deeply concerned that Mexico has a long history of not complying with its obligations on sugar trade. All efforts need to be made by our respective governments to make sure that sweetener trade between our two nations allows our domestic farm bill sugar policy to continue. If Mexico does not comply, then our government must act swiftly to retaliate. We cannot survive financial injury for years while these disputes are being debated. There is no justice or victory once your business has died.

For the 2007 Farm Bill, USDA proposes to retain the basic structure of the existing sugar program and continue to operate it at no cost to U.S. taxpayers. We agree that taxpayer dollars must be spent judiciously. While the Administration's support for continuing the current sugar program is a positive development, we object to USDA's request that it be given sole discretion to reduce domestic sugar marketings without parameters or guidelines. Efficient U.S. sugar farmers should not be asked to take a back seat to subsidized foreign sugar producers who could flood the U.S. market with unneeded sugar, forced into our market as a result of free trade agreements. We in the industry need room to expand in order to remain competitive.

In complete contradiction to fiscal responsibility, large food manufacturers are lobbying Congress to eliminate the no-cost sugar policy in favor of a $1.3 billion-a-year plan built around sugar subsidy checks. Sugar farmers vehemently oppose this plan as we are proud of our no net cost to taxpayers. And we are certain that all those subsidy checks would not result in lower prices at the grocery store.

As the world's second largest sugar importer, an oversupplied market is not the fault of U.S. producers, but a result of concessions made in free trade agreements. During a recent FTA debate, Agriculture Secretary Johanns and USTR Ambassador Portman pledged to dispose of surplus imports to balance the market, but only for the current Farm Bill. Now Secretary Johanns proposes to balance the market on the backs of our farmers by constricting our marketings. He needs to extend his commitment to dispose of surplus foreign imports of sugar for the life of the new farm bill.

Therefore, we need a mechanism to efficiently use surplus sugar if we are to remain no net cost to taxpayers. We view bio-fuels as a potential option that may provide one way to better use surplus imported sugar. U.S. producers are in the business of providing sugar for the food market, which is and always will be our primary market. However, when the market is oversupplied as a result of excessive access provided by trade agreements, one of the few alternative uses for that sugar may be bio-fuels. Sugar, as an addition to America's bio-fuel needs will take some time to develop, and may require government interventions similar to those used in competing countries such as Brazil and the European Union. We will provide the Committee with additional thoughts as we move forward.

Finally, as bilateral and WTO Doha negotiations continue, beet farmers are deeply concerned that the developing nations that produce and export 75 percent of the world's sugar will not play by the same labor, safety and environmental trade rules we do. We are concerned that those foreign producers who are less efficient than our producers will gain an advantage simply because of the way the agreement is negotiated. We ask that you watch those negotiations closely and not allow any trade agreement to put American producers at a disadvantage.

Thank you for this opportunity to testify, and we look forward to working with you.

Dr. Jason Hill
Research Associate
Department of Applied Economics
University of Minnesota

**Statement of Jason Hill
before the
U.S. Senate Committee on
Agriculture, Nutrition and Forestry**

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to speak with you today about the research on biofuels my colleagues and I conducted at the University of Minnesota. There I am part of a diverse team of economists, agronomists, engineers, ecologists, and policy experts who are collaborating to better understand the various facets of renewable energy production.

The rapidly expanding biofuels industry in this nation has been led by corn ethanol and soybean biodiesel. Together they have offset a portion of our gasoline and diesel use while boosting farm profits and reducing greenhouse gas emissions. Although both corn ethanol and soybean biodiesel are, and will continue to be, integral parts of our transportation energy portfolio, we need to expand and diversify our biofuel supplies. We need to develop biofuels produced from feedstocks grown on land other than our most fertile farmland. We need to do this in ways that benefit both farmers and the environment.

Our work has identified one such system that is ideally suited to production on our marginal and degraded lands. We found that biofuels with tremendous energy, economic, and environmental advantages can be produced from mixtures of native prairie plants including grasses, legumes, and other wildflowers. Allow me to briefly describe the experiments we conducted.

We wanted to learn which mixtures of prairie plants were best suited for producing biofuels such as ethanol. Which mixtures, for example, would produce the most energy, and which mixtures would reduce greenhouse gases the most? Also, how much new energy and greenhouse gas reduction would a mixture of species provide compared to a single species such as switchgrass? To answer these questions, we planted 168 plots with either 1, 2, 4, 8, or 16 different native prairie species on agriculturally-degraded farmland. For over a decade we measured the total biomass each plot yielded annually and the total amount of carbon dioxide each plot removed from the air and stored in the soil.

We found at our study site that mixtures of 16 native prairie species produced 238% more energy on average than single prairie species such as switchgrass. We also found that highly diverse mixtures removed large amounts of carbon dioxide from the air and stored it in the soil, but that single species did not. Why did we see these trends? Essentially, highly diverse mixtures use available resources such as light, water, and nutrients more efficiently than less diverse mixtures do. Also, in the highly-productive mixtures, legumes such as purple prairie clover and wild lupine were able to pull nitrogen from the air and make this important nutrient available to grasses such as big bluestem and little bluestem, which grew much larger as a result.

The environmental benefits of producing biofuels from diverse prairie biomass are striking. Most amazingly, producing and using ethanol from diverse prairie biomass can actually reduce the amount of carbon dioxide in the atmosphere. This is because a diverse prairie removes more carbon dioxide from the air and stores it in the soil than is released into the air when fossil fuels are burned to farm prairie biomass and convert it into ethanol. The carbon dioxide prairie plants remove from the atmosphere is stored as soil organic matter. This, along with the nitrogen added to the soil by native legumes, actually restores fertility to degraded farmlands. A prairie also provides wildlife habitat and reduces soil erosion and pollution of waterways with pesticides, herbicides, and fertilizers.

The advantages to farmers and the biofuels industry of producing diverse prairie biomass are equally remarkable. Diverse prairie biomass can be grown on marginal and highly-erodible lands, such as those often put into CRP and CSP. This spares our most fertile farmland for traditional crop production. Also, an acre of prairie biomass grown on marginal land can yield as much or more net energy in biofuels as an acre of corn ethanol produced on fertile cropland. This is because the fossil fuel energy requirements for growing prairie biomass and converting it into ethanol are so low relative to the amounts of energy needed to grow corn and convert it into ethanol. Once a prairie is established, biomass can be grown at considerably less expense to farmers than either corn or switchgrass. This is because a prairie needs to be planted only once, and maintaining it requires no pesticides or herbicides, and only trace amounts of fertilizer in certain cases.

The advantages for both farmers and our nation of this upcoming generation of biofuel feedstocks are clear. How can we best promote cellulosic biofuels, such as ethanol from diverse prairie biomass, as valuable complements to our existing crop-based biofuels? This question has taken on particular importance now that high corn prices are inducing farmers to take marginal lands out of conservation programs and place them back into corn production. This acreage shift has negative consequences not only for erosion and wildlife habitat, but also for the carbon cycle. This is because land taken from conservation programs and returned back to production loses its ability to sequester carbon, even if no-till or reduced-till cultivation practices are followed.

Making diverse prairie biomass ethanol or any other next generation biofuel a reality hinges upon recognizing that land can provide valuable ecosystem services such as carbon sequestration and soil restoration. We must reward those who treat the land in ways that provide these services to society. Incentive support may flow either to the farmers who manage the land or to the biofuel producers who purchase biomass grown in environmentally-beneficial ways. Such incentives may be in the form of direct support for farmers who grow diverse prairie biomass, as is being proposed by Sen. Klobuchar. I have seen a draft version of her legislation, and I am pleased that she is taking a lead on turning this opportunity into a reality. These incentives may also be credits provided to blenders who purchase the forms of ethanol that have the greatest net greenhouse gas reductions, such as ethanol produced from prairie biomass. A tangible example of such legislation is California's Global Warming Solutions Act (AB 32) mandating low carbon fuels.

We are now at a time when the rapidly expanding biofuel industry has effectively wed together three of our fundamental needs – energy, food, and a healthy environment. Our challenge is to find and promote solutions that mutually benefit our nation on all three fronts. Biofuels from diverse prairie biomass provide us with an opportunity to do this.

Thank you, Mr. Chairman. I look forward to answering your questions.

State of
North Dakota
*Office of the Governor*

John Hoeven
*Governor*

## Testimony of North Dakota Governor John Hoeven before the United States Senate Committee on Agriculture, Nutrition and Forestry

**Fargo, North Dakota**

**April 3, 2007**

Good morning, Senator Conrad and members of the Senate Agriculture Committee. Thank you for inviting me here to testify. I am John Hoeven, Governor of the State of North Dakota, and I am here today to visit with you about the importance of a long-term, comprehensive Farm Bill with a counter-cyclical safety net and its importance to North Dakota and to our nation's farmers.

We all place a very high priority on maintaining family-based agriculture. Keeping families on farms is critically important to the economies of our states. We must support traditional agriculture with the kind of safety net that will allow them to operate and at the same time to make the types of investments in value added agriculture necessary to diversify their income.

The economic well-being of all our citizens depends on a healthy rural economy. However, rural areas are faced with economic challenges due to the income cycles of farming – cycles greatly influenced by the risk of weather and other perils associated with crop production.

I believe that the next Farm Bill needs to be based on the same principles as the current one. It should be a long-term bill that contains a counter-cyclical safety net that is fair to all crops. The Farm Bill needs to have meaningful risk management provisions that offer producers support when crop losses occur. Also, the bill should have strong programs for value added agriculture, renewable energy and conservation, including incentives to expand biomass opportunities.

A good farm safety net is critically important to our nation. North Dakota is one of the most agriculturally-dynamic states in the nation. Agriculture and associated industries account for $4 billion of our economy and make up 25 percent of our economic base. We are proud to lead the nation in the production of twelve different crops, including spring wheat, durum, barley, oats, dry edible beans, flax, dry peas, lentils, sunflowers and canola. Crop diversity is important, so that farmers can grow for the market, but the counter-cyclical safety net is also necessary to enable producers to withstand commodity price volatility in the world market.

The counter-cyclical safety net, together with proper risk management tools, will keep our farmers on the land, and rural America strong. An adequate risk management program in the Farm Bill could either take the form of a crop insurance option designed to fill the "gap" between traditional coverage levels and producers' historical yields or it should be a permanent disaster title to support producers who have had losses due to drought, flooding, disease, or some other natural disaster. Both of these options should be explored working closely with our agricultural groups, whose members provide our nation with the safest, most affordable, and abundant food supply in the world. Properly addressing the risk management issue is vital for a comprehensive and effective Farm Program.

North Dakota producers are big users of the risk management tools that the federal government and the Farm Bill provide, and they appreciate the continued support of those programs. Nevertheless, we have had to advocate for additional help where the support offered by our Farm Bill and crop insurance are not enough to sustain the economic vitality of farmers because of weather-related disasters and deficiencies in the crop insurance program.

In that regard, I appreciate the support of you, Mr. Chairman, and also the other members of this committee, for your efforts to pass an ad hoc disaster program for our producers.

Farmers need to be able to manage against the tremendous risk they undertake every time they put crop in the ground. They need to be able to obtain effective insurance so that when they do suffer a disaster in their fields, they don't also suffer a disaster in their balance sheets.

Producers need to be able to cover for catastrophic losses, and they also need to be able to cover for "shallow losses" that over successive years lead to financial decline. What I call "shallow losses" are the 20 to 30 percent yield or quality losses that farmers cannot adequately insure against. These losses have a real impact on their profitability and a negative impact on their actual production history.

Agriculture producers need to be able to manage the risks of not only diminished quantity, but also reduced quality due to factors beyond their control. The Farm Bill and crop insurance should allow producers to ensure a reasonable level of income that will help reduce exposure to market and crop losses.

We appreciate the income protection tools that were authorized in the late 1990s and that continue to be modified in an effort to assimilate market risk in combination with crop loss. However, these tools remain inadequate or too costly to protect the actual risk undertaken in 2007 and beyond. If these tools were affordably offered to farmers – if farmers could adequately insure their losses like other types of businesses – they wouldn't need to come to Congress seeking ad hoc disaster assistance from year to year. We would have a more stable farm economy.

I am convinced that risk management improvements and legislation aimed at enhancing crop insurance should be considered as part of the forthcoming Farm Bill. Along with the other provisions of farm support legislation dealing with commodity programs, conservation programs and rural development, there should be a risk management or a disaster title incorporating one or both of the options I've discussed.

We need a bill that will ensure income stability and enable our farmers to plan for their future. Continuation of the counter-cyclical safety net and an adequate crop insurance program or disaster title, will keep American agriculture strong. These measures are not only vitally important for our farms, they are vital to our country, in order for Americans to continue to benefit from having the highest quality, lowest cost food supply in the world.

I want to emphasize three additional key points: continued strong conservation incentives, expanded programs to support value added businesses and an enhanced renewable energy title.

Farmers are good stewards of the land, and we, as a matter of national policy, should continue to encourage good conservation practices with the right kind of incentives – incentives geared to working lands. We need to see a strong conservation component in the bill. These programs should be voluntary, incentive-based efforts that will enhance farm and rangeland protection, as well as promote conservation efforts.

Strengthening rural America means expanding business and job opportunities by adding value to our agricultural products. The opportunity to process and target market our high quality crops and livestock through value-added businesses is a logical growth area for agriculture producers. Existing rural development programs authorized in the Farm Bill are effective, but they need to be streamlined to allow for the pace of business today and expanded to accommodate the scale of many of today's projects. Rural development also means supporting the infrastructure that serves the homes and businesses in an effort to grow our value-added businesses. I support additional funds for rural infrastructure that include loans and grants for water and waste water projects, and emergency water assistance grants.

Finally, farmers are a big part of this country's energy solution. We in North Dakota have seen exciting growth in biofuels production from corn and oil seeds, but like the President, and all of you, I envision a time when the fuels that drive America are produced from switch grass or other biomass materials. Like the current Farm Bill, the next one should focus on providing a strong energy title to promote the continued growth of our nation's renewable energy potential.

American farmers are already supplying our country with an environmentally sound, affordable, domestic supply of bio-based fuel and energy. They are helping us reduce our country's dependence on imported petroleum, and at the same time, diversifying their revenue stream to create greater financial security for themselves and greater energy security for our nation. Policy and incentives should be included in the Farm Bill that encourage investments in value-added bio-energy crop systems to help our nation secure energy independence.

Mr. Chairman, and members of the committee, in closing, it is unfortunate that the features of the current Farm Bill and crop insurance together do not adequately protect farmers from crop disasters and chronic wet or dry cycles. While emergency supplemental assistance packages have helped, they fail to provide a long-term solution that could be achieved by supplementing the crop insurance programs to meet producers' needs. The forthcoming Farm Bill, if crafted appropriately, affords us a timely opportunity to manage those risks.

A strong Farm Bill is of the utmost importance to our nation. In its particulars, this legislation will address issues that the citizens of North Dakota and the people of United States have made clear they find critical to our future:

- Producing a quality, safe, and affordable food supply.
- Supporting an economic sector of vital importance to our region and our nation – agriculture.
- Maintaining a wholesome, productive environment.
- And, importantly, developing sustainable, renewable energy resources independent of foreign influence for the long-term security of our nation.

Mr. Chairman and members, I look forward to working with you to create the right plan for our producers and the right plan for America.

Thank you, again, for the opportunity to address this committee. I would be happy to respond to any questions.

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**Testimony of Roger Johnson**
**Agriculture Commissioner**
**2007 Farm Bill**
**Senate Committee on Agriculture, Nutrition and Forestry**
**Fargo, North Dakota**
**April 3, 2007**

Senator Conrad and members of the Committee, I am Agriculture Commissioner Roger Johnson. I am also currently serving as President-elect of the National Association of State Departments of Agriculture (NASDA). Following two years of deliberation and work, NASDA adopted 2007 Farm Bill Recommendations in September, 2006. The entire document contains over 200 specific recommendations addressing nine broad categories and can be found online at www.nasda.org. *NASDA's 2007 Farm Bill Highlights* are attached at the end of this testimony as **Attachment A**.

On behalf of NASDA and myself, I want to thank you for the opportunity to provide testimony on this extremely important piece of upcoming legislation. I also want to thank Senator Conrad for his leadership and tenacity in passing the recent ad hoc disaster program for 2005, 2006 and 2007 losses.

I will be focusing my testimony today on major issues important to North Dakota producers, most of which are also supported by NASDA.

## *Background*

Agriculture is the largest sector of North Dakota's economy, generating more than $4.7 billion in cash receipts in 2006. North Dakota is home to more than 30,000 farms and ranches and we lead the nation in the production of 14 commodity categories including spring wheat, durum, barley, canola and various pulse crops.

North Dakota is also an energy state. We have vast traditional energy resources and a myriad of renewable energy industries that are taking shape. North Dakota is currently home to four operating ethanol facilities with a combined annual production capacity of 135.5 million gallons. Additional projects totaling 300 million gallons of production capacity have also been announced. An 85 million gallon canola-fed biodiesel facility will open in the next few months at Velva and additional biodiesel projects are in the planning or construction stages in Minot, York and Munich.

There is also great potential to develop the biomass industry in North Dakota, ranging from the production of energy crops for delivery to an ethanol conversion facility to the utilization of crop aftermath to produce cellulosic "nanowhiskers" to the utilization of wood waste or chips to feed boilers for energy production. According to a report from the Oak Ridge National Laboratory, North Dakota ranks first in the nation in potential to produce perennial energy crops.

The new energy opportunities for agriculture are going to present many excellent economic opportunities for farmers and ranchers in the coming years; however, a solid safety net and federal farm program are still of critical importance to our industry.

## *Retain Marketing Loan and Countercyclical Programs*

The current marketing loan and counter-cyclical payment programs have been generally well-received and have performed quite well. It makes sense to deliver economic assistance when commodity prices fall below pre-determined levels; thereby providing economic security when it is most needed. I believe that producers as well as the general public understand and support this model for providing farm economic assistance.

CCC outlays for the current commodity programs have been around $23 billion less than projected at the time of the current bill's implementation due to stronger commodity prices during the last few years. This is testament to the current commodity programs' successful counter-cyclical formulation. Secretary Johanns acknowledged the savings in the following recent statement to the House Budget Committee.

*"The reduction in CCC outlays in 2007 to 2008 is driven largely due to higher crop prices. Prices are higher because of the dramatic increase in the demand for corn for ethanol production. Additionally, most of the other major commodities are also at relatively high price levels. These high commodity prices have lead to a significant reduction in CCC outlays, which indicates that farmers are relying more on the market for revenue than payments from the Government. Both the Administration and the Congressional Budget Office January baselines for CCC commodity programs show this effect. The rising demand of farm products for biofuel production coupled with strong export demand are expected to keep prices of most of the major CCC supported commodities at high levels for the coming years."* [1]

What is troubling in the Secretary's statement is the supposition *"The rising demand of farm products for biofuel production coupled with strong export demand are expected to keep prices of most of the major CCC supported commodities at high levels for the coming years."* This similar prognostication of projected and continuing high commodity prices led to the miserably failed Freedom to Farm Act of 1996. While we all hope commodity prices remain strong, I don't believe anyone desires to again "bet the farm" on this assumption.

Producers have experienced dramatic increases in operating costs, particularly for farm fuels and petroleum-related inputs since the current farm bill was implemented. The North Dakota Farm Business Management Education Program compiles yearly data on over 400 statewide farms/ranches enrolled in the program. The records indicate significantly rising costs in fuel, fertilizer, chemicals and total cash expenses for the four-year period of 2002 through 2005. Fuel and fertilizer costs alone have increased 85 and 79 percent respectively during the period. Data for 2006 is not yet available; however, indications are that costs will again show hefty increases this past year. The following table shows the average farm's cost increase for each category.

[1] Statement by Mike Johanns, Secretary of Agriculture Before the Committee on the Budget, United States House of Representatives, February 15, 2007

| | 2002 | $/Acre[2] | 2005 | $/Acre[3] | Per Acre Increase |
|---|---|---|---|---|---|
| **Fuel** | $10,698 | **6.50** | $20,967 | **12.02** | ***85 %*** |
| **Fertilizer** | $18,135 | **11.01** | $34,411 | **19.72** | ***79 %*** |
| **Chemicals** | $19,755 | **11.99** | $29,056 | **16.65** | ***39 %*** |
| **Total Expense** | $192,922 | **117.14** | $269,394 | **154.38** | ***32 %*** |

Because marketing loan and countercyclical payment programs are based on commodity loan rates, target prices, and market values, there is no direct correlation between program benefits and costs of production. Therefore, the new farm bill should increase and balance the loan rates and target prices among program crops to better reflect the overall increased and respective crops' costs of production. Loan rates and target prices should be indexed to individual crops' costs of production and/or based on Olympic averages.

## *Re-allocate Direct Payment Program Resources*

The direct payment program should be reconsidered. It is a program that draws considerable public criticism by delivering payments to producers regardless of production or prices. The Administration is proposing to increase direct payments as follows:

*"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."* [4]

It is generally accepted that direct payments are capitalized into land values and rental rates, thereby indirectly benefiting landowners, many of whom are not active producers and are absentee landowners. This is not detrimental to producers who own all or most of the land they farm. However, it becomes a serious competitive disadvantage for beginning and other farmers who need to rent substantial amounts of land and/or desire to purchase land. The direct payment program's financial resources would be better utilized for funding a permanent disaster program and improving loan rates and target prices.

[2] Average crop acres were 1,647 in 2002
[3] Average crop acres were 1,745 in 2005
[4] USDA 2007 Farm Bill Proposals

## *Enact Permanent Disaster Assistance Program*

Crop and livestock disaster situations, whether widespread or localized in scope, are inevitable. It is not possible for a crop insurance product to indemnify the high-risk "first losses" of production in an actuarially sound yet affordable manner.

Relying on ad-hoc disaster assistance programs has proven to be unpredictable and frustrating for producers, their creditors, and the "main streets" that rely on their business. The nature of ad-hoc assistance also lends itself to "blanket" approach delivery, leading to possible inequities among recipients.

A permanently authorized disaster assistance program, covering both crops and livestock, should be included as a major component of the next farm bill's safety net. During NASDA's February, 2006 meeting, I proposed and NASDA adopted the following policy language regarding a permanent disaster program:

*Eligibility for disaster assistance should be triggered by evidence of producer loss based upon total farm revenue. Disaster assistance should focus on the gap between expected farm revenue (including insurance indemnities) and the farm's insurance guarantee.*

*Disaster assistance should be designed in a fashion that does not cause disincentives to purchase buy-up insurance coverage or NAP policies. Limits should be established to prevent producers from receiving more in crop sales, insurance indemnities, and disaster assistance than would be expected in a normal production year. However, producers must not be financially penalized for carrying higher insurance coverage. Disaster assistance eligibility should be premised on carrying buy-up insurance if available, excluding participation in pilot insurance programs.*

*NAP insurance coverage should be improved with buy-up coverage available for additional premiums. The buy-up level for NAP should be capped at 65% of yield and 65% of price. NAP coverage for grazing must be improved to be commensurate with similar coverage on annual planted crops.*[5]

A permanent disaster program proposal and examples, based on the above NASDA policy, is attached as **Attachment B** at the end of this testimony. I and the nation's state Agriculture Commissioners strongly encourage you to make this recommendation a part of the next farm bill.

[5] NASDA Policy

One criticism of the current commodity programs is the scenario of losing crop production to weather related disasters, thereby having little or no production to sell. If the commodity prices are high, the producer receives no countercyclical payment, yet has little or no production to sell into the strong market.

In response, the Administration is proposing a revenue-based counter-cyclical program as a replacement for the current price-based counter-cyclical program. The proposal states in part:

*"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."* [6]

This is a valid issue. However, basing assistance on national revenue per acre would still do nothing for producers in local or regional disaster situations when the program is not triggered. For this Administration proposal to be effective, it must base assistance on local revenues per acre rather than national ones.

The Administration also proposes a supplemental insurance product to cover all or part of the crop insurance deductible in the event of a county or area wide loss. If this is an affordable and practical solution, it would likely have already been developed and implemented long ago. The Administration's proposals also do not address livestock losses.

A comprehensive, permanent and predictable disaster program seems a much better solution and would accomplish the Administration's goals of providing assistance to producers experiencing crop losses during times of strong commodity prices.

## *Review and Strengthen Payment Limitations*

Payment limitations must be clearly established and enforceable. Although complex and controversial, this issue needs to be addressed if the negative and often misleading information

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[6] USDA 2007 Farm Bill Proposals

being disseminated by farm policy opponents is to be suppressed. The criticism of current payment limits is not totally unjustified. The following excerpt from the USDA Economic Research Service indicates dramatic trends in commodity program payments:

***"Commodity Payments Are Shifting to Higher-Income Households***
*In 1989, half of commodity payments went to principal operators whose households earned more than $45,808 (in 2003 dollars), and half went to principal operators whose households had incomes below that figure (table 1). To further summarize the distribution of payments in 1989, one quarter went to households earning more than $94,784 (also in 2003 dollars), while 10 percent went to households with incomes above $189,149.*

*Since then, payments have shifted sharply to higher-income farm households. By 2003, half of commodity payments went to households with income above $75,772. One quarter went to households earning more than $160,142, and 10 percent of payments went to households earning more than $342,918."*[7]

The Administration is proposing that aggregate payment limits remain relatively unchanged but that a "means test" be implemented based on a recipient's adjusted gross income for program payments eligibility. There may be some validity to this approach. However, establishing reasonable limits, revising the "three entity rule" and closing generic certificate and other limitation loopholes should be of higher priority. Reasonable and enforceable payment limits would significantly nullify the need for the "means test" approach.

Payment limits should be reviewed and revised to appropriate levels. Gains through the use of generic certificates must be subject to payment attribution. The three-entity rule should be reviewed and eliminated in favor of "direct attribution."

## *Energy Provisions*[8]

**Programs and incentives for next generation technologies**

The convergence of agriculture and energy provides exciting opportunities in both areas. The corn ethanol industry continues to mature and the biodiesel industry is also taking shape. The next generation of biofuels and biobased products is also on the horizon and we need to include programs and incentives in the 2007 farm bill that will allow for the technological advancements necessary to commercialize these new technologies.

[7] 2006 USDA ERS Economic Brief Number 6/Growing Farm Size and the Distribution of Farm Payments
[8] See Complete NASDA Recommendations at www.nasda.org

**25x25 Agriculture Energy Initiative**

NASDA strongly supports the development of biobased industries with specific emphasis on energy production. NASDA and my office is a founding member of the 25x25 agriculture energy initiative, which aims to generate 25 percent of our country's energy from agricultural sources by the year 2025.

**Cellulosic/energy feedstock production**

The next generation of biofuels will likely utilize other feedstocks in addition to corn and oilseeds including perennial energy crops, crop aftermath and wood wastes. NASDA supports allowing the use of Conservation Reserve Program (CRP) lands for the production of energy and biobased crops with commensurate payment reductions. NASDA also supports the development of a cellulosic/energy feedstock production base enrollment program using long term contracts to support that industry.

**On-farm energy and federal biofuels incentives**

NASDA supports the establishment of on-farm incentives to produce and utilize solar, wind and biobased energy and making permanent the federal tax credits for ethanol and biodiesel.

## *Other Recommendations*

**Livestock**

- Country Origin of Labeling (COOL) must be immediately implemented.
- A livestock indemnity program should be included in a permanent disaster program.
- The ban on interstate shipment of state-inspected meat should be repealed.

**Crop Insurance**

- Crop insurance improvements are a continuing and needed work-in-progress with major legislation historically addressed separately from the farm bill. Establishment of a comprehensive, predictable, and permanent disaster program would alleviate substantial pressure from crop insurance to address "shallow losses" and disaster situations.

**Conservation**

- Inadequate funding for conservation programs such as the Conservation Security Program and Environmental Quality Incentive Program has precluded full producer participation. The scope and eligibility of all conservation programs should be expanded. However, adequate funding must be available to bring these programs to full potential.

## *Summary*

A comprehensive economic safety net is critical for production agriculture in the next farm bill. The current commodity programs have been working well and as intended. They provide economic assistance when most needed and save taxpayer dollars in times of better commodity prices. We should not abandon what has been working well. Rather, we should build on successful fundamental programs by updating and improving them to meet current and future economic challenges.

Agriculture's role in the biofuels industry should be advanced in a manner that continues to financially contribute to individual producers and local economies. Local ownership of processing plants and related enterprises must be encouraged if agriculture and rural communities are to share in the wealth and revitalization that the renewable fuels industries offer.

Senator Conrad and members of the Committee, this concludes my testimony. Thank you for this opportunity. I would be pleased to take any questions.

## National Association of State Departments of Agriculture
## 2007 Farm Bill Highlights

**Introduction**

Agriculture is an important force in the economic, social, and political fabric of America and is considered one of the protected "critical assets" of this Nation as outlined by the Department of Homeland Security (DHS). The commissioners, secretaries, and directors of the state departments of agriculture are keenly aware of the changing dynamics in food, fiber and fuel production around the world. As the chief agricultural officials in their states, they understand the importance of the entire food and agricultural sector, not only to their states but to the national economy as well. From this vantage point the National Association of State Departments of Agriculture's (NASDA) puts forward a comprehensive set of strategic policy initiatives designed to enhance U.S. agricultural competitiveness and profitability and to ensure the survivability of U.S. producers.

NASDA's purpose is to contribute to a wide-ranging and constructive debate on agricultural policy and the next farm bill. As representatives of the state departments of agriculture, NASDA members seek to outline what issues must be addressed in the next farm bill for the United States in order to allow the best avenue for protecting agriculture as a critical asset to the safety and security of this Nation and its people.

NASDA's recommendations offer a broad, opportunity-based agricultural policy focusing on expanding and improving the safety net for farmers and ranchers. NASDA's recommendations also outline bold, new ideas to address environmental and food safety challenges. For the first time, NASDA's recommendations emphasize development of renewable energy resources, nutrition initiatives, and an expanded invasive species program.

NASDA's Farm Bill recommendations encompass 209 specific recommendations in nine general policy areas. The recommendations in this paper are the highlights of NASDA's full recommendations. For the full text of NASDA's recommendations, please go to www.nasda.org/fb2007/.

**Economic Safety Net for Producers**

- Maintain marketing loans and counter-cyclical payments
- Expand crop insurance options with an emphasis on whole farm revenue insurance
- Enact a permanently authorized disaster assistance program
- Payment limits must be clearly established and enforceable; the "three-entity rule" needs to be revised.
- GAO needs to study and report on the impact of direct payments on land values to provide a baseline for future policy discussions.

**Access to International Markets for U.S. Agricultural Products**

- Support continuation of trade promotion authority
- Continue funding for Market Access Program (MAP) and Foreign Market Development Program
- Maintain and enhance FAS Agricultural Trade Offices overseas
- Market Access for US biotech crops is important

**Support for Specialty Crops**

- Block grants to states, including a base grant of $2 million to each State
- Ensure that specialty crop producers have comparable access to USDA benefits

**Enhancing Environmental Quality through Partnerships with States**

- Expand scope and eligibility of Conservation Security Program (CSP)
- Enact stewardship partnership agreements with States
- Enhance the Farmland Protection Program
- Improve current USDA conservation programs

Attachment A

**Rural Development**
- Enact farm/ranch profitability grants
- USDA-Rural Development programs need to be available for rural areas in proximity to metropolitan areas

**Providing Safe, Healthy, and Nutritious Food**
- Expand the DoD Fresh and USDA Fruit and Vegetable pilot programs to all states
- Improve funding and delivery of nutrition programs
- Allow interstate sales of state-inspected meat and poultry
- Enact pre-harvest food quality assurance partnerships with States

**Support for Bio-industry Development with Emphasis on Energy Production**
- Implement the 25x25 agriculture energy initiative with emphasis on the development of alternative fuels from agriculture commodities and other biomass
- Make permanent the tax credits for ethanol and biodiesel
- Establish on-farm incentives to produce and utilize solar, wind, and biobased energy, including allowing use of CRP land for production of energy and biobased crops with commensurate payment reductions
- Develop a cellulosic/energy feedstock production base enrollment program using long term contracts

**Identification and Removal of Invasive Species**
- Enhance non-native pest and disease identification and eradication/control programs consistent with safeguarding principles, e.g. expand prevention and early detection and rapid response programs
- Expand funding sources through a streamlined, dedicated appropriation with block grants to states to expand programs
- Continue emphasis on sound-science and SPS harmonization in trade agreements
- Improve inspection of cargo arrivals

**All-Hazards Security Programs**
- Expand state emergency programs for food and agriculture consistent with federal emergency preparedness and response programs
- Enhance animal identification programs to assure state and federal animal health objectives are met

**Research and Information**
- Ensure data collection needs are met
- Increase funding in research, extension, and education programs

**Biotechnology**
- Create a federal office to assure communications, cooperation and coordination of information between federal and state agencies

**Other Critical Issues – Labor and Transportation**
- Availability of agricultural labor force through guest worker program
- Rivers, Rails and Roadways: Critical investments needed to maintain agriculture's competitiveness in world marketplace

**Role of States**
- State departments of agriculture should be full partners with USDA in program delivery to producers through partnership agreements, block grants, and pilot projects

Based on NASDA Policy

***Principles***

- Should not undermine crop insurance or NAP coverage.

- Focus on the gap between insurance guarantee and the whole-farm's "expected revenue".

- Should provide equitable assistance based on individual risk management decisions.

- Should be predictable.

***Example Benchmarks***

- Livestock losses covered under companion indemnity program.
    - Forage/grazing covered by this proposal.

- Participation in crop insurance and/or NAP programs is required for disaster assistance eligibility.

    - The exception to crop insurance participation is pilot programs. However, once a pilot program is off pilot status and is a standard available product, participation is required.

- Expected revenue is projected on the whole farm's total combined revenue based on each crop's insurance APH, price, and planted acreage at 100%.

    - Revenue protection is 90% of the whole-farm's expected revenue.

    - 75% insurance level is the preferred level which provides 100% of revenue protection

    - For insurable crops, revenue protection is factored according to level of insurance purchased other than the 75% level.

    - NAP is not factored since "buy-up" coverage is not currently available. Should NAP buy-up coverage be established, basic NAP coverage would also be factored.

Attachment B

- Assistance eligibility is on an individual whole-farm basis by producer proof of loss as determined by FSA.
  - Eligibility is not triggered until all revenue from crops and insurance indemnities fall below the revenue protection level.
  - Receipt of insurance indemnities do not necessarily mean disaster assistance is triggered (whole-farm revenue may be offset by other crop revenue and insurance indemnities).
  - FSA to have the ability to make an upward adjustment to the revenue protection level percentage in counties receiving a Presidential or Secretarial Disaster Designation. Individual farms would still be required to demonstrate a qualifying loss.

**SUMMARY**

This proposal is premised on the need for a permanent solution for dealing with agricultural disaster situations. Ad-hoc disaster assistance is unpredictable and tends to be delivered in a "blanket" approach leading to inequitable assistance distribution. Development of "affordable" crop insurance coverage for the actuarially high-risk upper end of production seems unlikely.

Disaster assistance should focus on those losses that crop insurance is unable to cover at a premium rate affordable to producers. This means that disaster assistance must be complimentary to and directly relative to the crop insurance program.

It is critical that disaster assistance not undermine the benefits of purchasing higher levels of insurance. Likewise, the combined revenue of crop sales, insurance indemnities, and disaster assistance should not exceed what would be expected in a normal production year.

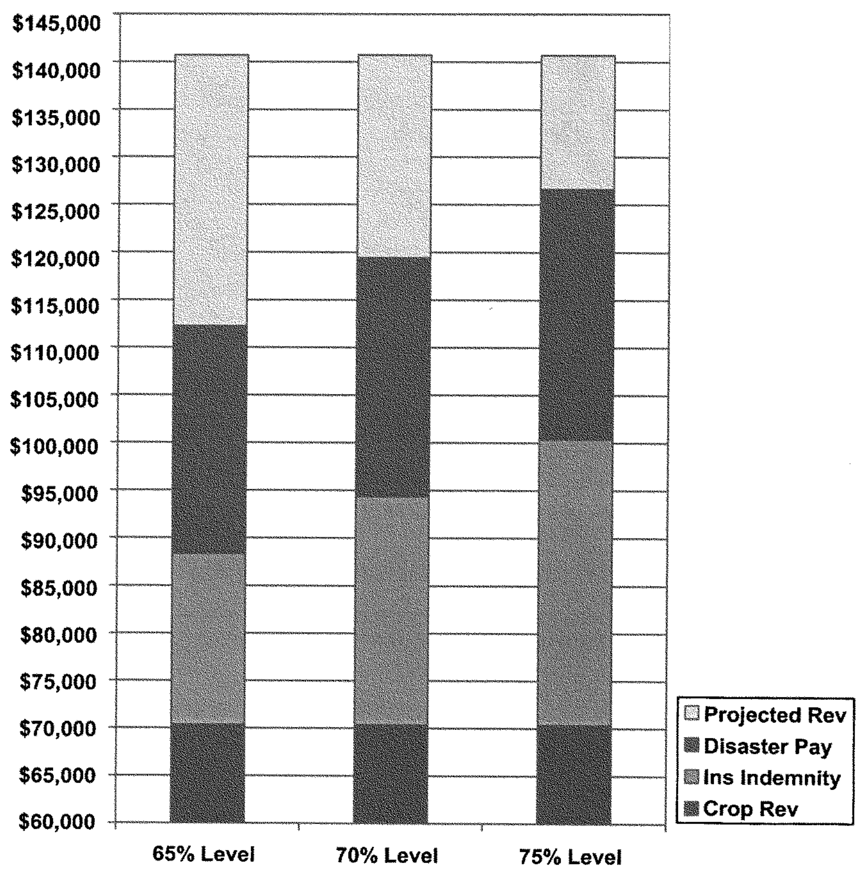
Basing disaster assistance on the whole-farm's revenue and by factoring assistance according to insurance levels provides producers with incentives to purchase insurance, and consequently disaster protection, at levels to meet their management needs. It also diminishes financial penalties for high-level insurance purchasers that can result from simple revenue caps.

Sample Farm with 50% yield loss on both wheat and buckwheat.

Total Projected Revenue of $140,700.

Three insurance levels on wheat (65%, 70% & 75%) .

NAP coverage on buckwheat.




Attachment B

## DISASTER AID CALCULATION PROCEDURES AND EXAMPLES.

28-Mar-07

The gap between 75% insurance level (preferred) and 90% of the projected revenue is covered at 100%.
The gap between NAP coverage and 90% of projected revenue is also covered at 100% since buyup is not available.
Disaster assistance is factored for "insurable crops" at insurance levels other than 75%.
The factor is derived by dividing the purchased insurance level by the preferred level (75%).

Revenue protection is factored at the following rates: (rounded)

| | | | |
|---|---|---|---|
| NAP 50/55 | 100% | 70/100 | 93% |
| 55/100 | 73% | 75/100 | 100% |
| 60/100 | 80% | 80/100 | 107% |
| 65/100 | 87% | 85/100 | 113% |

### Example Farm Total Projected Revenue

| CROP | ACRES | APH YIELD | EXPECTED/INS PRICE | PROJECTED REVENUE |
|---|---|---|---|---|
| Buckwheat | 200 | 900 | $ 0.115 | $ 20,700.00 |
| HRSW | 1000 | 30 | $ 4.000 | $ 120,000.00 |
| | | ***TOTAL PROJECTED REVENUE*** | | ***$ 140,700.00*** |

### Whole-farm Revenue Protection Calculation

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Buckwheat | 200 | 900 | $ 0.115 | NAP | $ 5,692.50 | 0% | $ 20,700.00 | $ 18,630.00 |
| HRSW | 1000 | 30 | $ 4.000 | **65/100** | $78,000.00 | 87% | $ 103,999.92 | $ 93,599.93 |
| | | | Total @ 65/100 | | **$ 83,692.50** | | **$ 124,699.92** | ***$ 112,229.93*** |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Buckwheat | 200 | 900 | $ 0.115 | NAP | $ 5,692.50 | 0% | $ 20,700.00 | $ 18,630.00 |
| HRSW | 1000 | 30 | $ 4.000 | **75/100** | $90,000.00 | 100% | $ 120,000.00 | $ 108,000.00 |
| | | | Total @ 75/100 | | **$ 95,692.50** | | **$ 140,700.00** | ***$ 126,630.00*** |

### Disaster Payment Calculations @ a 50% Yield Loss

**65/100 insurance on wheat**
NAP on buckwheat

| CROP | ACRES | YIELD | EXPECTED/INS PRICE | EXPECTED REVENUE | YIELD LEVEL | PRICE LEVEL | INSURANCE GUARANTEE | |
|---|---|---|---|---|---|---|---|---|
| Buckwheat | 200 | 900 | $0.115 | $20,700.000 | 50% | 55% | $5,692.50 | |
| HRSW | 1000 | 30 | $4.00 | $120,000.000 | 65% | 100% | $78,000.00 | |
| | | | | | | | **$83,692.50** | |
| **CROP** | **ACRES** | **YIELD** | **ACTUAL PRICE** | **ACTUAL REVENUE** | **YIELD LEVEL** | **PRICE LEVEL** | **INSURANCE INDEMNITY** | **TOTAL REVENUE** |
| Buckwheat | 200 | 450 | $0.115 | $10,350.000 | 50% | 55% | $0.00 | |
| HRSW | 1000 | 15 | $4.00 | $60,000.000 | 50% | 100% | $18,000.00 | |
| | | | | **$70,350.000** | | | $18,000.000 | **$88,350.000** |
| **DISASTER REVENUE PROTECTION** | | $ | 112,230.00 | | | | | |
| **CROP AND INSURANCE REVENUE** | | | $88,350.000 | | | | | |
| **DISASTER PAYMENT** | | ***$*** | ***23,880.00*** | | | | | |

**75/100 insurance on wheat**
NAP on buckwheat

| CROP | ACRES | YIELD | EXPECTED/INS PRICE | EXPECTED REVENUE | YIELD LEVEL | PRICE LEVEL | INSURANCE GUARANTEE | |
|---|---|---|---|---|---|---|---|---|
| Buckwheat | 200 | 900 | $0.115 | $20,700.000 | 50% | 55% | $5,692.50 | |
| HRSW | 1000 | 30 | $4.00 | $120,000.000 | 75% | 100% | $90,000.00 | |
| | | | | | | | **$95,692.50** | |
| **CROP** | **ACRES** | **YIELD** | **ACTUAL PRICE** | **ACTUAL REVENUE** | **YIELD LEVEL** | **PRICE LEVEL** | **INSURANCE INDEMNITY** | **TOTAL REVENUE** |
| Buckwheat | 200 | 450 | $0.115 | $10,350.000 | 50% | 55% | $0.00 | |
| HRSW | 1000 | 15 | $4.00 | $60,000.000 | 50% | 100% | $30,000.00 | |
| | | | | **$70,350.000** | | | $30,000.000 | **$100,350.000** |
| **DISASTER REVENUE PROTECTION** | | $ | 126,630.00 | | | | | |
| **CROP AND INSURANCE REVENUE** | | | $100,350.000 | | | | | |
| **DISASTER PAYMENT** | | ***$*** | ***26,280.00*** | | | | | |

Attachment B

NORTH DAKOTA
GRAIN GROWERS

www.ndgga.com

***Working for you, the producer!***

May 15, 2007

Mr. Chairman and members of the Committee, my name is Michael Martin. Along with my wife and daughters, I operate a diversified farming operation which grows wheat, corn, soybeans and sunflowers. Our farm is located near Forbes, ND and our operation includes land in North Dakota and South Dakota. I currently serve as the President of the North Dakota Grain Growers Association. I thank you for this opportunity to provide testimony concerning the upcoming 2007 Farm Bill.

**Commodity Title**

In recent testimony I provide the US House Agriculture Subcommittee on General Farm Commodities and Risk Management. It was demonstrated then that Specialized Wheat farms saw a 58 percent deficit in net income compared to other wheat farms. My reference material for supporting these comments are contained in the December 2005 publication from the USDA Economic Research Service entitled 'Wheat Backgrounder.' The publication makes comparison of farms where different cropping practices are followed. These cropping practices compare 'Specialized Wheat Farms' (farms that have at least half of their total value of production from wheat in 2003) against 'Other Wheat Farms' (those with less than half of their total of production from wheat in 2003). The research comparisons were based on farm data from Kansas and North Dakota.

I would like to draw your attention to the disparity in net far income found on page 29 of the publication. Net farm income for Specialized Wheat Farms, 2003 at $27,507 is a whopping 58 percent lower than Other Wheat Farms, which showed a net of $65,481. The entire report can be found at the following link:
http://www.ers.usda.gov/publications/whs/dec05/whs05K01/whs05K01.pdf

The disparity between the two wheat farm types is quite apparent. It cannot be attributed to any one factor. However it does indicate that Direct Payment and Target Price levels for wheat need to be reevaluated in the upcoming 2007 Farm Bill.

Recent estimates made by the USDA paint a similarly gloomy outlook for the next ten years for the wheat industry in general. All wheat net income for the 10-year projected time frame comes in at forty-nine percent of the average of other major crops (barley, corn, soybeans, rice and cotton) in the US.

*NDGGA provides a voice for wheat and barley producers on domestic policy issues – such as crop insurance, disaster assistance and the Farm Bill – while serving as a source for agronomic and crop marketing education for its members.*

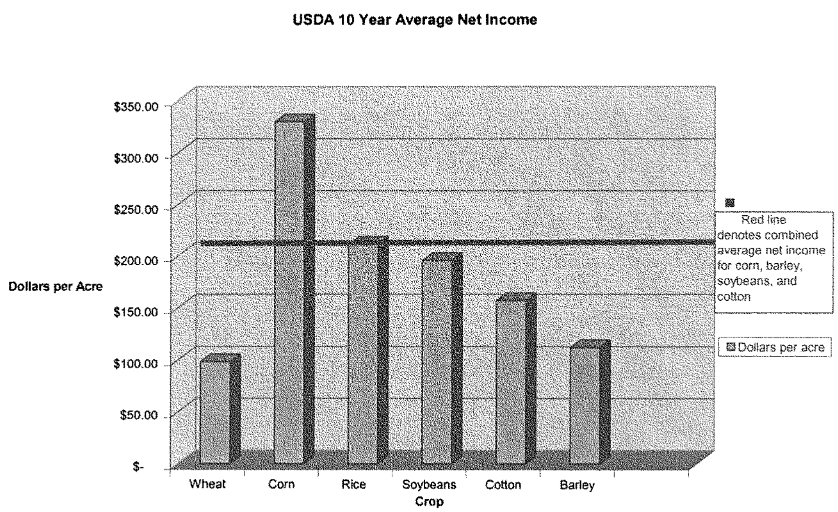
Phone: 701.222.2216 | Toll Free: 866.871.3442 | Fax: 701.223.0018 | 4023 State Street, Suite 100, Bismarck, ND 58503

Source: http://www.ers.usda.gov/publications/oce071/oce20071.pdf

USDA TEN YEAR AVERAGE 2007/16

NET INCOME

| WHEAT | CORN | BARLEY | SOYBEANS | RICE | COTTON |
|---|---|---|---|---|---|
| $98.21 | $329.31 | $111.91 | $195.26 | $211.02 | $156.84 |
| CORN, BARLEY, SOYBEANS AND COTTON AVE NET INCOME | | | | $200.87 | |




It has been acknowledged by the US Secretary of Agriculture and numerous Congressional Leaders that wheat was not treated equitably in the '02 bill. The 2007 Farm Bill proposal endorsed by the North Dakota Grain Growers Association and adopted by our national organization, the National Association of Wheat Growers, (NAWG) would bring some equity back to the wheat industry. The proposal would raise direct payments to $1.19 per bushel, and the target price to $5.29. We at the NDGGA feel that these increases are appropriate in order to return the Wheat industry to a healthy and sustainable state.

Recent studies performed by Texas A&M economists indicate that without upward revisions in price support mechanisms for Wheat, in 10 years even wheat producers who are in healthy financial condition will be at the point of financial collapse. So, the question of what direction Farm Policy takes in the near term will inevitably determine the future existence of North Dakota's number one agricultural commodity.

Some may question then, 'Why plant wheat?' My response would be, "Because it's one of the major staples of the world's food supply. It is important that we maintain a safe, reliable and affordable domestic supply of this crop often referred to as the 'Staff of Life'.

**Conservation Title**

Mr. Chairman, another major concern with the 2007 Farm Bill is the direction it takes concerning environmental policy. Many in my state have benefited from conservation programs and I personally have benefited from privately funded incentives involving my no-till farming practices. What I fear in placing greater emphasis on conservation title programs is the tremendous cost to our Federal Treasury if all programs are fully implemented.

This financial cost to a future Farm Bill may well mean that Commodity Title programs will not be funded adequately. Conservation program benefits to producers are typically capitalized into a farmer's financial holdings in the form of land values and machinery.

I feel that the Safety Net that past Farm bills have provided may well be lost to Conservation programs. Commodity titles such as Loan Deficiency Payments (LDP's) and Counter Cyclical Payments (CCP's) provide the safety net that is sorely needed by producers when negative market fluctuations and aberrations occur. They not only provide financial stability to producers, but also allow agricultural export trade and infrastructure to perform more efficiently. Also, when market prices are relatively high they can provide huge saving in actual dollars to the Federal Government. I feel that this portion of our Safety Net is the most important part of agricultural policy and should be defended, if at all possible.

In addition, it must be required that all climate change legislation, i.e. carbon credits, clean water credits, etc, be based on sound peer reviewed science. Our economy cannot afford to make agricultural or business changes made due to purely political decisions.

**Energy title**

The recent move toward Biofuels only adds emphasis to the good decisions made in the last farm bills. The ability of our nation's producers to respond to market factors such as the corn demand for ethanol and oilseeds for biodiesel would not be possible without the planting flexibility afforded in recent farm bills. The American farmer has shown throughout history our ability to raise adequate amounts of food, fiber and now Bioenergy fuel supplies.

In return for this adaptability, it is appropriate that our Federal Government provide an adequate Safety Net to agriculture when situations such as market aberrations caused by weather, disease and yes even political decisions both here and overseas throw curveballs at our producers.

In the very near future our producers will be asked to enter into a new phase of the food, fiber and fuel equation. The cellulosic ethanol industry will not be able to grow and develop without the aid of committed producers. It is therefore imperative that forward thinking industry leaders be supported when new ideas and efforts are introduced to move this infant industry forward. One such effort includes a modest proposal being promoted by the National Association of Wheat Growers in their Roadmap to the 2007 Farm Bill:

**TITLE IX – ENERGY**

- NAWG supports utilizing Conservation Reserve Program (CRP) acreage, or land to be enrolled in CRP, for the purpose of planting and harvesting dedicated energy crops including, but not limited to, switchgrass. This should be carried out in a manner that maintains the environmental benefits that CRP is designed to achieve.

- NAWG supports the Commodity Credit Corporation offsetting 40 percent of the cost of cellulosic feedstock for the first year of a cellulosic ethanol refinery's life. A similar program intended for other types of biofuel, the CCC Bioenergy Program, expires in 2006. This program should be reauthorized to support cellulosic ethanol feedstocks, including dedicated energy crops or agricultural/forestry residues. The program could be simplified to provide a per gallon payment rate, consider a payment limit per eligible entity and be terminated as cellulosic ethanol becomes commercially feasible.

- NAWG is highly supportive of programs to encourage the development of a viable renewable energy sector, but strongly opposes the diversion of money from other areas of the Farm Bill for these efforts.

In a nutshell this proposal would ask for a commitment from the farm bill's Energy Title to aid the development and technology needed to raise dedicated biomass energy crops. This proposal may well solve the perceived question of which comes first, the chicken or the egg, when it is determined where and when industry will develop new cellulosic ethanol production areas and plants.

I am sure that other worthy initiatives regarding dedicated biomass crops will come forward. The energy title of the Farm Bill must be designed in such a fashion to be flexible enough to allow agriculture and the industry to adapt to new technology and market factors.

Ceres, a biotech research company, is currently involved with research that could incorporate salt tolerance in dedicated energy biomass crops such as switch grass. In my opinion this genetic modification, if incorporated into a high yielding dedicated Biomass crop, could be a economic boom for portions of ND where alkalinity and saline salt issues are affecting wheat production. The production of salt tolerant dedicated biomass cultivars may well be adopted in areas where irrigation done with less than desirable water quality has led to salt buildups in the soil. A crop rotation involving salt tolerant dedicated energy biomass crops could lead to improved soils and increases in production.

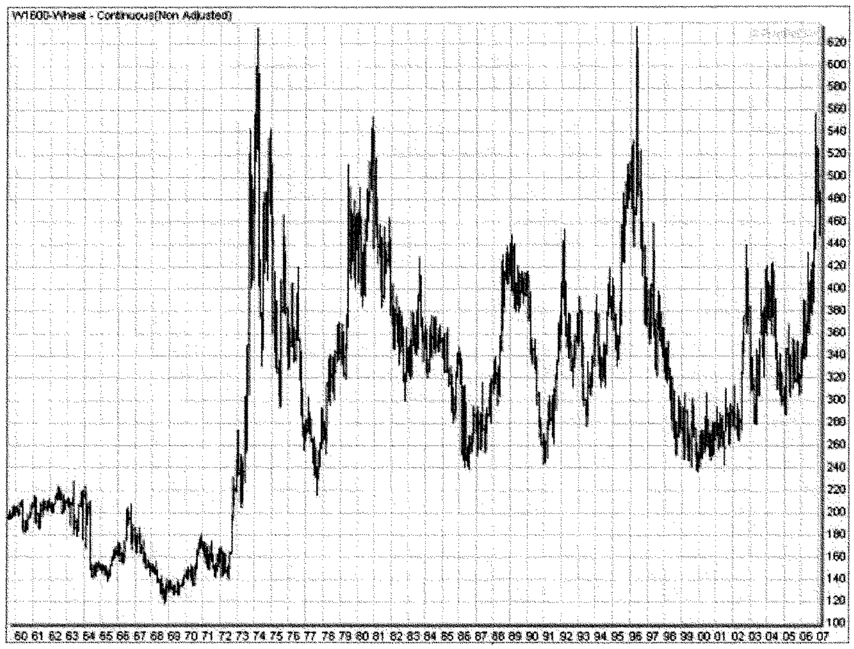
I see this technology also be adapted to soils affected by seasonal excessive moisture problems. These soils are often affected in such a way that farmers are forced to utilize the prevented plant provision of their crop insurance policy. Salt tolerant and water tolerant biomass crops utilized on these soils could be found to be extremely productive as they typically have relatively high water tables throughout the growing season. In addition, crop insurance may be relieved of some of the costly claims incurred when prevented plant claims are made.

It is also apparent that in order for the Cellulosic ethanol industry to thrive, there will have to be an abundant supply of conventional biomass crops, i.e. Wheat, barley, oats straw and corn Stover. It is my experience that where I farm with yearly rainfall amounts in the 16-18 inch range, that crop residue has to be removed in order for soils to be able to warm and dry the following spring. I have personally seen reduced crop emergence and the resultant reduction in crop yields when crop residue is not removed.

I cannot claim that this problem is universal in a no-till farming situation, but logic concludes that excessive crop residue will slow warming and drying of the soil. The farther east you go in North Dakota, in many cases, conventional tillage is still the norm rather than the exception. The removal of excessive crop residue may not only generate additional income per acre in these areas, but allow minimum and no-till farming techniques to be implemented in areas such as the Red River Valley. Conventional tillage now practiced in this area leaves the soil bare and susceptible to wind and water erosion.

**Summary**

Mr. Chairman, in summary, we must take a hard look at history when looking to the future regarding agricultural policy. The recent relative strength in commodity prices must not be assumed to be a new plateau in prices. We need only to look at the following chart reflecting historical wheat prices to prove that point.




It is quite apparent that the price levels we are now seeing have been exceeded twice in the last 25 years. The decline in prices following those price peaks shows the need to be prepared for what most certainly will occur in the future.

Mr. Chairman, thank you again for this opportunity to present testimony to the committee

USA Dry Pea
& Lentil Council

**STATEMENT BY**
**USA DRY PEA & LENTIL COUNCIL**
**TO THE**
**U.S. SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY**
**HEARING CHAIRMAN KENT CONRAD**

**APRIL 3, 2007**

## Introduction.

Mr. Chairman and members of the committee, my name is Paul Thomas. I am a farmer of dry peas, lentils, wheat, barley, corn and minor oilseeds from Velva, North Dakota. Today, I am testifying on behalf of the USA Dry Pea and Lentil Council, a national organization representing producers, processors and exporters of dry peas, lentils and chickpeas across the northern tier of the United States.

The pea and lentil industry believes it is critical for the United States to provide a solid safety net to U.S. producers during periods of low prices and natural disasters. The 2007 Farm Bill should continue to encourage farmers to take advantage of market opportunities and reward them for being good environmental stewards. Today agriculture is enjoying some of the highest commodity prices we have seen in years. Some farmers in my neighborhood are actually bringing the "P" word back into their vocabulary. The "P" word in this case is not a yellow "pea" or a green "pea" but the "P" as in PROFIT. I hope it never ends. But some day it will and, when it does, our farm policy must protect farmers from continued subsidized competition, high tariffs, phyto-sanitary trade barriers and exchange rate manipulation. As Congress writes a new farm bill we ask that it include the following programs in the Commodity Title:

**2002 Farm Bill-** Pulse crops entered the farm program family in 2002. Our organization would like to thank you, Senator Conrad, and your colleagues in the Senate and House for creating the Pulse Marketing Loan/LDP program. The program has provided a needed safety net for producers of dry peas, lentils and chickpeas across the northern tier. In the 2007 Farm Bill we seek to be included and treated equally with other farm program commodities.

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USA Dry Pea & Lentil Council

## 2002 Farm Bill
## Pulse Loan Program

| Loan Rates, Direct Payments and Target Prices for Covered Commodities | | | | | | |
|---|---|---|---|---|---|---|
| | | Loan Rate | | Direct Payment | Target Price | |
| Crop | Unit | 2002-2003 | 2004-2007 | 2002-2007 | 2002-2003 | 2004-2007 |
| Corn | Bu. | $1.98 | $1.95 | $0.28 | $2.60 | $2.63 |
| Sorghum | Bu. | $1.98 | $1.95 | $0.35 | $2.54 | $2.57 |
| Barley | Bu. | $1.88 | $1.85 | $0.24 | $2.21 | $2.24 |
| Oats | Bu. | $1.35 | $1.33 | $0.024 | $1.40 | $1.44 |
| **Wheat** | **Bu.** | **$2.80** | **$2.75** | **$0.52** | **$3.86** | **$3.92** |
| Soybeans | Bu. | $5.00 | $5.00 | $0.44 | $5.80 | $5.80 |
| Minor Oilseeds | lb. | $0.0960 | $0.0930 | $0.0080 | $0.0980 | $0.1010 |
| Cotton | lb. | $0.5200 | $0.5200 | $0.0667 | $0.7240 | $0.7240 |
| Rice | cwt. | $6.50 | $6.50 | $2.35 | $10.50 | $10.50 |
| **Dry Peas** | **cwt.** | **$6.33** | **$6.22** | | | |
| **Lentils** | **cwt.** | **$11.94** | **$11.72** | | | |
| **S. Chickpeas** | **cwt.** | **$7.56** | **$7.43** | | | |

## Title I – Commodity Programs

***Marketing Loan Program/LDP-*** The marketing loan/LDP program provides the best safety net for U.S. pulse farmers facing dips in market prices. The table below shows the pulse loan rates set by law in the 2002 farm program and our request to continue this program at the same levels in the 2007 farm bill:

**Pulse Marketing Loan History and 2007 Farm Bill Request**

| **Pulse Crop** | **Loan Rate Basis (by law)** | **2002-2003** | **2004-2007** | **2007 Farm Bill Request** |
|---|---|---|---|---|
| Dry Peas | Feed Peas/$cwt. | $6.33 | $6.22 | $6.22 |
| Lentils | No. 3 grade/$cwt. | $11.94 | $11.72 | $11.72 |
| Small Chickpeas | No. 3. Grade /$cwt. (below 20/64ths round hole screen) | $7.56 | $7.43 | $7.43 |
| Large Chickpeas (New Program) | No. 3 Grade/$cwt. (above 20/64ths round hole screen) | | | $18.00 |

**Large Chickpeas-** The 2002 farm bill created a marketing loan program for **small chickpeas**. Our organization supports the creation of a marketing assistance loan program for large chickpeas in the 2007 farm bill. We ask that the loan rate be set at **$18.00/cwt.** for **large chickpeas**. The loan rate should be based on a No. 3 grade large chickpea that stays above a 20/64ths round hole sieve.

**2. Pulse Energy Conservation Incentive Payment (PECIP).**
To reduce our dependence on foreign oil, we support a strong energy component in the 2007 Farm Bill. The most effective way to reduce our dependence on foreign oil is to encourage U.S. farmers to implement a sound energy conservation strategy. To encourage energy conservation, we propose the creation of a Pulse Energy Conservation Incentive Payment (PECIP).

Dry peas, lentils and chickpeas are legumes that do not require the use of nitrogen fertilizer in the production cycle. In fact, university research shows that the production of dry peas, lentils and chickpeas provides a 40 pound per acre nitrogen credit for the next crop in the rotation. In addition to conserving energy, pulse crops also fix nitrogen in the soil which provides a significant offset to "Green House Gas" emissions. The program would be delivered as a direct payment to those producers who plant energy conserving crops like dry peas, lentils and chickpeas. The payment would be based on multiplying the nitrogen credit saved by planting a pulse crop (40 lbs/ac.) times the current cost of nitrogen fertilizer ($0.38/lb.). The payment would be roughly $15.00 per acre for pulse crops with current nitrogen fertilizer prices.

**Pulse Energy Conservation Incentive Payment (PECIP)**

| | Pulse Crop Nitrogen Credit Lbs./Acre | Cost of Nitrogen ($ per lb.) | PECIP $/Acre |
|---|---|---|---|
| Dry Peas, Lentils, Chickpeas | 40 lbs | $0.38/lb | $15.00/Acre |

As Congress works on providing new incentives for the creation of biofuels, we ask that equal weight be given to providing incentives to produce pulse crops that conserve our energy resources.

**3. Pulse Direct Payment Program**
Pulse crops are grown in rotation with wheat, barley and minor oilseeds across the northern tier of the United States. Each crop in the rotation has a direct payment except for pulse crops. We support the creation of a direct payment for dry peas, lentils and chickpeas equal to the direct payment received for wheat. The current direct payment for wheat is $0.52 cents per bushel. The table below establishes a pulse direct payment based on the current wheat direct payment program.

**Pulse Direct Payment Program**

| Crop | Pulse Direct Payment | Avg. Yield Per Acre (10 yr) (bu./lbs) | Direct Payment Per Acre |
|---|---|---|---|
| Wheat ($/bu.) | $0.52/bu. ($0.86/cwt.) | 40 bu. (2400/lbs) | $20.00 |
| Dry Peas ($/cwt.) | $1.05/cwt. | 1900/lbs | $20.00 |
| Lentils ($/cwt.) | $1.67/cwt. | 1200/lbs | $20.00 |
| Chickpeas (Small and Large) ($/cwt.) | $2.00/cwt. | 1000/lbs | $20.00 |

**Pulse Base Acres-** Our organization supports the creation of a USDA/FSA base for dry peas, lentils and chickpeas in the 2007 Farm Bill in order to receive a direct payment. Producers should be allowed to sign up their current vegetable base for the pulse direct payment program.

**4. Pulse Counter-Cyclical Program**

The counter-cyclical program provides an additional safety net to producers facing a downturn in the market. We support the creation of a pulse counter cyclical program for dry peas, lentils and chickpeas equal to 130% of the pulse loan rates established in the 2002 farm bill. The following table shows the Pulse Counter Cyclical Target Price based on 130% of the pulse marketing assistance loan rates.

**Pulse Counter Cyclical Program**
**2007 Farm Bill Request**

| **Pulse Crop** | **Counter Cyclical Based On** | **Loan Rate 2004-2007** | **Pulse Counter Cyclical Target Price (130% Loan Rates)** |
|---|---|---|---|
| Dry Peas | Feed Peas/$cwt. | $6.22 | $8.09/cwt. |
| Lentils | No. 3 grade/$cwt. | $11.72 | $15.24/cwt. |
| Small Chickpeas | No. 3. Grade /$cwt. (below 20/64ths round hole screen) | $7.43 | $9.66/cwt. |
| Large Chickpeas | No. 3 Grade/$cwt. (above 20/64ths round hole screen) | $18.00* | $23.40/cwt. |

* Large Chickpeas were not included in the 2002 Farm Bill. The $18.00/cwt. on large chickpeas is a suggested loan rate level for Large Chickpeas for the 2007 Farm Bill.

**5. Remove Chickpeas from Fruit & Vegetable List.**
Producers need planting flexibility to respond to market signals. Over 90% of the chickpeas produced in the United States are grown in WA, ID, MT, ND, and SD. Currently chickpeas are classified as a vegetable crop and are not eligible to be planted on farm program base acres. The growers producing chickpeas in the northern tier primarily produce program crops that are eligible to be planted on farm program base acres. The USADPLC supports the inclusion of chickpeas (Small and Large) as an eligible crop to be planted on farm program base acres in the 2007 Farm Bill.

**In summary**, the USA Dry Pea and Lentil Council believe the 2007 farm bill should continue the current pulse marketing assistance loan program with the addition of large chickpeas. We believe the safety net for pulses should be expanded to include a pulse direct payment and counter cyclical program. We ask Congress to consider our Pulse Energy Conservation Incentive Payment program to encourage producers to conserve energy.

We also have several suggestions on how to improve conservation, market development, food aid, and crop insurance for the pulse industry. These suggestions are provided in my complete testimony.

I would like to thank the committee for the opportunity to speak to you today, and I would be happy to answer any questions.

**Title II - Conservation Programs**

The USADPLC supports farm policy that rewards producers for managing their soils based on long term environmental sustainability on working lands. We offer the following suggestions on how to improve existing conservation programs in the 2007 farm bill:

**Conservation Security Program (CSP).** The USA Dry Pea & Lentil Council (USADPLC) supports equal access and full funding of the CSP program to provide incentives to farmers to achieve improvements in soil, air and water quality. USADPLC supports continuing the CSP with the following improvements:

a. **Fully fund the Program**. CSP should provide equal opportunity to all producers without artificial restrictions to access based on funding limitations. Restricting the program to a limited number of watersheds every eight to ten years gives significant economic advantage to those producers in the watersheds selected.

b. **Realistic Nitrogen Credit**. The current credits for planting an N fixing crop like legumes are not realistic in an annual cropping system. The base requirement exceeds the value of any crop planted for Nitrogen replenishment. There should be a credit to the producer for any reduction of N use due to the rotation.

c. **Develop a wildlife credit for annual cropping**. Annual cropping provides year around cover for many animals. Producers should be encouraged to utilize measures that provide increased wildlife habitat.

d. **Increase technical staffing for CSP**. USDA is implementing this new program while cutting staff. The data collection requirements and the self evaluation process required by the program are daunting for most producers. In addition, NRCS is tasked to provide technical support and distribute funds. USADPLC supports the use of FSA to distribute funds and administer finances and to at least maintain current staff levels at both NRCS and FSA offices to facilitate full implementation of the CSP program.

## Title III - Trade

**Market Development**

**MAP & FMD-** The Market Access Program (MAP) and Foreign Market Development (FMD) Program have allowed our industry to penetrate new markets around the world. We support an increase in MAP program funding to $325 million and an increase in the FMD program to $50 million in the 2007 Farm Bill.

**Food Aid**

Our organization fully supports the continuation of the U.S. P.L. 480 Title I, P.L. 480 Title II, McGovern-Dole Food for Education, and Food for Progress food aid programs. These programs serve as a bridge between the United States and developing countries and help feed starving people with nutritious food from American farmers and food processors.

We believe that U.S. food aid funds, provided by the American taxpayer, should purchase only U.S.-produced commodities for the nation's food aid programs. Therefore, we do not support the use of P.L. 480 Title II funds for local commodity purchases overseas.

In light of the importance of these humanitarian U.S. food aid programs to their recipients overseas and to the U.S. agricultural community, we request Congress to:

1. **Reauthorize P.L. 480 Title I.** This government-to-government program provides U.S. agricultural commodities to developing countries on credit or grant terms. Concessional credit sales are available to those eligible countries that choose to participate in them for food aid purposes. In addition, Title I funds are a major funding source for Food for Progress, which is discussed more below.
1. **Reauthorize P.L. 480 Title II.** This program provides for the donation of U.S. agricultural commodities to meet emergency and non-emergency food needs in other countries, including support for food security goals. We support a program that is predictable and sufficient to address growing global needs for both emergencies and non-emergencies.
2. **Reauthorize Food for Progress' (FFP) Commodity Credit Corporation (CCC) Funding.** The FFP program provides for the donation or credit sale of U.S. commodities to developing countries and emerging democracies to support democracy and to assist with the expansion of private enterprise. In addition to its CCC funding, FFP also has received as much as 40% of its funds from P.L. 480 Title I. In the President's FY2008 budget proposal total FFP funds have been decreased by the amount received from Title I, leaving only CCC as the program's funding source.
3. **Reauthorize and Give Permanent Authority for Administration of the McGovern-Dole Food for Education (FFE) Program to the U.S. Department of Agriculture.** The FFE program helps support education, child development, and food security for some of the world's poorest children. It provides for donations of U.S. agricultural products, as well as financial and technical assistance, for school feeding and maternal and child nutrition projects in low-income, food-deficit countries that are committed to universal education. In the 2002 Farm Bill, the President has the authority to designate the administering federal agency. We believe this authority should be given to the U.S. Department of Agriculture permanently.

**Title VII – Research**

To compete successfully in the global economy we need to increase our investment in agricultural research. The USDA Agriculture Research Service and our Land Grant Universities have faced flat or decreasing budgets for years. We support increasing agricultural research budgets in the next farm bill.

**Title X – Crop Insurance**

Our organization supports establishing Federal Crop Insurance programs for all dry peas, lentils, and chickpeas that manage risk at an affordable price. We recommend the following issues be addressed to improve crop insurance for pulse producers:

1. **Pulse Long Term Revenue (LTR) Coverage-**

The 2002 Farm Bill required RMA to develop new "revenue" policies for non-program crops. Revenue coverage is not presently an option for producers of dry peas, lentils or chickpeas. Our organization has been working with RMA to create a "revenue" program for pulses since 2001. Our commodity was chosen to participate in an RMA initiative to develop a new revenue based insurance program for pulses. Unfortunately, we still do not have a revenue insurance program for dry peas or lentils. The 2007 Farm Bill needs to put additional pressure on RMA to create new programs for minor crops with firm deadlines.

**2. APH Crop History-** Pulse producers are required by RMA to have 4 years of production data to establish an Actual Production History (APH). Pulse crops are grown in a 3, 4 and sometimes 5 year crop rotation. It could take 12 to 20 years to establish an APH for a new grower. Last year RMA created a pilot program in North Dakota that would allow producers to generate an APH history in a shorter amount of time. Under the "Personal T Yield" pilot program a producer can generate production history each year for all units across his farm even if the unit did not produce pulses. This pilot program needs to be expanded to all growing regions raising pulses in the 2007 Farm Bill.

**3. Optional Unit Structure Written Agreements-**
**Background-** In 2005/2006 the RMA rewrote the Optional Unit Structure Written Agreements to make them consistent throughout the country. There are many farms across the northern tier of the U.S., especially in the PNW, that do not fit the existing U.S. Rectangular Survey System that splits unit divisions based on sections or section equivalents. The rectangular survey system may work in flat regions of the country, but it fails miserably in the hills and valleys across the northern tier where producers farm outside section lines due to the varied topography. The RMA has decided to raise a "unit" under these agreements from 160 acres to 320 acres. The 320 acre unit sized is not fair to producers who face highly variable topography. Optional Unit Structure Written Agreement size should be lowered from 320 acres to a 100 acre minimum for those areas of the country with varied topography.

I would like to thank the committee for the opportunity to provide this testimony to you today.

Northern
CANOLA GROWERS
Association

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# Oilseed Producer Proposal for the 2007 Farm Bill

## Introduction

Oilseed producers support the basic structure of the 2002 Farm Bill. They are familiar with the price and income support provided by the marketing loan and counter-cyclical programs, and with the production and yield protection provided by federal crop insurance and disaster assistance. However, they are not satisfied with the level of support provided to oilseeds under the 2002 Act, and urge Congress to adjust these levels, as proposed below.

## Background

Oilseed producers are disadvantaged under the 2002 Farm Bill. In exchange for significant reductions in oilseed marketing loan rates, the 2002 Act included oilseeds in the counter-cyclical program and established direct payments on oilseed base acres. However, the levels of these supports are well below those provided to other program crops, based on either relative value or prices (see attached Table 1). As a result, oilseed producers have less income support under the 2002 Farm Bill than they did under the 1996 Act ("Freedom to Farm"). There have been no CCPs to oilseed producers under the 2002 Farm Bill.

In addition to the disparity in income support, marketing loan rates for various commodities have become distorted when compared to recent average prices (see Table 1). These distortions can cause major shifts in planting decisions between crops, particularly when prices are expected to be near or even below loan levels. Canola and sunflower have lost significant acreage under the 2002 Farm Bill due to loan rates that are relatively low compared to soybeans, corn, and pulse crops.

## The Oilseed Commodity Program Proposal

To address these inequities, oilseed producers support adjusting marketing loan rates and target prices upward to common percentages of recent average prices. The five-year period of 2000-2004 is selected because it includes several relatively "low price" years as well as several "high price" years. An Olympic average of season average pries in these five years is used to further reduce distortions.

**Marketing Loan Program**

For the marketing loan program, the proposal sets loan rates at not less than 95% of 2000-2004 Olympic average prices. As indicated in Table 2, the current soybean loan rate of $5.00/bu. would increase under the proposal by only $0.01, to $5.01/bu. Loan rates for other crops, including canola and sunflower, would increase more significantly. Cotton and rice loan rates would not be affected by the proposal, since they exceed 95% of recent average prices.

Using FAPRI's mid-December revised baseline, AgRisk Management estimates the net increase in farm program costs from these loan rate adjustments at $158 million per year. As indicated in Table 3, most of this cost reflects increases in marketing loan gains by wheat, barley, corn, peanut, and minor oilseed (sunflower) producers.

**Counter-Cyclical Program**

For the counter-cyclical program, the proposal sets target prices at not less than 130% of 2000-2004 Olympic average prices. Table 2 indicates that the current soybean target price of $5.80/bu. would increase under the proposal by $1.05, to $6.85/bu. Target prices for other crops, including canola and sunflower, would also increase. Cotton and rice target prices would not be affected, since they exceed 130% of recent average prices.

Using FAPRI's revised baseline, AgRisk Management estimates the cost of these target price adjustments at $736 million per year. As indicated in Table 4, most of this cost reflects increases in CCPs to soybean, corn, wheat, barley, peanut, minor oilseed (sunflower), and oat producers. Combining these adjustments with the proposed changes in marketing loan rates, the total cost increase averages $894 million per year (see Table 5).

**Direct Payments**

Direct payments provide no direct or even deferred price or income support to producers of the program crops they are based on. As fixed payments tied to historical base acres, they contribute to higher land values and costs, and are easily factored into higher rents. This increases the production cost and reduces the competitiveness of U.S. agricultural commodities, and prices farmland out of the reach of young producers.

Moreover, with the finding of the WTO cotton panel that direct payments are not fully decoupled, it is likely that a future panel would require them to be counted under the production-distorting Amber Box. And eliminating the planting restriction on fruit and vegetable crops in order to qualify direct payments as a Green Box program could require compensation to specialty crop producers of one-half or more of their $5.2 billion per year cost.

In the event budget restrictions limit resources available to cover the cost of program improvements in the 2007 Farm Bill, oilseed producers are willing to consider proposals that would redirect direct payment funds. In this event, the marketing loan and counter-cyclical program adjustments advanced in this proposal should be fully funded. Other initiatives that oilseed producers support include authorization of permanent disaster assistance, increased funding of the Conservation Security Program, and the establishment of more robust programs to encourage production of energy crops and renewable fuels.

Table 1. Crop Support Levels Under the 2002 Farm Bill

| Commodity | 2000-04 Olympic Average Price | 04-07 Loan Rate | Loan Rate as a % of Ave Price | Direct Payment | Direct Payment as a % of Ave Price | 04-07 Target Price | Target Price as a % of Ave Price |
|---|---|---|---|---|---|---|---|
| Wheat (bu.) | $3.19 | $2.75 | 86% | $0.52 | 16% | $3.92 | 123% |
| Corn (bu.) | $2.12 | $1.95 | 92% | $0.28 | 13% | $2.63 | 124% |
| Soybeans (bu.) | $5.27 | $5.00 | 95% | $0.44 | 8% | $5.80 | 110% |
| Cotton (lb.) | $0.4680 | $0.5200 | 111% | $0.0667 | 14% | $0.7240 | 155% |
| Rice (cwt.) | $5.81 | $6.50 | 112% | $2.35 | 40% | $10.50 | 181% |
| Barley (bu.) | $2.47 | $1.85 | 75% | $0.24 | 10% | $2.24 | 91% |
| Grain Sorghum (bu.) | $2.02 | $1.95 | 97% | $0.35 | 17% | $2.57 | 127% |
| Oats (bu.) | $1.52 | $1.33 | 88% | $0.024 | 2% | $1.44 | 95% |
| Minor Oilseeds (SF price/cwt.) | $11.27 | $9.30 | 82% | $0.80 | 7% | $10.10 | 90% |
| Dry Peas (cwt.) | $6.19 | $6.22 | 100% | NA | | NA | |
| Lentils (cwt.) | $12.90 | $11.72 | 91% | NA | | NA | |
| Feed Peas (cwt.) | $5.19 | $6.22 | 120% | NA | | NA | |

Table 2. Adjusting Loan Rates to 95% & Target Prices to 130% of 2000-04 Olympic Average of Prices

| Commodity | 2000-04 Olympic Average Price | Direct Payment Rate | *04-07 Loan Rate* | Proposed 2008 Loan Rate | % of Olympic Average Price | *04-07 Target Price* | Proposed 2008 Target Price | % of Olympic Average Price |
|---|---|---|---|---|---|---|---|---|
| Wheat (bu.) | $3.19 | $0.52 | *$2.75* | $3.03 | 95% | *$3.92* | $4.15 | 130% |
| Corn (bu.) | $2.12 | $0.28 | *$1.95* | $2.01 | 95% | *$2.63* | $2.75 | 130% |
| Soybeans (bu.) | $5.27 | $0.44 | *$5.00* | $5.01 | 95% | *$5.80* | $6.85 | 130% |
| Cotton (lb.) | $0.4680 | $0.0667 | *$0.5200* | $0.5200 | 111% | *$0.7240* | $0.7240 | 155% |
| Rice (cwt.) | $5.81 | $2.35 | *$6.50* | $6.50 | 112% | *$10.50* | $10.50 | 181% |
| Barley (bu.) | $2.47 | $0.24 | *$1.85* | $2.35 | 95% | *$2.24* | $3.21 | 130% |
| Grain Sorghum (bu.) | $2.05 | $0.35 | *$1.95* | $1.95 | 95% | *$2.57* | $2.66 | 130% |
| Oats (bu.) | $1.52 | $0.024 | *$1.33* | $1.44 | 95% | *$1.44* | $1.97 | 130% |
| Minor Oilseeds (sunflower price/cwt.) | $11.27 | $0.80 | *$9.30* | $10.71 | 95% | *$10.10* | $14.66 | 130% |
| Peanuts (lb.) | $0.205 | $0.0180 | *$0.18* | $0.195 | 95% | $0.2475 | $0.267 | 130% |

Table 3. Change in Cost to Adjust Marketing Loans

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|
| | | | ($ million) | | | |
| All Crops | 174 | 156 | 156 | 153 | 154 | 153 |
| Soybean | 5 | 5 | 5 | 6 | 6 | 6 |
| Corn | 34 | 29 | 29 | 28 | 31 | 32 |
| Wheat | 66 | 55 | 50 | 44 | 40 | 37 |
| Cotton | 0 | 0 | 0 | 0 | 0 | 0 |
| Rice | 0 | 0 | 0 | 0 | 0 | 0 |
| Barley | 36 | 35 | 36 | 36 | 37 | 36 |
| Oats | 2 | 2 | 1 | 1 | 1 | 1 |
| Peanuts | 24 | 23 | 26 | 28 | 27 | 27 |
| Sorghum | 0 | 0 | 0 | 0 | 0 | 0 |
| Sunflower | 8 | 8 | 9 | 10 | 11 | 12 |

Table 4. Change in Cost of Counter-Cyclical Program to Adjust Target Prices

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|
| | | | ($ million) | | | |
| All Crops | 713 | 685 | 703 | 744 | 769 | 803 |
| Soybean | 395 | 400 | 421 | 468 | 486 | 520 |
| Corn | 108 | 92 | 90 | 88 | 93 | 95 |
| Wheat | 82 | 71 | 66 | 60 | 56 | 53 |
| Cotton | 0 | 0 | 0 | 0 | 0 | 0 |
| Rice | 0 | 0 | 0 | 0 | 0 | 0 |
| Barley | 45 | 44 | 46 | 47 | 50 | 50 |
| Oats | 20 | 18 | 17 | 17 | 17 | 17 |
| Peanuts | 40 | 40 | 40 | 41 | 41 | 41 |
| Sorghum | 6 | 5 | 5 | 5 | 5 | 4 |
| Sunflower | 17 | 16 | 17 | 19 | 21 | 23 |

Table 5. Overall Annual Average Change in Farm Program Costs

| | Baseline |
|---|---|
| Marketing Loan Program | |
| $ Million | 158 |
| Percent | 11% |
| | |
| Countercyclical Program | |
| $ Million | 736 |
| Percent | 51% |
| | |
| Total | |
| $ Million | 894 |
| Percent | 32% |

**Biodiesel Incentive Program**

**NCGA Position:** The NCGA supports authorizing a Biodiesel Incentive Program under which the Commodity Credit Corporation (CCC) would make commodity reimbursements to domestic biodiesel producers to offset foreign government incentives provided to biodiesel exported to the U.S.

- Unlike ethanol, biodiesel does not have an import tariff to offset the value of its tax incentive. Biodiesel importers who pay the U.S. duty of only 4.5% are eligible for the $1.00 per gallon agri-biodiesel tax credit. Since the tax incentive was enacted in 2003, the U.S. has imported biodiesel from the EU, Malaysia, and Ecuador.

- Biodiesel production and exports are subsidized in the EU and other countries. Argentina taxes biodiesel exports at 5%, but also taxes exports of soybean oil at 24%. This 19% Differential Export Tax provides an incentive worth $0.43 per gallon for Argentine soybean processors to convert soybean oil into biodiesel prior to export.

- As under the expiring Bioenergy Program, the Biodiesel Incentive Program would authorize CCC to use eligible commodities to reimburse U.S. biodiesel producers on all domestic biodiesel production. The reimbursement would equal the $0.43 per gallon benefit to biodiesel exported under Argentina's DET export subsidy program.

- The Biodiesel Incentive Program would also help the new U.S. biodiesel industry survive periods when the price relationship between soybean or canola oil diesel and petroleum diesel is negative for biodiesel production. This is participarly important as investors are responding to the new biodiesel tax incentive by building biodiesel plants in rural America.

- Based on expected production of 300 million gallons in 2007, the cost of the Biodiesel Incentive Program this year would be $129 million. This is less than the $150 million authorized to fund the Bioenergy Program.

# DOCUMENTS SUBMITTED FOR THE RECORD

APRIL 3, 2007

**Testimony Dakota Resource Council (DRC)**
**Biofuels Task Force**
**Official Hearing of the Senate Committee on Agriculture**
**April 3, 2007 Fargo, ND**

Dakota Resource Council is an alliance of citizens committed to safeguarding of North Dakota's families, communities and its air, water and land. DRC represents farmers, ranchers, and consumers across the state of North Dakota. DRC has a long history of supporting family agriculture and fair, open markets. We appreciate the opportunity to comment on the upcoming Farm Bill.

The addition of Section 9006 (Title IX), Renewable Energy Systems and Energy Efficiency Improvement Programs in the current farm bill has been a great opportunity for rural North Dakota. To date there have been seven Section 9006 grants distributed to North Dakota that include one for solar, five for energy efficiency, and two for biomass. As North Dakota is rich in renewable resources, the opportunity exists for more grants and loans to be distributed to North Dakota.

The current program demand nationwide exceeds $60 million annually. A significant funding boost will help America's farmers and rural communities and a $60 million funding level for FY08 is reasonable because:

- The President's Farm Bill proposal calls for $71 million in annual funding for Section 9006.
- S.3890, last year's bipartisan Section 9006 expansion legislation, called for $60 million for the program in FY08, rising to $250 million by 2012.

The single most important change to the Section 9006 program would be to boost funding for the program to at least $250 million by 2012, to meet the goals set by the 25x'25 alliance and;

1. To create a rebate program to encourage more energy efficiency and renewable energy project applicants.
2. To solve the "PTC offset" problem that occurs with grants to utility-scale wind projects by restructuring these grants as production incentives to avoid the offset.
3. To expand eligible applicants to include agricultural operations in non-rural areas and secondary schools.
4. To provide competitive feasibility and planning grants to promote wise investment.

The broad-based 25 x '25 Ag Energy Steering Committee calls for $250 million per year for 9006.

North Dakota is in a position to be a leader in sustainable ethanol production. We have attached a copy of DRC's biofuels sustainability criteria, which can be a guide to more sustainable biofuels development.

Currently there is a need to expand existing biofuels production to include cellulosic ethanol. Cellulosic ethanol will move our renewable fuel production away from the competition that exists today in using food to make fuel. Cellulosic ethanol can be produced from non-food feedstocks that do not utilize agricultural land but can be grown on marginal lands.

Recent research completed by the University of Minnesota has demonstrated that cellulosic ethanol can be produced from mixtures of native prairie plants with very favorable results. Using perennial grasses to produce ethanol also has the ability to reduce that amount of carbon dioxide in the atmosphere along with the ability to fix nitrogen back into the soil.

Cellulosic ethanol production using perennial (native) grasses benefits farmers, ranchers and the environment in following a sustainable farming practice that allows for natural carbon sequestration and soil restoration.

We recommend the following be implemented into the new farm bill.

1. Excise tax credits or other incentives should be capped at 30 million gallons per year for ethanol producers and 15 million gallons per year for biodiesel producers, thereby fostering locally owned biofuels production. Widely dispersed ownership of biofuels production capacity will result in numerous important public interest dividends:
   - Substantially enhanced income in rural communities – Studies in Minnesota and Iowa indicate that locally owned ethanol plants return 75 cents for every $1 in local economic activity, compared to 25 cents for absentee-owned energy production.
   - Capping production incentives at 15-30 million gallons per year means that farmers, investors and engineers in every region of the country can tackle the challenge of generating transportation fuels from biomass appropriate to their climates, soils, and water constraints, utilizing sustainably produced local biomass feedstocks.
   - A more competitive market that is responsive to local conditions, ecologies and feedstocks. Cookie-cutter plants or technologies will fail to maximize the engineering and technological creativity and ingenuity of the American people. Encouraging development on a scale that allows for local financing and farmer or rancher ownership will foster a cornucopia of technology and business models and seed a vibrant and healthy new biofuels industry.
   - When producers of the feedstock can participate in ownership in the production of biofuels, they can effectively hedge the volatility that may result as commodities markets adjust to the new realities of biofuels.
   - Widely dispersed biofuels production will more readily accommodate small scale family-owned livestock feeding and back grounding strategies, adding value to animal agriculture without unduly stressing water and land stewardship.
2. Establish a Farmer Owned Reserve to guard against weather disasters, and volatile market distortions in the value of biofuel feedstock commodities.
   - Ethanol-related increases in the price of corn impact livestock producers.
   DRC and the Western Organization of Resource Councils (WORC) has consistently advocated for fair, cost of production prices to agricultural producers, so the idea that

corn growers might earn a living wage should be viewed as an opportunity, rather than a threat. The new reality is that food commodities will be inextricably linked to energy commodities in the marketplace and must be managed to ensure a healthy reserve that can moderate market volatility, however caused. This is especially critical in light of world oil markets and the likelihood that markets will become more unstable as peak oil dawns, and foreign oil producers pursue their self-interests, sometimes at odds with U.S. interests.

- Long USDA precedent and experience, practical handling issues and a modest, but much-needed, source of income in hard-pressed rural areas are compelling reasons to establish a farmer owned reserve system.
- The nation maintains a strategic petroleum reserve, which protects producers and consumers from market fluctuations, and also provides a strategic cushion for national security in the event that petroleum imports were suddenly drastically reduced. For all of the same reasons, a biomass reserve is an important public policy.

3. Develop programs that will encourage and assist farmers as they tool up to shift their production to meet the nation's new energy needs, including appropriate risk management tools (oilseed crop insurance).
   - Facilitate crop insurance for new commodities.
   - Assist with incentives and mechanisms to finance new equipment that supports the transition from one commodity to another.
4. Appropriate sufficient funds to invest in agricultural research on low input oilseed crops in different regions, perennial grasses for cellulosic ethanol, and other viable biomass feedstocks for distributed energy generation.
   - Study and test oilseed varieties and crops. Study and test optimal combinations of perennial grasses in different bioregions. Study and test integrated livestock production (backgrounding and finishing) that is compatible with the family-owned grass-fed cow-calf production of this region; appropriately scaled and more decentralized.
5. Appropriate funds to provide technical and business assistance to rural communities through the Extension Service, public education, and community based organizations as delivery systems to support new technologies, basic business management training, and workforce development.
   - Most farmers have done an extraordinary job of management in a business where the margin of survival is thin indeed. However, introducing a manufacturing portfolio in rural America with maximum local ownership and management necessitates access to a variety of financial tools, management and technical support, such as business models and start up planning grants, computer information data bases and software, cash flow and accounting programs and training, personnel and human resource management training and support. Many a small business has run aground on the shoals of the above items. With the existing infrastructure of Extension and public and higher education institutions as potential delivery systems, as well as community based organizations and cooperatives, federal support can be made available to the grassroots as expeditiously as possible.
6. Significantly raise and extend the Renewable Fuel Standard for cellulosic ethanol (currently at 250 million gallons by 2013.) Require the Department of Energy to support a variety of cellulosic ethanol and biomass conversion technologies, regionally

appropriate and adaptable to local crops and other feedstocks. Foster innovation by requiring that Requests for Proposals for cellulosic ethanol be awarded to widely distributed production plants utilizing a variety of feedstocks, enzymes, and other inputs.

- In order to jumpstart cellulosic ethanol production capacity, the best strategy is not a "silver bullet" (e.g. single enzyme or engineering model); but rather a "silver buckshot" approach that encourages the creativity and innovation of numerous engineers, universities, inventors and entrepreneurs. Appropriate, sustainable cellulosic ethanol feedstocks will vary around the country and within the regions. Federal incentives should reflect this reality by making it possible to utilize mixed perennial range grasses in the Northern and High plains, forestry waste products in the Pacific Northwest, rice hulls in California, switch grass in the Midwest, forest or crop wastes in the Southeast, solid waste in the Northeast, or other biomass that is indigenous and/or abundant in each region.
- Multiple cellulosic technologies and feedstocks also serve to build into the American biofuels industry an inherent resilience, allowing for the unanticipated and unforeseen vicissitudes and calamities that can befall one feedstock, or one region, or one design, or one business plan.
- Cellulosic ethanol is critical to prevent the exploitation, erosion, and degradation of soils and water. Researchers at the University of Minnesota have identified that polycultures of native perennial grasses can provide significant biomass while enhancing soil fertility.
- One unit of cellulosic ethanol energy requires only 0.10 units of fossil energy, compared to corn ethanol, which takes 0.74 units of fossil energy per unit of ethanol.

7. Congress should adopt sustainability criteria that ensure conservation and stewardship of soil, water, air and other natural resource values, including wildlife. The primary feedstocks for biofuels need to be grown in a manner consistent with the highest standards of conservation and stewardship.
   - The first principal of liquid fuels from biomass must be one that embraces and upholds the long term viability, of the resource. It is well-known that high input, intensive agricultural monocultures can effectively "mine" the fertility of the soil and poison the waters. In light of the impasse that the world has reached with fossil fuels, and the clear limits to natural ecosystems implicit in phenomena like greenhouse gases in the atmosphere, it is incumbent upon policy makers to be visionaries as they shape the future so that the next generation of energy sources is sustainable for our children and children's children.
   - For biofuels to be viable as an alternative to fossil fuels, they must be authentically sustainable and minimize effects on atmospheric carbon and other greenhouse gases.
   - In a world where many are hungry, it is critical that energy production not threaten the viability of the earth to generate sustenance. If we are turning to agriculture for a major contribution to energy, we must safeguard resources of soil and water.
   - Credible biofuels development must not result in the increased use of coal and other fossil fuels, exacerbating atmospheric greenhouse gas concentrations. To the greatest extent practicable, biofuels plants should be run on cogeneration technologies, wind generated electricity, and other "green" energy sources. Congress can and should discourage the use of hydrocarbons to generate biofuels, and encourage clean,

renewable energy sources to operate biofuels plants.

- Federal support for research, development and production of genetically engineered feedstocks would undermine the potential economic and ecological benefits of developing diverse, sustainable feedstocks for biodiesel, ethanol and distributed energy facilities. Widespread use of crops genetically engineered for fuel production would likely contaminate non-engineered crops grown for food. Moreover, successful development of traits useful for biofuels production is likely to be achieved more quickly and safely through new advances in conventional breeding science, without genetic engineering.

Respectfully submitted,

Dean Hulse
DRC Biofuels Task Force

April 3, 2007

US Senate Ag
Farm Bill Hearing

We are at war. Any farm program must be a full production program. We need to grow millions of gallons of more oil and food. In order to do this, the swamp buster part of the farm program must be eliminated. The US fish & wildlife easement must be sold back to the farmers or property owners. Our biggest problem is bad water management. About 20-35% of our best food and oil producing land will not be in production this year because of bad water management. This has to be done now.

Gordon Bischoff
Farmer
221 15th Ave NE
Jamestown, ND 58401

Steve Sellent, Great Plains Food Bank
Statement for the Record
Field Hearing of the Senate Committee on Agriculture, Nutrition, and Forestry
April 3, 2007
Fargo, ND

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Each year, more than 52,000 hungry, homeless and poverty-stricken people turn to the Great Plains Food Bank and our network of 240 member feeding programs in 80 communities in North Dakota and Clay County of Minnesota. Sadly, more than 40% of those served at North Dakota food pantries continue to be children who often suffer lifetime consequences from inadequate nutrition.

Federal nutrition programs play a crucial role in the Great Plains Food Bank's mission to create a hunger-free North Dakota, where all those who need food assistance have reasonable access to enough food to meet their daily nutritional requirements. Ending hunger for children, seniors and working adults has been and remains a public-private partnership between Federal and State agency programs and nonprofit organizations like food banks and local community and/or faith based charitable feeding programs. It is imperative that adequate funding for, and needed enhancements to, programs authorized under the nutrition title - including The Emergency Food Assistance Program, the Commodity Supplemental Food Program, the Food Stamp Program and the Food Distribution Program on Indian Reservations - remain a high priority in all 2007 Farm Bill deliberations.

The Emergency Food Assistance Program (TEFAP), which is administered by the Child Nutrition and Food Distribution Programs under the North Dakota Department of Public Instruction, provides a variety of nutritious meat, diary, produce and other products that often make up the core of food baskets and meals provided by emergency feeding programs across North Dakota. As one of the distributors of USDA commodities under the TEFAP program, we know first hand how important and effective this program is for charitable feeding programs which are the last line in our state's fight against hunger. About 30% of the food provided by most food pantries in ND comes through the TEFAP program, and without these highly nutritious staple products that are not available through other sources there would be significant gaps in the supply of food available for hungry North Dakotans.

Over the last 3 years the amount of product provided through the TEFAP program in North Dakota has declined by 36%, while food shelf visits have grown by 12.9% during the same period, depleting the inventories of local food pantries, shelters, soup kitchens and other feeding programs that rely heavily on these commodities. We are especially concerned about the nearly 70% drop in bonus commodity donations to TEFAP over the past 4 years nationwide, along with flat funding for entitlement food purchases that has not kept pace with growing demand for charitable food assistance. We feel strongly that investments need to be made in this cost-effective program that benefits agricultural producers as well as hungry Americans to make up for product losses in recent years and to keep pace with growing food assistance needs.

The Commodity Supplemental Food Program (CSFP), which is also administered by the Child Nutrition and Food Distribution Programs under the North Dakota Department of Public Instruction, provides nutrient rich food boxes every other month to almost 3,000 seniors in North Dakota. While we aren't directly involved in this USDA program, which is operated by one of our partner agencies - the North Dakota Community Action Association, we feel this is one of the most critical food assistance programs in the state because it targets an elderly population that is often not otherwise served. During my 17 years at the Food Bank we have continually struggled with finding ways to get people from this proud, self-sufficient generation to utilize the services of charitable feeding programs with limited success. But the CSFP program, with direct delivery of specially designed food packages to the doors of low-income seniors, has broken down many of the barriers significantly improving the quality of life for thousands of seniors in our state.

With a growing elderly population struggling to make ends meet on fixed incomes that aren't keeping up with increasing costs for prescription drugs, medical care, utilities and other necessities the CSFP program plays an increasingly important role in meeting the nutritional needs of our vulnerable senior population. While President Bush has once again eliminated this program in his FY08 budget, not only do we strongly encourage you to support its continued funding, but also believe that funding for this program should be made mandatory rather than discretionary.

The Food Stamp Program continues to serve as the first line of defense against hunger in our state and nation. With landmark investments in the 2002 Farm Bill, improvements in the food stamp program have significantly increased the number of eligible people served by this vitally important safety net program to an average of 26 million Americans each month. However, this still represents only 60% of those who are eligible to receive benefits leaving considerable room for additional improvement.

Here in North Dakota, only 53% of eligible participants are enrolled in the program. At the same time, a national study released last year by America's Second Harvest – The Nation's Food Bank Network, represented by the Great Plains Food Bank in North Dakota, found that out of 52,000 emergency feeding program clients interviewed only 35% participated in the Food Stamp Program. Access to the Food Stamp Program needs to be significantly expanded by streamlining application processes, simplifying program administration and increasing outreach and nutrition education efforts.

A study by the North Dakota State University Department of Agribusiness and Applied Economics in 2004 learned that for every Food Stamp Dollar spent, another $1.09 in secondary economic effects arise from the multiplier process. Thus, each food stamp dollar spent in North Dakota not only helps feed a hungry family but it also adds $2.09 to the state's economy.

NDSU calculated that a 10% raise in the participation rate would produce over $9 million in positive economic benefits, including almost $5 million in "secondary" economic benefits. The estimated secondary effect includes $1.81 million in additional income to North Dakota households, $1.22 million in additional retail sales and $1.84 million distributed widely among the state's other economic sectors.

A more recent USDA study concluded that every dollar in food stamp purchases generated an additional $1.80 in economic activity. Whichever calculation we use, our state is losing tens of millions of dollars in economic activity by not having eligible recipients enrolled in the Food Stamp Program. This economic loss is especially critical in small, struggling rural communities which would benefit enormously from even a small increase in participation.

Increasing access and participation in the Food Stamp Program through outreach, streamlined application processes and simplified program administration makes sense from both the perspective of providing much needed food assistance to our neighbors in need as well as improving local economies in communities across the state. Similarly, the federal nutrition programs benefit the agricultural sector, including farmers and processors, by providing an outlet for surplus commodities and increasing food sales while feeding hungry Americans at the same time.

As we heard from many of the witnesses who testified at this hearing, we have the safest, most affordable and abundant food supply in the world. It is inexcusable that in a nation with such agricultural abundance we still have 35 million Americans struggling to find their next meal. And it is intolerable that thousands of children, working families and seniors right here in North Dakota cannot get enough food to eat in one of the largest agricultural producing states in the country. No one in this state or nation should go to bed hungry. The next Farm Bill is the place to show that we are serious about ending hunger in our state and nation.

**NATIONAL SUNFLOWER ASSOCIATION**
**FARM BILL TALKING POINTS**

- During the 1990's the U.S. sunflower industry replaced commodity sunflower with NuSun varieties, which contain oils with higher stability characteristics. Demand for NuSun has increased rapidly since the FDA announced its decision to require food product labels to include trans fat content in 2004.

- Despite increasing demand, sunflower production is down 47% since 1999, including a 26% decline under the 2002 Farm Bill. Lack of production is discouraging use of sunflower as a healthy alternative to trans and saturated fats.

- Inequities between marketing loan rates and market prices for different crops have been a major reason for reduced sunflower production. When loan levels are out of balance, they can distort planting decisions when prices at harvest are expected to be near or below loan levels.

- The sunflower loan rate of $9.30/cwt. is 82% of the Olympic average of sunflower prices in 2000-2004. Loan rates for crops that compete for acres with sunflower, as percentages of the same five-year average are: soybeans, 95%; corn, 92%; wheat 86%; and dry peas, 120%. These imbalances are responsible for the sharp reduction in sunflower acres since 1999.

- The oilseed proposal for the 2007 Farm Bill would adjust loan rates to a minimum of 95% of the Olympic price average in 2000-2004. The sunflower loan would increase from $9.30 to $10.71/cwt. This would help make sunflower competitive in major growing regions.

- The cost of adjusting loan rates for minor oilseeds to 95% of recent prices is estimated to cost an average of $12 million per year. The annual cost for adjusting all crops to a minimum of 95% is $160 million.

- The oilseed proposal would also adjust target prices to a minimum of 130% of the same Olympic average of prices in 2000-2004. The sunflower target price would increase from $10.10 to $14.66/cwt. The cost for adjusting all target prices would average $741 million per year.

- The total cost for adjusting both loan rates and target prices for all crops is $901 million per year.

- Adjusting the sunflower marketing loan rate would put the crop on a more even competitive basis with other commodities, and is critical to ensuring the competitiveness of the crop and the future of the U.S. sunflower industry.

**POSITION STATEMENT ON 2007 FARM BILL**
**NORTH DAKOTA ASSOCIATION OF SOIL CONSERVATION DISTRICTS**

The North Dakota Association of Soil Conservation Districts supports maintaining a strong locally led implementation process for all Farm Bill conservation programs designed to improve air, soil, and water quality. Local work groups and locally led Soil Conservation Districts understand the local resources, communities, and cultures and are best able to provide avenues to address critical needs relating to soil and water conservation in these areas. Working lands conservation programs should receive greater emphasis in the 2007 Farm Bill and must be accessible for all private working lands.

We believe the most critical element to the adoption of conservation practices and participation in Farm Bill conservation programs is the efficient and timely delivery of technical assistance to producers and landowners. Adequate funding levels to achieve this is crucial to implementing conservation principles on the land. All private landowners must be able to access these funds through the locally existing structure.

NDASCD believes the CSP concept is admirable and the program should be available to all private landowners and operators. Funding for this program must be longer term than year-to-year in order to fully follow through and complete the development plans and agreements. Until adequate funding is available to meet requests, a procedure should be devised to permit interested applicants to participate at least at a reduced level, and with the opportunity to apply on a recurring basis. Implementation of CSP in only 1 or 2 watersheds per state each year will not provide assistance to producers in a meaningful or equitable way, and will only undermine the integrity of the program

NDASCD supports the intent of CRP to target the most environmentally sensitive lands. The 2007 Farm Bill should continue this and not allow for massive land retirement programs. More consideration should be given to Continuous CRP and the Conservation Reserve Enhancement Program. CRP priorities should give greater value to tree plantings for their erosion control features, wildlife benefits, and landscape aesthetics. CRP lands which are not being renewed in the program and are being returned to crop or livestock production should provide incentives to preserve the erosion control and soil health benefits already obtained. These incentives should encourage tree planting and no-till or conservation tillage systems. CRP lands which will be leaving the program and returning to production prior to the contract ending date, could receive reduced or eliminated penalties for maintaining tree plantings or undertaking new plantings on these lands. Allowing large acreage of environmentally sensitive CRP lands to leave the program and return to crop production without taking adequate steps to maintain the soil benefits which have been realized is not in our national interest. Many of these tracts of land could be transitioned into a program to provide biomass for a new cellulosic ethanol industry, based on production of grass and legumes or reharvestable woody materials, while continuing sound conservation practices.

EQIP continues to be a strong program of significant importance. Localized priorities and practices should be identified by local work groups and addressed by the state technical committee supporting the locally led process. A portion of the annual funding should be available for allocation by local boards to address issues which are not subject to national ranking standards and do not require multi-year or multi-practice plans to qualify.

NDASCD favors technical and financial assistance for private, non-industrial forestlands. We also support continuing the use of technical service providers or third party vendors in the delivery of conservation technical assistance due to the flexibility they offer.

As renewable energy policies are evolving, NDASCD supports renewable energy expansion with conservation compliance and conservation technical assistance for proper management of the land in such a program.

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**North Dakota Corn Growers**

Testimony by Jay Nissen, President, ND Corn Growers Association
April 3, 2007; Field hearing of the Senate Agriculture Committee, Fargo, ND.

Senator Conrad and members of the Senate Agriculture Committee,

Thank you for this opportunity to testify on behalf of the ND Growers Association. It has been my privilege the past two years to serve as President of this organization that represents approximately 1,400 corn producers in ND. ND corn growers produced 155 million bushels of corn in 2006. According to the March 30 USDA planting report, ND corn may increase by 54% this year to a record 2.6 million acres. ND could produce close to 230 million bushels of corn in 2007. This growth can be attributed to market prices that are telling growers to produce more corn to meet the demands of an exploding ethanol industry. Higher prices are good news for corn producers. However, true income diversity and associated risk reduction comes with ownership in the ethanol plants. This ownership advantage has eluded ND producers.

A recent study National Corn Growers Association commissioned study compared absentee-owned plants with farmer-owned models.The study, "Economic Impacts on the Farm Community of Cooperative Ownership of Ethanol Production," concluded that, "Since a farmer-owned cooperative ethanol plant is literally a member of the community, the full contribution to the local economy is likely to be as much as **56 percent larger** than the impact of an absentee-owned corporate plant."

This difference is attributed to two factors:

- The share of expenditures for operations of a farmer-owned plant derived in the local community is likely to be larger than that of an absentee-owned plant. For example, virtually all accounting, administrative and marketing functions will be provided locally, while these functions may be centralized off site for an absentee-owned plant.
- Farmer-owners of a cooperative or limited liability corporation (LLC) ethanol plant will participate in the profits through dividends. Dividends paid to farmer-owners represent additional income that is spent and invested largely in the local community, according to the study.

This study proves the point that our organization has been driving home: Producer ownership in ethanol plants benefits not only the producer but the entire state's economy because more money stays in the state. An ethanol plant—regardless of who owns it—is good for corn farmers and good for the U.S. economy, but if you're talking about the effects on the local economy and farm income, ownership matters. Those plants that are farmer owned undoubtedly have a more pronounced impact on the local economy.

In conclusion, America faces critical energy problems and agriculture has unique solutions.
The 2007 Farm Bill provides an opportunity to maintain and expand key provisions that will facilitate growth of renewable energy and emphasize local ownership. The USDA 2007 Farm Bill Theme Paper on Energy and Agriculture and Rural Development contain solid recommendations on economic and policy issues for renewable energy and energy efficiency. In addition, the Midwest Ag Energy Network has developed a white paper called "Locally-Owned Ag Energy: An American Energy Solution" and the National Corn Growers Association in their "Taking Ownership" study have made recommendations concerning how America can best develop the renewable energy resources of agriculture.

Good morning, Sen. Conrad and fellow U.S. Senate Committee on Agriculture, Nutrition and Forestry members. For the record, my name is Mark Huseth of McLeod, N.D. I have the privilege of representing the 77-year-old North Dakota Stockmen's Association as its president this year. It's on behalf of the thousands of North Dakota ranching families that I appear before you today. We appreciate the invitation to explain some of the key ideas North Dakota cattle producers are seeking in the new Farm Bill.

In general, the North Dakota Stockmen's Association has three goals for the legislation. Those goals are ensuring that the Farm Bill:

1) Preserves individuals' rights to manage their land, livestock, water and other resources and rewards those who take their stewardship a step further with conservation efforts;
2) Provides the framework for agriculturists to compete in foreign markets; and
3) Supports equitable farm policy, where promotion of one commodity isn't made at the expense of another.

There are several specific areas that we ask Congress to address as it formulates the Farm Bill. They include the following:

1) **Conservation policies.** We believe that government policy should enhance an individual's right of free choice in land use, soil conservation, water conservation, energy use and development using working land conservation methods that are based on sound science and economics. Agriculturists are the ultimate

environmentalists. Their livelihood and legacy depend on the decisions they make to protect and enhance the resources in their care. Programs that reward those who go above and beyond standard management practices have proven effective in enticing even more producers to implement conservation efforts. We encourage your support of such programs.

2) **Commodity program policies.** While the long-term goal of national farm policy should be to promote a free-market, private-enterprise farm economy and to maintain a viable ag industry in the United States, it is essential to recognize that U.S. producers compete in a global marketplace. In this global market, U.S. producers face competition from foreign producers who benefit from an incredibly complex mix of subsidies, tariffs and state trading enterprises, as well as a broad range of other devices to deny market access to U.S. goods. In addition, many of these producers are not held to the same standards of regulatory compliance as U.S. producers. Thus, they enjoy a significant cost advantage. Any government programs that would have a substantial negative effect on cattlemen need to be opposed and prevented. Any commodity program must include thorough consideration of the impact of subsidies and guarantees for given commodities on other sectors and on domestic and foreign markets before the program is adopted. The impact that incentives for bioenergy have had on domestic feed prices in recent months serves as a good example. We ask that you are cognisant of these factors as you move forward with the Farm Bill.

3) **Credit programs.** Federal ag policy should encourage the availability of capital to agriculturists at competitive rates to maintain a healthy business environment and to maintain continued viability of agricultural operations.

4) **Trade policies.** With 96 percent of the world's consumers living outside American borders, the North Dakota Stockmen's Association recognizes that growth and profitability of our industry is closely tied to our ability to market our products across the globe. We support international trade policies that aggressively pursue expanded market access for U.S. beef, that enforce trade agreements based on international standards and that hold our trading partners to meet their international trade commitments. As you know, we continue to struggle to regain our rightful access to many of our international beef markets. Your help in this area and provisions through the Farm Bill can help make a difference.

5) **Research funding.** Research on animal diseases, economics, production practices, nutrition, food safety and environmental impacts is critical in advancing animal agriculture. Increased investment in this type of research is vital to the security and viability of our industry and our food supply. This too is a topic to consider in Farm Bill formulation.

6) **Disaster aid.** Unfortunately, North Dakota has had its share of disasters over the years – ranging from floods to droughts and about everything else in between. We also know the struggle it often is to secure needed disaster assistance in a timely

fashion when the disasters are dealt with on a case-by-case basis. Perhaps the framework for a standard disaster policy – one that is responsive, timely, flexible and that disperses funds based on need – could be adopted in the Farm Bill. Using non-subjective sources as the "disaster triggers," such as the U.S. Drought Monitor, would help eliminate the politics involved in these critical decisions. While the dollars were fewer than we hoped for, the disaster assistance dispersement system set up last fall by the North Dakota Governor's Office and an advisory committee was well run and could be used as a model for such a federal program.

7) **Animal identification.** It is our understanding that the National Animal Identification System (NAIS) will be addressed in the Farm Bill in some fashion. We are hopeful that any reference to the NAIS indicates the points made in the U.S. Department of Agriculture's recent NAIS User's Guide – that the program is voluntary, that the program is run in a partnership between state and federal government and private industry and that the program can and shall use existing identification systems, such as North Dakota's renowned brand inspection and brand recording programs, to satisfy traceback goals.

Furthermore, because the Farm Bill is such an important piece of legislation – one that dictates how farm and ranch families from coast to coast and border to border make their living – we encourage that every step be taken to prevent this bill from becoming a platform for extremist organizations to push anti-meat and anti-agriculture agendas.

Animal agriculture is based on humane care for cattle, horses and other livestock and stewardship of land, water, air and other resources. Consumers can rest assured that cattlemen contribute to the safest, most abundant food supply in the world and care for their land and their livestock in the process. There's no question about it.

In summary, cattle producers generally ask for three things in the new Farm Bill: that our rights to farm and ranch are preserved, that we have an opportunity to compete in the global market and that we have equitable, common-sense farm programs to work with. In return, we'll continue to do our level best to feed and clothe the world.

Thanks again for this opportunity to provide testimony about the direction the North Dakota Stockmen's Association wants taken on the Farm Bill. I would be happy to answer any questions you may have.

Northern Great Plains Working Group

April 6, 2007

The Honorable Kent Conrad
United States Senate
Washington, DC 20510

RE: April 3, 2007, Field Hearing of the Senate Agriculture Committee – Submitted Testimony

Dear Senator Conrad:

The Northern Great Plains Working Group (NGPWG) wishes to submit written testimony for the official hearing of the Senate Agriculture Committee held in Fargo, North Dakota, on April 3, 2007. The NGPWG is a coalition of several organizations and agencies committed to the continuance of wildlife benefits of Farm Bill initiatives in the Dakotas and Montana, with special interest for the Prairie Pothole Region.

We are submitting to you as written testimony our Farm Bill position document titled "Positions and Recommendations of the Northern Great Plains Working Group for Conservation Compliance and Incentive Programs in the 2007 Farm Bill." The NGPWG believes that unique opportunities exist to provide all agricultural producers an opportunity to strengthen and expand conservation of natural resources in the 2007 Farm Bill. When properly administered, recommended programs and policies hold great potential to stabilize the national farm economy; restore and conserve our natural resources, address the potential for responsible renewable energy production on agricultural lands, strengthen public support for federal farm policy through responsible expenditure of tax dollars, and assure long-term strategic production of food and fiber through the implementation of sustainable agricultural practices.

The NGPWG holds a special interest in the following issues:

*Conservation Reserve Program*
The Conservation Reserve Program (CRP) is one of the most successful, beneficial and popular natural resource conservation programs ever implemented. The landscape-level addition of millions of acres of grassland habitat in the northern Great Plains and the Prairie Pothole Region is responsible for the reversal in population declines of several migratory wildlife species. CRP

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The Northern Great Plains Working Group is a local coalition of organizations and agencies committed to the continuance of the wildlife benefits of Farm Bill initiatives in the Dakotas and Montana. The group includes representatives of Ducks Unlimited, Inc., Delta Waterfowl Foundation, Pheasants Forever, Audubon Society, Central Flyway Council, North Dakota Natural Resources Trust, Northern Great Plains Joint Venture, North Dakota Game and Fish Department, South Dakota Game, Fish and Parks, the North Dakota Chapter of The Wildlife Society, the South Dakota Chapter of The Wildlife Society, the North Dakota Wildlife Federation, and representatives of the U.S. Fish and Wildlife Service who provide wildlife and habitat resource data, and consultation relative to Farm Bill statutes, regulations, and programs. The views and positions of the Northern Great Plains Working Group may not represent the official policy of individual organizations and agencies. For more information, please write the Northern Great Plains Working Group, 1605 E. Capitol Ave., Suite 101, Bismarck, ND 58501-2102.

has provided producers with a diverse source of income during times of drought, flood, and temperature regimes, reduced soil erosion by several hundred million tons, and restored and protected the water quality of countless wetlands, streams and rivers.

The NGPWG recommends that Congress reauthorize and expand the CRP in the coming Farm Bill. We further recommend that Congress work to strategically target CRP where it provides the greatest wildlife benefits; maintain the integrity of CRP grassland habitat for wildlife; increase opportunities for restoration and protection of wetlands, unique habitats, and habitats of national significance; and to establish in statute the Prairie Pothole Region as a national conservation priority.

*Swampbuster*
The NGPWG urges Congress to reauthorize wetland conservation compliance provisions as currently written. Swampbuster has sharply reduced wetland conversions for agricultural uses. Swampbuster has been especially important in protecting wetlands in the Prairie Pothole Region and is critical to the existence of many species of waterfowl, shorebirds and marshbirds. The NGPWG believes that Swampbuster serves a vital role to protect wetlands and the wildlife populations that depend on them and is a reasonable disincentive to convert wetlands.

*Sodsaver*
The NGPWG recommends that Congress institute a new law that removes federal support for the continued conversion of grasslands to cropland. Current sodbuster regulations have little to no deterrent effect. Unfortunately, in their current form, federal commodity and crop insurance programs act as incentives to convert native vegetation to cropland, particularly during higher crop price periods. We suggest consideration of a new "Sodsaver" compliance statute that would clarify that land without previous cropping history that is converted to cropland after passage of the 2007 Farm Bill would be ineligible for any USDA program funds or benefits, including, but not limited to, conservation programs, commodity price supports and crop insurance.

*Cellulosic Energy*
The NGPWG supports the concept of renewable energy production from cellulosic biomass produced on agricultural lands. We offer our support, scientific expertise and collaborative spirit to work with all partners to ensure renewable energy opportunities also translate into sound natural resource management for the Northern Great Plains region. With proper planning, research and input from diverse stakeholders, we are confident that acres planted to dedicated biomass energy crops may serve the dual purpose of providing energy feedstocks and provide multiple conservation benefits such as fish and wildlife habitat, reduced soil erosion and flood water retention.

The NGPWG, like most conservation groups across the country, is concerned about bioenergy production occurring on lands currently enrolled in existing farm bill conservation programs including the CRP, GRP, or WRP. Existing conservation programs, most notably the CRP, which provide undisturbed cover for wildlife, forage and pasture reserves to livestock producers in times of drought or flood emergency, and a host of societal benefits have already proven themselves successful and cost effective. They not only provide landscape benefits, but also save tax dollars on lands that would otherwise be recipients of various agricultural support programs. Current farm bill conservation programs have proven to be a "good deal" for production agriculture and society in general.

We advocate that the 2007 Farm Bill incorporate a well thought out research and development process for the production, transportation and conversion of biomass for energy production, especially keying on the effect of biomass harvest on wildlife populations, wildlife habitat and aggregate soil health by experimenting with different stubble heights, harvest timing, harvest frequency and field harvest patterns.

The Northern Great Plains Working Group appreciates the opportunity to provide you our recommendations for conservation compliance and incentive programs in the 2007 Farm Bill. We look forward to supporting you and your staff in any way possible in the development of a strong and sustainable conservation title.

Sincerely,

Keith Trego

Encl.
cc: Senator Byron Dorgan
Senator Amy Klobuchar
Senator Norm Coleman
Representative Earl Pomeroy

# Oilseed Producer Proposal for the 2007 Farm Bill

### Introduction

Oilseed producers support the basic structure of the 2002 Farm Bill. They are familiar with the price and income support provided by the marketing loan and counter-cyclical programs, and with the production and yield protection provided by federal crop insurance and disaster assistance. However, they are not satisfied with the level of support provided to oilseeds under the 2002 Act, and urge Congress to adjust these levels, as proposed below. In the event that, for budget, trade, or policy reasons, Congress is not able to make the proposed adjustments, oilseed producers will consider supporting an alternative farm program structure based on guaranteeing revenue rather than price and production.

### Background

Oilseed producers are disadvantaged under the 2002 Farm Bill. In exchange for significant reductions in oilseed marketing loan rates, the 2002 Act included oilseeds in the counter-cyclical program and established direct payments on oilseed base acres. However, the levels of these supports are well below those provided to other program crops, based on either relative value or prices (see attached Table 1). As a result, oilseed producers have less income support under the 2002 Farm Bill than they did under the 1996 Act ("Freedom to Farm"). There have been no CCPs to oilseed producers under the 2002 Farm Bill.

In addition to the disparity in income support, marketing loan rates for various commodities have become distorted when compared to recent average prices (see Table 1). These distortions can cause major shifts in planting decisions between crops, particularly when prices are expected to be near or even below loan levels. Canola and sunflower have lost significant acreage under the 2002 Farm Bill due to loan rates that are relatively low compared to soybeans, corn, and pulse crops.

### The Oilseed Commodity Program Proposal

To address these inequities, oilseed producers support adjusting marketing loan rates and target prices upward to common percentages of recent average prices. The five-year period of 2000-2004 is selected because it includes several relatively "low price" years as well as several "high price" years. An Olympic average of season average pries in these five years is used to further reduce distortions.

### Marketing Loan Program

For the marketing loan program, the proposal sets loan rates at not less than 95% of 2000-2004 Olympic average prices. As indicated in Table 2, the current soybean loan rate of $5.00/bu. would increase under the proposal by only $0.01, to $5.01/bu. Loan rates for other crops, including canola and sunflower, would increase more significantly. Cotton and rice loan rates would not be affected by the proposal, since they exceed 95% of recent average prices.

Using FAPRI's mid-December revised baseline, AgRisk Management estimates the net increase in farm program costs from these loan rate adjustments at $158 million per year. As indicated in Table 3, most of this cost reflects increases in marketing loan gains by wheat, barley, corn, peanut, and minor oilseed (sunflower) producers.

**Counter-Cyclical Program**

For the counter-cyclical program, the proposal sets target prices at not less than 130% of 2000-2004 Olympic average prices. Table 2 indicates that the current soybean target price of $5.80/bu. would increase under the proposal by $1.05, to $6.85/bu. Target prices for other crops, including canola and sunflower, would also increase. Cotton and rice target prices would not be affected, since they exceed 130% of recent average prices.

Using FAPRI's revised baseline, AgRisk Management estimates the cost of these target price adjustments at $736 million per year. As indicated in Table 4, most of this cost reflects increases in CCPs to soybean, corn, wheat, barley, peanut, minor oilseed (sunflower), and oat producers. Combining these adjustments with the proposed changes in marketing loan rates, the total cost increase averages $894 million per year (see Table 5).

**Direct Payments**

Direct payments provide no direct or even deferred price or income support to producers of the program crops they are based on. As fixed payments tied to historical base acres, they contribute to higher land values and costs, and are easily factored into higher rents. This increases the production cost and reduces the competitiveness of U.S. agricultural commodities, and prices farmland out of the reach of young producers.

Moreover, with the finding of the WTO cotton panel that direct payments are not fully decoupled, it is likely that a future panel would require them to be counted under the production-distorting Amber Box. And eliminating the planting restriction on fruit and vegetable crops in order to qualify direct payments as a Green Box program could require compensation to specialty crop producers of one-half or more of their $5.2 billion per year cost.

In the event budget restrictions limit resources available to cover the cost of program improvements in the 2007 Farm Bill, oilseed producers are willing to consider proposals that would redirect direct payment funds. In this event, the marketing loan and counter-cyclical program adjustments advanced in this proposal should be fully funded. Other initiatives that oilseed producers support include authorization of permanent disaster assistance, increased funding of the Conservation Security Program, establishment of more robust programs to encourage production of energy crops and renewable fuels, and restoration of funding for the McGovern-Dole Food for Education Program.

Table 1. Crop Support Levels Under the 2002 Farm Bill

| Commodity | 2000-04 Olympic Average Price | 04-07 Loan Rate | Loan Rate as a % of Ave Price | Direct Payment | Direct Payment as a % of Ave Price | 04-07 Target Price | Target Price as a % of Ave Price |
|---|---|---|---|---|---|---|---|
| Wheat (bu.) | $3.19 | $2.75 | 86% | $0.52 | 16% | $3.92 | 123% |
| Corn (bu.) | $2.12 | $1.95 | 92% | $0.28 | 13% | $2.63 | 124% |
| Soybeans (bu.) | $5.27 | $5.00 | 95% | $0.44 | 8% | $5.80 | 110% |
| Cotton (lb.) | $0.4680 | $0.5200 | 111% | $0.0667 | 14% | $0.7240 | 155% |
| Rice (cwt.) | $5.81 | $6.50 | 112% | $2.35 | 40% | $10.50 | 181% |
| Barley (bu.) | $2.47 | $1.85 | 75% | $0.24 | 10% | $2.24 | 91% |
| Grain Sorghum (bu.) | $2.02 | $1.95 | 97% | $0.35 | 17% | $2.57 | 127% |
| Oats (bu.) | $1.52 | $1.33 | 88% | $0.024 | 2% | $1.44 | 95% |
| Minor Oilseeds (SF price/cwt.) | $11.27 | $9.30 | 82% | $0.80 | 7% | $10.10 | 90% |
| Dry Peas (cwt.) | $6.19 | $6.22 | 100% | NA | | NA | |
| Lentils (cwt.) | $12.90 | $11.72 | 91% | NA | | NA | |
| Feed Peas (cwt.) | $5.19 | $6.22 | 120% | NA | | NA | |

Table 2. Adjusting Loan Rates to 95% & Target Prices to 130% of 2000-04 Olympic Average of Prices

| Commodity | 2000-04 Olympic Average Price | Direct Payment Rate | *04-07 Loan Rate* | Proposed 2008 Loan Rate | % of Olympic Average Price | *04-07 Target Price* | Proposed 2008 Target Price | % of Olympic Average Price |
|---|---|---|---|---|---|---|---|---|
| Wheat (bu.) | $3.19 | $0.52 | *$2.75* | $3.03 | 95% | *$3.92* | $4.15 | 130% |
| Corn (bu.) | $2.12 | $0.28 | *$1.95* | $2.01 | 95% | *$2.63* | $2.75 | 130% |
| Soybeans (bu.) | $5.27 | $0.44 | *$5.00* | $5.01 | 95% | *$5.80* | $6.85 | 130% |
| Cotton (lb.) | $0.4680 | $0.0667 | *$0.5200* | $0.5200 | 111% | *$0.7240* | $0.7240 | 155% |
| Rice (cwt.) | $5.81 | $2.35 | *$6.50* | $6.50 | 112% | *$10.50* | $10.50 | 181% |
| Barley (bu.) | $2.47 | $0.24 | *$1.85* | $2.35 | 95% | *$2.24* | $3.21 | 130% |
| Grain Sorghum (bu.) | $2.05 | $0.35 | *$1.95* | $1.95 | 95% | *$2.57* | $2.66 | 130% |
| Oats (bu.) | $1.52 | $0.024 | *$1.33* | $1.44 | 95% | *$1.44* | $1.97 | 130% |
| Minor Oilseeds (sunflower price/cwt.) | $11.27 | $0.80 | *$9.30* | $10.71 | 95% | *$10.10* | $14.66 | 130% |
| Peanuts (lb.) | $0.205 | $0.0180 | *$0.18* | $0.195 | 95% | $0.2475 | $0.267 | 130% |

Table 3. Change in Cost to Adjust Marketing Loans

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|
| | | | ($ million) | | | |
| All Crops | 174 | 156 | 156 | 153 | 154 | 153 |
| Soybean | 5 | 5 | 5 | 6 | 6 | 6 |
| Corn | 34 | 29 | 29 | 28 | 31 | 32 |
| Wheat | 66 | 55 | 50 | 44 | 40 | 37 |
| Cotton | 0 | 0 | 0 | 0 | 0 | 0 |
| Rice | 0 | 0 | 0 | 0 | 0 | 0 |
| Barley | 36 | 35 | 36 | 36 | 37 | 36 |
| Oats | 2 | 2 | 1 | 1 | 1 | 1 |
| Peanuts | 24 | 23 | 26 | 28 | 27 | 27 |
| Sorghum | 0 | 0 | 0 | 0 | 0 | 0 |
| Sunflower | 8 | 8 | 9 | 10 | 11 | 12 |

Table 4. Change in Cost of Counter-Cyclical Program to Adjust Target Prices

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|
| | | | ($ million) | | | |
| All Crops | 713 | 685 | 703 | 744 | 769 | 803 |
| Soybean | 395 | 400 | 421 | 468 | 486 | 520 |
| Corn | 108 | 92 | 90 | 88 | 93 | 95 |
| Wheat | 82 | 71 | 66 | 60 | 56 | 53 |
| Cotton | 0 | 0 | 0 | 0 | 0 | 0 |
| Rice | 0 | 0 | 0 | 0 | 0 | 0 |
| Barley | 45 | 44 | 46 | 47 | 50 | 50 |
| Oats | 20 | 18 | 17 | 17 | 17 | 17 |
| Peanuts | 40 | 40 | 40 | 41 | 41 | 41 |
| Sorghum | 6 | 5 | 5 | 5 | 5 | 4 |
| Sunflower | 17 | 16 | 17 | 19 | 21 | 23 |

Table 5. Overall Annual Average Change in Farm Program Costs

| | Baseline |
|---|---|
| Marketing Loan Program | |
| $ Million | 158 |
| Percent | 11% |
| Countercyclical Program | |
| $ Million | 736 |
| Percent | 51% |
| Total | |
| $ Million | 894 |
| Percent | 32% |

To the honorable Senator Conrad,

I am writing you to express my hopes for the next farm bill. I was unable to attend your meetings in North Dakota due to time constraints. As a family farmer in Ramsey county North Dakota I am involved in all aspects of my small community of Starkweather ND. The lack of opportunities in our small towns across ND are making the choices for our children problematic. We need rural development funds to target small projects. The large projects for ethanol and wind are admirable, when you live right there.

If you consider the costs of transportation of various bulk items to supply and distribute the final product of large ethanol plants the cost of transporting the corn and or fuel. Then distributing the ethanol only makes it more difficult to justify. When my great-grandfather farmed and built the house I am currently living in, essentially one-half of the farm was devoted to fuel production. Since horses provide the main power in the field. He also had a large windmill that pumped the water and also ground feed in the barn.

Modern agriculture has become too dependent on the fuel brought in on the bulk fuel truck. Large tractors need a lot of fuel. That ability to farm more land with fewer farmers is the end result. What is also happening is over producing commodities that are still at fire sale prices compared to the cost of inputs. Fertilizer is one of the most expensive inputs in farming. High yields and intense production requires higher rates of fertilizer. What is keeping the yield trend-line increasing is the use of fertilizer. As well as improved seed stocks, but mainly fertilizer. Fertilizer production requires energy both in its production as well as in its distribution.

What I am driving at with this is we need to target smaller farm sized ethanol and bio-diesel production, as well as using wind and bio-mass to make nitrogen at the farm. The technology is there, Denmark is using flax straw in bio-mass furnaces to make steam to generate electricity. Flax straw has more BTU per pound than coal. The steam could also be used to fuel ethanol production using the coarse grains raised on the farm. Small scale animal production would use the byproducts of the ethanol for feed. We need to explore this type of agriculture. More self contained, less dependent on imported energy. The farm should support itself and the excess would be available for sale.

Farmers used to be very self-sufficient, but we have become as dependent on outside inputs as any factory. Any interruption in available fuel and fertilizer supplies will have devastating effects on the agricultural production in this country. The new farm bill will continue to concentrate on the final products that are produced on the farm and its value in the market. But we should also look at the system that produces those products. Agricultural colleges like NDSU were created to develop new technologies for agriculture. America needs to encourage that type of innovation for the future, not just making the status-quo bigger but to develop new ways of producing the fuel and fiber this country needs.

As a side note, the pet food poisoning that has recently occurred should be a wakeup call for this country to realize the importance of country of origin labeling, COOL, and also the undeniable fact that multinational companies put profit ahead of safety. Why are they importing wheat gluten from China? There is another potential use for distillers grains from ethanol production. This country needs to start looking at the big picture.

Sincerely
Rudi Bloomquist
6747 81st Ave. NE
Starkweather ND 58377-9350

The following letter has been emailed to Senator Norm Coleman via his website.

RE: Farm Bill Hearing in Fargo, ND

Dear Senator Coleman:

Please accept this letter as testimony for the 2007 Farm Bill. Because of the Fargo hearing schedule (and the weather) it wasn't possible for us to participate. The 2007 Farm Bill, like the 2002 Farm Bill and its predecessors, is critical to providing nutritious food to tens of thousands of low-income Minnesotans who are unable to purchase sufficient food for their needs.

Your support for the Federal nutrition programs is well known and we thank you for adding your name to the "Dear Colleague" letter in support of CSFP funding in FY08. As you know from last December's Hormel Hunger Summit, it is possible to end hunger in Minnesota. Doing so is possible only if the Federal Government continues to adequately fund critical anti-hunger programs including TEFAP, CSFP and Food Stamps.

The Federal Nutrition Programs in the Farm Bill are essential to Minnesota because locally donated sources of food – although significant – cannot replace the quality or quantity of food available through TEFAP, CSFP and Food Stamps.

Children make up at least half of those who depend on food shelves and Food Stamps. Ending hunger for children, seniors and working adults has been and remains a public-private partnership between local nonprofit organizations, the food banks of America's Second Harvest and a myriad of local community action agencies, faith-based and nonprofit organizations. Ending hunger is unfinished business that is critical to Minnesota's long-term competitiveness. The 2007 Farm Bill must continue to support and strengthen key nutrition programs.

More than 80% of the Food Stamp benefits go to children. As so many studies have shown, children who suffer from poor nutrition during the brain's most formative years score much lower on tests of vocabulary, reading comprehension, arithmetic and general knowledge. People who need Food Stamps reside in rural, suburban and inner city neighborhoods. Food Stamp participation is lowest in rural counties. A quarter million Minnesotans use Food Stamps but they represent only 59% of those eligible to participate. The USDA has found that $5 in Food Stamp purchases generates an additional $9 of business activity in local economies. If Food Stamp participation increased in western Minnesota, for example, it would benefit struggling families as well as contribute significantly to the community's revenue or cash flow. That makes Food Stamp dollars work as economic development dollars. The whole community benefits with every eligible person who participates. As part of the 2007 Farm Bill, we urge Congress to fully fund Food Stamps, streamline administration and improve program access so that eligible Minnesotans aren't hungry in a state that produces a surplus.

TEFAP is a cost-effective program that benefits both producers and those who receive the commodities. Only TEFAP provides a consistent source of large volume, highly nutritious products including meat, dairy and produce as well as processed and preserved foods. TEFAP makes up at least 20% of the food distributed by Minnesota's food banks and food shelves. Overall, TEFAP has declined nearly 50% in the last year. The reasons are complex. Among them: the drive for renewable fuels has driven up prices for some commodities and shifted production away from others. Crop disasters – flooding and a severe freeze – reduced produce and fruit yields that have raised prices. High prices have lead to significantly curtailed commodity purchases under Section 32. We strongly urge Congress to increase funding for TEFAP – particularly through section 32 – as the most cost-effective hunger fighting program that also benefits agricultural producers.

The USDA Commodity Supplemental Food Program (CSFP) provides income eligible seniors and families with pre-school children with a monthly package of highly nutrition foods. Unfortunately, limited Federal funding restricts participation in this cost-effective program. Currently, only 14,000 eligible Minnesotans can participate, including 12,000 of the 87,000 eligible seniors.

While we recognize that Federal finances are strained at this time, and that new needs – such as renewable fuels – command serious attention, it is important that the Congress does not impoverish one important and effective program in order to begin or expand another. It is unacceptable for thousands of Minnesotans to go hungry at a time when the state produces and exports a large surplus of agricultural and food commodities.

Thank you for your past support of nutrition programs. We have enjoyed and appreciated the time that Matt Ketelsen spent at Second Harvest Heartland to learn about how Federal nutrition programs are integral to a larger public-private effort. Again, thank you for your presentation at the Minnesota Hunger Summit. Your presence and remarks were critical to starting the public dialog on ending hunger.

We will work with your scheduler to find a convenient time for you to visit and see how the programs work through us.

Sincerely,

R. Jane Brown
Executive Director
Second Harvest Heartland
1140 Gervais Avenue
Maplewood, MN 55109
651-209-7931

# U.S. Durum Growers Association

*PROMOTING THE PRODUCTION AND MARKETING OF DURUM AND SEMOLINA*

2409 Jackson Avenue • Bismarck, ND 58501 • (701) 214-3203 • www.durumgrowers.com


May 15, 2007

Subject: USDGA Position on 2007 Farm Bill

The U.S. Durum Growers Association is respectfully requesting your support on our position regarding the 2007 Farm Bill. We are asking for support at both the state and federal levels.

This year the U.S. Durum Growers Association (USDGA) would like to see the following changes in the 2007 Farm Bill:

- Obtain higher loan rates for wheat and durum.
- Maintain loan deficiency payments (LDP's), and maintain current fixed payments.
- Add a permanent Disaster Program written into the 2007 Farm Bill.
- Combine both the LDP and Disaster programs into one.
- Promote and pass a Durum Quality Preservation Act for producers.

USDGA is currently developing and promoting the Durum Quality Preservation Act. This Act is a cost share program that USDGA hopes to initiate for the 2007 Farm Bill and it would be available on the first 3 million acres of durum that are treated with a fungicide for fighting scab. The cost of applying a fungicide is currently about $14 per acre. At a 50% cost share that would only cost the federal government approximately $21 million. The main advantage for government support of this program would be the probable increase of durum acreage in the US. In turn, this would maintain the processing plants and mills that grind durum, thus saving jobs and possible imports of semolina, which would be at an increased cost. The farmers would be more acceptable to the use because of the decreased cost.

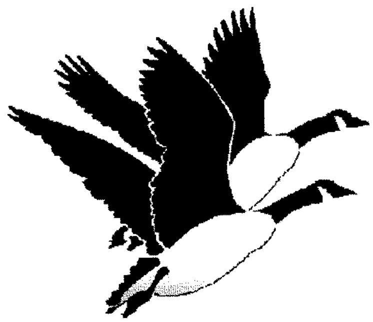
The U.S. Durum Growers Association supports the workings of the current Farm Bill. We would be happy to answer any questions you may have.

We appreciate your support for this upcoming legislative session. We look forward to working with you on the 2007 Farm Bill.

Sincerely,

James G. Diepolder

James G. Diepolder
President
U.S. Durum Growers Association



POSITIONS AND RECOMMENDATIONS OF THE

# Northern Great Plains Working Group

**FOR CONSERVATION**

**COMPLIANCE AND INCENTIVE PROGRAMS**

**IN THE**

**2007 FARM BILL**

**January 22, 2007**

The Northern Great Plains Working Group includes representatives of Ducks Unlimited, Inc., Delta Waterfowl Foundation, Pheasants Forever, Audubon Society, Central Flyway Council, the Prairie Pothole Joint Venture, the Northern Great Plains Joint Venture, North Dakota Game and Fish Department, South Dakota Game, Fish and Parks, North Dakota Natural Resources Trust, the North Dakota Chapter of The Wildlife Society, the South Dakota Chapter of The Wildlife Society, the North Dakota Wildlife Federation, and representatives of the U.S. Fish and Wildlife Service who provide consultation and advice relative to Farm Bill statutes, regulations, and programs. The views and positions of the Northern Great Plains Working Group may not represent the official policy of individual organizations and agencies. For more information, please write the Northern Great Plains Working Group, 1605 E. Capitol Ave., Suite 101, Bismarck, ND 58501-2102.

**Overview**

No single influence, government or private, has manifested greater impacts on the nation's landscape and its wildlife assets than federal agricultural policy. The conservation titles and provisions of the current and past Farm Bills offer powerful tools for achieving natural resource conservation, including wildlife benefits, on an unprecedented scale. Much of the conservation potential of the present Farm Bill has been realized because programs established under its conservation titles include a combination of compliance features and voluntary programs that offer financial and operational incentives to participating landowners. A key feature is the Farm Bill's requirement that agricultural producers implement certain conservation practices to be eligible for financial benefits. To date, incentive-based conservation provisions of the 1985 National Food Security Act, as amended by subsequent Farm Bills through 2002, have improved the soil, water and wildlife on more than 90 million acres, and compliance features have maintained conservation values on millions of other acres. Importantly, wildlife has been afforded status equal in priority to soil and water in the Farm Bill. We believe such demonstrated benefits have been important for generating broad scale support for publicly funded farm programs.

Because the Farm Bill's programs do not focus solely on wildlife conservation, their effects do not always optimize wildlife benefits. The development of a new Farm Bill in 2007 offers important opportunities to further improve programs that restore, enhance and protect wildlife habitats on private lands.

This document sets forth the positions and recommendations of the Northern Great Plains Working Group (NGPWG)) regarding select conservation programs and provisions of the Farm Bill. The NGPWG is a local coalition of organizations and agencies committed to the continuance of the wildlife benefits of Farm Bill initiatives in the Dakotas and northeastern Montana.

The position statements that follow primarily reflect the needs of wetland and grassland wildlife species in the U.S. Prairie Pothole Region. The positions may not represent the official policies of individual organizations and agencies that participate in the NGPWG.

# THE NORTHERN GREAT PLAINS WORKING GROUP

## POSITIONS AND RECOMMENDATIONS FOR CONSERVATION PROVISIONS OF THE 2007 FARM BILL

## Contents

The Northern Great Plains Working Group

Recommendations for the Commodity and Conservation Titles of the 2007 Farm Bill

## EXECUTIVE SUMMARY

The Northern Great Plains Working Group believes that unique opportunities exist to provide all agricultural producers an opportunity to strengthen and expand conservation of natural resources in the 2007 Farm Bill. When properly administered, recommended programs and policies hold great potential to stabilize the national farm economy; restore and conserve our natural resources, address the potential for responsible renewable energy production on agricultural lands, strengthen public support for federal farm policy through responsible expenditure of tax dollars, and assure long term strategic production of food and fiber through the implementation of sustainable agricultural practices. The Northern Great Plains Working Group (NGPWG) recommends the following:

### *Conservation Compliance (Swampbuster/Sodbuster)*

Wetland Compliance, better known as Swampbuster, should be retained with no changes. Swampbuster has been effective in protecting hundreds of thousands of acres of wetlands since its inception in 1985. Coupled with several wetland conservation programs, such as CRP and WRP that provide incentives and alternatives to producers who experience difficulty with farming in and around wetlands, Swampbuster provides a balanced approach to wetland protection. Highly Erodible Land compliance provisions, better known as Sodbuster, has done very little since its inception in 1985 to slow conversion of grassland to marginal cropland. According to USDA, about 24 million acres of grasslands and shrublands were converted to cropland or non-agriculture uses between 1992 through 1997. Conversion of grassland to marginal cropland contributes to the continued steep decline in grassland birds, which are the most significantly declining group of species in North America. Marginal cropland is more highly prone to failure, requiring disbursement of an ever increasing portion of the Federal budget for crop insurance and disaster payments. Stronger compliance provisions are needed to stem conversion of grasslands. Rather than Sodbuster, we recommend a "Sodsaver" program that requires that native grassland without previous cropping history that is converted to cropland after the passage of the 2007 Farm Bill shall be ineligible for any USDA program funds or benefits, including, but not limited to, conservation programs, commodity price supports and crop insurance.

### *Conservation Reserve Program (CRP)*

Reauthorize CRP, and expand the current acreage cap to the originally-authorized level of 45 million acres. CRP remains an extremely popular program with producers, and continues to provide significant benefits to wildlife, water quality, and soil conservation. An Agricultural Policy Analysis Center study recently indicated that elimination of CRP would result in an additional cost to the Federal government of $32.6 billion between the years of 2007-2015, but that expansion of CRP to 45 million acres would result in a net savings for the Federal government of $12.7 billion over the same period. Besides reducing soil erosion by over 400 million tons per year, CRP generated an estimated $3.5-$4 billion in water quality benefits, and reversed declines in populations of several wildlife species. The NGPWG recommends the establishment of State Habitat Technical Teams, made up of wildlife professionals, to be utilized in CRP administrative and management decisions. We recommend new approaches that provide more long term and permanent protection of grasslands currently in CRP.

### *Wetland Reserve Program (WRP)*

Maintain and expand the Wetland Reserve Program. Reinstitute appraisal methods for acquisition of WRP easements that USDA utilized before 2006. USDA's WRP easement program has become an ineffective program to protect, restore or enhance wetlands since the implementation of the Yellow Book appraisal protocol. Many states have returned FY2006 WRP allocations the NRCS national headquarters due to the requirement of using the Yellow Book appraisal protocol. The program will not target those potential participants who wish to maintain the WRP easement as part of an agricultural operation under compatible use permits. As currently designed, participation by individuals who wish to maintain private ownership of the WRP easement is limited. The intent of Congress in establishing WRP was to remove marginal croplands from production to alleviate annual expenses related to cropping. Additional benefits of WRP include restoring wetlands and their functions for cleaning water, retaining flood waters, creating habitat for migratory birds and other wildlife, and protecting farmland and citizens across the agricultural landscape from natural disasters. Today, the WRP is not being implemented as Congress intended because of the new appraisal processes.

### *Environmental Quality Incentives Program (EQIP)*

Reauthorize the program and allocate a minimum of 10% of EQIP dollars for wildlife habitat creation, restoration or enhancement. Assign coequal status for fish and wildlife concerns with soil and water concerns in EQIP. In order to achieve coequal status, Habitat Technical Teams (HTT) need to be formed to develop, review, and recommend fish and wildlife habitat criteria related to USDA and NRCS conservation programs. HTT's can provide NRCS with the needed guidance to allocate funds toward specific conservation practices to effectively and efficiently meet EQIP fish and wildlife objectives. This process would move fish and wildlife into coequal status with other resource concerns and assure that all states consider and promote wildlife habitat along with other priorities for EQIP. State, regional, and other conservation plans are readily available to strategically implement the program under EQIP (i.e., National Fish Habitat Action Plan, State Wildlife Action Plans, etc.).

### *Wildlife Habitat Incentive Program (WHIP)*

Combine WHIP into EQIP and authorize EQIP special allocations to target resource needs for national priority fish and wildlife species. WHIP provides cost share for application of conservation practices that benefit fish and wildlife habitat. WHIP does not authorize incentive payments for fish and wildlife habitat. Incentive payments for practices that provide wildlife habitat such as prescribed grazing systems, no-till winter cereals, delayed haying, etc cannot be made. EQIP does allow for incentive payments. Distributing WHIP dollars through EQIP in accordance with the recommended changes for EQIP would be a better used of WHIP dollars. USDA cost share programs can be confusing to USDA participants. This is especially true when one program allows for incentive payment (EQIP) while other programs do not (WHIP). Developing contracts becomes more difficult for NRCS when different rules apply to different programs. Combining EQIP and WHIP would go a long way toward eliminating confusion in USDA participants and for NRCS in the contracting process. Incentive payments, in addition to cost-share, for locally identified priorities, and the use of Habitat Technical Teams (HTT), composed of fish and wildlife professionals to advise State Conservationists on implementing EQIP, can accomplish the same goal as having two separate programs.

### *Conservation Security Program (CSP)*

Continue the Conservation Security program requiring fish and wildlife habitat as a criterion for participation at a tier 2 or 3 level. The CSP program needs to apply this criterion consistently in all states and watersheds. CSP has the potential to provide incentives for increased fish and wildlife habitat on the farm or ranch. However many watershed local working groups are not selecting fish and wildlife habitat as a resource concern for Tier 2 participation. They are selecting resource concerns that are either easier to implement or already implemented in the watershed making it less difficult for farmers or ranchers within the watershed to meet eligibility requirements. CSP requires that in order to participate at the Tier 3 level, fish and wildlife quality criteria must be met on all of the farm or ranch under their control. Consistent implementation of this criterion is a concern as CSP is implemented in each state. CSP can provide an avenue for participants to provide fish and wildlife habitat on enrolled land. Habitat Technical Teams (HTT) can provide NRCS with needed guidance in the development of wildlife quality criteria for Tier 2 and 3 participation. Use of HTT can help NRCS answer CSP wildlife concerns raised in the recent OMB audit.

### *Grassland Reserve Program (GRP)*

Reauthorize GRP and expand the acreage cap to 10 million acres, with up to 10% of the acres dedicated to preserve native grasslands in the northern Great Plains, and at least 25% of the acres dedicated to preserve grasslands (both native and tame) currently in existence under the CRP. The GRP was originally authorized in the 2002 Farm Bill, with a statutory funding cap of $254 million, and an acreage cap of 2 million acres. The funding cap was reached in the first 3 years of the Program, with enrollment exceeding 909,000 acres. The Program is designed to assist producers in restoring and protecting rangeland and pastureland while allowing continued livestock use. The GRP provides an important incentive to producers to maintain their grasslands. It has been so popular that over 9,000 applications to enroll over 6.3 million acres remain unfunded. The NGPWG further recommends that payments for easements limited by State Law to 99-years should be calculated at a value of ninety (90) percent of permanent easements.

### *Biomass for Cellulosic Ethanol Production*

The NGPWG supports the concept of renewable energy production from cellulosic biomass produced on agricultural lands. We offer our support, scientific expertise and collaborative spirit to work with all partners to ensure renewable energy opportunities also translate into sound natural resource management for the region. With proper planning, research and input from diverse stakeholders we are confident that acres planted to dedicated biomass energy crops may serve the dual purpose of providing energy feedstocks and provide multiple conservation benefits such as fish and wildlife habitat, reduced soil erosion and flood water retention.

The NGPWG, like most conservation groups across the country, has concerns about bioenergy production occurring on lands currently enrolled in existing farm bill conservation programs including the CRP, GRP, or WRP. Existing conservation programs, most notably the CRP, which provide undisturbed cover for wildlife, forage and pasture reserves to livestock producers in times of drought or flood emergency, and a host of societal benefits have already proven themselves successful and cost effective. They not only provide landscape benefits, but also save tax dollars on lands that would otherwise be recipients of various agricultural support programs. Current farm bill conservation programs have proven to be a "good deal" for production agriculture and society in general.

We advocate that the 2007 farm bill incorporate a well thought out research and development process for the production, transportation and conversion of biomass for energy production. Specifically, we suggest 5 million acres be targeted for pilot projects growing bioenergy crops, coupled with sufficient research funding to fully evaluate:

1. Production of biobased fuels from both monoculture and diverse plantings of perennial species through various conversion processes.
2. The effect of biomass harvest on wildlife populations, wildlife habitat and aggregate soil health by experimenting with different stubble heights, harvest timing, harvest frequency and field harvest patterns.
3. The effect of biomass harvest on carbon and nitrogen fluctuations and biogeochemical cycles based on different perennial species and rotations.
4. The effect of biomass harvest and residue removal on erosion, sedimentation and soil compaction.
5. The effect of biomass harvest on greenhouse gas sequestration in soil and perennial grasses.

**Program/Issue: <u>Wetland Conservation Compliance Provisions</u>**

<u>NGPWG Recommendations</u>

1. Reauthorize wetland conservation compliance (Swampbuster) provisions, as currently written.

<u>Background</u>

Wetland conservation provisions (Swampbuster) have sharply reduced wetland conversions for agricultural uses, from 235,000 acres per year before 1985 to 27,000 acres per year from 1992 through 1997. Swampbuster helps preserve the environmental functions of wetlands, such as water retention, sediment control, groundwater recharge, water quality, wildlife habitat, recreation, and esthetics (NRCS).

The United States has lost more than half of the wetland acres that existed before the advent of modern agriculture and widespread development. Of the 92 million acres of wetlands remaining, 82 percent are privately owned (Heimlich et al 1998). Losses in the Prairie Pothole Region have mirrored those in the rest of the country, but unique and extremely valuable wetland resources remain in parts of the Prairie Pothole Region. This region is critical to the existence of many species of waterfowl, shorebirds and marshbirds. Because of the unique concentration and juxtaposition of wetlands and grasslands in this region, more than 300 species of birds use the habitat during the breeding season and migration. The majority of mid-continent waterfowl production comes from the Prairie Pothole Region. It is estimated that over 70% of the 7.5 million (1987-2000 average) breeding puddle ducks that settle in the Prairie Pothole Region of the Dakotas and northeastern Montana depend on small, shallow (temporary and seasonal) wetlands. Fifty percent of these ducks settle on small, shallow wetlands that occur in crop fields. The fall flight from these duck populations is about 11 million ducks annually (1987-2000 average). Therefore, wetlands in this region are critical for maintaining continental waterfowl breeding populations and production.

The absence of state wetland protection laws in the Dakotas and Montana, and the recent U.S. Supreme Court ruling on Section 404 leaves "Swampbuster" as the single most important program protecting the remaining wetlands in the Prairie Pothole Region. This protection has provided multiple resource, social, and economic benefits to the people of the United States. Maintaining this baseline of wetlands protection contributes toward the Bush Administration's goal to create, improve, and protect at least 3 million wetland acres over the next five years in order to increase overall wetland acres and quality (Bush 2004).

Rationale

Modeling done by the Fish and Wildlife Service, indicating that, if the isolated temporary and seasonal wetlands in the Prairie Pothole Region of the Dakotas and northeastern Montana were drained or filled, the breeding-pair carrying capacity of ducks in the area would decline by 72 percent (unpublished data). Other studies and data indicate similar wildlife benefits directly resulting from Swampbuster's wetland protection in other areas of the country.

Swampbuster has been enforced for over 20-years, since the 1985 Farm Bill. Any type of major reduction in Swampbuster criteria would result in accelerated wetland drainage in the short term. In a possible analogy, the State of Florida amended its laws in the early 1990's to reduce the protection of mangroves under some circumstances. Prior to the change, mangroves could not be altered under most circumstances. The revised law allows certain modifications, especially around homes. The effect of allowing these modifications has been far greater than predicted, probably because of a pent-up demand among landowners to make improvements to their property that affect or alter mangroves, combined with a concern that the State may reverse itself in the future and prohibit further modifications. It is possible that a similar pattern might play out if Swampbuster is amended or dropped, with an unexpectedly high rate of alterations soon after enactment in response to both the new opportunity and a worry that the opportunity may be short-lived (Zinn 1996).

From a socioeconomic aspect, Heimlich et.al. in 1998 predicted that without Swampbuster, 5.8 to 13.2 million wetland acres would be profitable to convert to agricultural production based on expected prices at that time. They further calculated that the increased commodity supplies from the added acreage would depress commodity prices for all farmers, resulting in reductions of farm income of $1.6 to $3.2 billion nationwide. Heimlich et.al. also calculated that the cost of replacing or supplanting wetland compliance regulations with voluntary, compensatory programs would range from $30 to $180 billion (Heimlich et al 1998).

The Northern Great Plains Working Group believes that Swampbuster serves a vital role to protect wetlands and the wildlife populations that depend on them, and is a reasonable disincentive to convert wetlands. We urge Congress to maintain Swampbuster provisions as currently written.

**Program/Issue: Highly Erodible Land Conservation Provisions**

NGPWG Recommendations

1. Ensure that Farm Bill policy does not promote the conversion of native grassland without previous cropping history to cropland.

2. Require that land without previous cropping history that is converted to cropland after the passage of the 2007 Farm Bill shall be ineligible for any USDA program funds or benefits, including, but not limited to, conservation programs, commodity price supports and crop insurance.

Background

The conversion of native grasslands to cropland continues to be a primary resource concern throughout the Dakotas and eastern Montana. For example, data from the USDA National Resources Inventory illustrate that over 2.5 million acres of rangeland in Montana and the Dakotas were converted to other uses, primarily cropland, from 1982-1997 (USDA-NRI 2000). More current information documents a continued conversion of native grassland to cropland and even suggests local increases in the rate of loss. Recent research from Ducks Unlimited documents that 144,000 acres of native grassland have been converted to cropland throughout a relatively small portion of the central Dakotas from 1984-2002, and it appears that grassland loss rates have increased across most of the study area since 2000. Landuse modeling suggest that over the next 34 years current rates of habitat loss will lead to a 50% reduction in remaining native grassland acres throughout the central Dakotas study area (Ducks Unlimited 2005).

Rationale

In a detailed assessment of grassland loss, Conner et al. 2001 concluded that *"due to government support programs, keeping, or converting, land in crops can be both more profitable and less risky than producing livestock on grassland."* In a 2003 report by the United States General Accounting Office, 60% of the NRCS field level staff who responded to a nationwide survey noted that to at least some extent *"USDA farm commodity and crop insurance programs act as incentives to convert native vegetation to cropland"* (GAO 2003). Conversely, of the 1,659 NRCS employees contributing to the report, only 21% consider current Sodbuster provisions very effective or extremely effective at *"limiting the conversion of native vegetation to cropland"* (GAO 2003).

The adverse impacts of native grassland loss to wildlife, particularly migratory birds, are widely documented. Peterjohn and Sauer (1999) noted more population declines in grassland nesting birds than in any other suite of birds in North America. Likewise, maintaining the current amount of native grassland nesting habitat in the prairie pothole region of the United States is essential to meeting the duck recruitment goals of the North American Waterfowl Management Plan (PPJV 2005). Additionally, there are a wide variety of endemic species of plants, butterflies, reptiles, amphibians and mammals that will likely experience population declines as native prairie continues to be converted to cropland.

In the northern tallgrass prairie eco-region alone there at least 300 species of plants, 133 species of butterflies, 35 species of reptiles and amphibians, and 60 species of mammals that utilize native grassland habitats (USFWS 2000).

During the 2002 Farm Bill deliberation, Senate Amendment 2821 was introduced to significantly strengthen Sodbuster. In addition to natural resource benefits this provision was estimated by the Congressional Budget Office to result in a $1.4 billion savings over ten years. While the amendment was not retained in the final 2002 Farm Bill conference report, it has drawn increased attention to the role of agricultural policy in the ongoing loss of the nation's remaining native grasslands. Accordingly, a wide range of non-governmental organizations and state agencies have identified a strengthened Sodbuster provision as a critical need in the 2007 Farm Bill.

**Program/Issue: Conservation Reserve Program-Overall**

NGPWG Recommendation

1. Reauthorize the Conservation Reserve Program (CRP) and expand acreage cap to 45 million acres.

2. Maintain co-equal CRP objectives of reduced soil erosion, water quality and wildlife habitat.

3. Require USDA to regularly review and update CRP rental rates to ensure that CRP rental rates are competitive with cash rental rates.

4. Reauthorize the Farmable Wetlands Program (FWP).

5. Require USDA to prioritize in both the general sign-up EBI and the Continuous CRP sign-up:
   a. Wetlands;
   b. Unique habitats that benefit the conservation of at-risk or state/national species identified in State Wildlife Action Plans;
   c. Habitats of national significance.

6. Ensure expiring CRP contracts with wetlands are prioritized for re-enrollments.

7. Require management appropriate for the location that preserves soil, water and wildlife habitat quality values for the duration of the CRP contract.

8. Continue the "date certain" verbiage from the 2002 Farm Bill that will prevent recently -converted cropland from eligibility for CRP.

9. Increase involvement of state, federal and non-governmental fish and wildlife agencies in the administration and management of CRP, especially in matters relating to the Primary Nesting Season and vegetation management cycles, by establishment of State Habitat Technical Teams.

Background

The Conservation Reserve Program (CRP) was first created under the 1985 Farm Bill and is one of the most successful, beneficial and popular natural resource conservation programs ever implemented. Currently, over 36.7 million acres are enrolled for 10-15 years in a variety of practices designed to reduce soil erosion and enhance water quality and wildlife habitat. Coincidentally, this is more than twice the acreage in the National Wildlife Refuge System (FSA 2006). CRP alone is credited with reducing soil erosion by over 400 million tons per year, and generating an estimated $3.5-$4 billion in water quality benefits.

The CRP Program has evolved over its 20-year history to better meet its objectives. For example, after the 1996 Farm Bill, a Continuous sign-up option was added to address targeted resource needs. In the 2002 Farm Bill, periodic managed haying and grazing, biofuels research and required midcontract management were also added. As CRP continues to evolve, it will present challenges to ensure consistent delivery of soil, water and wildlife benefits throughout the United States.

The benefits of CRP to wildlife are well studied. CRP is credited with producing an additional 12.4 million ducks in the northern Great Plains states between 1992 and 1997 (Reynolds et al. 2001). Nielson et al. (2006) estimated that CRP was responsible for a 22-percent increase in the counts of ring-necked pheasants for every four percent increase in CRP enrolled. Likewise, studies examining the responses of bobwhite quail (Riffell and Burger 2006) and greater sage grouse (Schroeder et al. 2006) to CRP showed positive relationships as well.

CRP has changed considerably since originally authorized. Originally, CRP was designed to place marginal croplands in vegetative cover through a general sign-up process to reduce commodity crop production and reduce federal crop-price supports. As the program evolved, scoring became based on environmental factors, in the form of an Environmental Benefits Index (EBI). Wildlife was recognized as a co-equal objective in the 1996 Farm Bill. Wetlands were given points in the EBI in the 1990's to help make them competitive with enrollments of highly erodible lands. This was important, since sites with wetlands have relatively low Erodibility Indices (EI) and score few points under the soil erodibility factor of the EBI. This allowed farmers to enroll entire tracts in CRP practices that restored a mosaic of wetland and upland habitats that are beneficial to ducks, pheasants and other grassland dependent wildlife. FSA streamlined the EBI in general Sign-up 26 (spring-summer 2003) but in the process, dropped points for wetlands and moved wetlands into the Continuous sign-up. While this strategy seemed like a logical move, the small scattered nature of wetlands common in the Prairie Pothole Region (PPR) made it difficult for producers to enroll just the wetlands (including a small upland buffer) and farming around the rest. In August 2006, FSA announced a new Continuous CRP practice, CP37, to enroll larger buffers around wetlands in areas with high duck densities. Since CP37 is relatively new, it is unknown whether it will be as effective as enrolling wetlands as past wetland enrollments in the general sign-up. However, the addition of CRP practices that strategically-target wildlife and their habitats, including the Duck Nesting Habitat Initiative and the Quail Initiative, are considered to be tremendous additions to the program.

In 2006, FSA unveiled its strategy for handling the bulk of CRP contracts expiring in 2007-10. The strategy, called CRP Contract Re-enrollment-Extension (CRP REX), offered 2-5 year contract extensions or new 10-15 year contracts to CRP contracts expiring in 2007-10 based on the EBI score when the tract was originally enrolled. Since most of the enrollments in the PPR had relatively low EBI scores, most were only offered contract extensions under CRP-REX. As these contract extensions expire, it is uncertain whether these contracts will be competitive using the current EBI if producers choose to remain in the program. However, re-enrollment may be a moot point in the very near future if the current energy craze continues to raise crop prices, land values and rental rates. FSA must significantly modify how it calculates soil rental rates for the CRP so that they are competitive with current cash rent values if the program is to remain a viable option for landowners.

Some agricultural interests continue to question the benefit-cost ratio of CRP. In response, the Agriculture Policy Analysis Center (APAC) conducted a study questioning the impact of the elimination of CRP and impact on federal agricultural outlays. According to their study, if CRP was eliminated, the US government would spend an additional $32.6 billion between the years of 2007-15 for crop support payments (Ugarte and Hellwinckel 2006). Their study likewise found that if CRP was expanded to 45 million acres, the federal government would save $12.7 billion in that same time period (Ugarte and Hellwinckel 2006).

For a more in depth discussion involving issues and recommendations pertaining to Continuous CRP, new approaches to CRP and other CRP issues, see the following companion papers.

Rationale

CRP has a long-standing history of providing soil, water and wildlife habitat benefits on private land and reduces overall federal farm program spending. Since CRP is a voluntary program, it provides alternatives to regulatory solutions to address soil erosion, water quality and declining wildlife habitat. No other federal conservation program provides as many economic and environmental benefits over as wide of a landscape as CRP.

**Program/Issue: Conservation Reserve Program – Continuous Signup**

NGPWG Recommendations

1. The Continuous Conservation Reserve Program (CCRP), including all of the existing conservation practices, should be continued in the 2007 Farm Bill and separated from the general-signup CRP acreage cap. Any landowner meeting eligibility criteria should be able to enter into a CCRP contract without regard for an acreage cap.

2. The Farmable Wetlands Program should be enhanced by expanding wetland eligibility to 20 acres with payment authorized for all wetland acreage; by expanding the eligible buffers to a maximum of 10 times the wetland acreage; and expanding eligible acreage per tract to 200-acres.

3. Increase opportunities to utilize CCRP to strategically target important wildlife habitat, as has

been done with CP33 (Upland Bird Habitat Initiative) and CP37 (Duck Nesting Habitat Initiative).

Background

The Continuous Conservation Reserve Program (CCRP) is an ancillary program of Conservation Reserve Program (CRP) initiated by the Farm Service Agency (FSA) in 1996. Section 1234(c) (2) (B) in the 2002 Farm Bill authorizes use of continuous sign-up for CRP for certain specific conservation practices (CP). CCRP targets a specific resource concern on smaller areas than general signup CRP and is directed at the establishment of conservation buffers and permanent vegetation cover on highly environmentally sensitive portions of the agricultural landscape. Conservation Reserve Enhancement Program (CREP) and Farmable Wetlands Program (FWP) are other components of CRP that are continuous and closely linked with CCRP. CREP is a federal-state cooperative conservation program that addresses targeted agriculture-related environmental concerns. FWP restores hydrology of cropped wetlands and allows for vegetative cover to be seeded as buffer around the wetlands. As its name implies, producers and landowners may make application for CRP Conservation Practices designated for Continuous sign-up at anytime, in contrast to other Conservation Practices in which application may be made only during announced general sign-up time periods.

Conservation Practices designated for CCRP include: CP-5 Field Windbreaks, CP-8 Grass Waterways, CP-9 Shallow Water Areas for Wildlife, CP-15 Contour Grass Strips, CP-16 Shelterbelts, CP-17 Living Snow Fences, CP-18 Salinity Reducing Vegetation, CP-21 Filter Strips (Grass), CP-22 Riparian Buffers, CP-23 Wetland Restoration (Floodplain), CP-23a Wetland Restoration (Non-Floodplain), CP-24 Cross Wind Trap Strips, CP-27 Farmable Wetland (Wetland), CP-28 Farmable Wetland (Buffer), CP-29 Wildlife Habitat Buffer on Marginal Pasture, CP-30 Wetland Buffer on Marginal Pasture, CP-31 Bottomland hardwood, CP-33 Upland Bird Habitat Buffers, Environmental Protection Agency-Designated Wellhead Protection Area in which various conservation practices may be used, and the most recent conservation practice, CP-37 Duck Nesting Habitat Initiative.

As of August 2006 CCRP acres installed by CP stood as follows:

| | |
|---|---|
| CP-5 Field Windbreaks | 79,696 |
| CP-8 Grass Waterways | 121,247 |
| CP-9 Shallow Water Areas for Wildlife | 48,788 |
| CP-15 Contour Grass Strips | 82,448 |
| CP-16 Shelterbelts | 32,198 |
| CP-17 Living Snow Fences | 5,026 |
| CP-18 Salinity Reducing Vegetation | 304,862 |
| CP-21 Filter Strips (Grass) | 881,882 |
| CP-22 Riparian Buffers | 607,932 |
| CP-23 Wetland Restoration (Floodplain) | 88,479 |
| CP-23a wetland Restoration (Non-Floodplain) | 18,193 |
| CP-24 Cross Wind Trap Strips | 698 |
| CP-27 Farmable Wetland Pilot (Wetland) | 45,285 |

| | |
|---|---|
| CP-28 Farmable Wetland Pilot (Upland) | 108,879 |
| CP-29 Wildlife Habitat Buffer (Marginal Pasture) | 19,326 |
| CP-30 Wetland Buffer (Marginal Pasture) | 16,221 |
| CP-31 Bottomland Hardwood | 17,896 |
| CP-33 Upland Bird Habitat Buffers | 124,443 |
| Wellhead Protection Areas | 165,741 |
| CP-37 Duck Nesting Habitat Initiative | 0 |

As of August 2006 approximately 2.5 million acres of CCRP have been installed.
There are 36 CREP agreements nationwide situated in 28 states. Landowners on 31,646 farms participate in the various state CREPs, protecting 807,343 acres, including 88,072 wetland acres.

Rationale

CCRP conservation practices are diverse, are popular with landowners and producers and are necessary for implementation of conservation in many regions of the country. Many of the practices are of high importance in the northern Great Plains. CP-23a (Wetland Restoration – Nonfloodplain) and CP-37 (Duck Nesting Habitat Initiative) are especially suited, have significant value, and were designed for the Prairie Pothole Region. Though a few may have little impact in the northern Great Plains (CP23 – Wetland Restoration Floodplain and CP31 – Bottomland Hardwood), our recommendation is that CCRP, including all of the existing conservation practices, is of such importance that it should not be limited by an overall acreage cap.

Removal of CCRP from an overall acreage cap would allow more emphasis to be placed on conservation practices that provide direct benefits to wildlife, such as CP-23a – Wetland Restoration Nonfloodplain, CP-27 and CP-28 – Farmable Wetlands Program (Wetland and Upland) and CP-37 – Duck Nesting Habitat Initiative. It would also increase opportunities for developing new CCRP practices that target important habitat for other wildlife (greater sage grouse for example).

Specific to CP-27 – Farmable Wetlands Program (Wetland) and CP-28 – Farmable Wetlands Program (Buffer), we recommend that the maximum size of any wetland eligible for CP-27 be expanded to 20 acres (currently 10 acres) and that all wetland acreage be made eligible for payment (currently 5 acres). Currently, CP-28, the buffer vegetation surrounding FWP wetlands, is limited to 3 times the size of the wetland or 150 feet on either side of the wetland. We recommend that this be expanded for a maximum of 10 times the wetland acreage to be eligible for CP-28 payment.

We certainly applaud the FSA for introduction of CP-37 and recommend its continuance and expansion. Similar to the "buffer" duck nesting cover surrounding CP-37 wetlands, we recommend that the upland to wetland acreage ratio used for CP-23a be expanded from 4:1 to 10:1 and that CP-23a remain a CCRP option but also be included in general CRP sign-up also.

CCRP, CREP and FWP are conservation programs that provide benefits for soil, water and wildlife conservation across the nation. Not every conservation practice has application to all regions of the U.S. but the conservation practices are diverse and every region of the country can use several to many of the CPs to improve conservation on the agriculture landscape. CCRP should remain a significant part of the 2007 Farm Bill.

**Program/Issue: Changes to the Conservation Reserve Program (CRP) – New Approaches**

NGPWG Recommendations

1. Establish a pilot Conservation Practice that dedicates a subset of CRP acres in the northern Great Plains to long-term, grass-based agriculture in order to create a "working lands" component within the program. Such a program would provide longer-term contracts of 20-50 years with more frequent use (haying and grazing) allowed and reduced rental payments to offset the allowed use. Grazing shall be allowed annually throughout the year under an approved NRCS grazing plan. Haying will be allowed annually but only 50% of a field can be hayed each year and it must be restricted to time periods outside of the Primary Nesting Season.

2. Provide the opportunity for perpetual easements on select CRP acres that have been in the program >15 years to ensure that these acres remain in grass. This could be authorized via CRP, or by specifically authorizing easements on expiring CRP under the Grassland Reserve Program. USDA would provide a one-time lump sump payment to permanently retire some of the CRP tracts that, through science, are proven to be environmentally sensitive and important to wildlife populations. Grazing shall be allowed throughout the year, subject to NRCS criteria, and haying would be allowed outside of the Primary Nesting Season (unless necessary to maintain the stand.

Background

The CRP was first authorized under the Food Security Act of 1985. There are currently 36.2 million acres enrolled nationwide and 8.3 million acres are located in North Dakota, South Dakota and Montana. The majority of CRP acreage in the Northern Great Plains has been enrolled in the program since its inception. The CRP has arguably been the most successful conservation program in the U. S. in terms of improving water quality and soil quality and building wildlife populations. Recently, opponents of CRP have argued that it is not a "working lands" program due to its idle nature and therefore, these lands are no longer considered a functional component of the rural landscape. Managed haying and grazing are allowed on a large percentage of these acres each year and emergency haying and grazing allowed during drought and flood emergencies. Yet the viewpoint remains, that these are not "working lands", largely because haying and grazing are restricted to a short window of opportunity outside of the primary nesting season.

Rationale

The CRP has provided proven benefits to soil, water and wildlife populations across the Northern Great Plains. The CRP has been responsible for adding over 2 million ducks to the fall flight from 1992-2004 (Reynolds et al. 2001, Shaffer et al. 2006). In addition, from 1992-1997, the nest success of 5 of the most common species of nesting waterfowl was 46% higher in the Prairie Pothole Region of ND, SD and MT with CRP than if CRP were replaced by cropland (Reynolds et al. 2001). Pheasant harvest in North Dakota has increased from 150,000/yr. before the CRP to an average of 600,000/yr. since the addition of the CRP (North Dakota Game and Fish Department). Likewise, fall pheasant populations in South Dakota have increased from 1.4 million to 8 million with the addition of CRP (South Dakota Game, Fish and Parks). A recent report out of Wyoming estimates a 22% increase in pheasant counts with each 4% increase in CRP acres enrolled within large areas of pheasant habitat (Nielson et al. 2006).

While the CRP has clearly been beneficial to wildlife populations; it has also provided broad-reaching benefits to our nation's environment as well. The CRP has been responsible for reducing annual soil erosion nationwide by more than 450 million tons, restoring and protecting over 2 million acres of wetlands and adjacent uplands, reducing sediment and nutrient loads in our nation's water bodies and annually sequestering over 48 million metric tons of carbon dioxide (FSA, CRP FY2005 Annual Summary).

The purpose of the CRP continues to be assisting producers in conserving and improving the nation's soil, water and wildlife resources by converting highly erodible land and other environmentally sensitive land to long-term vegetative cover. While the science is clear that the CRP has been successful in achieving the purposes of the program, opponents continue to contend that it is not a "working lands" program and therefore, not a functional part of the rural landscape. Managed haying and grazing are allowed on a large percentage of the CRP acres annually and emergency haying and grazing are allowed during drought and flood emergencies. Yet, restrictions on these haying and grazing programs are apparently responsible for the perception that CRP grasslands are not "working lands". Changes may be needed in the 2007 Farm Bill to provide cover practices within the CRP that adequately address the "working lands" concerns.

**Program/Issue: <u>Wetland Reserve Program</u>**

<u>NGPWG Recommendations</u>

1. Maintain and expand the Wetland Reserve Program.

2. Reinstitute appraisal methods for acquisition of WRP easements that USDA utilized before 2006.

<u>Background</u>

Before 2006, the Wetland Reserve Program was highly successful voluntary program offering landowners the opportunity to protect, restore, and enhance wetlands on their property. The popularity of this program was evident, with landowners securing over 1.5 million acres of wetlands and associated uplands. However, USDA's WRP easement program has become an ineffective program to protect, restore or enhance wetlands since the implementation of the Yellow Book appraisal protocol. The USDA Office of Inspector General (OIG) published an audit report in August 2005 on the Wetland Reserve Program (WRP) which criticized the program and cited flawed valuation methodology because it lacked "before and after appraisals" that incorporated residual land values into the processes of offering payments for easements.

In response to the OIG report, the Natural Resource Conservation Service (NRCS) reacted by enacting major changes in the appraisal process for selecting applicants for 2006 WRP easements. "Before and after appraisals" were mandated and following the "Yellow Book" appraisal guidelines was required. These guidelines require using current fair market values based on the "highest and best use" of the land as opposed to agricultural values in determining the price offered to purchase WRP easements. Language in Sec. 1119 (o) of the 2005 Transportation bill attempted to exempt voluntary conservation easement activities of the Department of Agriculture and the Department of the Interior from the Uniform Relocation Assistance and Real Property Acquisition Policy Act of 1970 (i.e., Yellow Book), but that exemption cannot be applied without further clarification.

Many states have returned FY2006 WRP allocations the NRCS national headquarters due to the requirement of using the Yellow Book appraisal protocol. Appraisals using this procedure do not provide potential WRP participants with adequate compensation to enroll their land into a perpetual or 30 year easement. The program simply will not target those potential participants who wish to maintain the WRP easement as part of an agricultural operation under compatible use permits. As currently designed, participation by individuals who wish to maintain private ownership of the WRP easement is limited.

Rationale

Prior to Yellow book implementation, required management under a WRP easement had been adequately compensated by the federal government. Under the Yellow Book appraisal process participation in WRP has been reduced to a level below the current available funding in most states.

The Yellow Book appraisal process requires using the "highest and best use" value of the land for appraisal determinations instead of agricultural value, which has resulted in dramatic reductions in the prices offered to purchase WRP easements. The OIG concluded that because the restored land has resale value for recreation (i.e., hunting), the payment should be reduced by this recreational value or "residual value." The NRCS has implemented this approach, and the result is that land value paid for easements is being reduced so much that farmers can not afford to accept WRP easement offers and enroll marginal farm land in the program. Consequently, farmers may have no other choice but to continue farming these marginal acres and to continue receiving the associated crop assistance payments.

The intent of Congress in establishing WRP was to remove marginal croplands from production to alleviate annual expenses related to cropping. Additional benefits of WRP include restoring wetlands and their functions for cleaning water, retaining flood waters, creating habitat for migratory birds and other wildlife, and protecting farmland and citizens across the agricultural landscape from natural disasters. Today, the WRP is not being implemented as Congress intended because of the new appraisal processes.

**Program/Issue: Environmental Quality Incentives Program**

NGPWG Recommendations

1. Reauthorize the program and allocate a minimum of 10% of EQIP dollars for wildlife habitat creation, restoration or enhancement. Assign coequal status for fish and wildlife concerns with soil and water concerns in EQIP. In order to achieve coequal status, Habitat Technical Teams (HTT) need to be formed to develop, review, and recommend fish and wildlife habitat criteria related to USDA and NRCS conservation programs.

Background

EQIP objectives, as stated in the 2002 Farm Bill, are to promote agricultural production and environmental quality as compatible national goals, and to optimize environmental benefits, by: assisting producers in complying with local, State, Tribal, and National regulatory requirements concerning: soil, water, and air quality; wildlife habitat; surface and ground water conservation. NRCS is to provide flexible assistance to producers to install and maintain conservation practices that enhance soil, water, and related natural resources (including grazing land, wetland, and wildlife habitat) while sustaining production of food and fiber. National priorities include promotion of at-risk species habitat conservation.

Rationale

Only through the use of HTT's and a specific allocation of dollars toward fish and wildlife habitat can these objectives and national priorities be realized. HTT's can provide NRCS with the needed guidance to allocate funds toward specific conservation practices to effectively and efficiently meet EQIP fish and wildlife objectives. This process would move fish and wildlife into coequal status with other resource concerns and assure that all states consider and promote wildlife habitat along with other priorities for EQIP.

State, regional, and other conservation plans are readily available to strategically implement the program under EQIP (i.e., National Fish Habitat Action Plan, State Wildlife Action Plans, etc.)

The Northern Great Plains Working Group believes that through the use of HTT's and the specific allocation of 10% of EQIP dollars toward fish and wildlife habitat, EQIP fish and wildlife objectives can be achieved.

**Program/Issue: Wildlife Habitat Incentives Program**

NGPWG Recommendations

1. Combine WHIP with EQIP and authorize 10% of EQIP allocations to target resource needs for national priority fish and wildlife species.

Background

WHIP provides cost share for application of conservation practices that benefit fish and wildlife habitat. WHIP does not authorize incentive payments for fish and wildlife habitat. Incentive payments for practices that provide wildlife habitat such as prescribed grazing systems, no-till winter cereals, delayed haying, etc cannot be made. EQIP does allow for incentive payments. Distributing WHIP dollars through EQIP in accordance with the recommended changes for EQIP would be a better used of WHIP dollars.

State, regional, and other conservation plans are readily available to strategically implement the program under EQIP (i.e., National Fish Habitat Action Plan, State Wildlife Action Plans, etc.).

Rationale

USDA cost share programs can be confusing to USDA participants. This is especially true when one program allows for incentive payment (EQIP) while other programs do not (WHIP). Developing contracts becomes more difficult for NRCS when different rules apply to different programs. Combining EQIP and WHIP would go a long way toward eliminating confusion in USDA participants and for NRCS in the contracting process.

Incentive payments, in addition to cost-share, for locally identified priorities, and the use of Habitat Technical Teams (HTT), composed of fish and wildlife professionals to advise State Conservationists on implementing EQIP, can accomplish the same goal as having two separate programs.

The Northern Great Plains Working Group believes that through the use of HTT's and the specific allocation of 10% of EQIP dollars toward fish and wildlife habitat, fish and wildlife objectives can be achieved with one unified EQIP program.

**Program/Issue: Conservation Security Program**

NGPWG Recommendations

1. Continue the Conservation Security program requiring fish and wildlife habitat as a criterion for participation at a tier 2 or 3 level. The CSP program needs to apply this criterion consistently in all states and watersheds.

Background

CSP has the potential to provide incentives for increased fish and wildlife habitat on the farm or ranch. However many watershed local working groups are not selecting fish and wildlife habitat as a resource concern for Tier 2 participation. They are selecting resource concerns that are either easier to implement or already implemented in the watershed making it less difficult for farmers or ranchers within the watershed to meet eligibility requirements.

CSP requires that in order to participate at the Tier 3 level, fish and wildlife quality criteria must be met on all of the farm or ranch under their control. Consistent implementation of this criterion is a concern as CSP is implemented in each state.

Rationale

CSP can provide an avenue for participants to provide fish and wildlife habitat on enrolled land. Habitat Technical Teams (HTT) can provide NRCS with needed guidance in the development of wildlife quality criteria for Tier 2 and 3 participation. Use of HTT can help NRCS answer CSP wildlife concerns raised in the recent OMB audit.

The Northern Great Plains Working Group believes CSP should be continued at current authorized levels and HTT should be used to develop quality criteria for fish and wildlife habitat specific for each state or watershed.

**Program/Issue: Grassland Reserve Program**

NGPWG Recommendations

1. The Grassland Reserve Program (GRP) should be expanded to at least 10 million acres.

2. Up to 10% (1 million acres) of the suggested acreage for the GRP should be dedicated to native grasslands in the northern Great Plains.

3. At least 25% (2.5 million acres) of the suggested acreage for the GRP should be dedicated to grasslands (both native and tame) currently in existence under the CRP.

4. Payments for easements limited by State Law to 99-years should be calculated at 90% of the value of permanent easements.

Background

Sec. 2401 in the 2002 Farm Bill established the Grasslands Reserve Program (GRP). It was conceived as a working lands program offering grassland agriculture producers one of their few benefits from the Farm Bill. The GRP offers qualifying landowners the option of 10, 15, 20 and 30-year rental agreements or 30 year or permanent easements (in all states except North Dakota, where easement length is limited by state law to 99-years and under the terms of the GRP statute USDA cannot offer a payment higher than the value of a 30 year easement). The program was authorized to enroll up to 2 million acres, not more than 40 percent of which could be 10, 15 or 20-year rental agreements and not more than 60% of which could be 30 year rental agreements or 30 year or permanent easements.

The GRP is a voluntary program that helps landowners and operators restore and protect grassland, including rangeland, and pastureland, and certain other lands, while maintaining the areas as grazing lands. The program emphasizes support for grazing operations, plant and animal biodiversity, and grassland and land containing shrubs and forbs under the greatest threat of conversion.

Rationale

While the concept behind the GRP remains solid, the program has fallen far short of its potential in the northern Great Plains and in the country as a whole. The following changes are required:

*Acreage Limitations*

Two million acres available for a national program is considered inadequate. By comparison, CRP in North Dakota alone covers over 3 million acres and the Prairie Pothole National Conservation Priority Area in the states of North and South Dakota, Montana, Minnesota and Iowa has over 8 million acres in the CRP. During the first 3 years of the GRP (2003-2005) North Dakota alone had 1,164 landowner applications for the program covering over 800,000 acres, only a small percentage of which could be funded. The GRP should be expanded to at least 10 million acres.

*Program Focus*

While the current statute provides eligibility for existing grassland or shrubland (including improved rangeland and pastureland) and land that has been historically dominated by grassland, forbs or shrubland, the program should be refocused to provide primary emphasis on retaining native grasslands. Further, the program should give emphasis to enrolling native grasslands with a strong geographic priority such as the northern Great Plains. We recommend that up to 10% (1 million acres) of the suggested acreage for the GRP be dedicated to native grasslands in this region of the country.

The GRP has potential to provide transition to cost effective long-term protection for lands enrolled in other conservation programs under short term (i.e. 10-15 year) contracts. An example would be the many acres of highly erodible or other sensitive cropland currently enrolled in the CRP. There has long been agreement among both conservation and agricultural interests that many of these acres should never have been cultivated due to slope, erodible nature of soils, etc. Now that many of these acres are temporarily back in grass (some in native grass mixes, some in other tame grass mixes suitable for wildlife habitat) under the CRP, it makes sense to retain these acres in grass without the taxpayer bearing the cost of seeing them broken again, only to necessitate further farm bill support payments and perhaps another short term grass program again in the future. The GRP is the ideal program to serve as a transition mechanism. We recommend that at least 25% (2.5 million acres) of the suggested acreage for the GRP should be dedicated to grasslands currently in existence under the CRP. Criteria as to which CRP grasslands would be eligible for transition to the GRP would be made with the assistance of Habitat Technical Teams.

*Changes to Statutory Limitations*

As mentioned previously, state limitations on easement length (North Dakota is the only state with this limitation) severely limit the usefulness of the GRP on some of the most ecologically-important sites in the nation. The GRP statute should be modified as follows:

b) PAYMENTS. —

(1) EASEMENT PAYMENTS. —

(A) AMOUNT. — In return for the granting of an easement by an owner under this subchapter, the Secretary shall make easement payments to the owner in an amount equal to —

(i) in the case of a permanent easement, the fair market value of the land less the grazing value of the land encumbered by the easement; <u>in the case of an easement whose maximum duration allowed under applicable State law is equal to or greater than 99 years, an amount equal to ninety (90) percent of the value of a permanent easement</u>, and (ii) in the case of a 30-year easement or an easement for the maximum duration allowed under applicable State law <u>if the limitation is less than 99 years</u>, 30 percent of the fair market value of the land less the grazing value of the land for the period during which the land is encumbered by the easement.

(B) SCHEDULE. — Easement payments may be provided in not less than 1 payment nor more than 10 annual payments of equal or unequal amount, as agreed to the Secretary and the owner.

(2) RENTAL AGREEMENT PAYMENTS. — In return for entering into a rental agreement by an owner under this subchapter, the Secretary shall make annual payments to the owner during the term of the rental agreement in an amount that is no more than 75 percent of the grazing value of the land covered by the contract.

The GRP is a program long overdue within the Farm Bill. It addresses needs of grasslands, a long neglected and much altered habitat type, and of grassland agriculture, a segment of the agricultural economy essentially left out of most farm bills.

The NGPWG helped develop the grassland retention and working lands concepts embedded in the GRP and continues to view the GRP, with the modifications suggested, as one of the most important and innovative farm bill programs. An appropriately modified GRP has potential to positively stabilize land use and secure the future of sustainable grassland agriculture in the northern Great Plains.

**Program/Issue: <u>Biomass for Cellulosic Ethanol Production</u>**

<u>NGPWG Recommendations</u>

1. No bioenergy production should occur on lands currently enrolled in existing farm bill conservation programs including the Conservation Reserve Program (except for harvest allowed for management), the Grassland Reserve Program, or the Wetland Reserve Program, until research data is available to guide the process of production, transportation and conversion of biomass in an environmentally positive manner.

2. Five million acres, and commensurate research funding, should be allocated within the next Farm Bill for research on cellulosic bioenergy production.

3. Based on data available for potential bioenergy crops, supplemented by wildlife management data, landscape planning and harvest strategies should consider:

a. Incorporating a "harvest reserve" into any landscape surrounding a pilot conversion plant comprising a minimum of an additional 20% acreage planted and dedicated to biomass grasslands.
b. The appropriate post harvest stubble height for the long term viability of any grass stand dedicated to bioenergy production and consideration for habitat functions in future years.
c. The use of regionally appropriate native seed sources to ensure stand viability and longevity.
d. Limiting harvest of dedicated biomass crops to cover blocks.
e. Harvesting grassland dedicated to bioenergy production no more than every other year, between the dates of August 2 and April 1.

4. No species of invasive grass (as determined on a state-by-state basis by the State Conservationist in consultation with the State Technical Committee) should be allowed in any plantings of grasslands dedicated to bioenergy production.

Background

Concerns regarding the United States' increasing dependence on foreign controlled energy are increasing, almost at the same rate as the increase in the price of gasoline. The issue has both practical and political implications. In a practical sense, tightening supply and increasing cost of fossil fuel based energy affects the daily commerce of Americans and citizens throughout the world. From a public policy sense, it is both nonpartisan and patriotic to address the growing concerns of energy costs and shortages. It is anticipated that a great deal of attention will be paid to alternative renewable energy production in the upcoming Farm Bill and therefore great potential exists to guide the outcome in a conservation friendly manner.

As alternative energy options evolve, one that has captured much attention, and growing support in farm country, is the production of ethanol from farm products. Corn based ethanol is the most commonly known and discussed alternative fuel source, with plants for conversion of corn prevalent and increasing throughout the Midwest. Corn based ethanol resonates among farmers, farm state political leaders and, to some extent the public, because we are familiar with corn, we know how to grow, transport and market corn and it's use fits the existing stereotype of renewable energy from basic agricultural production. While corn based ethanol has and will contribute to this countries' alternative energy needs, it faces two major challenges:

1. Conversion of corn to energy competes directly with food production. However, at some point the market will control a reconciliation of uses.

2. While controversy surrounds the efficiency of corn based ethanol production, most scientifically credible estimates put it at about 1.3:1. In other words, 1.3 units of energy are produced for every unit of input, with input including all factors inclusive in planting, harvesting and converting this annual crop. While this is a positive, it is not as efficient as estimates for other biological options.

Most experts agree that the real ethanol stocks of the future will be gleaned from conversion of cellulosic sources (vegetative fiber) such as grass, corn stover, wheat straw, and similar plant biomass. Most prevalent among these sources is grass, with Switchgrass the most commonly recognized source. Discussions abound regarding which grass species might be most useful, how, where and on what type of land they may be grown, how they might be transported and marketed and how they can most efficiently be converted to ethanol. Unlike corn based ethanol conversion, which has become fairly standard technology, the conversion processes useful for cellulosic ethanol (there are several) are less well developed and their commercial viability is not assured. Conversion processes currently under development show efficiency ratios of nearly 3:1 (three units of energy produced for every unit of input), making cellulosic ethanol production attractive. A good portion of the efficiency on the side of cellulosic ethanol comes from the perennial nature of the plants often used, as opposed to the annual nature of corn as an input crop.

Rationale

The Great Plains evolved under moisture and climatic conditions making grassland the prevalent climax vegetative community. Conservation groups, and some agricultural groups, have for a number of years promoted grass production on much of the land in the northern Great Plains as a more appropriate agricultural use than cultivation on many soils and slopes and certainly more of a "wildlife friendly" land use. Additionally, since the late 1980s the Conservation Reserve Program (CRP) has placed over 8 million acres of grassland habitat on former cropland in the Prairie Pothole region.

In general, more grass is better in the northern Great Plains. However, one of the benefits of the CRP is the relatively undisturbed nature of the grassland habitat. Organizations like the NGPWG that have worked hard to establish and maintain the CRP are interested in seeing the integrity of the original program purpose maintained.

An increase in grassland acres benefits fish and wildlife (as well as providing an array of societal values including enhanced water quality, reduced wind and water erosion, increased water retention, increased security for wetlands embedded in grassland, etc.). However, parameters describing how and where grasslands are established and used have a great impact on the relative benefits they produce on the landscape. The Northern Great Plains Working Group has identified the most critical parameters for grassland establishment and use and makes the following recommendations on maximizing both energy production and fish and wildlife benefits within the context of Farm Bill statute and policy:

BIODIVERSITY AND INTEGRITY OF GRASS PLANTINGS FOR BIOENERGY PRODUCTION

While pure monotypic stands of grass may be required for certain energy conversion processes (i.e. enzymatic), plantings of diverse grass and forb species are generally better from an overall wildlife production standpoint. Further, no species of invasive grass or forb should be allowed, either in monotypic or diverse stands, that are known to cause problems in a particular location in either adjacent cropland, CRP or other areas planted for biomass production.

HARVEST CHARACTERISTICS

The following harvest characteristics, several of which have already been shown to be of benefit to the sustainability of grassland stands, are advocated as having the most ancillary benefits to wildlife:

1. Stubble Height – At least 12".
2. Frequency and Timing of Harvest – No more than every other year, between the dates of August 2 and April 1.
3. Physical Characteristics of Harvest – All harvest should be conducted in blocks, avoiding strip harvest that is known to create edge that invites predation and reduces survival of ground nesting birds.

STRATEGY OF "HARVEST RESERVE"

Landscape design around selected pilot plant location should accommodate at a minimum an additional 20% acreage planted and dedicated to biomass grasslands. This acreage will provide a "harvest reserve" for producers to meet contract obligations in drought years but remain unharvested (and therefore wildlife habitat) in normal or wet years. Payment would be made to producers on an annual basis, similar to CRP, during non-use years.

No American can dispute the desirability of reducing foreign energy independence. The NGPWG supports development of a well designed, well thought out system of renewable energy production using cropland to produce grasses for cellulosic ethanol production.

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