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THE NEW FEDERAL FARM BILL: FEED GRAINS AND OIL SEEDS

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

ONE HUNDRED SEVENTH CONGRESS

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CONTENTS

Page

HEARING(S):

The New Federal Farm Bill: Feed Grains and Oil Seeds 01

Thursday, July 12, 2001

STATEMENTS PRESENTED BY SENATORS

Harkin, Hon. Tom, a U.S. Senator from Iowa, Chairman, Committee on Agriculture, Nutrition, and Forestry 01

WITNESSES

Anderson, Tony, President, American Soybean Association, Mount Sterling, Ohio 09
Evans, Trudi, President, Barley Growers Association, Merrill, Oregon 14
Dittrich, Keith, President, American Corn Growers Association, Tilden, Nebraska 06
Klein, Lee, President, National Corn Growers Association, Battle Creek, Nebraska 03
Kubecka, Bill, Vice President for Legislation, Sorghum Growers Association, Palacios, Texas 16
Miller, John, President, Miller Milling, Minneapolis, Minnesota 12

APPENDIX

PREPARED STATEMENTS:
- Anderson, Tony 87
- Evans, Trudi 110
- Dittrich, Keith 75
- Klein, Lee 46
- Kubecka, Bill 115
- Miller, John 95

DOCUMENT(S) SUBMITTED FOR THE RECORD:
- American Corn Growers Association: The Family Farm Agriculture Recovery & Maintenance Act 148
- dtp associates, llp, to The National Corn Growers Association; Re: Counter-Cyclical Safety Net Programs and WTO Obligations 138
- World Perspectives, Inc., on behalf of member clients in: Coalition for a Competitive Food and Agricultural System; Re: Farm Policies to Preserve a Competitive U.S. Agriculture 161

HEARING ON THE NEW FEDERAL FARM BILL: FEED GRAINS AND OIL SEEDS

THURSDAY, JULY 12, 2001

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

The Committee met, pursuant to notice, at 9:40 a.m., in room RS–328A, Russell Senate Office Building, Hon. Tom Harkin, [Chairman of the Committee], presiding.

Present or submitting a statement: Senators Harkin, Stabenow, Nelson, Wellstone, Lugar, and Roberts.

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

The CHAIRMAN. The committee will now resume its seating for the continuation of hearings on the new Federal Farm bill, and I would ask the following people to take the witness table: Lee Klein, president of the National Corn Growers Association; Keith Dittrich, president of the American Corn Growers Association; Tony Anderson, president of the American Soybean Association; John Miller, president of Miller Milling; Trudi Evans, president of the Barley Growers Association; Bill Kubecka, vice president for legislation of the Sorghum Growers Association. We will get you all up here at the witness table.

Today, the committee continues to consider in detail what changes should be made to the various titles of the Farm bill. Again, just speaking for myself, my aim and I hope others' is to develop policies that will help farmers get more of the consumer dollar than they are getting right now, which is at an historic low. While, obviously, fixing the commodity programs is crucial to many farmers' future prospects, other titles of the Farm bill are also important, as well as the wellbeing of farmers who raise livestock or grow crops other than those currently eligible for direct payments.

The Farm bill also impacts the lives of many others not directly engaged in production agriculture through the nutrition programs, conservation of natural resources, provisions which encourage rural development. The views of representatives of those groups will also be solicited as we move through the hearing schedule. As I indicated in my statement in the previous hearing, I am determined that we will pay attention to all titles of the Farm bill as we work through the Farm bill process.

As is the case for most crops grown in this country, prices for corn and soybeans and other feed grains and oil seeds have fallen

far from their mid-1990's peaks and have stagnated at relatively low levels for the past 3–1/2 years. Today, we will hear from witnesses who represent the interests of the producers and processors of feed grains and oil seeds. Their output accounts for about a third of the nation's gross receipts for crop production and a similar share of U.S. ag exports.

Of course, I am always proud to note that farmers in my home state of Iowa remain among the nation's leaders in both corn and soybean production. Although this hearing clearly has a commodity focus, I have invited witnesses to address all other issues of concern, whether or not a given issue falls within the purview of the commodity title. Clearly, supply continues to outstrip demand, both within the United States and globally. Until something happens that alters one or both of those components, prices will continue to remain low.

Beyond the programs that would be contained in the commodity or conservation titles, however, it is crucial that we devote more of our attention to looking at ways to generate greater utilization of our crops domestically. For example, the single fastest growing use of corn in this country is the production of ethanol. I believe that we are only beginning to tap the potential for using grains and oil seeds for energy production. To the extent that we encourage such activities, we would also create opportunities for farmers to capture additional income, and I believe that such an initiative is so important that it deserves its own title in the Farm bill.

Typically, we export about a fifth of our feed grains and about 40 percent of our soybeans, either as raw or as product. An increasing portion of our feed grains and oil seeds are also being exported indirectly because of growth of our exports of meat and livestock products. We will also need to look at how well our current set of agricultural trade programs are performing and also consider what else might be done in this area.

I am determined to include in the Farm bill provisions establishing a permanent authority and funding for an international food for education program, a bill that has been introduced with Senator Leahy and Senator Lugar, myself and others in late May. I am convinced that such a program would be a winner, both for American farmers and for children and their families in developing countries. I look forward to the testimony from the witnesses as they address these issues and doubtless many other issues as we move through the progress of developing the Farm bill.

With that, I would turn to Senator Lugar for any opening statement.

Senator LUGAR. Thank you very much, Mr. Chairman. I would affirm your statement. We look forward to ideas from the panel today, and from a pre-reading of your testimony, there are a number that are very important. It is a timely hearing, and I look forward to hearing the witnesses.

The CHAIRMAN. Thank you very much, Senator Lugar. Now, we will turn—I have my lineup here—to Mr. Klein.

STATEMENT OF LEE KLEIN, PRESIDENT, NATIONAL CORN GROWERS ASSOCIATION, BATTLE CREEK, NEBRASKA;

ACCOMPANIED BY RON LITTERER, GREENE, IOWA

Mr. KLEIN. Good morning.

The CHAIRMAN. Mr. Lee Klein; good to see you again. I was just with you down in Texas not too long ago.

Mr. KLEIN. That is correct.

The CHAIRMAN. Good to see you again, and welcome to the committee. All of your statements will be made a part of the record in their entirety. I would like to ask if you could each summarize your statements in seven minutes or something like that. Just give us a kind of wrapup, and then, we will come back, and I am sure you can expound on your summaries during the question period. I would appreciate that.

Mr. Klein, welcome.

Mr. KLEIN. Thank you, Mr. Chairman, for the opportunity totestify here today about the farm economy and the future of farm policy. My name is Lee Klein, and I serve as president of the National Corn Growers Association, representing more than 31,000 direct members and the 300,000 corn farmers throughout the Nation who make checkoff payments each year. I am joined today by Ron Litterer of Greene, Iowa. Mr. Litterer serves as vice-chair of our Public Policy Action Team, which is our internal working committee working on farm programs.

Ron is also past-president of the Iowa Corn Growers Association. He raises corn and soybeans along with a hog finishing operation. I farm near Battle Creek in northeast Nebraska. My wife and I raise corn, seed corn, soybeans, rye, alfalfa and hay and have a cow-calf operation. We are proud to represent two different corn-growing states yet speak with one voice.

What does NCGA want from the next Farm bill? Simply, our growers want a farm program that ensures America's farmers are globally competitive; market-responsive; and environmentally responsible. This program must provide producers with access to world markets, access to capital, access to advances in technology and risk management in a sustainable and an environmentally sound manner. It is our goal to develop new uses for corn; to develop and build a renewable products industry with corn as the chief feed stock; to increase utilization of corn and to increase the opportunity for grower profits.

We need a complete package that provides farmers with opportunities in the marketplace with minimal interference in production decisions that includes a safety net against those economic forces that are beyond producers' control. We believe that we have developed a program that will do just that. In hindsight, the 1996 FAIR Act provided farmers with many of the tools we are looking for, but it was short-sighted in its ability to provide a safety net that would be sufficient in times of sustained low farm income. It does not include a provision to allow producers to weather, for example, the Asian flu that seemed to infect many of our international customers.

After three years of low prices and needed bailouts by the U.S. Congress totaling over $19 billion, we now know that an additional component is vitally needed. Improving that safety net for future

farm policy while maintaining the best of freedom to farm is at the core of our presentation today. After weighing all of the needs and concerns of growers outlined in our full testimony, NCGA has surfaced as committed to a comprehensive, countercyclical income support proposal. This proposal, known as the National Agriculture Security Act, or NASA, addresses the inequities in the current Marketing Assistance Loan Program; puts U.S. agricultural supports in the more favorable green box and is fiscally responsible.

The countercyclical program that we have developed replaces the current Marketing Assistance Loan Program. We have worked with economists to flesh out the total impact of this type of program on the corn industry as well as other commodities and are very confident and pleased with the results. Our proposal establishes an annual target income for corn and other loan-eligible commodities. The target income, which is outlined on page 12 of our full testimony, is based on the average crop value during the base period and incorporates producer benefits from the Marketing Loan Program and the market loss assistance payments over that same timeframe.

This base period average income is adjusted for each year of the Farm bill by a factor that reflects projected production increases. This adjustment is necessary to ensure that producers have adequate income production as crop yields increase. In addition to a countercyclical program, our NASA program proposal assumes a continuation of production flexibility contract or PFC payments at the 2002 level for the life of the new Farm bill. Consequently, the PFC payments are not included in target income.

The growers' portion of the countercyclical payment would be then based on eligible units from a 5-year average of acreage and yields production. This would allow growers to update bases and yields for the countercyclical program to a more recent practice-reflective yield in planning levels. Each year, crop income will be calculated using USDA production estimates and the average price during the first three months of each commodity marketing year. For corn and other commodities with a marketing year that begins September 1, the 3-month price will be the preliminary estimate as determined by the National Agricultural Statistics Service.

A 3-month price allows payments to be calculated and made when they are most needed by farmers. We would anticipate that this would allow farmers to have the option of receiving these payments either prior to or after December 31 of each year for optimal tax management. Whenever the national crop income is less than the target income, producers will receive a payment based on their eligible bushels. We think a farm program with this structure has many benefits. It eliminates the 30-year problem of inequity within loan rates. It is non-production distorting. It is non-trade distorting, and it provides payments when needed to those who need it and pulls valuable and needed funds from the amber box into the exempt category.

Chart B on our page 15 demonstrates how our proposal would fare compare to CBO-like baseline. As the chart demonstrates, this program would provide $31 billion more in assistance over that 7-year period than current CBO-like baseline estimates, an average of $5.2 billion more per year without the necessity of ad hoc disas-

ter assistance. We clearly demonstrate a need for an increase in the agricultural budget baseline. This need is justified. When you look at this program, may be a better use of taxpayer dollars in the long run.

We believe that our countercyclical program proposal is a safety net that eluded us in the 1996 bill. We asked the agricultural economics consulting firm Agrilogic to run this countercyclical program on a both CBO-like baseline and their own baseline, which allows for more volatility and fluctuation in the market and in production. This has allowed us to analyze this proposal under alternative conditions and to test the sensitivity of our proposal to ensure that we have developed a farm policy proposal that is responsive to the changing conditions in weather, production, macroeconomic policy and foreign trade policies.

We ran many scenarios under both CBO-like and Agrilogic baseline. Under all the options run, the economic models demonstrate that this program will provide assistance when needed without further Congressional action.

While the countercyclical proposal will assure grower income in times of low prices in amounts comparable to current marketing loan benefits, it will not address our goal of a policy that provides access to capital, which is why we propose recourse loans as part of this program. Recourse loans will provide producers with access to capital but should not encourage production. Since a producer will be required to repay the loan plus interest at the end of the 9-month loan program, we view this as only assisting with access to capital for short-term cash-flow.

Our NASA program strengthens the farm safety net by providing a more predictable level of income. This program has two roles. It serves as a safety net with crop insurance that facilitates the ability of farmers to effectively manage their individual annual production risk in the private sector, and it provides a safety net to the equity base of U.S. farm production in a cost-effective, private-public partnership that maintains the soundness of the agricultural production system for the benefit of U.S. consumers and the national economy.

In conclusion, we believe that we have identified very real problems with today's farm policy and proposed a policy that we believe addresses them. We also contend that this policy proposal is both less production and trade distorting than current policy and offers this country's farmers a real safety net when it is needed most. In conclusion, we must all recognize, and I hope you agree, that there is a significant and important public benefit in the food security, wholesomeness and integrity of production resulting from the tremendously efficient food and fiber production machine of America's production agriculture sector.

Of equal value and importance to our nation is the economic viability and activity of rural communities and the work ethic, integrity and commitment to community fostered in the domestic food production sector of our economy. In a global market, an economy distorted at its best by world political pressures and non-production-related economic factors such as exchange rates, there is a significant public interest and need to protect the viability of agricultural producers in a manner that is market-oriented, WTO-compli-

ant and environmentally responsible and responsive to the vast geographical and economical differences faced by our rural farm families and corn grower members.

Thank you for the opportunity to share the National Corn Growers' vision in this important effort.

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

The CHAIRMAN. OK. Thank you very much, Lee, for a great summation of a very long and complex written statement. I can just say to you and say to the other ones, too, that we are going to be in further consultation and in conversation with you as we go along in this Farm bill.

Mr. Dittrich, American Corn Growers Association, welcome.

STATEMENT OF KEITH DITTRICH, PRESIDENT, AMERICAN CORN GROWERS ASSOCIATION, TILDEN, NEBRASKA

Mr. DITTRICH. Thank you, Chairman Harkin and Senator Lugar and other members of the committee. I am Keith Dittrich. I am president of the American Corn Growers Association. Seated with me behind me today is Larry Mitchell, our Washington-based chief executive officer, and David Center, our director of Congressional affairs.

I would like to say that this day has been a long time coming for the American Corn Growers Association. As you may know, we were denied testimony in the House even though our proposal that we did submit we believed was the most broad-based comprehensive proposal that was submitted. Again, I thank you for our time today and do appreciate it.

We represent producers from 50 to 15,000 acres in size, and they all have one thing in common: they need a fair price for what they produce. The American Corn Growers Association is a relatively new and rapidly growing organization for a reason. We have new ideas that make bridges with other organizations and varied interests.

I would like to say also to Mr. Klein, that although I, as a producer, have paid checkoff fees on over 2 million bushels of grain in the last 10 years in my farm operation, respectfully, he does not represent my interests in farm policy.

Going on to our proposal, I would like to say that our proposal is much different than other farm policy and different than current farm policy, and there are many inequities in the current farm policy structure with the AMTA payments going to producers with antiquated crop bases and varied production programs which have made this program very difficult and unfair in many ways. We look forward to working with the committee on improving the system and trying to rectify some of these problems.

I would first like to say that in September 1999, we developed a chart called Key Indicators of the U.S. Farm Sector, a 25-year history with inflation adjustments. The specifics of our bill were then based on this research in the key indicators table that is attached to my testimony. I would like to touch very briefly on several of the key points that the key indicators covered. No. 1 is that real inflation-adjusted CCC price support loan rates have dropped dramatically over the past 25 years, and real farm prices have

dropped in a similar matter. Second, on average, export volume of all major commodities has been virtually static over the last 25 years. Regardless of farm price, support policy, trade agreements or currency valuations, they have remained static. That is the reality.

Another point is that on the other hand, our domestic use of commodities has increased steadily over the last 25 years very substantially, and No. 5 is that total use of commodities is now at all-time record highs and did not decline during the Asian economic crisis, as has been mentioned today.

In spite of this, farm prices have collapsed, and on a historical basis, ending stocks to use ratios or surpluses are now tight to modest and have not been high during the five years of the Freedom to Farm Act as we have all talked about. In spite of increasing yields and government payments, real gross income per acre for basic commodities has dropped 40 to 50 percent over the past 25 years. Finally, with emergency AMTA payments included, farmers have received a national average equivalent price of over $2.60 a bushel for corn and over $4 a bushel for wheat for the past five years.

I would like to say that these observations are simply the facts. This is what we concluded after compiling this data of 25 years of history. If this has happened, where do we go from here in farm policy? I would just like to touch on a few points of our Family Farm Act to mention what we are interested in.

I would say that the overall goal of our bill is to give farmers tools to extract profitable farm prices from the marketplace with much less reliance on government payments. If we do not give farmers tools to increase prices, we will run far short of the money required to just maintain current income levels, which are still inadequate, given the current budget restraints.

The first part of our legislative bill will contain a section called the findings of Congress, which is included in our testimony. The intent of this section is to define by law why a decentralized, competitive family farm structure of food production is desirable to society and also to define why the business of farming is unique and why long-term legislation is required to allow family farm agriculture to prosper.

We believe that this family farm structure is desirable to society as a whole and also as a national security issue. I would like to touch on a few reasons why we believe it is unique. First, that farmers have virtually no ability to negotiate price with buyers. That is because millions of farmers sell to a handful of buyers, which is the reverse of most business structures in this country. Second, farmers as individuals have no control over their output or inventories due to weather, long production cycles and all of the vagaries of agricultural production. Third and very importantly is that consumers must have a stable supply of food, because it is a daily necessity, and food shortages are intolerable. Think of the chaos that the California energy crisis and rolling outages has caused, and think of that if food was involved.

I would like to touch on the outline of our bill quickly. Concerning price and income support, we propose a new, unique CCC market participation loan which would provide the primary price and income support to crop producers only. We believe that the defini-

tion of countercyclical is the loan rate. The loan structure is fair and simple and an easily targeted way to support family farmers.

We base our loan rates on an agricultural equity formula, which would be established. To set loan rates, we would adjust the loan rates annually to reflect inflation and tread line increases in yield. Initial loan rates, therefore, would be about $3.15 a bushel for corn. When considering this level, keep in mind that with current AMTA payments, supplemental AMTA payments and loan deficiency payments and market loss gains, we have been averaging the equivalent of about $2.60 a bushel for corn right now, and we are still facing an economic crisis in farm country. This is also very close to USDA's average cost of production figures for corn.

Other crop loan rates would be set at historical price ratios. I would like to mention also that this Farm bill proposal is very comprehensive. We are not just focusing on corn; we are looking at all of the other aspects in agriculture and trying to pull those interests together.

We also support a farmer-owned reserve. This farmer-owned reserve could also be working hand-in-hand with the strategic energy reserve to protect the interests of the ethanol and fuel industry and make sure that we do not ever run out of commodities for that. We would support discretionary Secretarial authority for short-term acreage idling. We say that Generals all use supply management: GE, General Dynamics, General Foods and General Motors all use some sort of supply management. Although our proposal is primarily a free stocks management program, we believe that free stocks can be managed in a wide range and still maintain market price if the right tools are available. We would maintain planning flexibility, and a target price and deficiency payment program would be studied for livestock also as detailed in this proposal.

Concerning market concentration, we would establish a maximum level of market concentration for any food-related or processing company. We suggest that one company hold no more than 15 percent of any related market. Finally, on international trade, we believe that trade agreements should recognize the uniqueness of agriculture around the world and should instead focus on a shared system of international food reserves for food security and humanitarian relief and shared production costs by exporting nations when world grain stocks become burdensome and finally the recognition and limiting of world market distortions caused by anticompetitive commodity trading and food processing companies.

In conclusion, considering cost, we believe that our proposals can be enacted and administered with reasonable government outlays. The Agricultural Policy Analysis Center at the University of Tennessee has provided preliminary numbers to us. These simulations indicate that we can maintain farm prices in ranges that result in modest Government costs using our farm bill proposal. Concerning trade rules compliance, Secretary Veneman and USDA have classified 1998 supplemental AMTA payments as amber box for WTO compliance purposes. This means that virtually any action taken by the U.S. to protect its farmers could be in violation of current WTO rules. Can we realistically protect our national interest under such rigid and unrealistic rules?

Finally, we hope that the Agriculture Committee recognizes that based on the facts, current farm policy is not working, though many well-meaning members were assured that it would. We believe that it is unreasonable to expect different results in the future if we do not change direction, and we believe that it is unrealistic to expect good farm policy advice from those who misadvised Congress so badly in current farm policy. We wish to work with this esteemed committee to complete a farm bill that fulfills the needs of this great nation, and I wish again to thank the committee for this opportunity and would answer any questions that you may have.

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

The CHAIRMAN. Mr. Dittrich, thank you very much again for a very good summation of a long written statement, and as I said to the other witness, we will be, I am sure, following up with our questions. As we proceed in the Farm bill, we will look for your further input and advice and suggestions as we move ahead.

Mr. DITTRICH. Thank you.

The CHAIRMAN. Next, we turn to Mr. Anderson, Tony Anderson, president of the American Soybean Association. Welcome.

STATEMENT OF TONY ANDERSON, PRESIDENT, AMERICAN SOYBEAN ASSOCIATION, MOUNT STERLING, OHIO

Mr. ANDERSON. Thank you. Good morning, Mr. Chairman and members of the committee. I am Tony Anderson, a soybean and corn farmer from Mount Sterling, Ohio. I serve as president of the American Soybean Association, representing 28,000 producer members on issues of national importance to all U.S. soybean farmers. In additional to the American Soybean Association today, I am appearing on behalf of the National Sunflower Association and the U.S. Canola Association.

I would like to commend you, Mr. Chairman, for holding this hearing today on policy priorities for the next Farm bill. Oil seed producer organizations look forward to working closely with the committee to develop legislation that maximizes the competitiveness and future opportunities for U.S. agriculture. As committee members are aware, the fiscal year 2002 budget resolution provides an additional $73.5 billion over the next 10 years for development of omnibus agriculture legislation. However, $66.15 billion of this amount represents a reserve fund that could be reduced if projected budget surpluses are depleted by a downturn in the economic conditions or spending in other programs.

With estimates of that anticipated budget surplus already declining, it is important that Congress enact a new farm bill without delay. Before describing our specific recommendations, I would like to briefly outline the basic policy objectives that oil seed producers have established for the next Farm bill.

The authors of the FAIR Act did not expect U.S. agricultural economy transition from government dependence to market orientation solely as a result of changes in domestic farm policy. They made clear that the overall economic and trade environment of U.S. agriculture needed to be changed to reduce production costs and enhance the competitiveness of U.S. farm exports. Those re-

quired changes included agricultural trade being given the same weight in U.S. economic and foreign policy decisions as accorded by our primary international competitors and customers; export assistance and promotion programs authorized by the WTO must be fully and aggressively utilized as our competitors do.

Ineffective, unilateral economic sanctions that discredit our reliability as a supplier and encourage competitors to expand production and exports must be rescinded and prohibited. Funding for the U.S. humanitarian assistance programs must be increased and maintained at a level that reflects our responsibility to enhance societal, economic, political stability in developing countries. An effective case must be made for modernizing the U.S. transportation infrastructure, including the lock and dam systems on the Mississippi and Illinois Rivers. Barriers to U.S. farm exports based on non-scientific standards, including restrictions on biotechnology trade, must be challenged and overcome. Funding for agricultural research must be restored and increased. Unnecessarily onerous regulations that increase agricultural production costs must either be compensated or eliminated.

Unfortunately, few of these needed changes in economic environment for production agriculture have been addressed, much less achieved, in the last five years. Unless these key issues are resolved, it will be difficult if not impossible to move farm policy beyond the role of a safety net for producers facing disadvantageous conditions, both at home and abroad. Oil seed organizations also support the following objectives in the next Farm bill: domestic farm programs should be equitable and balanced among program crops, defined as all loan-eligible crops that can be planted on the same crop land on a farm. No program should favor production of one crop over another.

The primary objective of the next Farm bill is to provide adequate long-term price and income support for producers of program crops and other crops that have traditionally received multi-year support under Federal farm programs. To the extent additional funding is available, other priorities that are appropriate for omnibus farm legislation should be addressed. Additional priorities include providing voluntary incentive payments to encourage improved conservation practices. ASA helped develop and strongly supports the Conservation Security Act as a means to raise conservation standards. However, incentives provided under the CSA should not come at the expense of price and income supports.

Other priorities also include increased funding of export promotion and assistance programs and of foreign food assistance. Food aid should be based on a minimal annual tonnage commitment, which should not be subject to variations in production and availability of surpluses. Programs established under the omnibus farm legislation provide multiyear support to crops that are either produced on the same acreage or that have traditionally received support. These crops are also required to comply with conservation measures, including sodbuster and swampbuster requirements. Crops that do not meet these criteria should not be included in the next Farm bill. Any assistance required by producers of these crops due to economic or crop losses should continue to be addressed in annual disaster legislation.

With regard to domestic farm programs, oil seed organizations support maintaining key elements of the FAIR Act in the next Farm bill. These include full and unrestricted planning flexibility; continuation of non-recourse marketing loans; no statutory authority to impose setasides and no authority to establish Government or farmer-owned reserves for oil seeds. In addition, oil seed producer organizations oppose any limitations on marketing loan benefits, fixed-income payments or any kind of countercyclical income payments.

I would now like to briefly summarize recommendations on the various components of a domestic farm program for major commodities. Oil seed producer organizations support maintaining current oil seed loan rates for the 2002 crops and setting these rates as floors rather than ceilings under the next Farm bill. The formula for adjusting loan levels to 85 percent of Olympic average prices in the previous five years should be retained, and the discretion should be provided to the Secretary to set loan levels above the floor when prices warrant.

Our written statement provides a number of compelling reasons why the current national soybean loan rate of $5.26 a bushel has not been responsible for most of the expansion in the U.S. soybean acreage since enactment of the FAIR Act. With regard to loan repayment rates, our organization supports requiring oil seeds to be repaid at the lower of a posted county price or an adjusted world price. The adjusted world price would be set on a weekly basis in reference to index of prices of oil seeds delivered at major foreign markets, including freight costs.

Using an adjusted world price would ensure that U.S. oil seeds and oil seed products are competitive in both foreign and domestic markets under the next Farm bill. Oil seeds are not included in the formula for determining payments under the production flexibility contracts. Oil seeds were grown on 31 percent of row crop acreage last year, and the percentage is likely to rise when the final crop is know for 2001. Our organizations strongly support expanding the PFC program to include oil seeds.

Oil seed producer organizations support replacing ad hoc economic loss assistance payments, which have included an oil seed payment, with a countercyclical income support program. We propose a program that would offset any shortfall in national gross return per acre for a crop in the current year from an Olympic average national gross return per acre for the crop years during 1993 to 1997. The concept of compensating producers for low income based on acres complements the Marketing Loan Program under which benefits are tied to actual production. It also addresses a perennial shortcoming in the Federal crop insurance program. Every year, many producers experience losses due to below average yields but not low enough to qualify for compensation under crop insurance. This low yield gap in income support would be at least partially offset by providing payments based on harvested acres rather than actual production.

Additionally, ASA supports increased funding of export assistance, market development and food aid programs that are critical to expanding demand and improving commodity prices. The Foreign Market Development Program should be authorized at not less

than $43.25 million annually, reflecting 1986 program level indexed to international inflation rates over the past 15 years. The Market Access Program should be restored to its previous funding level of $200 million a year.

Regarding food aid, a commitment should be made to provide a minimum of 5.6 million tons of food per year under U.S. humanitarian assistance programs to address market access, regulatory and marketing issues in agricultural biotechnology. ASA recommends establishment of a new biotechnology and agricultural trade program.

That would conclude my statements. Again, I appreciate the opportunity to testify today and appreciate the hearing.

Thank you.

[The prepared statement of Mr. Anderson can be found in the appendix on page 87.]

The CHAIRMAN. Thank you very much, Mr. Anderson. Again, we welcome your continued involvement, suggestions and advice as we continue development of the Farm bill.

Next, we turn to Mr. John Miller, president of Miller Milling in Minneapolis. Mr. Miller, welcome.

STATEMENT OF JOHN MILLER, PRESIDENT, MILLER MILLING, MINNEAPOLIS, MINNESOTA

Mr. MILLER. Good morning. I am John C. Miller, president of Miller Milling Company. My company is headquartered in Minneapolis, Minnesota, with U.S. plants in Fresno, California and Winchester, Virginia. Today, I am representing the Coalition for a Competitive Food and Agricultural System, of which Miller Milling is a member. CCFAS is comprised of more than 120 companies and organizations representing a broad range of agricultural interests. We are committed to working for market-based policies designed to benefit all 21 million people working in the U.S. food and agriculture industries.

First, I would like to briefly summarize the strengths and weaknesses of the current law. The FAIR Act gives producers freedom of choice and allows them to respond to market signals while providing income support to farmers. These are positive things that should be continued in any new legislation. However, income support payments have not been completely decoupled from production. The current Marketing Loan Program distorts farmers' planning decisions by making some crops more profitable than other crops due to Government payments.

As Congress debates the next Farm bill, there are some fundamental policies that should not be changed. CCFAS recommends keeping the following features with some modifications: first, continue PFC payments for current commodities and add a direct payment for oil seeds. PFC payments should continue to be decoupled from actual plantings. Payments should be based upon existing contract acres for the grains and cotton and the most recent 3-year planted acres for oil seeds. The additional payment acreage for oil seeds should not reduce payment acreage for grains and cotton.

Second, continue the Marketing Loan Program but allow loan rates to adjust to changes in average market prices by eliminating the discretion of the Secretary to freeze loan rates. Utilize the cur-

rent formula of 85 percent of the 5-year average market price excluding the high and low years but limit the yearly adjustment up or down to no more than 10 percent. Third, continue flexibility provisions that allow producers to increase income by planting crops that receive more returns from the market and encourage soil conservation practices.

We oppose the inclusion of the following features: do not add any supply management features in any form to current policy. Do not create new inventory management programs such as a farmer-owned reserve, energy reserves or hunger reserves, and do not add any new countercyclical payment program. The Marketing Loan Program is a countercyclical program with loan deficiency payments and gains on marketing loans increasing or decreasing as market prices change.

In order to put these recommendations to the test, CCFAS commissioned a study by World Perspectives Agrilogic, Incorporated to look at several policy proposals now under consideration by Congress. The analysis compares a policy of all direct payments; one of direct payments combined with flexible loan rates; and a third policy in which direct payments are eliminated, and existing loan rates are subjected to a one-time increase of 16 percent and maintained at that level throughout the analytical period.

The third policy stimulates the guaranteed rate of return proposed in most countercyclical programs. Overall, the analysis shows that a policy of all direct payments or direct payments combined with flexible loan rates provides farmers with the highest net farm income delivered in the most efficient manner and least distorting manner. In stark contrast is the high loan rate policy that results in lower average annual net farm income and generally lower average farm prices.

The high loan rates are driving the planting decisions of farmers as much or moreso than market signals. Farmers actually receive more money from the market when loan rates are lower. CCFAS believes that a policy based on all direct payments or one based on a formula loan plus direct payment is the best and most efficient way to deliver support to farmers because it provides a more efficient means of enhancing farm income with farmers receiving more profits from the market; high loan rates induce excess production, depress prices and increase government outlays.

It ensures that U.S. agriculture remains competitive in world markets. Decoupled direct payments are green box, ensuring compliance with our WTO obligations. In addition, we hope that the committee will continue to press for liberalized world trade, including granting trade promotion authority; promote environmental policies that reward sound stewardship; assist farmers in managing their risks; support development of a sensible energy policy and increase public investment in research and infrastructure.

Our core belief is that market forces do a better job than government in rewarding efficiency; encouraging productivity; managing risks; allocating resources; and maximizing net farm income. Again, thank you for the opportunity to testify today and present the analysis and recommendations of the Coalition for a Competitive Food and Agricultural System.

[The prepared statement of Mr. Miller can be found in the appendix on page 95.]

The CHAIRMAN. Mr. Miller, thank you very much, and again, we will be continuing our consultation as we move ahead.

Next, we turn to Trudi Evans, president of the Barley Growers Association.

STATEMENT OF TRUDI EVANS, PRESIDENT, BARLEY GROWERS ASSOCIATION, MERRILL, OREGON

Ms. EVANS. Thank you.

The CHAIRMAN. Ms. Evans.

Ms. EVANS. Mr. Chairman, it is a privilege to address this committee on the U.S. farm policy and how it affects our nation's barley producers. I am Trudi Evans, a farmer from Merrill, Oregon and president of the National Barley Growers Association. The National Barley Growers Association represents the interests of U.S. barley producers on all issues affecting national agricultural policies.

Barley has become an endangered commodity in the United States. Barley acres and production have steadily declined from 13 million to 5.8 million over the course of the last 15 years. Barley production in 1999 reached a 25-year low, and acreage was the lowest in 100 years. Barley is a food crop as well as a feed grain. Currently, about one-half of U.S. barley production is used for malting. Malting companies pay a premium for this high-quality barley. Even with the premium price, however, malt barley production is decreasing due to higher loan rates for other program crops.

The infrastructure of the U.S. barley industry is threatened by the steady decline in acres. Malting barley demand remains constant at around 150 million bushels per year; yet, national barley production continues to decline. NBGA is a strong supporter of the increased planting flexibility provided by the 1996 Farm bill. However, freezing loan rates and tying barley's loan rate to its feed value relationship to corn have placed barley production at a competitive disadvantage with other crops.

NBGA wants the next Farm bill to restore equity to the barley loan rate. Our views on three key areas of the Marketing Loan Program; Fixed and Decoupled Production Flexibility Contract or PFC-type payments; and a countercyclical income safety net program comprise the balance of my statement. Under the current Farm bill, the barley loan rate reflects only barley's feed value relationship to corn. Since the current Farm bill caps the corn loan rate at $1.89 per bushel, and since a bushel of barley is only 48 pounds compared to 56 pounds for corn, the barley loan rate is effectively capped at $1.68. This feed value relationship understates the market value of malting and food barley, which averaged 53 cents a bushel higher than feed barley over the last 10 years. Over half of the annual U.S. barley production generates higher value, food-quality barley malt.

The Farm bill should direct the Secretary to calculate the barley loan rate using 85 percent of the most recent 5-year Olympic average of USDA's all-barley price instead of only considering the value of barley's feed relationship to corn. Furthermore, this loan rate calculation should be no lower than $2.04 a bushel, derived from

85 percent of an average of a recent historical period of years using the all-barley season average price.

If this committee undertakes a more comprehensive rebalancing of the loan rates of all loan-eligible crops in the next Farm bill, NBGA supports increasing the proposed 204 floor level commensurate with the rebalancing ratio used for all commodities. The National Barley Growers support a decoupled guaranteed and fixed crop payment for the life of the next Farm bill. Similar to the PFC payments, the crop payment should be extended without regard to domestic price fluctuations and should be decoupled from current and future production to avoid influencing planting decisions.

The aggregate level of the annual PFC-type payment should be no less than the $5.6 billion fiscal year 1999 level. The next Farm bill should maintain the allocation among the seven so-called AMTA crops: wheat, corn, sorghum, barley, oats, upland cotton and rice, at the levels established in the 1996 Farm bill. Likewise, the Agriculture Committee should restore the barley PFC payment for the period of the next Farm bill to the 27.2 cents per bushel affiliated with the 1999 Agriculture Marketing Transition Act or AMTA level.

Finally, in the event Congress includes payments for loan-eligible crops not included in the original AMTA formula, the barley growers support an offsetting increase in total annual funding. Low commodity prices have brought out the inadequacy of the current farm program safety net, including AMTA payments and the Marketing Loan Program. Producers of all commodities need an additional program that will provide income support payments when income or the per-acre return of a commodity sector declines. The recent emergency supplemental assistance programs have been extremely helpful, but they provide no long-term protection, which causes great uncertainty among producers and their lenders.

The barley growers support a countercyclical program proposal put forth by the National Association of Wheat Growers. The program would trigger commodity-specific payments when market prices are less than an established market support level for each commodity. Market support levels are derived by dividing a commodity's total average productions from the years 1995 to 1999 into the commodity's gross income and total support during the same 5-year period.

Based on this formula, barley's market support level would be $2.72 per bushel. After it is determined that a commodity is eligible for a market loss support payment, payments to eligible producers would be based on a farmer's barley acres and yields during a decoupled historical base period.

The National Barley Growers Association supports further examination of a voluntary, incentive-based green payments similar to the Conservation Security Act introduced in the House and by the chairman of this committee in the Senate. The program would support farm income; benefit the public at large; and would be classified as green box under WTO rules. The barley growers support at least $1 billion in new annual funding for conservation incentive payments, although our priorities for new funding center around improvements to the Marketing Loan Program, decoupled program payments and funding for a countercyclical program.

Finally, it is critical to farmers and the farm economy for Congress to provide economic and income loss assistance for the 2001 crop of not less than the AMTA payment and supplemental economic loss assistance provided for the 1999 and 2000 crops. Without adequate emergency assistance for the current crop year, many farmers will be out of business before the next Farm bill. We urge Congress to pass the economic loss assistance for the 2001 crops in the form of a market loss assistance payment at the 1999 PFC payment rate.

In conclusion, Mr. Chairman, I thank you for this opportunity to appear here before this committee.

[The prepared statement of Ms. Evans can be found in the appendix on page 110.]

The CHAIRMAN. Thank you very much, Ms. Evans, and we look forward to working with you and your organization as we continue the development of the bill.

Now, last, we will turn to Bill—I hope I pronounce that right—Kubecka.

Mr. KUBECKA. Kubecka, yes, sir.

The CHAIRMAN. Executive vice president for legislation for the Sorghum Growers Association.

STATEMENT OF BILL KUBECKA, VICE PRESIDENT FOR LEGISLATION, SORGHUM GROWERS ASSOCIATION, PALACIOS, TEXAS

Mr. KUBECKA. You make me feel right at home. I come from a large family. Here, I am sitting on the end of the table.

[Laughter.]

Mr. KUBECKA. Mr. Chairman, members of the committee, on behalf of the grain sorghum producers nationwide, I would like to thank you for allowing us the opportunity to discuss our proposal today. My name is Bill Kubecka, and I farm in a family partnership near Palacios, between Houston and Corpus Christi, Texas. Our diversified operation includes grain sorghum, rice and cotton.

As I come before you today, I know that many of you are not experts on sorghum, and your states do not grow much. However, I know it can be an important crop to you because of the conservation benefits which it provides portions of the U.S. I encourage the committee to look at what the government policy has or has not done for grain sorghum. Our recommendations to you today are focused on the specific needs of grain sorghum producers and center on correcting the inequities that would genuinely give producers the freedom to farm any crop that suits their conservation needs and marketing plans rather than planting those that are most appealing from a government policy standpoint.

The sorghum industry believes that these inequities are greatly driving cropping systems and cropping decisions. The loan rates for grain sorghum from 1972 to 1996 were never more than five percent below the loan rate for corn, until 1996, when the loan rate for grain sorghum began dropping, while the loan rate for other commodities remained steady.

This ended in a sorghum loan rate today that is 10 percent that of corn. Additionally, the unbalanced loan rate between the oil seeds and other commodities, including sorghum, has shifted acres

out of sorghum. As a result, we come before you today having harvested the lowest number of grain sorghum acres on record since 1953. This is during a time when we have seen the strongest demand for sorghum in the ethanol industry, to which 13 percent of our crop goes for the 2000 marketing year and extremely strong export demand from Mexico.

For this reason, our recommendation is that the grain sorghum loan rate equal with corn and then rebalance all loan rates on all program crops is a centerpiece of our testimony today. It is our strongest belief that should the committee choose to follow any of the Farm bill recommendations that are detailed in our written testimony, such decision will have little or no positive impact on our industry if we fail to achieve at least an equal loan rate, thereby increasing options for producers in avoiding further grain sorghum acreage loss in a time of increasingly limited water supplies and increase irrigation costs.

Producers tell us that they are following government policy signals by planting other feed grains with higher loan rates, better LDPs and better crop insurance coverage. There are several factors detailed in our written statement in support of sorghum rate rebalancing, including a stocks-to-use ratio for sorghum that points in this direction. Had our stocks-to-use ratio been used in the last five years, sorghum would not have suffered a drop in the loan rate. From an economic standpoint, research conducted by FAPRI shows that equalizing the loan rate would cost only $31 million annually and increase production just by five percent. However, it would create a 22 percent increase in net returns to sorghum producers.

An analysis of recent ending stocks in total use indicates any additional sorghum acreage generated by an equal loan rate would generally be nondistortive to grain sorghum supplies. In fact, increased production would allow us to compete in several premium markets in which we are unable to compete today because of lack of reliable supply.

Many of the members of this committee are fortunate that their constituents can rely on Mother Nature for seemingly adequate water supplies, but in the chief sorghum-growing states, the issue is not one of water quality as it is quantity. Sorghum has been called a water-sipping rather than water-guzzling crop. University studies have compared water savings through alternative cropping patterns and the use of crops that require less water, such as grain sorghum. A study ordered by the Texas Legislature found that a 50-year savings for 21 counties in the Texas Panhandle would amount to 7.63 million acre-feet if producers converted irrigated to a more resource-conserving grain sorghum.

That is on a yearly average, 147,200 acre-feet. That is enough water to supply 294,000 homes a year, and as a reference point, this would be approximately the size of Austin, who has 277,000 homes and a population of 643,000 people. Quite a bit of water savings there.

From a conservation standpoint, the question is simple: how can a limited resource be more efficiently used? We believe that future water supplies should be a priority, and an equal loan rate would give producers the ability to grow a resource-conserving crop such as grain sorghum. From a producer standpoint, many producers

would have welcomed sorghum as a low water use planting choice on our farms this spring due to the irrigation costs, which have soared as a result of the energy crisis. However, many did not switch because of the loan rates.

NGSP is aware that ad hoc disaster assistance legislation will become increasingly difficult to achieve and defend in the face of other needs. This points to the need for a countercyclical safety net. However, we are very concerned that safety nets proposed so far do not take into account the county and regional production and marketing anomalies that might not trigger payments or impact national supplies. The U.S. sorghum industry is primarily spread out over an arid region of the western plains and can have a total loss, for example, New Mexico, but have very little impact on overall sorghum production due to the low yield potential and a relatively small number of acres in the state.

On top of this, success or failure of crops in the Midwest drives the entire feed grain complex, regardless of what happens to production in the sorghum belt. Despite these concerns, NGSP does have recommendations for a countercyclical program. NGSP proposes basing a commodity-by-commodity countercyclical program on actual market receipts averaged over a historical base period divided by an average production units over that base period. This is established as a base price for the 2002–2008 period. To calculate the countercyclical payment, the current price per bushel must be established. This price would be the current year's price as defined by the total current year's marketing receipts, then divided by the current year production. The current price is then subtracted from the base price. This provides a per-unit payment for each commodity. At the end of the actual growing year, when an actual production price has been reported, each producer is then paid his per-unit share of each unit produced on their farm during the historic base period.

We support a continuation of AMTA payments, although we recognize the negative impacts on cash rents in the northern sorghum belt. NGSA believes that the Production Flexibility Contracts should be extended through the next Farm bill and annual payments frozen at the 1999 level. Providing these payments at the 1999 AMTA levels would require $5.8 billion in annual budget authority or approximately $1.8 billion annually more than the current baseline projection.

Sorghum is a low water use, low input choice for many producers, and conservation needs rather than Federal policy should be prioritized in determining where and when it is planted. A global population that benefited the Twentieth Century from the green revolution led by Dr. Norman Barlow is today facing a future predicted to have 25 percent of the world population experiencing severe water shortages by 2025. However, 50 percent of the increase in demand for water by 2025 can be met by increasing the effectiveness of irrigation and by growing more water-efficient crops. A second revolution, or a blue revolution, suggests a combined approach of water savings and appropriate crops such as resource-conserving, risk-tolerant grain sorghum.

Mr. Chairman, we would like to thank you and the members of this committee for the opportunity to present our ideas today. We

look forward to providing you with additional information and continue working together on this process. Thank you.

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

The CHAIRMAN. Thank you very much, Mr. Kubecka, for your testimony. Again, we look forward to working with you and your association as we continue on the Farm bill.

Well, for all of you, thank you very much; good statements; very concise, and to the best that I have been able to over the last 24 hours to go over your written statements, they are great written statements also. I just have a couple of sort of general questions that I would like to ask all of you to get on the record how you view a couple or three different items. The CRP program, Conservation Reserve Program, is now capped at 36 million acres. There is going to be some effort to expand that. What say you? Should we expand the CRP program? If so, how far? Or if not, say so.

I would just like to get your ideas on what we should do about the CRP. Should it be expanded? Should it not be expanded? If it should be expanded, by how much? There may be some nuances in there that you might want to talk about in terms of how we change the CRP, but I am just talking about expanding it now, and we will just start. Lee, can we start with you and just kind of go on down the line?

Mr. KLEIN. Well, at the present time, we feel like the 36 million acre cap is fine. We appreciate what you are doing a little more on the Conservation Security Act type thing. I wear another cap when I am back home in Nebraska being the treasurer of a natural resource district board, and some of the comments you were making earlier at the hearing for the gentlemen who are going to be working for the USDA in talking about the waste management thing, one of the counties that I represent back home on that thing is the third-largest cattle-producing county in the United States, and they have a severe problem with getting rid of the animal waste that cattle produce.

What we like more about your program there also is the fact that it does not require land idling, and it targets it to the producers as opposed to the landlords. We think that those two mix together very well.

The CHAIRMAN. I am going to get into that later, but on CRP, your organization basically is saying keep it there?

Mr. Keith Dittrich, how about you?

Mr. DITTRICH. Yes, Mr. Chairman, our organization supports an expansion of the CRP to 40 million acres, and we also in our farm bill proposal suggest that the Secretary have authority to use a short-term CRP in the event that grain stocks become excessively burdensome and using it for the conservation benefits and some sort of inventory management. Now, keep in mind that our organization strongly supports a farmer-owned reserve that isolates crops off the market first and would use that first for ending stocks management and then use any supply management later.

The CHAIRMAN. On the CRP, are you saying you would be in favor of increasing it to 40 million acres?

Mr. DITTRICH. Right.

The CHAIRMAN. Plus a short-term CRP?

Mr. DITTRICH. Yes, like a 3-year CRP.

The CHAIRMAN. Thank you very much. Mr. Anderson, how about the American Soybean Association?

Mr. ANDERSON. Well, No. 1, we would be pretty much in agreement with Mr. Klein on this that the 36 million acres seems to be adequate. We are not opposed to inclusion of environmentally fragile lands that would need to be included above that, but to utilize CRP as a supply control program we feel is truly detrimental to a program that we would represent from a global perspective in trading from a world market price situation, and we would also not be in agreement with allowing CRP to attract large masses of land and be a competitor to production agriculture from that respect, to not have the Government drive the prices of land up from a CRP supply control program.

The CHAIRMAN. OK; thank you very much.

Mr. Miller.

Mr. MILLER. Yes, Senator, we probably would not support any expansion of the CRP program. We think that the CRP program should be used for conservation. We think it is an ineffective tool for supporting farm prices. We think it has unintended consequences which are very negative for the communities where CRP reduces production. The financial impact on the towns and the industries that are dependent upon agriculture are unintended victims of a CRP that is used beyond the purpose of idling fragile or acreage that really needs to be preserved. We think there are much better tools to be used for farm support than the CRP program.

The CHAIRMAN. Thank you very much.

Ms. Evans.

Ms. EVANS. To make it official, I am not sure our board has actually taken a position on this, but to speak personally, I am tending to agree with most of the panelists here. I believe that probably the cap where it is at now is appropriate. I also would not be opposed to more sensitive buffer strips or enlarging it along that line, but I also have seen what it does detrimentally to communities such as grain elevators, milling, maltsters, the brewers, and it has been used as a determinant of supply and demand. I do believe in our areas, lands have gone in that probably should not have entered CRP.

The CHAIRMAN. Thank you very much.

Mr. Kubecka.

Mr. KUBECKA. The official position of our board is that we would agree with the cap at 36 million. I will make a statement that this has been very detrimental to the sorghum acres, and that is why our concern of the cap, of maintaining the cap. We do agree with soybeans and barley in that we do see that maybe we need to shift some acres and put them in that need to be in and let some come out, but we are in agreement that the cap should stay at 36 million.

The CHAIRMAN. Thank you.

There is just one other thing I want to get in here. In the year 2000, direct cash payments were 50 percent of U.S. net farm income. In the previous year, in my state Iowa, it was 130 percent. In other words, without the direct cash payments, we would have had a negative net farm income in my state. I guess my question

is is this sustainable? Is it desirable? How can we build income opportunities that reduce the need for commodity-related cash assistance? Is a high level of cash assistance the true measure of a good farm bill?

We can look at all these figures, but if we are truly going to try to get to something that is more market-oriented, should we just be looking at the cash assistance as a measure? Or should we look at something else? It is a very general question.

I guess my basis is how sustainable is this, and how desirable is this? Again, I know it is a general question, not as specific as the CRP. I am again thinking about the next Farm bill as moving in a direction of coming down off of those high cash assistance. I just do not know that the budget will allow it, and if it will not, and we want to keep farm income from going down, we are going to have to do something else. That is my general comment on that, I would like to go down the row, and if you could respond on that, I would appreciate it.

Mr. Klein.

Mr. KLEIN. Well, first of all, we have just come through five years of above trend-line yields around the world in coarse grain production, and it has had a major effect on all of us. One of the things that our organization has always represented is a long-term approach, like you mentioned ethanol being a fast-growing thing, and we have worked very hard on that as have you, and I appreciate the help from this committee on the California waiver for the second time. You did not have to sit on a box this time, Mr. Chairman, but I am sure you had something to do with it.

At any rate, we feel that we need that supplemental income this year. I would like to see it back at the 5–5, or I am going to be going back to practicing my auction chant again this fall, because we are going to be using it, because the bankers are going to be requiring this payment to come, and I hope we can get this committee to move on that rapidly, and maybe we can work something out with the House.

The CHAIRMAN. We are going to move fairly rapidly on this.

Mr. KLEIN. I appreciate that.

At the present time, there is just no choice for us but to have the extra income, so, is it sustainable? Probably not, but the only alternative that we have is to come up with more uses. As our yield curve moves up, obviously, we have grown the domestic use. We have grown the export use. You mentioned it yourself before, if we consider what goes out in animal production. That was close to what? 450 million bushels last year of corn got exported in meats. These are big moving targets.

We need to do better, and some of your comments earlier from the committee were talking about more money going into research, and obviously, that is extremely important to us for long-term. We have to look at both the short-term and the long-term. Short-term, we need the money. Long-term, we need money put into the research so that we can sustain our own viability without coming to you yearly.

The CHAIRMAN. Mr. Dittrich, you pointed out—and I am not verifying it; I am just saying you pointed out—that basically, our trade has remained static over the last 25 years, if I am not mistaken.

Mr. DITTRICH. Yes, sir.

The CHAIRMAN. Then, again, in terms of the cash assistance and payments, again, my question is is it sustainable? Desirable? Or not?

Mr. DITTRICH. Mr. Chairman, this committee faces a real dilemma. Last year, we spent $30-some billion in farm assistance, and the current 10-year budget suggests $17 billion a year. Keep in mind the $30 billion that was spent last year left farmers with still inadequate incomes, still losses. The question here today lies here on are we going to continue a system such as that that disregards the uniqueness of agriculture and the market realities of the business of farming, or are we going toward a system that tries to improve market prices and sustains family farmers through fair market prices? That is, of course, what we are suggesting. Our Market Participation Loan is a hybrid loan that attempts to drive market price and improve market prices with other tools and mechanisms such as a farmer-owned reserve which isolates commodities off the market until market prices recover and protects consumers and industries, processing industries. At the same time, our hybrid loan can make sure that we are competitive in world markets. It allows for the reduction in market price or support levels to a certain level in the case of extremely burdensome stocks.

That is really the question we have here today, and looking at the key indicators, we understand that over the last 25 years, exports have not improved, even though we have drastically cut prices, and we have lost a lot of farmers, and there has been a lot of hardship in the farm countryside trying to chase this theory that has not come to be true.

The CHAIRMAN. Thank you, Mr. Dittrich.

Mr. Anderson.

Mr. ANDERSON. Yes, sir, it is an arguably tough question to come to an answer on. That was part of the reason that I did want to make sure that we included the unfinished agenda from the FAIR Act in the testimony. We do not know how much more competitive we can be in the world market if the lock and dam infrastructure is repaired. We do not know how much more competitive we can be in the world market with unilateral sanctions removed.

There are so many other currencies, inequities out there that are driving this program much more than our domestic policies. Our domestic policies, however, drive production efficiencies or activities in so many other countries. Supply control, we can see no benefit to it. With the low prices we have had, South America continues to expand, however at a slower rate, however, we have only seen that through setasides previous to the last Farm bill. We saw expansion go tremendous in South America. We have seen a loss of infrastructure of oil seed crushing capacity in the United States due to the lack of research in the Southeast of varieties that no longer are competitive for the land costs over there.

We are seeing in Wilmington, Delaware an import terminal being built to bring meal in from South America to provide the rail grain providers with products that we could easily supply from here. Our efficiencies have never been maxed out. We have never finished that agenda and before I would become so confused by the current question, I would go back and try to finish the previous agenda

that would have helped us weather through a shorter term than what we are currently dealing with and have a different outlook for tomorrow.

The CHAIRMAN. You can bring soybean meal into Wilmington, Delaware cheaper than you can get it from the heartland of America?

Mr. ANDERSON. Well, fortunately or unfortunately—I am not sure which way to say it—but the Fayetteville area is a primary source of delivery for Southwest Ohio, from which I come today, and yes, according to the rail grain receivers, due to all of the inefficiencies in the transportation system here within the borders of our own United States, their claim is they can bring it in. They will not share the numbers with us, but they claim that they can bring it in for less money than what we can produce it in the great State of Iowa or the great State of Ohio or Indiana and bring it in for less.

The CHAIRMAN. We have got to look at that.

Mr. Miller.

Mr. MILLER. Sustainable, that would seem to be a political question. I do not know how long the people in the country are going to be willing to continue this level of transfer of funds. Obviously, they are willing to do it today. I do not know of any farmer who wants to get a check from the Government rather than from me as a flour miller or from one of the companies that we represent. They would rather work for the market.

Sustainability? I do not know; a political question. Is it desirable? I certainly think not. Our position would be that the free market is always going to be a better customer to U.S. farmers than the Government; that we have, when the efficiency of U.S. farms are allowed to operate in a free market system that there will be transitions, as there always are in industries, but ultimately, the best return to those farmers are going to come from the free market. The degree of dependence that U.S. farmers currently have on the U.S. Government is not good for them, and it is not good for us.

Any policies—we certainly recognize the need for transition and support, but we would beg for policies whose aim eventually is to get us to a market oriented supply demand situation rather than a Government-determined supply demand situation.

The CHAIRMAN. Thank you very much. Two more.

Ms. Evans.

Ms. EVANS. I guess for barley, I would have to say that it would almost mandatorily have to be sustainable. Barley is a crop that ended up competing with the EU subsidies for all of our foreign markets to the point that we have eroded to nothing. There is a huge south and central malting barley market down there that by all rights, U.S. barley should be getting. We are getting none of it by fighting EU. Until, in the long range, we get something done with these trade factors in the new WTO round, I do not know how barley could be sustainable without it in all fairness.

The CHAIRMAN. Thank you very much, Ms. Evans.

Mr. Kubecka.

Mr. KUBECKA. Our board is somewhat divided on this, and we have had a lot of discussion on it, and I guess the biggest discussion, I will bring it up here, and I do not know if this is proper

or not, but it seems to be the biggest concern of these payments have been that they are just a transfer to the landowners. Be it right or wrong, it is a reality. That is an issue that certainly needs to be looked at and addressed.

You know, is it really helping the producer? From many of our board members, they say not, so in my forum as a producer, I do not personally have that problem, because it is different. It differs on our board. We have members that have a very big problem with it. They say it is really not helping us. We have to look at this and look at some more creative ways to possibly shore up our producers.

The CHAIRMAN. Thank you.

Thank you all very much, and now, I would turn to our distinguished ranking member, Senator Lugar.

Senator LUGAR. Well, thank you very much, Mr. Chairman.

I just wanted to use my time making several comments that I hope may bring additional testimony from each of you or many of you that will supplement what you have to date. I would just observe that, as many of you pointed out, the budget provides for $73.5 billion above the baseline, and $66 billion of that, you have identified in a couple of your papers as a part of a reserve. The suggestion is that we need to act quickly, some have suggested, because the reserve also provides the money for prescription drugs for the elderly or reform of Medicare or shoring up of Social Security.

Now, I am not sure I have understood the argument for acceleration of the Farm bill on that basis, because it would appear to me that each Congress could, in fact, pass another farm bill. We pass one of these things with the thought that it will last for five, seven years as we have currently. It could have been amended anyplace along the line. In other words, it is not engraved in the Constitution, and the thought that somehow, we provide a bill that spends the $73.5 billion, and it remains, even though our constituents come in and say we want prescription drugs more than we want a farm bill; they are going to get their prescription drugs in a democracy if, in fact, that is the gist of what they want to do.

I mention that at the outset, that what we put together here has got to have a pretty good political base in the total Congress and with the country; that it is a sound program that should not really be tampered with unduly, so that there is some certainty for planters and producers all the way through.

Now, having said that, let us say for hypothetical reasons we had the whole $73.5 billion to deal with and really fill out all the squares. The question then, it seems to me, is competing elements. Now, some of these are not represented here today and maybe will be in further hearings, but in addition to a safety net, countercyclical, income support, however one defines that, there are many people coming in and saying that that ought to be expanded to so-called specialty crops, to a whole list of things.

Now, we got into that in a big way last year, not through a formal Farm bill but through legislation we passed, and even around this committee table, we have heard about the need for strawberries to get some consideration or cranberries. The wool and mohair people are back; a long, long list which there is no 5-year crop history. In an ad hoc way, essentially, people were saying what you

are really doing here is trying to supplement actual farm income to get it back up to about $45 billion. Why $45 billion? Because that was net farm income about three years ago. Each of our attempts has been made to plug in enough money to get back up to about $45 billion. That is a gain, not a loss, but for the whole country.

This is on the basis of about $1 trillion of the net worth of all farms. The agate type of USDA's report which reviews at the beginning of each year to try to find out how to get to 45, you find out everybody has got about $1 trillion. That is about 4.5 percent return on invested capital or at least what is estimated it is all worth. I mention all of that because many people are saying if that is really what you are up to, we are not dealing with the New Deal any longer, with the row crops that were a part of those programs. There is nothing sacrosanct about program crops; that was the old program.

The new program deals with everybody, livestock producers as well as fruits and vegetables and anything else that occurs on the farm. Now, nothing in the programs that were discussed today really incorporates all of that, but I would just say to each one of you a good number of folks are knocking on the door, and they are seeing inequity. This is what we actually do on our farm. Unless you are going to adopt a total farm income picture, do not just pick and choose with corn and beans and rice and cotton and wheat, of course.

Senator ROBERTS. Wheat.

Senator LUGAR. You mention sorghum and barley, and they come into the picture today in some of these charts, but help us try to think through that. Where do these competing elements come out?

Now, what about conservation? A good many people would say and have said to me—may say it in private or in public testimony—that in our state, as a matter of fact, we would do better if there were conservation payments to each farm than we now do with regard to the row crops. In other words, we do not have very much of the so-called program crops in our state, and as a matter of fact, we have got real problems with soil and water.

As a matter of fact, we would like to see, if you are going to divvy up $73.5 billion, a good bit of that in conservation, with payments pretty liberally over everybody who comes up with a plan to indicate how soil and water in the country might be improved. That comes in. Some of you have hedged by saying OK, sure, conservation, a great idea, but not at the expense of the safety net and the income.

Others would say that is not the way we look at it; as a matter of fact, not much income is coming to our state, to our district from these plans as they stand. A lot more might come if you adopted a very different formula involving conservation payments, for example.

Now, finally, there is the problem some of you have addressed: should there be limits to some of these payments? Some have said, as a matter of fact, that if you have as a spark, as people pointed out, 8 percent, 0–8 percent of the farmers in America doing 72 percent of the business, essentially, about three-quarters of the payment go to the 8 percent. Another 10 percent do another 15 percent

of the business. Eighty-two percent do 13 percent. Eighty-two percent of the 2 million farmers is 1.6 million. Now, sometimes a size fitting all does not work out for this, so some have suggested that the payments ought to be smaller or only so many bushels covered. Well, others of you have rigorously disagreed with that idea, noting, of course, if three-quarters of the business is being done by eight percent of the people, that is where the Farm bill really is, with the producers who are producing it.

That is an issue that when you get down to divvying up the money is going to have to be discussed and probably be rigorously discussed. Now, finally, this is an argument that is sometimes almost theological: do the current programs we have simply stimulate more supply, and in a world in which we have all noticed the trade thing is not moving very fast, and we are still dealing with ourselves domestically, therefore, price inevitably goes down. For example, in the corn growers' testimony, there was a very important figure that acreage increased during the last five years for corn by 4.5 percent. However, the amount of corn was 17 percent up each year.

Now, this is in the face of charts that show the price going down for five years, Government payments going up for five years. Why would 4.5 million acres of additional corn be planted in the face of declining prospects? Well, some would say, well, because prospects were declining. You have to plant more just to get the income that you need, and if you have an individual farm—but this is aggregate, over all of American agriculture. In other words, even in the face of declining prospects, for some reason, we were producing more.

Now, the 17 percent increase, of course, came because of good weather, good research, better production situations, and in the face of all of this adversity. Some would say the Crop Insurance Program keeps in play marginal lands or even induces people to plant who would not be planting. Others say that is not so. That, we have really got to weigh. In other words, do the policies that we have now exacerbate the problem simply by encouraging people to plant more even in the face of very heavy oversupply with the hope the Lord will provide; that the catastrophe will come in Asia or something of that sort and sort of move the crop.

Now, these are questions that are on my mind, and that is why I share them publicly with you. Because at some point, the committee will have to resolve, under the guidance of our chairman, the allocation of the money: how we sort these priorities in a rationale that will make sense to a large majority of the body that is now a part of this committee and to the public, hopefully, that will support this idea.

Finally, I suppose we have to decide do we do a 5-year bill, as some of you have suggested? A 10-year bill to fill out the squares of the budget? How sustainable is an idea over 5 years, 7 years, 10 years? A good number of people after every farm bill in which I have been involved would say after about the third year, it does not work. It was a terrible idea. What were you thinking of in that particular year?

Senator ROBERTS. One year.

Senator LUGAR. In one year maybe.

[Laughter.]

Senator LUGAR. There you are, sort of back to that once again.

I come to all this with biases, which I freely admit; namely, I want to maximize farm income in my home state and hopefully in my country. I am a bean farmer and a corn farmer. I am very interested, intensely interested, in the price of both of those commodities and how it goes. I have just said to farm audiences in Indiana as I would say to you: over the 45 years that I have been responsible for operating a farm, we have got an average of about four percent return on invested capital, just 4. Some people hearing that story would say that sounds too high. Well, it is in terms of the market. As we have all heard today, Senator Harkin's situation, the whole four may have come from the Government last year. In my case, it was more like two in Indiana, but still, that is a very low return. That is over 45 years. That is over a whole lot of farm bills, by some calculation, 10 or 11. It has not changed a whole lot, really.

What we are faced with at the end of the day is this is a tough business. It is very difficult for the average person to make money doing farming, to get a middle class income, to have money to send kids to college and do the things that Americans do. Therefore, I am not unsympathetic to putting money into the situation if it just gets us up to a minimal return. At the end of the day, we still have to think about are we stimulating oversupply? Is conservation better than income support? What about everybody else in agriculture who now sees we are trying to sustain income, not particular row crops or things that might have been a part of the New Deal program.

I do not ask any of you for comment except to say that if you could extend and revise your testimony and give us some clues about that, it would be very helpful to me at least and perhaps to the chairman and the rest of the committee.

I thank you, Mr. Chairman, for allowing me to indulge in all of these reflections.

The CHAIRMAN. Well, they were very eloquent reflections and the kind of reflections that make us think about just what are we doing, and have our past policies done the opposite of what we thought we were doing in terms of helping farm families and rural communities?

The only observation I might add, Dick, to what you just said was that I believe it is true; I have been told this, and I have looked at the figures. You know, you can always get different kinds of figures but that the farm share of the consumer dollar is at the lowest point ever right now.

Senator LUGAR. That is true.

The CHAIRMAN. That is true.

If that is the case, then, if we do not want the consumer to be spending a lot more on food, it seems to me there has to be a rebalance between the farmer and everything from the farmer to the consumer in terms of where some of that money goes. If the farmer can get more of the consumer dollar, it would seem to me that would help farm income without impacting upon the kind of outlays that we have here from the Federal Government. Now, how

that is done, good luck. I do not know. Hopefully, we are going to be discussing and debating that as we go through this Farm bill.

I am going to recognize Senator Roberts, who has been here since the beginning of the committee, and I am going to try to keep to that kind of thing, that those who came here first will be recognized.

Senator Roberts.

Senator ROBERTS. Well, you stunned me. I dropped my pen, and I cannot even grab my microphone, not that I need one.

Ben, if I give you my time, will you give me 17 points when the Wildcats play up——

[Laughter.]

Senator NELSON. I hope you are going to need them this year.

[Laughter.]

Senator ROBERTS. I would like to agree with the distinguished chairman about the excellent statements you have all provided. This takes an awful lot of time and effort for you and your staff and your boards to meet, thrash through the very difficult challenges as described by Senator Lugar, our esteemed former chairman, and I want to thank you for that. I want to thank you for taking time and effort to study through this and to work with your folks and to bring us your suggestions and your advice.

I agree with the chairman. I have just been making some notes here. This has been a very interesting hearing a very pertinent hearing. I do not think these cash payments, the LDP, the AMTA payment, the double-AMTA payment, whatever we want to call it, I do not think they are sustainable over the long term, and I certainly do not think they are desirable. It was probably Tony who said that no farmer whom I have ever visited with, dating back to all of the days that I have had the privilege of representing farmers and ranchers, ever said that he wanted a check in the mailbox as opposed to the marketplace.

I do not know: maybe cash assistance is not the most important thing in regards to how we measure the success of a farm bill or in terms of a policy, but today, folks, it is way ahead of whatever is in second place, because I made a sort of a belt-tightening devil's advocate speech to one of our major farm organizations earlier this year, and after saying we had some budget problems, and let us take a look at the real problems and the unfinished agenda of the last Farm bill, if we could ever put it together, one old boy came up to me and said well, Pat, that is fine, but if those payments had not come, I would not be here, and you would not be speaking here, and he was right.

I have had the privilege of working on six farm bills from my time as a staffer on the House Ag Committee, a bucket-toter for the Honorable Keith Sibelius, up to my time as the chairman of that committee, and that is really not true either, I would say to Senator Lugar and Senator Nelson, because there have been nine technical corrections in the past 10 or 12 years, and when we say technical correction, you are talking about a major rewrite of whatever has happened in a farm bill that does not fit the roller coaster we go through and the dynamic conditions we have in agriculture. We do not call them new farm bills, but we call them technical corrections with the hope that nobody will get on the floor and introduce

amendments that could cause great damage, because when you open up a farm bill, you can lose as much as you gain depending on your point of view.

There have been three emergency bills, and we have literally rewritten the 1996 act in these emergency bills as the Senator has described. We have not gone back to supply management. That is the basic tenet. We have not taken away the flexibility to producers, but many of the programs that were not there in 1996 are there now again. By the way, I am for wool, and I am certainly for mo' hair.

[Laughter.]

Senator ROBERTS. During the time of these six farm bills, we have debated everything from flexible parity—do you remember that?—and marketing loans and setasides, two-tier, two-tier is a good program; I supported that one time; we almost passed that one time; came within about 15 votes—and price controls to cold-turkey free markets. We have discussed them all; we probably cussed them all, and we have always managed, however, to protect our farmers and ranchers.

I know that this Farm bill has been much pilloried. No farm bill is perfect; none is set in stone. At least the commitment of this committee and the House committee and people who are privileged to represent our farmers and ranchers is there. Sure, we make mistakes, and sure, we could do better, but that commitment remains.

I hope—I stated before when we had another excellent panel that we can continue the much-discussed back-to-the-future debates that we have had over the past six Farm bills I have been associated with, what I call the oldies but not necessarily so much the goodies, and sometimes, it gets rather partisan. We can talk about loan rates; we can talk about AMTA payments; we can talk about two-tier; we can talk about all of that. If you give the global market realities and the new buying patterns that are happening and the WTO problems we face with our competitors and all of that, the value of the dollar, the sagging export picture, we have to think outside the box, and I was struck by the chairman's comment that maybe we should not measure the Farm bill in terms of cash assistance.

I would say that, however, Bill, that I know that those payments have gone into Texas and all throughout farm country, and many have gone to the land owner. I understand that. I know that these payments have been capitalized into the land value, and I know that Senator Lugar has pointed out that when you are having a farm crisis, and you see at least with the Federal Reserve in Kansas City saying that farm land in Ben's country and my country has gone up seven percent, what is going on here? Is that good?

In other words, think what would happen with the country—I am not saying we are in a recession, but I do not think the economic situation—well, it is a little dicey; let us just say that. Do we want to see the land values come down? Whoa, wait a minute. Who owns that land? I can name you a bunch of folks in Ford County who are very elderly and living on single income that you have got to stop and think about that a little bit.

I would like to think a little bit outside the box. I would like to work together to come up with something. It seems to me that we

are a little short on long-term policy and a little long on short-term fixes. We talk so much about prices—I am giving a Roberts version of the Dick Lugar—what is it?—seminar here, but at any rate——

[Laughter.]

Senator ROBERTS [continuing]. They did not turn the light on for you. I do not understand why that happened.

[Laughter.]

Senator ROBERTS. We talk about high prices, price, price, price, price, price. Why can we not talk about farm income, farm income? Price does not mean anything if a producer does not have a crop to sell. That was one of the tenets of the current Farm bill. I have urged our farm and our commodity organizations to think out of the box, and the chairman has really hit it. We unfortunately see an awful lot of testimony, and I know it is understandable, from all of you focused primarily on specific dollar amounts: in other words, how much can we get when we are facing a difficult time with price and with our competition overseas and the lack of a consistent and aggressive export market?

We sort of say OK, here is our countercyclical payment; not very happy with LDPs and all of the vagaries that that had, and Mr. Chairman, I would say that when we put together the Farm bill, we never even thought we would need LDPs. That is not a startling, I guess, admission. Then, you go ahead, and you say all right, we want a different countercyclical payment; we want the LDPs or something like it, and then, we want an AMTA payment and a double-AMTA payment, and then, there is a third one in there somewhere.

We give a little nervous glance to the budget. Well, I can tell you I share the concern of the chairman. I did not pay much attention when I was in the minority over in the House Ag Committee about the budget concerns. You know, Kika did; staff did. We in the minority sort of just said, well, that is nice, but let us move on and gave our speeches.

Then, all of a sudden, I became chairman, and we were in the business of trying to balance the budget, and we had a specific number to work with, and Dick and I sat down together and said this is not going to work. How are we going to do this? Welcome to the club, Mr. Chairman. It is not exactly a pleasant club.

[Laughter.]

Senator ROBERTS. We have got to look at the budget about what is real. Then, in terms of long-term policy, what is the law of unintended effects here? Where are we headed?

I want to mention two groups who are here today who have made their willingness to maybe break with some of the prevailing thinking. I want to applaud the sorghum folks and the National Corn Growers for their efforts. Sorghum growers have indicated let us take a hard look and come to the realization with our budget situation and world trade commitments. They still support the concept of a regional-based program, but as Tony indicated, they do not list or demand—that is the better word—a countercyclical program as a top priority, and I have got the statement here that says better than I can: given the Federal Government's budget concerns and the WTO requirements, it will be difficult for the committee to construct a meaningful program. We are also concerned that a

countercyclical program could lead to planning decisions based on government policy such as the current crop insurance and loan rate programs do.

I take a little issue on the crop insurance, since it was Kerrey and Roberts who tried to put that together, but you are right: in lieu of the above issues, we believe a farm account would be likely the best countercyclical program of all. We have tried for five years to get that dadgum thing passed, and why we cannot get that done in the tax bill is a little bit beyond me, both Republicans and Democrats. I certainly applaud your thinking.

Then, you have presented a proposal with the Corn Growers that is certainly out of the box and a different way of thinking than anything we have seen around here in awhile. It is interesting; something new, warrants our careful review and consideration. That is a nice way of saying I like it, but I do not want to condemn it by sponsoring it, see?

[Laughter.]

Senator ROBERTS. I do think it is worth a good, hard look, and I really appreciate that.

Finally, I would suggest to all of the organizations before us today and who will come before us in the coming weeks: it is time to determine what our priorities are. Now, we go through this; it is like a ritual, and each of us have our own pet speeches that we give on farm program policy, and we have seen those this morning. Sooner or later, we have got to get to the priorities. That was when, on the House side, we would put you in 1338-A and get you there, and I would close the door or Kika would close the door or Foley would or Pogue would or whoever it was and say all right, you ain't coming out until you make your priorities. Sometimes, you stayed in there for days. We had to send in sandwiches.

We have got to start to think about it: what are your priorities? Now, I am going to ask you just a couple of questions: if you had to make a decision, where do you think that your board would go?

I want to thank you, Mr. Chairman. I want to thank these people. I apologize for taking so much time. I had some other pet things I wanted to say, but under the circumstances—oh, one other thing.

[Laughter.]

Senator ROBERTS. Dick, one of the reasons we have more corn is that our Kansans went down about 20 percent in wheat acreage and decided to plant corn, and the weather was pretty good, and we did not have to irrigate, and we knocked your socks off.

[Laughter.]

Senator LUGAR. That is the answer.

Senator ROBERTS. Yes; but the farmers made that decision. Now, did they make the decision because of the payment? We could get into that on LDPs and how that has been very market distorting, and in terms of overall acreage, yes, corn is up. Soybeans are up. The overall cultivated acreage and Mike, you correct me if I am wrong: is it 365 to 369, or is it 2? I am talking about million acres total. We have not really planted fencerow to fencerow. Farmers made different decisions. The yield went way up, and the world glut came on us, and we have not sold as much, and the value of the dollar has really knocked us in the head. I understand that.

The farmers have not done that, and that was the whole design of the bill: let the farmers make the decision instead of us, because we are always days late and dollars a whole bunch or months late and dollars a whole bunch.

I am done; thank you.

The CHAIRMAN. Thank you very much, Senator Roberts.

Now, Senator Nelson?

Senator NELSON. Thank you, Mr. Chairman. I apologize for being late here. I had to preside over the Senate between the time of 9 to 10, so I was a little bit delayed in getting here, so I did not get to hear the comments of my friends from Nebraska. I want to commend both Lee and Keith for being the chairs of their respective organizations. They are both from Nebraska, but I know that they have as many different views about how to deal with this as they may have some things in common, and I am proud of both of them and glad to be their friend. As a matter of fact, I would like to say that for a brief period of time, I had the pleasure of having appointed Lee to the Legislature in Nebraska to fill an unexpired term, and during that time, Keith had to have him as his Senator.

[Laughter.]

Senator NELSON. I know that they, too, are good friends, and it is good to have them here.

I want to thank all of you who have testified here today. I agree that it does involve a great deal of time and commitment to be able to do this, but it also helps bring together the ideas and helps formulate opinions and positions of your respective organizations, and while they may be different among you, it is important at least to have those differences refined and identified and articulated as you have, because that clearly can be very helpful to us.

There do seem to be some areas, or there does seem to be an area or two where even across the different sectors of agriculture and the different areas of our country that there might be some broad consensus; for example, that agriculture is the backbone of rural America, and agricultural programs and rural development do have something in common. If the CRP program is too extensive, it can be detrimental to the rural communities within our rural areas in the country, and likewise, if an agricultural commodities program or some other program helps sustain income, that may be the only thing that saves rural America right now.

There is also an opportunity for individual producers through value-added enterprise, and the Federal Government can play an important role in assisting in that area. Farmers can also provide solutions to our energy problems across our country, from ethanol to biodiesel to wind power, and it certainly is worthy of consideration. Conservation on private farm land does provide a public good and is far less expensive than conservation on public land when it is done in an appropriate fashion. Finally, there is a consensus that family based agriculture has been and continues to be good for America, and it has made us the strongest agricultural country in the world.

These are important items of agreement and they can help me focus on what we can do to help build on in this new Farm bill. I thank all of you for coming and for offering your testimony and being committed on behalf of your groups, and I hope that we will

have many other occasions to share views and certainly to receive your thoughts about what it is that we ultimately propose together to assist agriculture at a very difficult time.

I want to say one thing, and this is not critical, Mr. Miller, I mean, but when you say that adjusting farm programs and perhaps eliminating the farm income that we are able to provide at the moment to help out agriculture can create some transitions. I keep worrying about my good friend, Senator Lugar, who is living on one of these transitional farms. I keep asking is he transitioning up or transitioning out? I worry a great deal about words that seem so sanitized when we say that there will be some dislocation, some transition if we were to pull out of providing this kind of income.

My fear about that kind of transition is that it will transition us away from what we currently have in family based agriculture, and I hope that as we work together, and I am not suggesting that you necessarily mean that, but if we permit market forces under the current circumstances to prevail, I am not sure that I want to see the results, because I can predict them.

That is why we have to have a farm program in some fashion to be able to support and build rural America and our family based agriculture, but it must, in fact, be sustainable. I agree with you and agree with all of you who are suggesting that we ought to get to a market-based price for agriculture. That is why I hope that what we put together will be not simply a short-term fix; we will be doing that between now and the fall to get through where we currently are but something that is more longer-term in thinking outside the box that will be designed to cycle us into the right kind of price.

The $1 million question, of course, is going to be what are the elements of that program? How will they work? Can they work in today's world economy, where we have sanctions, unless we remove the sanctions that always involve food? Will they work unless we are able to apply appropriate pressure on the EU to accept our products instead of having these barriers that they put up always in the name of food safety or some other category rather than just admitting what they are, market barriers? Will it be possible to do this even if we put together the world's best farm program if we have the differential created by the strong dollar? I am not advocating that we weaken it, but these are all things that we have to keep in mind: that we are still going to be facing some forces that, at the present time, seem to be a little bit beyond our control? Getting rid of the sanctions may not; getting the European Union to accept our products does not seem very hopeful in the short-term or the long-term and to be able to expand our exports without some subsidization through either a market assistance program or export enhancement program to really expand those programs to get our products in the world market when we have the high dollar; that we have got a lot of work ahead of us that will be a challenge to overcome no matter what we do in terms—and I see my red light is on——

The CHAIRMAN. Do not worry about that.

[Laughter.]

Senator NELSON. I am about to stop in any event, because that we are all committed to getting the same result. There may be a

lot of different avenues to getting there, but I hope we will be able to work with one another and be not only respectful but supportive of ideas that may be different from our initial thoughts as we try to put something together to know that the final conclusion must be that we sustain agriculture in our country today and that we do so in a responsible way that gets us to a sustaining way of being able to do it.

I am fearful that we cannot sustain the payments that are going on today over the long-term or over the intermediate term, but we must, in fact, do something that is responsible. As good stewards of the policy, I hope we are able to come together. I know that we are certainly committed to working together.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Nelson.

I do have just one other question that I would like to ask mostly to Mr. Dittrich and Mr. Klein, but you can come in also with oil seeds, too. I am just wondering: in your view, is the current Marketing Loan Program actually depressing prices to some extent? Here is what I mean by that: a farmer who is correctly positioned in the market will get more money if the price actually goes down, because their LDP will be greater. Then, they get a bigger LDP payment. Then, if they are correctly positioned in the market, they can then sell in a higher market and get the best of both possible worlds.

I am wondering if, to some extent, the Marketing Assistance Loan Program actually is helping—maybe not overall but somewhat—to depress prices? Any comments on that?

Mr. LITTERER. If I could, Mr. Senator, I would like to respond to that. I am with Mr. Klein today. I am his sidekick, and we worked on the policy side, and that is why I am here today. To address your question, there is an impact with the marketing loan driving production in some areas, and ERS has actually done a study that has said that is the case. That is one of the reasons that our policy group looking at loan rates—and as you could see today, the discussion between all of the groups focused on loan rates and how do we rebalance, or do we raise those loan rates?

Our public policy committee spent a lot of time looking at this and felt that it was a very complicated issue that we could not deal with, and that is why we decided to propose a policy that was a little different, where we look at revenue instead of loan rates. We have problems with loan rates between commodities, because one might be relatively higher than another and driving production in that commodity. We have differences in loan rates between counties and states in those regional differences and how do we design a loan rate that fits every region?

It is a very complicated issue, one that we thought would be best addressed to look at a different approach, and that is why we have proposed the revenue-based, changing to looking at a revenue-based by crop program and doing away with looking at loan rates in particular.

The CHAIRMAN. Now, I looked at those formulas last night when I was going over this at home. I am not certain I understand them all, but that is one of the things that I want to continue to work with you on, try to figure out how those work. I will look at it.

What you are saying is that the marketing loan may indeed depress prices.

Mr. LITTERER. Right; in our proposal, going to a revenue that is totally decoupled we think will be less market-distorting and trade-distorting.

The CHAIRMAN. Mr. Dittrich.

Mr. DITTRICH. Mr. Chairman, we do believe that the LDP program is a price-depressor. It does encourage lower prices for farmers. Our Market Participation Loan is a hybrid loan, as I suggested. It is a nonrecourse marketing loan. It limits how far below the loan rate farmers can market their products and capture a market loss gain. The question of loan rates and their effects on farmers, I would suggest that if we try to use some type of formula such as has been suggested that just looks at a 5-year average market price and tries to make up the difference in payments on a rolling average and do not do something to try to drive market prices up, we will see a downward spiral of prices and downward spiral of income at the same time as we see inflation increasing our costs. We are pretty soon rapidly coming to a situation where support levels are real problematic and even worse than they are today.

I would like to make a comment very shortly concerning Mr. Miller's statement. We have to be very aware that I as a farmer am a seller. Mr. Miller is a processor and a buyer. Our interests are different. When I try to sell to Mr. Miller, I try to get the highest price I can from the marketplace. Mr. Miller, of course, his interests are to get the lowest price; buy it from me as cheaply as possible. I can understand Mr. Miller's interest in the farm policy position he takes today.

The CHAIRMAN. Anyone else on the LDP situation? Yes?

Mr. ANDERSON. Yes, sir, they of right opportunity here. I wish I could give you a very direct answer that would make the decision much easier. The reality that I see is that there are so many market forces affecting the price that is received by the farmer. It could be the fact that for delivering in different-sized units; we are delivering to different-sized elevators; we are further from the river; we are closer to the river; we are closer to a processor; the rail line only handles so many sized cars or so big cars or comes whether you are on a short line or a full line.

The business demands; the profit potential that the businesses on that rail line or river, they have different profit levels that they care to work at. I cannot agree that the marketing loan is the only reason that it would depress prices. There are just too many other market forces at play here.

The CHAIRMAN. If I just might jump in, Mr. Anderson, your countercyclical proposal suggests using a base period of 1993 to 1997. The National Corn Growers is saying 1996 to 2000. Is there any reason for that difference at all that I do not know about, or is that just——

Mr. LITTERER. We just had to pick a number someplace, Mr. Chairman, and that was the last five years of the present Farm bill.

Mr. ANDERSON. That we tried to move back far enough in time that we would not come up with a distorted picture that would

hopefully be WTO-compliant, which many of the indications now are that they will not be, but that just leads to more discussion.

The CHAIRMAN. I am glad that most of you, in your testimony, mentioned the Foreign Market Development Program and the Market Access Program. We have very little power on this committee in terms of our trade. That falls in the purview of the Finance Committee. There are a couple things that we can do, and both of those, in my own view, have been underfunded and have not been used to the best benefit of our farmers. We will be looking at ways of beefing those up, and again, if any of you have thoughts or suggestions on that, please let this committee know down the road.

That really does conclude all of the questions I have. Senator Lugar.

Senator LUGAR. I would just like to follow through, Mr. Chairman, talking about the LDP for a minute. One of the pieces of testimony we have had, and I just want to test this out and the validity of it, is that all of those—take the corn LDP, $1.89 generally. A good number of people have testified that the marginal cost of an additional bushel of corn production comes in at much less than $1.89. As a result, if you are a very efficient farmer, and you have got a cost structure of that variety, there is some incentive to plant more.

Now, this is even at the $1.89, as Pat Roberts had pointed out when we first thought of this; at the time of the Farm bill five or six years ago, most people felt we would not be hitting that, but as you have pointed out in your testimony, we have hit that and hit some others, and you have got an LDP payment of $3 billion for all crops 1 year; $5 billion and $7 billion this year, so that is a big component right now of the spending. It leads many farmers to say well, obviously, the price is going down sort of in a secular way. However you express the overproduction situation, that is part of it if you have a static foreign trade business.

I am just wondering how the use of the LDP, even though it has certainly been an important safety net feature, affects the planning decisions and the continual erosion of the price? I appreciate the work put in the Corn Growers' paper trying to rationalize or rebalance the equities through a revenue base as opposed to trying to pick each country elevator, and you have highlighted a technical point which is very important. All of these county decisions, the difficulty of USDA working through that history which may lead to considerable inequities for farmers who are in the wrong place at the wrong time and go two counties abreast to try to find a situation that is a better one for them; you sort of got rid of that.

How about the LDP as a concept? Is it encouraging overproduction and deliberately, as a policy, depressing price? Does anybody have a view on that?

Mr. LITTERER. Well, I agree. It does to a degree, and I do think the loan rate variability between commodities, and I guess I am picking on soybeans a little bit here their rate is relatively higher, and so, it probably does drive a little more production to them is our view.

You know, to say that it is the only factor that is driving production, I do not know that I would go that far, but it is one of the things that we were looking at and, again, trying to look at a dif-

ferent way of handling some kind of a support for farmers without encouraging production of one particular crop over another by those rates.

Senator LUGAR. As I understand it, you sort of meld together revenue from every source, whether it is barley or sorghum or what have.

Mr. LITTERER. Right.

Senator LUGAR. A 5-year average of some sort comes into play, a fairly recent average as opposed to the seventies or what have you, as I understand it.

Mr. LITTERER. Well, we are using both. We are suggesting a continuation of an AMTA payment based on the 2002 year as one payment, as a PFC payment, and then also updating the base and yield history for the countercyclical proposal, which then, we think, would be fully decoupled.

Senator LUGAR. You have an AMTA payment in there.

Mr. LITTERER. Right.

Senator LUGAR. That remains. At what level?

Mr. LITTERER. At the 2002 rate in the present Farm bill.

Senator LUGAR. 2002 is sort of straight-lined out for 10 years or——

Mr. LITTERER. Five years, whatever the——

Senator LUGAR. Whatever the length of the Farm bill. Then, on top of that, this countercyclical payment that is based essentially on the market prices of five years.

Mr. LITTERER. Plus that supplemental AMTA portion or the market loss payments in addition to the marketing loan or LDP rates that were paid in over that 5-year period.

Senator LUGAR. You have estimated now over the 10-year period or the 5-year period, this comes out to about $36 billion more or about $7.2 billion a year.

Mr. LITTERER. Yes.

Senator LUGAR. I do not know—the 10-year projection, whether that takes you out to $7.2 billion or——

Mr. LITTERER. Actually, the projection that Agrilogic did shows that our costs are substantially below some of the other proposals at about $5.2 billion, and we think that allows for some funding in other programs: conservation, rural development those kind of programs which we think are also an essential part of a comprehensive farm bill.

Senator LUGAR. Yes, but that is where we get into this competition that we were discussing earlier on as to——

Mr. LITTERER. Right.

Senator LUGAR [continuing]. How your proposal works out. I am just trying to think aloud. Let us say that we were to accept theoretically your idea, but at the end of the day, well, we said there is $73.5 billion, and we have already used X for conservation; a little bit for rural development; research, and we have got some other crops involved, too. Instead of $36 billion for five years, we are down now to $27 billion or something like that.

Now, to what extent, using your formulas, can you begin tweaking the system so that you pick up the general concept of parity or fairness among everything——

Mr. LITTERER. Well, I guess what you are asking is would we be willing to accept a much lower income threshold?

Senator LUGAR. Well, I am not really asking that, because you would have to say no, but on the other hand——

[Laughter.]

Senator LUGAR [continuing]. All I am saying is at the end of the day to some extent, I suppose the chairman and I and other members of the committee, there is nothing sacred about $73.5 billion; why not go for $100 billion? In essence, after all, it is just a transfer payment from one set of taxpayers to another, albeit from 250 million to 2 million, say, but why not? Try it out for size.

Mr. KLEIN. I would like to just comment a little bit. As Mr. Harkin said before—or Mr. Chairman, I guess; I am sorry; you were 19 days, and then, you quit for awhile, I remember that.

The CHAIRMAN. Right.

[Laughter.]

Mr. KLEIN. Anyway, if we do rural economic development correctly, we will be picking up some of that profit in the ag sector, and then, we do not need as much. This whole thing goes hand-in-hand. If we have something where the facilities that process the grain or whatever we raise into the finished product to get us closer to the grocery store shelf for the consumer, the profit comes from that. Then, we do not need as much to come from this committee. That is the long-term goal of our organization is to get us to that. It is just like——

Senator LUGAR. It is the moving parts philosophy that this thing has dynamic aspects, not fixed, but you get some success, and it helps you somewhere else.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. It sounds like both of your goals are the same, American Corn and National Corn. You both say your goals are the same. It is just that the pathway of getting there is different.

Mr. Dittrich wanted to say something. Go ahead.

Mr. DITTRICH. Yes, Senator Lugar; to answer your question about loan rates and LDPs and whether or not they increase production, I would refer back to our document the Findings of Congress, which says that the realities of the marketplace are that individually, farmers have no ability to impact supply. Therefore, they attempt to maximize output regardless of price, regardless of loan rates. They maximize output at all times.

To look at ending stocks and surpluses, our key indicators points out that in the 1980 to 1984 period, ending stocks as a percentage of usage were at 29 percent, and average farm price, non-inflation-adjusted, was $2.83. Inflation-adjusted was $4.83. Today, the 2001 projections are that ending stocks percentage of use at 17 percent, and that will increase some because of USDA's productions in exports going back down to the average of 1.8 to 1.9 billion bushels a year that they have been for the last 25 years, and we have an average U.S. farm price of $1.90 a bushel.

That is a very interesting situation, where we have ending stocks substantially lower than we did in the 1980–1984 period, but inflation-adjusted, our price is less than half. I would tend to say that there are other things driving market price.

The CHAIRMAN. Yes; let me see if I understand. You said that our ending stocks are lower now?

Mr. DITTRICH. Yes.

The CHAIRMAN. Than they were 15 years ago?

Mr. DITTRICH. As a percentage of usage.

The CHAIRMAN. As a percentage of usage?

Mr. DITTRICH. Yes; in 1980 to 1984, that 4-year period, ending stocks were at 29 percent of usage, and the average U.S. farm price was $2.83; inflation-adjusted, $4.83. Today, the 2000 projections—these are USDA projections—are at 17 percent, but they will increase more than that, because USDA has revised their export projections downward, and our average U.S. farm price is $1.90 a bushel.

We have half the ending stock supply—or not half, a little less than that.

The CHAIRMAN. Yes.

Mr. DITTRICH. A dramatically lower price. Obviously, supply and demand is not functioning properly. We would contend to look at price support loan rates and how they have helped encourage market prices and driven market prices.

The CHAIRMAN. You said it was $1.90. I am sorry; I have got to turn to Mr. Roberts, but $1.90, what was it when the ending stocks were an average of 29 percent?

Mr. DITTRICH. $2.83.

The CHAIRMAN. $2.83?

Mr. DITTRICH. Yes, and inflation-adjusted, $4.83, and our exports that year were within averages. They were around 2 billion bushels. They average over the years 1.8 billion to 2 billion bushels over the last 25 years.

The CHAIRMAN. That is interesting. Thank you.

Senator LUGAR. Can I just rebound? We need to analyze carefully—and you made a very interesting point, although there are a lot of reasons for inflation in the world outside of agriculture in that period, and likewise, different changes in the use of things, but the basic point, though, that you made to begin with is that farmers do not control, obviously, the price, and so, they maximize planting, and that is an important point, because they would probably be right with many farm operations.

Now, another thing you could do without suggesting that people follow one of the plans that I have had for my farm is as opposed to planting additional acreage that I gather would be marginal in terms of corn and soybeans, why, we planted walnut trees, or we have gone into other alternative situations. Now, that is a different time dimension in terms of income. Some farmers would say well, I cannot wait for 60 years for that veneer market to come along. I have got a more short-term problem with the next 60 days.

I mean, there are alternative ways of doing this as opposed to planting more corn and beans. My point is just simply that we are into a situation in which we are attempting to support income; trying to contrive, whether it is an LDP or something better than this, some way of shoring this up. In doing so, if we increase production well beyond any known markets for it, granted, we might get bonanzas tradewise or some other thing breaks through, and more ethanol in California and the rest, why, that will work out.

Absent that, people have to make decisions not to allocate their resources to something that is likely to be less profitable. The question is how do we construct the incentives so that those sorts of decisions are more likely to be made? I will study, as will the chairman, very carefully all of the testimony again. I have read it with great profit last evening and once again today as you spoke.

The CHAIRMAN. Thank you very much, Senator Lugar.

Senator Roberts.

Senator ROBERTS. Both of my colleagues have asked most of the pertinent questions that I had on my mind. I want to ask a little question about our efforts to achieve some progress, any progress, in the WTO, and there has been a lot of talk, a lot of discussion, a lot of rhetoric, about the green box, amber box commitments. I have always been one who, gosh, I do not know how many speeches I have made on behalf of a consistent and aggressive export policy; then, you try to define what that is, our market share, which has fallen rather dramatically.

The President's trade initiative; sanctions reform; the value of the dollar; certainly, increasing the budget for FAS and getting us much more aggressive; as a Dodge City farmer told me one time, we have got to start taking a gun to a knife fight. Then, you get into all sorts of problems with the alleged free market. Then, the distinguished chairman will point out that you cannot do it all by trade.

I would say that the bloom is off the lily, really, in farm country with this trade. I do not think they have any problem with the goals of a strong trade policy, but how many years has it been now that we have been on the decline, and they think it is sort of a siren song; when are we going to get there from here, Pat? You know, you have been talking about this for a long time. It does not mean that we do not try, and we do not try to piece together a much better program. Senator Nelson indicated the Export Enhancement Program. His predecessor's predecessor was the one Ed Jurinsky was the one who was so instrumental in the Export Enhancement Program. Now, we do not think that is the proper tool to play.

Having said all of that, do you think when Congress is crafting the commodity title of the Farm bill, and you had to choose between a priority, would you put as much money as you could into the commodity title as possible, or should we try to fulfill our commitments in regard to WTO and get back to the table and hang tough and know when to hold them and fold them?

Mr. KLEIN. Our first obligation is to our U.S. producers, and we are going to stick with that. While we have to look——

Senator ROBERTS. We hope we can do both but——

Mr. KLEIN. Well it is where it fits after the producer viability comes in. We will fight that battle afterwards. We obviously cannot create something called multifunctionality here, because the Europeans beat us to it, but, well, that gives a whole new box, does it not?

Senator ROBERTS. Well, Secretary Glickman, my good friend and buddy, mentioned that in Seattle, about multifunctionality, that the Europeans use that, i.e., rural America is a great place to live if you can make a living and all of the factors that go into that.

I do not think it is an either-or argument, but then, on the other side of it, it seems that we hear this debate. I would hope we could do both, and I would hope we could achieve some progress. I have no illusions about that. It is a tough, tough battle.

Yes?

Mr. DITTRICH. Senator Roberts, we suggest that the current trade negotiations refocus their efforts on shared production cuts if needed at times, because there is a valid concern that if we cut production here that other countries will expand production, although Darrell Ray, I believe, has mentioned that South America will increase their soybean production even if the price goes to zero, or you have to go to zero or below zero to stop the production increases.

We think that redirecting those attempts at world trade to that of international food reserves and market agreements would be much more beneficial to agriculture as a whole in this country and around the world instead of competing in an ever-vicious downward spiral of price to the last one that stands. The reality is that we need all the world's production at this point. We are using most all of the world's production. We have some carry-over stocks, but the reality is most of the stocks are being used, and in a system where we compete until the last one stands, the reality is the United States agricultural production is still needed and still used.

We can drive the thing to the bottom of market price, or we can decide to set up fair market prices that everyone can agree on. Sure, South America will still cut our price and undercut us on price and sell theirs as fast as they can, because they do not have the infrastructure to store, but that being the case, we will still sell our production.

Senator ROBERTS. I will use you as a lead negotiator with the French.

Tony.

Mr. ANDERSON. We would have to stand by the safety net issues, considering that, again, going back to the unfinished agenda. You know, we are basically a market-oriented group. We want access to the rest of the global market. We have tried everything under the sun to fit into the WTO agreements through the sanitary and phytosanitary fights and all of that. The concern is that if we do not have a safety net in place, and producers utilize it properly, that there will be even fewer producers to deal with in the future than there are today; maybe an economic trend that we cannot stop nor should we, but that is a discussion for somewhere outside of these walls.

Again, I do not know that the discussion as you raise here would have to be mutually exclusive. That there are ways that we can work to have both.

Senator ROBERTS. We will try to come up with a different crayon, whether it is amber or green or orange or green, see if we can maybe work that out.

Mr. ANDERSON. OK.

Senator ROBERTS. Mr. Miller.

Mr. MILLER. We probably agree with Mr. Anderson that both pieces are necessary; that we certainly see the need for some support; at the same time, we think that the ultimate long-term solu-

tion is in free trade. We think that U.S. farmers can compete internationally if the playing field is level. We do not think in a lot of instances it is, and responding a little bit to Mr. Dittrich, who is involved in this issue, too, nowhere in any submission or discussion from us will you find us advocating cheap prices on commodities.

I am a processor. I do not make any more money per bushel of wheat that I grind whether it is $5 wheat or $3 wheat. In fact, I would prefer that wheat prices not be at their current low levels, because the security of my choice of quality and the reliability and predictability of that crop is better in a strong demand market than it is in a weak demand market or one that is unnaturally volatile because of Government intervention.

To say that I resist paying more than any of my competitors for wheat, that is correct, but to say that I want cheap wheat is really incorrect. As a processor, my margin is not different based on those two different prices of wheat. However, if I am faced with competition from foreign countries, for example, in pasta, where they have a subsidized rate that I cannot compete with here, then, I have to try to go into my domestic market and try to make our wheat price competitive with a subsidized product, be it wheat or pasta, in this case, from a foreign country; that, I cannot live with.

If the playing field is equal, then, I am actually personally somewhat in favor of a higher wheat price, because it is a healthier supply chain for me. Finally, sometimes in our discussions of these issues, we try to create good guy-bad guy scenarios rather than recognize the fact that the things we have in common are so much overwhelmingly more than those things that we do not have in common.

Our coalition members are supportive, even though prices are perhaps artificially low right now, we are advocating change and change that in many instances would raise price to us in the marketplace where we would pay more. We think that some of the policies artificially depress prices. That is not advantageous to us or the producers.

As we look at these issues, we need to be cautious that we are not trying to assign blame or virtue on one side or the other but recognize the commonality of our interest.

Senator ROBERTS. Ms. Evans.

Ms. EVANS. Speaking again for the barley industry, and I do feel that we are somewhat unique in the situation of our declining acreage and our total competition with the EU subsidies in the barley world market; I would feel that we would put a priority on sustaining the domestic policy as we have it. One of the concerns as we have drawn up our policy dealing with the WTO amber versus green box, one of the concerns that I have personally had is we develop a countercyclical or whatever program we finally come up with, and it fits into the top level of that box; what then precludes the EU saying fine, then, we will just develop our program the same, and we will use $60 billion in our amber box, and barley would be right back in the same boat we have been through this whole last series.

That is my concern with it. It is something we have talked about, but for right now, we are still on the policy that we need to protect our producers domestically here at home as our priority.

Senator ROBERTS. Bill.

Mr. KUBECKA. From sorghum's position, and we have discussed this from a board perspective, and our deal is that we have an obligation to WTO, and as long as we are going to participate in that, we will abide by those rules, although that does not mean that individually, everyone agrees with that, but that is generally our policy statement. We also have, more or less accepted the fact that I do not know that we are going to have to worry about that anyway because of the budget.

[Laughter.]

Mr. KUBECKA. That is basically our board's position and what our discussion has been on it.

Senator ROBERTS. Mr. Chairman, I did not mean to pose this as an either-or question. That is sort of how it came out. In today's discussion that the flavor of the folks these people represent is important. I know you have experienced this, and I know Senator Lugar has, that when we discuss whether our colleagues from other countries, possible solutions in regards to subsidies, unfair trade competition, boy, it is tough sledding.

I remember in Brussels and talking to Franz Fischler and the head of the European Farmers Union trying to get some progress on the three Bs; biotech and beef and—what was the other one?—oh, bananas. As a matter of fact, I said could we at least discuss about the three Bs, and they looked at me and said oh, you are the guy who was pushing the double-AMTA payments. You know, you are amber; you are red, as a matter of fact. You are not even amber.

It went downhill from there and——

[Laughter.]

Senator ROBERTS [continuing]. You know, the French representative of the farmers union group said in France, we only discuss two Bs, Bridgette Bardot. I told him at her age, she needed a little biotech help, but that is another——

[Laughter.]

Senator ROBERTS. I am sorry to have done that to you. Go on.

The CHAIRMAN. That is all right.

Senator ROBERTS. I am through.

The CHAIRMAN. Do you have anything else, Senator? Well, if there is nothing else, any last comment or something before we hammer it closed here?

It has been a good session this morning. I thought we had a good exchange of ideas and a good discussion. There are many things that we have got to consider. As you can see, we have a tough task ahead of us. Although it is challenging, we might come out of this with interesting and good policies that will move us forward agriculturally in this country.

I see great possibilities out there. I would close by just saying that from my standpoint, if, in fact, we have got to look at more domestic use, we cannot eat much more in this country. In fact, obesity has become a problem in this country. We must find some different ways of processing food and different things like that, but if we are going to have more domestic use, I come full-circle back and say that, well, why not energy? It seems to me you win every way on that one. We cut down on foreign imports; it is environ-

mentally sound; it cleans up greenhouse gases; provides better farm income; does not hurt Mr. Miller and the other part of the food chain that is out there.

It seems to me that the more I hear, the more I am thinking that we have got to focus on energy and put more of our agricultural products over a certain amount that has to go for food and fiber and get it into energy production in this country. That is domestic use; it keeps our consumers happy in terms of their food dollar and the amount that they spend; does not add to inflation; in fact, I would say that it would actually contribute to lowering inflation by helping to bid down the price of imported energy.

That is just my thinking at this point in time is that we have to move more in the energy area, and I do not know if anyone wants to say anything more about that, but with that, the committee will stand adjourned—I thank you all very much—until the call of the chair next week. When is the next hearing? Next Tuesday at what time? Nine in this room. Thank you very much.

[Whereupon, at 12:06 p.m., the committee was adjourned.]

APPENDIX

JULY 12, 2001

NATIONAL CORN GROWERS ASSOCIATION
Lee Klein
President

SENATE AGRICULTURE COMMITTEE
July 12, 2001

Thank you, Mr. Chairman, for the opportunity to testify here today about the farm economy and the future of farm policy. My name is Lee Klein and I serve as President of the National Corn Growers Association (NCGA), representing more than 31,000 direct members and the 300,000 corn farmers throughout the nation who make check-off payments each year.

I am joined today by Ron Litterer of Greene, Iowa. Mr. Litterer serves as vice chair of NCGA's Public Policy Action Team, which is our internal committee working on farm programs. Ron is also past president of the Iowa Corn Growers Association. He raises corn and soybeans along with a hog finishing operation. I farm near Battle Creek in northeast Nebraska. My wife and I raise corn, soybeans, rye, alfalfa and hay and we manage a cow/calf operation.

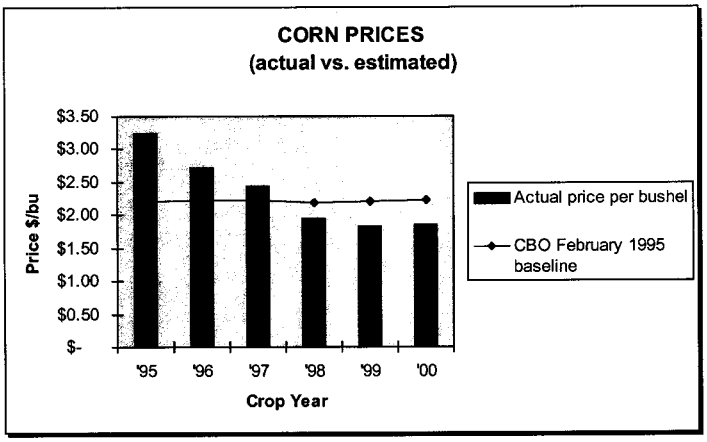
Like you, NCGA has been working diligently to prepare for these farm bill discussions. We took a cue from this very committee and incorporated into our farm bill discovery process a mock Congressional hearing, town hall meetings in over ten states, and held a two-part farm bill school in order to ensure an inclusive, educated, grassroots-oriented farm policy. Most recently, member-states were present in San Antonio, Texas, for the Commodity Classic—which includes our Corn Congress—for the opportunity to present and vote on policy initiatives important to their states. Our Second meeting of Corn Congress for 2001 will start on Monday here in Washington, D.C. I expect us to further ratify the proposal at that time.

With all this information gathered, with input from all its member-states—what does NCGA want from the next Farm Bill? Simply, our growers want a farm program that ensures America's farmers are globally competitive, market responsive and environmentally responsible. This program must provide producers with access to world markets, access to capital, access to advances in technology and risk management in a sustainable and environmentally sound manner.

To discuss our farm bill approach and perspective, it is important to outline the path the corn industry has taken over the last five years. From a 1995 marketing year level of $3.25 per bushel, corn prices have significantly declined amid an unprecedented five years of above-trend yields without widespread production problems in this country or abroad. The Federal Agriculture Improvement and Reform (FAIR) Act of 1996 provided the crop production sector with the ability to change commodity mix to respond to the needs and shortages of the market, a provision that has worked very well, but it did not anticipate sustained periods of favorable weather in major grain producing regions and resultant low prices aggravated by world economic challenges and trade distorting policies. Earlier this year, Mr. Keith Collins, Chief Economist with USDA, testified before the House Committee on Agriculture that another decline is expected this marketing year with corn prices expected to average $1.70 - $1.85 per bushel, although the most recent USDA projections peg corn prices at $1.80 - $1.90 per bushel.

As we look at where corn prices have been in the last few years, we should note where Congressional Budget Office (CBO) assumptions were predicting prices would be. The graph below demonstrates the disparity between actual corn prices, and estimates from 1995.

Graph 1.

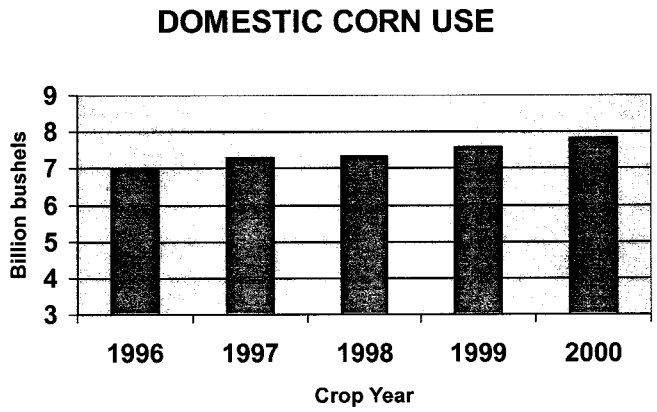


Corn Use

The market-oriented approach to the 1996 farm bill has allowed U.S. farmers to make production decisions based on their own market and agronomic needs and has allowed them to build demand for corn both here and abroad. And we have done just that.

Domestic demand for U.S. corn has increased from almost 7 billion bushels in 1996 to a projected 7.8 billion bushels this marketing year – an increase of over 11 percent.

Graph 2. Illustrates domestic corn use during the first five years of the FAIR Act.



That remarkable domestic demand comes from increases in feed use, fuel use and new food and industrial uses the corn industry has worked to develop. We expect at least an additional one-half billion bushels of domestic demand in the next five years with increased ethanol demand and, more importantly, other new uses. We strongly support the President's $15 million commitment for research into new uses like bio-based industrial products and improving processing and conversion technologies.

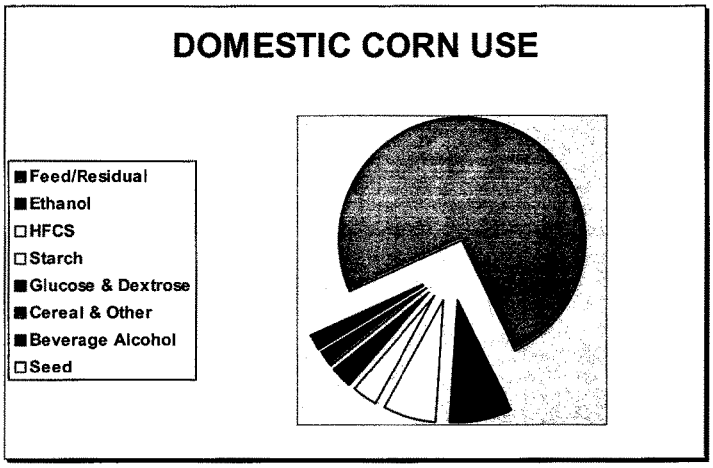
It is NCGA's goal to: develop new uses; to develop and build a renewable products industry with corn as the chief feedstock; to increase utilization of corn; and to increase the opportunity for grower profits. Both public and private sectors must share the task of establishing value-added opportunities and new uses. Through check-off dollars and with the help of valuable federal funds, NCGA is leading the effort into new use research. For example, we are funding research for a degermination process that we hope will enable corn dry grind ethanol facilities to recover oil from the corn germ. If successful, this research will give those plants – many of them farmer-owned cooperatives – an additional revenue stream from the corn oil, which can be marketed in addition to ethanol and distillers grain.

We are also focusing research efforts on new uses for corn. We feel this area holds great potential for all growers in allowing them to add value to the crops from the fields. These projects include turning corn into the more eco-friendly chemical products used in a variety of ways for items such as polymers in plastics, clothing and carpeting. They

are also used for other chemicals such as propylene glycol and ethylene glycol that are used in products such as antifreeze, de-icing fluid and health and beauty products.

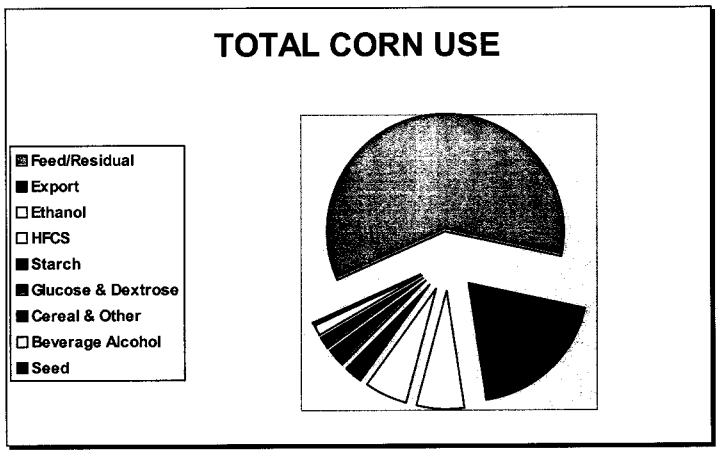
These exciting new uses are overshadowed by feed use, which continues to dominate domestic corn use. The livestock and poultry industries are our biggest and most important customers, using almost 75 percent of the 7.8 billion bushels that will be used domestically this marketing year (See Graph 3). The demand for feed use has been steadily increasing over the last ten years. Since 1990, consumption by livestock has increased from 4.6 billion bushels to 5.85 billion bushels of corn this marketing year.

Graph 3. Represents the corn use for multiple domestic sectors for the 2000 corn crop as projected by USDA.



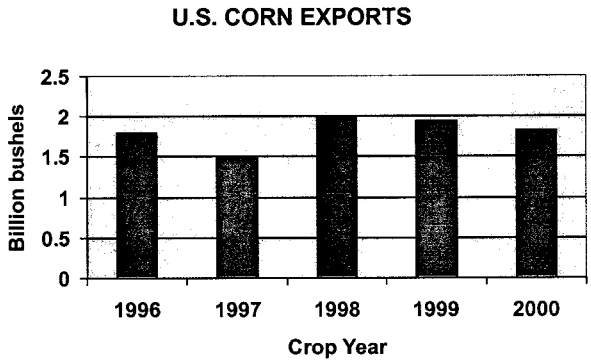
Corn exports add another dimension to the total demand picture for U.S. corn producers.

Graph 4. Shows total corn demand for this marketing year.



While not as dramatic as the domestic demand picture, the corn export situation is also better than it was in 1996. It now appears that corn exports will fall below the recent high of 1.98 billion bushels during the 1998 marketing year. But at 1.85 billion bushels, corn exports will exceed 1997 levels by almost 350 million bushels.

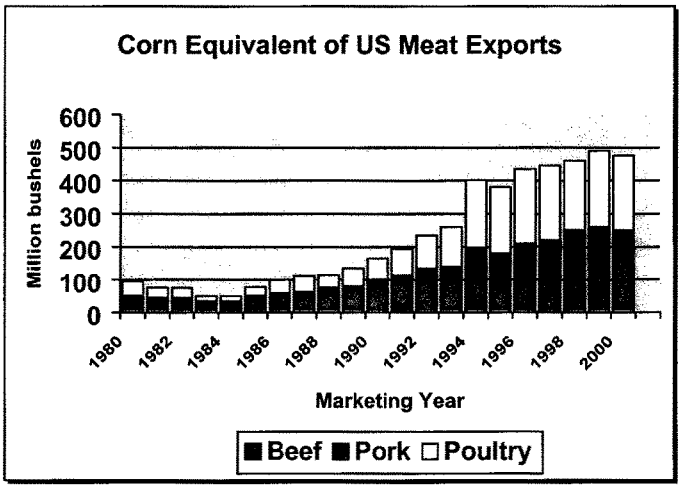
Graph 5. Illustrates corn exports during the first five years of the FAIR Act.



Fortunately, grain exports are only part of the export picture. We export a significant quantity of corn as value-added meat and poultry products. Graph 6 illustrates the corn

equivalent of exports of beef, chicken and pork over the last 20 years. U.S. meat exports are key to corn feed use and soybean crush and to U.S. export competitiveness.

Graph 6.

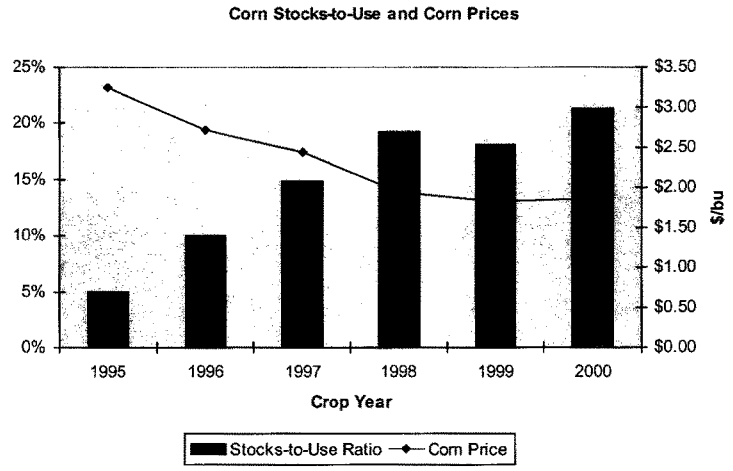


Nonetheless, U.S. farmers have suffered the effects of weak economies abroad, a strong U.S. dollar, trade barriers, unilateral trade sanctions, and competition from subsidized exports and international challenges to biotech corn. NCGA will continue to seek stronger export markets first by securing Trade Promotion Authority for the President, then by supporting trade liberalization through multilateral negotiations and by aggressively pursuing market opportunities. The Foreign Market Development Cooperator program and Market Access Program are essential tools to increase export demand. As export demand improves, so will corn prices.

Despite growth in both our domestic and export demand, corn farmers, like producers of all commodities, are still faced with lackluster prices. The reason is relatively obvious; our production growth has outpaced the demand growth. Over the past five years U.S. corn farmers have produced an average of more than 9.5 billion bushels per year compared to an average 8.1 billion bushels per year during the life of the 1990 farm bill – an increase of almost 17 percent. Corn planted acres have increased an average 4.5 percent over the average for the previous farm bill. Clearly, U.S. farmers have been very productive on the land devoted to corn production. Those who advocate supply control through acreage reduction miss the tremendous effect of improved yields.

The consistently high production numbers have led to increasing stocks. The current farm policy was enacted during the 1995-96 marketing year. That year, the corn stocks-to-use ratio fell to a dangerously low 5 percent. We have rebuilt stocks, and now we have too much corn. Today's low prices reflect the significantly higher stocks-to-use ratio.

Graph 7.



To NCGA this shows that our next generation of farm policy needs a counter-cyclical component that is heavily oriented at answering the profitability needs of basic commodity farm income. As the preceding charts have shown farm income shortfalls will not be resolved by one easy policy change like boosting exports or artificially shorting the market with a set-aside. We need a complete package that provides farmers opportunities in the market place with minimal interference in production decisions and that includes a safety net against those economic forces that are beyond producers' control. We believe the correct counter cyclical policy can do that.

Lessons from the FAIR Act

What have we learned? We've learned that at the heart of the 1996 measure lays a provision that we all fought so hard for and which we will continue to fight for – planting flexibility. This market-oriented approach to farm policy allows U.S. farmers to bring production decisions home and grow for their market. That flexibility is something America's farmers are not willing to give up and it is an important tool for responding to market and consumer needs. Clearly, this approach is better than market-distorting policies that favor our global competitors.

The bill also provided for fixed declining payments. These payments helped sustain most growers these past four years and, without them, as an auctioneer, I would have sold a lot more land in Nebraska in the last five years.

However, these payments, highest in the early years coinciding with high commodity prices, were not without their heartburn to a great many growers in the countryside. Direct government payments of $.36 per bushel at a time when corn prices averaged $2.71 per bushel had the effect of accelerating a trend of increasing land values.

High land prices are an advantage for landowners and local taxing districts, crucial to the collateral base of most farm real estate and operating loans but a serious challenge to those renting land and facing higher rental costs. Add on market loss assistance payments and many growers saw their rental rates skyrocket. NCGA represents farmers in each of these situations. We support the continuation of production flexibility contracts, however, we urge Congress and the agriculture community to work together to identify policies that support all growers – no matter what their land assets may or may not be – and evaluate policy options with the intent of minimizing any distortion in land costs. I will speak more of this when we discuss our proposal for a counter-cyclical policy option.

The marketing assistance loan program, which we believe to be counter-cyclical, has been a valuable market-clearing tool for U.S. growers. At the time the 1996 FAIR Act was enacted, the extent to which this tool would be used was severely underestimated. However, record harvests here and abroad, a strong dollar and economic problems in our export markets resulted in U.S. farmers facing an unexpected sharp decline in major crop prices. In 1998, Loan Deficiency Payments (LDP) and marketing loan gain outlays exceeded $3 billion, $5 billion for 1999 crops and in excess of $7 billion for 2000 crops, thus far.

The marketing loan has also provided our biggest customer, the livestock industry, with affordable, abundant feed. Each year, growers have been able to capitalize on the benefits of the marketing assistance loan program more and more. They have become familiar with the mechanics of the program and have learned to capture their maximum LDPs.

However, during harvest, our staff (like your congressional staff) field dozens of calls from farmers all over the country with concerns over the way the program is being implemented. Last fall, we received repeated questions from growers who were unable to get their local loan rate because the posted county price was consistently above the local cash price. For a variety of reasons, storage was not an option for these growers and their return per bushel was as much as 40 cents below their county loan rate in Texas, 20 cents in Missouri, 18 cents in Virginia, and 15 cents in North Dakota. In 1999 testimony before The House Committee on Agriculture, Secretary Dan Glickman emphasized this problem when he said, "This problem of county loan rates being misaligned relative to local market prices has at least a 30-year history."

Growers also expressed concern regarding the inequity of LDP rates across state and county lines. This problem leads growers to consider delivering their commodities to counties outside their normal marketing channels just to get higher government payments rather than maximizing returns from the market. This disparity in rates results from a system where county loan rates are fixed for an entire year's crop, but loan repayment rates are subject to change, based on dynamic market price relationships as reflected in the daily (or weekly) Posted County Price (PCPs).

The PCP system was designed to reflect local county prices by adjusting terminal prices by means of predetermined differentials. The differentials are calculated by comparing local prices to the terminal price, but because this calculation uses the average annual difference, it does not capture the seasonal basis deviation which can result in a PCP significantly higher or lower than the local cash price. During the year, as regional supply and demand and transportation costs vary, PCPs can rise above local cash prices leading to potential forfeitures and grower frustration, or PCPs can fall below local market prices resulting in large government outlays. Second, because local PCPs tend to reflect price trends in just two major terminal markets, the system provides price estimates related to regions of the nation. Often, where two regions or two major markets meet, state and even county LDP rates can be significantly different across lines. NCGA can offer many examples of these problems in the current marketing year and will be happy to provide more information at the committee's request.

On many occasions, we have urged USDA to implement the marketing assistance loan program in a manner that assures all producers, at a minimum, the local loan rate for all of their eligible corn and that minimizes problems across political boundaries. Although the Farm Service Agency has been able to address some of the concerns, the problems persist. Like Congress and other commodity associations, NCGA has vigorously debated the issue of raising the corn loan rate in an effort to improve the relationship with other commodity loan rates. Our official policy reads, "NCGA will oppose any decrease in the corn loan rate"— reflecting our internal conflict with this issue. We are aware that the current formula allows for a decrease in all loan rates but adamantly oppose such a move. The current national loan rate, set at a national average of $1.89 per bushel, provides corn growers with a minimum price protection.

NCGA is very conscious of concerns about raising the loan rate, as well. The primary concern revolves around the increase in budget exposure compared to recent assistance provided to farmers. It is estimated that raising the corn loan rate would cost approximately $90 million for each one-cent increase. If Congress were to "rebalance" the corn loan rate at, for example, $2.10 as has been suggested, the budget impact would be $1.8 billion even though the CBO baseline assumes a corn price above $2.10 for every year in the baseline.

Raising the corn loan rate must also be balanced against our obligations in the World Trade Organization (WTO). Current loan deficiency payments are included in the United States' Aggregate Measurement of Support and are subject to our domestic support reduction commitments. These so-called "amber box" payments include support that is coupled to current prices or production along with crop insurance subsidies and price support programs like the sugar, dairy and peanuts program. The

United States has agreed to reduce domestic support to agricultural producers by 20 percent from our base level of support. This commitment will leave the United States with approximately $19 billion at the end of the implementation period. In addition, the United States has called for further reductions in trade-distorting domestic support in future agricultural negotiations. We cannot proceed as though our domestic farm programs are without international consequences.

Last winter, corn producers in Minnesota, North Dakota and South Dakota learned that even when spending associated with the marketing assistance loan program is within our WTO commitment, the spending can have adverse consequences. Last November, Canada's Custom and Revenue Agency imposed a provisional duty on U.S. corn imported into western Canada. The duty included an amount calculated to reflect the producer benefits from the marketing assistance loan program. Ultimately, the Canadian International Trade Tribunal determined that corn imports from the United States did not cause injury to producers in western Canada. Although we did emerge victorious in this situation, there are threats of other actions based on the LDP program to come.

Most importantly, NCGA believes that merely rebalancing the loan rate levels will not address the underlying dissatisfaction with loan rates across county and state lines. In fact, rebalancing may exacerbate this and the previously outlined concerns with the marketing loan. However, should Congress choose to retain the marketing loan NCGA would offer a few options to make the marketing assistance loan program work more equitably for U.S. growers. They include:

- Allowing a grower to determine their LDP rate on any or all eligible commodities after harvest or beginning September 1.
- Continued LDP eligibility for silage, high moisture, mycotoxin-infected and damaged corn.
- Revising the rules to give a producer the choice to have their LDP set in the county grown or marketed.
- Directing USDA to use the Posted County Price as the average of the two adjusted terminal price for the county.

It's important to note that although these provisions may make the system more equitable and workable, even if all of them were implemented -- that phone (yours and mine) would still be ringing with problems regarding this program. Particularly since the county-loan rate formula is 30 years old – older than either of my two daughters.

Aside from implementation problems, we have identified another crack in the '96 measure. The 1996 law does not protect those who may have suffered a natural weather disaster and do not have a crop from which to collect an LDP. Yes, these growers may have crop insurance, but they still face a significant shortfall in income when they have far fewer bushels on which to collect an LDP and are facing such extremely low prices for the limited bushels that they have produced.

In hindsight, the 1996 FAIR Act provided farmers with many of the tools we were looking for, but it was shortsighted in its ability to provide a safety net that would be

sufficient in times of sustained low prices. It does not include a provision to allow producers to weather, for example, the Asian flu that seemed to infect many of our international customers. Now, we can only watch helplessly as our biggest customer – Japan – becomes the bug's latest victim. After three years of low prices and needed bailouts by the U.S. Congress totaling over $19 billion, we now know that an additional component is vitally needed. Improving that safety net for future farm policy while maintaining the best of freedom-to-farm is at the core of our presentation today.

As we debate how to service all growers' needs, it is easy to first look at something we are familiar with – expanding the current marketing assistance loan program with the suggestions we have provided and more. However, any further expenditures that are counted against our amber box commitment could be costly in the long run. As previously mentioned, the United States has agreed to limit our non-exempt domestic farm program spending to $19 billion per year. USDA recently reported $10.4 billion as Current Total Aggregate Measurement of Support (AMS) for the 1998 Marketing Year. The Market Loss Assistance Payments were included as non-product specific AMS which was not subject to reduction because the total was less than 5 percent of the value of all U.S. agricultural production. Estimated amber box expenditures for the 2000 crop year approximate $17.5 billion. If the loan program is made more generous for producers, it will likely cause the United States to exceed our domestic support commitments and set us up to face unacceptable consequences within the WTO.

After weighing all of these needs and concerns, including addressing the growers falling through the "crack" of natural disaster, NCGA proposes a comprehensive counter-cyclical income support program. This proposal addresses the inequities in the current marketing assistance loan program, puts U.S. agricultural supports in the more favorable green box and is fiscally responsible. The counter-cyclical program that we have developed replaces the current marketing assistance loan program. We have worked with economists to flesh out the total impact of this type of program on the corn industry as well as other commodities and are very confident and pleased with the results.

At our most recent policy setting session, Corn Congress, our delegate body developed the framework for this counter-cyclical program. They required that any program:

> **"works with production flexibility contract payments; establishes a target income for corn and other individual commodities which is increased annually; establishes individual eligibility based on more recent production history; replaces the market assistance loan program with a recourse loan; and maintains the positive market clearing functions of the current marketing loan program."**

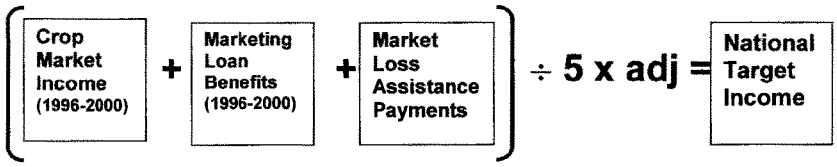
Our Corn Board reaffirmed this direction in preparation for this testimony. The goal of this proposal is to provide growers financial assistance when it is needed and promote policy that is less production and trade distorting.

Our proposal establishes an annual target income for corn and other loan-eligible commodities. The target income is based on the average crop value during the base period and incorporates producer benefits from the marketing loan program and the

market loss assistance payments. This base period average income is adjusted for each year of the farm bill by a factor that reflects projected production increases. This adjustment is necessary to ensure that producers have adequate income protection as crop yields increase.

National Target Income
NCGA Proposal

For each loan-eligible commodity



The adjustment factor to determine the national target income for each commodity is calculated by dividing the production – as projected by CBO - by the average production during the base period. The factor will "lock in" CBO assumptions for budget growth assumed for the marketing assistance loan programs due to production increases.

In addition to a counter-cyclical program, our proposal assumes the continuation of Production Flexibility Contract (PFC) payments at 2002 levels for the life of the new farm bill. Consequently, the PFC payments are not included in target income.

Chart A. Shows the National Target Income for the loan-eligible crops including the yield adjustment.

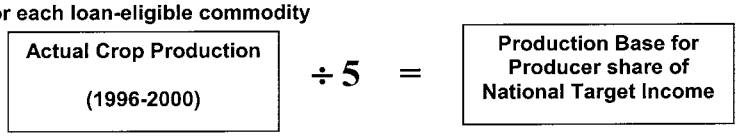
National Target Income (millions)	2002	2003	2004	2005	2006	2007	2008
Corn	$ 25,930	$ 26,424	$ 26,918	$ 27,412	$ 27,659	$ 27,906	$ 28,399
Sorghum	$ 1,030	$ 1,078	$ 1,125	$ 1,173	$ 1,204	$ 1,268	$ 1,284
Barley	$ 873	$ 921	$ 968	$ 1,016	$ 1,025	$ 1,035	$ 1,044
Oats	$ 370	$ 370	$ 370	$ 370	$ 370	$ 367	$ 359
Wheat	$ 9,279	$ 9,474	$ 9,669	$ 9,865	$ 9,962	$ 10,060	$ 10,158
Soybeans	$ 17,981	$ 18,144	$ 18,308	$ 18,471	$ 18,635	$ 18,962	$ 19,289
Cotton	$ 7,003	$ 7,003	$ 7,003	$ 7,070	$ 7,070	$ 7,070	$ 7,070
Rice	$ 1,966	$ 1,966	$ 1,947	$ 1,947	$ 1,947	$ 1,947	$ 1,928

By establishing a base period, we intend to ensure that our counter-cyclical program is not trade distorting.

Under this proposal, a producer would sign up by providing acreage data and yield data for his or her operation during the base period; we suggest the 1996 through 2000 crop years to reflect the experience of the first five years of the current farm program. We recognize that it will be necessary to adjust production for producers who suffered major crop losses during one or more of those years. We would suggest a provision to allow producers in declared disaster areas to substitute crop insurance transition yields (T-yields) for purposes of calculating eligible payment units. Much of this data may already be available at the local FSA office or with the producer's crop insurance agent. This would allow one to update bases and yields for the counter-cyclical program to a more recent, practice-reflective, yield and planting level. A grower's portion of the corn counter-cyclical payment would then be based on their eligible units from a five-year average of acreage and yields (last five years of production [bushel basis] / 5 = average).

Producer Eligible Payment Units
NCGA Proposal

For each loan-eligible commodity

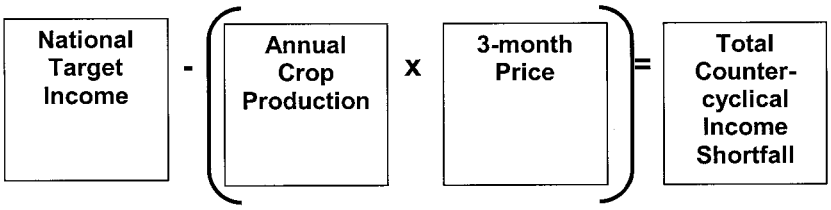


NCGA anticipates production adjustments for producers who sustained crop losses during the base period.

Each year, crop income will be calculated using USDA production estimates and the average price during the first 3 months of each commodity's marketing year. For corn and other commodities with a marketing year that begins on September 1, the third month price will be the preliminary estimate as determined by the National Agricultural Statistics Service. A 3-month price allows payments to be calculated and made when they are most needed by farmers. We would anticipate that this would allow farmers the option of receiving these payments either prior to or after December 31 or each year for optimal tax management. Whenever the national crop income is less than the target income, producers will receive a payment based on their eligible bushels.

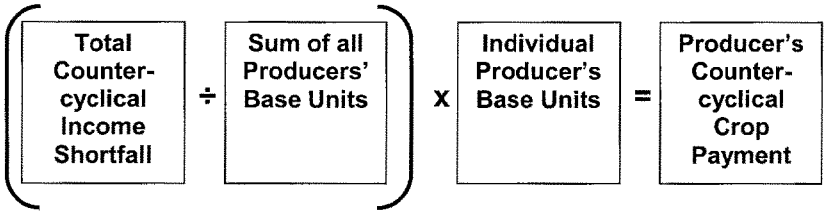
Income Shortfall Calculation
NCGA Proposal

For each loan-eligible commodity



Producer Payment
NCGA Proposal

For each loan-eligible commodity



We think a farm program with this structure has many benefits: it eliminates the 30-year problem of inequity within loan rates, it's non-production distorting, non-trade distorting, provides payments when needed to those who need it, and pulls valuable and needed funds from the amber box into one considered more favorable.

For the purposes of our presentation, we assumed a five-year farm bill. Further, we assume continuation of PFC payments at the 2002 levels. As well as no payment limits on the counter-cyclical payments. Since the NCGA proposal merges several previous programs with varying payment limit levels including a program that utilizes certificates, payment limits would effectively neuter this option from serious consideration.

The following chart [Chart B] demonstrates how our proposal would fare compared to a CBO-like baseline. The payment also includes production flexibility contract payments at the 2002 level.

I should note that AgriLogic, Inc. located at Texas A&M University prepared the economic analysis in our presentation. AgriLogic has prepared a "CBO-like baseline" which is used as a reference point for our proposal.

Chart B.

CCC Net Outlays by Commodity (estimated millions)

		2002	2003	2004	2005	2006	2007	2008	Total	Gain /Loss
Corn	CBO-*like*	1,853	1,853	1,853	1,853	1,853	1,853	1,853	12,971	7,720
	NCGA	***3,538***	***3,118***	***3,028***	***3,760***	***3,531***	***1,863***	***1,853***	***20,691***	
Sorgh -um	CBO-*like*	205	205	205	205	205	205	205	1,435	0
	NCGA	***205***	***205***	***205***	***205***	***205***	***205***	***205***	***1,435***	
Barley	CBO-*like*	87	87	87	87	87	87	87	609	61
	NCGA	***87***	***87***	***87***	***120***	***115***	***87***	***87***	***670***	
Oats	CBO-*like*	6	6	6	6	6	6	6	42	0
	NCGA	***6***	***6***	***6***	***6***	***6***	***6***	***6***	***42***	
Wheat	CBO-*like*	1,053	1,053	1,053	1,053	1,053	1,053	1,053	7,371	6,761
	NCGA	***2,399***	***2,167***	***2,186***	***2,061***	***1,992***	***1,740***	***1,587***	***14,132***	
Soy-beans	CBO-*like*	2,985	3,091	2,795	2,140	718	0	0	11,729	9,918
	NCGA	***4,714***	***4,784***	***4,509***	***3,3337***	***1,710***	***1,295***	***1,298***	***21,647***	
Cotton	CBO-*like*	572	466	466	466	466	496	507	3,439	9,617
	NCGA	***2,097***	***1,847***	***1,870***	***1,892***	***1,847***	***1,7299***	***1,704***	***13,056***	
Rice	CBO-*like*	814	757	704	699	664	673	697	5,008	2,008
	NCGA	***1,135***	***1,070***	***998***	***978***	***939***	***946***	***950***	***7,016***	
Total/yr	CBO-*like*	7,574	7,518	7,169	6,509	5,052	4,373	4,408	42,604	36,085
	NCGA	***14,181***	***13,284***	***12,889***	***12,359***	***10,345***	***7,941***	***7,690***	***78,688***	
Increase Over CBO-like Baseline		**6,607**	**5,766**	**5,720**	**5,850**	**5,293**	**3,568**	**3,282**	**36,085**	

Note: production flexibility contract payments are included in both the CBO-like and NCGA calculations.

As the chart demonstrates, this program will provide $36 billion more in assistance over that seven-year period than current CBO-like baseline estimates. That is an average of $5.2 billion more per year, without the necessity for ad hoc emergency assistance.

We clearly demonstrate a need for an increase in the agricultural budget baseline. This need is justified and, when you look at this program, maybe a better use of taxpayer dollars in the long run.

The December 2000 CBO baseline projects corn prices steadily increasing over the next 10 years. It estimates an annual average of $2.18 per bushel in the 2001 marketing year, $2.37 in 2003, and $2.40 in 2005. These higher projected prices eliminate marketing assistance loan program payments from baseline spending. (Actually, the CBO baseline projects significant export growth). Although there are no loan deficiency payments or marketing loan gains, nearly $10 billion dollars remains in the amber box. One should also note that implementation of the NCGA counter-cyclical plan shows no significant changes in price for the respective commodities. As such, we do not anticipate any significant impact on livestock or industrial use on supply of corn.

When we use a stochastic model to evaluate the same farm policy, we see production and price changes that are more reflective of real-world dynamics (refer to Graph 1). Under this type of baseline, not surprisingly, the price projections for corn and other commodities are not as rosy as in the CBO-like baseline. For the 2001 marketing year, this model estimates an average annual corn price of $1.86 per bushel, $2.01 in 2003 and an average of $2.24 per bushel in 2005.

We believe that our counter-cyclical proposal is the safety net that eluded us in 1996. We asked AgriLogic to run this counter-cyclical program on both a CBO-like baseline and AgriLogic's stochastic baseline. Using a stochastic model has allowed us to analyze this proposal under alternative conditions. This model has allowed us to look at the sensitivity of our proposal to ensure that we have not developed a farm policy proposal that is insensitive to changing conditions in weather, production, macroeconomic policy and foreign trade policies.

We ran the following scenarios under both the deterministic and stochastic economic models:

- CBO-like baseline with the Marketing Deficiency Act (see Chart B).
- CBO-like baseline with the NCGA counter-cyclical program with 1986-1997 yields
- CBO-like baseline with the NCGA counter-cyclical program with historical production and prices
- Agrilogic baseline with the NCGA counter-cyclical program
- Agrilogic baseline with the NCGA counter-cyclical program with 1986-1997 yields
- Agrilogic baseline with the NCGA counter-cyclical program with historical production and prices

Under all of these conditions, the economic model demonstrates that this program will provide assistance when needed, without further Congressional action.

Also important to note, that when AgriLogic's economists applied NCGA's counter-cyclical program to a CBO-like baseline, WTO commitments are much more favorable. Under this counter-cyclical program, over $3 billion in grower support is transferred into the more favorable green box from the amber box. Because the CBO baseline does not anticipate substantial marketing assistance loan program outlays, a CBO-like baseline will often not trigger a counter-cyclical payment, either.

Access to Capital

While the counter-cyclical proposal will assure grower income in times of low prices in amounts comparable to current marketing loan benefits, it will not address our goal of a policy that provides access to capital – which is why we propose recourse loans as part of this program. Recourse loans will provide producers access to capital without impacting production decisions. Since a producer will be required to repay the loan plus interest at the end of the 9-month loan period, we view this as only assisting with access to capital for short-term cash flow.

Access by American farmers to reliable financing is one of the biggest benefits to consider in the context of a counter-cyclical income support program. An estimated 75-80 percent of farm borrowing is from commercial lenders. All commercial financial institutions today are subject to bank regulators and the financial rating system known as "CAMELS." CAMELS also apply to all federal regulatory institutions, including FCA, the Federal Reserve, FDIC, and the Office of Thrift Supervision. CAMELS determine ratings and capital ratios based on: **c**apital adequacy, **a**sset quality, **m**anagement of risk, **e**arnings, **l**iquidity and **s**ensitivity to market risk.

A farmer's capacity to borrow is very dependent on the confidence that commercial lenders have in the farm's ability to generate cash flow. When farmers face crop failures or depressed market conditions, bankers are reluctant to lend because the higher the non-accruals, the higher the required deposit insurance premiums charged to the bank, and the larger required loan loss reserve required.

Lending officers consider two major issues when they analyze a farm loan: Does it cash flow? And what is the asset quality?

Almost all agricultural/farm loans are fully collateralized. However, uncertain cash flow can be a major impediment to assessing farm-operating loans. Predictable farm program payments, including Federal crop insurance coverage, provide some protection. Ad hoc disaster payments can provide a reactive response to unpredictable weather or market crises; however, by being "ad hoc," they have no ability to provide farmers with an assured guarantee of cash flow to use in assessing annual operating loans. We believe that this counter-cyclical assistance program will predictably replace reactive, politically negotiated ad hoc financial support. It would be in place and fully operational based on transparent program requirements that provide assistance when commodity prices are low. In a sense, this proposal can serve as a type of loan guarantee when farmers are seeking commercial borrowing.

A counter-cyclical program strengthens the farm safety net by providing a more predictable level of income. This program has two roles. It serves as the safety net with crop insurance that facilitates the ability of farmers to effectively manage their individual annual production risks in the private sector, and it provides a safety net to the equity base of U.S. farm production in a cost-effective private/public partnership that maintains the soundness of the agricultural production system for the benefit of U.S. consumers and the national economy.

This program also allows farmers to look to the future and provides them assistance as they make the transition from number 2 yellow corn. Many farmers have been interested in planting for niche markets with specialty corns. However, a 7-10% yield reduction, which is common with specialty corn hybrids, would mean fewer bushels eligible for the current marketing loan. If the grower's contract is based on market prices for dent corn, the contract would have to be generous enough to compensate for the forgone government revenue. This counter-cyclical program will allow farmers to meet the demands of their market – plant a specialty crop – without sacrificing income or income protection based on current yields.

A counter-cyclical program such as this has another added benefit, as well. It promotes good stewardship of the land and gives producers a tool to alleviate the strain of high fuel inputs. The decoupled payments would allow a farmer to practice good stewardship or respond to high input costs, without concern of losing monetary benefits in times of low prices

Designing a Counter-cyclical Policy that is WTO Compliant

The WTO rules on agricultural domestic support provide that "decoupled income support" payments made by governments to producers are not subject to reduction commitments as long as those payments are not tied to current prices, to current production or to current factors of production. In other words, an income support payment program that is carefully designed so that it does not induce production or distort trade can be considered to fall, in WTO parlance, in the "Green Box."

We have carefully designed our proposal so that it meets the criteria set forth under paragraph 6 of Annex 2 of the WTO Agreement on Agriculture. The WTO rules in this area appear to allow some latitude in designing the program. Payment eligibility may be determined on "clearly defined criteria such as income, status as a producer or landowner, factor use or production in a defined and fixed based period." Our proposal is to base the program on sector income in a defined and fixed base period – i.e., 1996-2000. Payments would be made to producers not based on what they currently grow, but on what they grew during a recent and fixed historic period. Our proposal is modest – simply to ensure that producer income is supported to the "average" level actually experienced during that historic period.

The rules expressly exclude payments made on current prices, current type or level of production, or current factors of production; our proposal avoids linkage to – is "decoupled" from—any of these factors. Because income support would be decoupled from current prices and from current production, producers will have every incentive to decide what to grow, and how much to grow, based on current market conditions. Finally, the rules stipulate that no current production can be required to receive a payment, and our proposal meets that requirement also. For those members who are interested, we have provided a more detailed analysis of the legal and policy issues presented by the "decoupled income support" provisions of the WTO rules in Attachment 1 to our written submission.

In summary, you might ask, why would we consider eliminating a program -- the marketing assistance loan program -- that, despite its shortcomings, has worked so well for so many producers? Again, we have concerns about the program's placement within the amber box at the WTO. Further, we are hoping to address the regional disparity of the current marketing loan program, and we are looking for a program that provides assistance in difficult times while not influencing planting and production decisions. This program would transform the current marketing assistance loan and emergency assistance into a counter-cyclical program that provides comparable benefit to growers, is commodity specific in market responsiveness, and moves much of our "at-risk" amber box support into a WTO-compliant status, while not distorting market or production signals.

Value Added and Ethanol

NCGA believes that a successful federal farm program has many facets. While the commodity title of the farm bill provides the most direct assistance to today's producers, we feel strongly that we must work more closely with the federal government to implement programs that ensure a strong rural America.

The economies of rural America are directly tied to the success of production agriculture. While the rest of this country's economy has been booming until recently, rural America still severely lags behind. Population, income and opportunity do not grow at the same rates as in the urban areas where we live. However, we do expect the same opportunity to lure businesses into our areas so that our young people will have a reasonable chance at building successful lives.

In order to do that, rural areas need to provide a clean water supply, safe roads and bridges, access to high-speed technology, access to education, access to modern health care and farmer-owned, value-added opportunities for its remaining residents. To lure in new businesses, these areas need federal tax incentives, an adequate supply of employees and adequate, modernized infrastructure systems.

Since 1995, rural populations have been steadily decreasing while metro growth has been increasing. According to USDA's Economic Research Service, the downturn corresponds with a drop in rural employment growth and a boom in the metro economy. Counties dependent on mining and farming had the greatest relative fall in their pace of growth. The number of total rural counties with decreasing populations jumped from 600 in 1990-1995 to 855 in 1995-1999.

It will take more than just USDA's involvement and support in reinvigorating rural America. We need the assistance of all sectors of the Administration if we are going to really improve small communities. NCGA is committed to investigating and pursuing all avenues of assistance. Improving the living conditions in rural America is not an issue of concern solely for agriculture - it is key to the success of all America.

Ethanol continues to be a major focus of NCGA policy and research activities. Thousands of farmers are now invested in cooperatives that produce as much as 40% of the 1.6 billion gallons of ethanol made in 2000 from 600 million bushels of corn.

Moreover, there are dozens more ethanol projects in various stages of development throughout the Corn Belt that are attracting additional farmer-investors. Ethanol is simply the biggest value-added success story in agriculture today.

Last year, ethanol production utilized about 600 million bushels of corn, or about 6.5% of the crop. Corn demand created by ethanol kept valuable farmland resources in production, adding as much a $3 billion to the income of our corn farmers. While ethanol is an unqualified success today, our members continue to be concerned about the future of the industry and our ability to attract support for ethanol and other renewable fuels as part of the Administration's energy policy.

Energy legislation is now being debated in the 107th Congress. Several bills have been introduced and the White House has released the outlines of its energy strategy in the near future. We note that one of the recommendations in the Administration's plan calls for an extension of the ethanol excise tax incentive. The very first item on our ethanol/energy agenda for the 107th Congress is to make renewables like ethanol and biodiesel play a significant role in the energy bill. This is critically important for the future of farmers and rural communities because of the new economic opportunities that an expanding renewable energy industry will provide. To this end we support legislation that contains provisions creating a renewable fuels standard such as S. 892, that Chairman Harkin has introduced as well as S. 670, introduced by Senators Lugar and Daschle, and S. 1006 introduced by Senators Hagel and Johnson.

While we strongly support the development of renewable energy across the nation, we also support working within the current regulatory framework to provide refiners and blenders of gasoline and diesel fuel with the greatest possible flexibility so that supplies of fuel that are critical to the economic health of the nation continue to expand. These measures would include - but are not limited to - regulations that recognize the benefits of reducing carbon monoxide emissions.

We also support maintaining the environmental benefits of the fuel programs that affect every gallon of gasoline consumed in the Unites States today. Any environmental benefits that may by achieved by using renewable fuels should be additional to the benefits already accounted for in these programs.

Biofuels like ethanol and biodiesel provide energy, economic, environmental and security benefits. For these reasons, we believe these products should have assessed tax rates that promote market acceptance. Ethanol and biodiesel production facilities that are farmer-owned add value to agricultural commodities and economic opportunity in rural America. Tax rates and benefits for these facilities should also be encouraged. We especially support the changes in the Small Ethanol Producer Tax Credit that will make it available to more types of cooperative business structures than is currently the case.

We support the newly established CCC program that is part of the USDA biofuels initiative. This program could be responsible for adding more than 245 million gallons of new ethanol production this year. And by reducing the cost of that production, the program increases energy supplies at a lower cost while creating additional demand for

farm commodities. This limits budget exposure from loan deficiency payments and provides overall savings in government outlays.

Finally, the future of the ethanol industry rides on decisions that will be made as a result of the denial of California's request for a waiver from the reformulated gasoline oxygen requirement. No single action would have been more devastating to the ethanol industry than action by the Administration to grant the waiver. We acknowledge the tireless efforts of the Chairman and ranking Member of this Committee to guide the current and past Administration on this issue. Even though the President, keeping with the legal and technical requirements of the Clean Air Act, has denied California's waiver request, there are those in Congress who wish to reverse his decision. We must continue to vigorously defend the current ethanol program so that the future of the industry and the opportunities for agriculture remain strong.

We believe efforts to reverse the President's decision on the California waiver are short sighted. The fact is that there are now sufficient ethanol supplies to meet the demands of the California market. California would need about 600 million gallons of ethanol annually to meet the total demand for oxygenates in the state under the current reformulated gasoline requirements. The ethanol industry produces in excess of 1.6 billion gallons in 2000 and we believe the industry may approach 2 billion gallons of production in 2001. If Congress maintains the current oxygen requirement and the gasoline additive MTBE is removed from gasoline and replaced with ethanol, the USDA projects an increase in net farm income over the next 10 years of $12 billion, employment would increase by 13,000 jobs, and our balance of trade would improve by $1.3 billion. And this is only the beginning, because ethanol is a real-life model for value-added business opportunities in agriculture.

Ethanol has been an outstanding value-added success for U.S. corn farmers, but it needs to be pushed along further. We would like to expand the role of ethanol in the nation's fuel supply and we support a comprehensive energy strategy that includes the expanded use of renewable fuels like ethanol. We also hope to continue to work with other Departments and Agencies to jump-start the commercial production of many of the products being researched that were mentioned earlier.

Research

While many federal agricultural programs are important to the nation's corn growers, the NCGA believes that the future of the corn industry is written in corn's genetic code and that plant genomics will give us the fundamental information necessary to revolutionize American agriculture. Plant genomics research advances our understanding of the structure, organization and function of plant genomes.

Since 1996, funding for plant genomics has been the number one appropriations issue for the NCGA. The Plant Genome Initiative (PGI), a multi-agency program focused on structural and functional genomics, will help scientists, geneticists, and plant breeders identify and utilize genes (from corn and other plants) that control important traits, such as nutritional value, stress tolerance, and resistance to pests. While the NSF will continue to provide a significant level of funding for the PGI, USDA must increase

funding of plant genomics research, substantially, if we are to meet the minimum level of need. The USDA should play a leading role in genomics research on animal and microbial organisms of importance to agriculture by providing significant increases in funding at the ARS and through the CSREES. The NCGA believes that the USDA should have a robust, intramural and extramural genomics program with at least $100 million in funding, annually, for plant, animal, and microbial genomics research. In particular, we believe that the USDA should provide considerable financial support for sequencing and draft sequences of economically important plants, animals, and microbes. This year, our number one research priority is to gain Federal funding for a draft sequence of the gene rich regions of the maize genome. We believe that USDA should help to ensure that the genomes of agriculturally important organisms are accessible to all public and private plant breeders, geneticists, and scnientists.

In addition, to take full advantage of the plant genomics revolution, diverse plant germplasm must be available for crop breeders to develop the varieties necessary to meet the changing circumstances and needs of the future. The NSF-funded plant genome research program has increased, tremendously, the amount of genetic stocks for the USDA's National Plant Germplasm System (NPGS) to manage. For example, one maize grant will generate, at least, 50,000 new maize genetic stocks, doubling the size of the NPGS maize stock center. Comparable situations will exist for several other economically important crops as well. Without a significant increase in funding, the NPGS will not be able to manage current stocks, much less the increased stocks generated through genomics research. It is critical that these resources are well maintained and characterized and that they remain in the public domain to ensure continued accessibility to all scientists and breeders. The NCGA believes that the NPGS is a fundamental, strategic resource, and supports doubling funding for the NPGS.

The National Plant Genome Initiative, the National Plant Germplasm System, and the competitive USDA programs that support genomics research are critical to the long-term viability of U.S. agriculture, as they will provide our growers with the tools to meet the challenges and demands of the 21st century.

The NCGA, as part of the National Coalition for Food and Agriculture (NC-FAR), recommends that federal investments in food and agricultural research be doubled over the next 5 years. This objective translates into roughly an increase of 15% per year of the research, extension and education in USDA and other federal agencies or about $500 million increase per year for 5 years. This is to be net additional funding on a continuing basis that will complement, not compete with or displace existing research and farm programs.

This is a small investment compared to the $1 trillion dollar size of our food and agricultural sector. However, we believe it is a strategic and wise investment that would: 1) benefit producers and consumers of all commodities and all states; 2) improve income opportunities for farmers; 3) contribute to the United States remaining the best fed country with the lowest share of income spent on food; 4) strengthen our competitiveness in the global marketplace, while achieving the proper balance with human and environmental needs; 5) enable producers to produce safer, healthier foods;

6) find new uses for agricultural products; and 7) enhance the protection of our natural resources.

Conservation

NCGA is committed to being good stewards of the land and leaving the environment in better shape than we found it. We have a commitment to our community to ensure that we have clean water and healthy, viable soil to ensure the land is productive for many years to come. The land that we farm has often been in our family for years -- or at least the community our families have been a part of for generations -- and it is where we raise our children, go to school, attend church and visit with our neighbors. We take responsibility for our farming activities and must do so with a keen eye towards conservation, productivity and marketing.

NCGA supports voluntary, incentive-based conservation programs that the past farm bills have created. We believe that flexibility in programs is essential for their widespread adoption, given local variances in conservation and water quality priorities, production practices, climate, soil type and many other factors. For several years we have worked with other groups to promote conservation practices by: partnering with the National Conservation Buffer Council to enroll 2 million miles of buffer and filter strips by 2002; developing the Fishable Waters Act with fishing and conservation groups through the fishable waters coalition; collaborating as a part of the Conservation Technology Information Center to adopt Core 4 Conservation; and working through a large number of state corn grower association water quality initiatives and grower involvement in local watershed groups.

NCGA is interested in new conservation programs that assist growers in maintaining and/or undertaking new conservation practices in their farming operations. It is important that these programs be implemented on ground that is in production and will not become a set-aside program. As we look at broader Clean Water Act issues and regulations, we know that corn growers play an important role in maintaining a healthy environment. All agricultural producers face increasing regulatory burdens whether it is local, state or federal requirements on the management of their land. We support programs that will work with our members in utilizing conservation practices and work to maintain a healthy environment. Specifically, NCGA has been focusing on legislation that would provide environmental incentive payments for growers that are currently utilizing conservation practices on their ground or will undertake new practices that provide conservation benefits. The Conservation Security Act, a conservation incentive payment program, reaches these goals. NCGA believes that the Conservation Security Act, working with commodity programs and the past farm bill conservation programs, such as CRP, WRP, EQIP and Farmland protection, allow for a new focus on conservation.

The Conservation Security Act is unique in its approach because it recognizes an important part of conservation practice, adoption across the farming community - which is, that growers need financial and technical assistance in management of their operations based on conservation principles. This is not always as easy or as obvious as creating and managing a filter strip along the waterway that runs through your land.

Rather, it is the intensive management practices or altering tillage practices that can become as much or more important in reaching our conservation goals, and which add to the costs and risks of the farming operation. These are the areas that need to be the focus of the next farm bill, where policymakers work with growers to find conservation practices that fit in with their management and stewardship of the land. There are many growers who are currently undertaking this effort, and they should be rewarded, not neglected, or penalized for their innovation. Again, any type program must maintain flexibility for local implementation to maximize participation.

As we look at broader Clean Water Act issues and regulations, we know that agriculture plays an important role in maintaining a healthy environment. All agricultural producers face increasing regulatory burdens whether it is local, state or federal requirements on the management of their land. We support programs that will work with our members in utilizing conservation practices and work to maintain a healthy environment.

In our support of locally led, voluntary incentive-based programs, NCGA has worked to promote these concepts through new programs and legislation, specifically, the Fishable Waters Act (FWA). NCGA believes the FWA would provide new opportunities for agriculture to work on a watershed basis with the wildlife conservation community and create new potential alliances between agriculture and the fishing community. The bill broadens the national commitment to voluntary actions and improves access to water quality programs and funds for farmers.

Regarding existing programs, those areas with the most environmental benefits should be the focus of any current programmatic changes, such as the Conservation Reserve Program and the National Conservation Buffer Initiative. Programs that take land out of production -- set-asides -- should focus on the most environmentally sensitive areas and not take whole farms out of production. This is why NCGA supported the Wetlands Pilot Project last year, which uses local flexibility to meet the environmental concerns facing a specific area of the country. Small wetland areas that join CRP land should be eligible for inclusion in the CRP - it just makes sense to protect this land. And yet, due to stringent interpretations of the program, these lands were not eligible for enrollment. With regard to the CRP acreage cap, NCGA supports maintaining the CRP at 36.4 million acres and removing the Continuous signup acreage from the cap. This would allow for the full utilization of the CRP and maintain that environmental benefits be the focus of the continuous signup. Currently, the buffer strip initiative has nearly 1 million miles enrolled

Another way to look at the adoption and implementation of conservation practices is through programs like Core 4 Conservation. The goals of Core 4 Conservation -- Better Soil, Cleaner Water, Greater Profits and a Brighter Future -- are based in common sense. Promoting these goals demonstrates our recognition of the inextricable link between profitability and environmental protection in modern agriculture. Improving our nation's soil and water resources - the raw materials of agriculture - enables producers to realize short-term benefits as well as long-term sustainability of their operations. The Core 4 Conservation approach helps producers realize productive, profitable land operations today and increases the likelihood that the operation can be passed on to their heirs.

Following the principles of Core 4 Conservation, producers implement a system of land treatment practices. This systems approach combines several appropriate conservation practices to maximize operation efficiency, minimize costly inputs and achieve optimal results, both in terms of environmental stewardship and profitability. Practices that may be used in a Core 4 Conservation system include conservation tillage, crop nutrient management, pest management (Integrated Pest Management), conservation buffers, water management (including irrigation, conservation and tile drainage), and other site-specific practices. Working with local advisors, producers select appropriate conservation practices and design a site-specific system that minimizes soil erosion, enhances water infiltration and retention, filters pollution from runoff, and more efficiently manages inputs to increase profits.

Each of these programs mentioned provide an integral part of the overall conservation and environment/water quality objects. Federal programs provide financial resources and technical assistance to facilitate the adoption and management of conservation practices. Federal, state and local cost-share programs are essential for the greater benefit provided by these practices. Our members are engaged in farming as a livelihood and must maintain the ability to raise productive crops on their land and market their crops to maximize profitability. Corn growers depend heavily on foreign and domestic markets for utilization of their crops.

NCGA recognizes that regulatory activity is increasing regarding livestock operations and manure management and application. Regulatory actions in this area will have significant impacts on both our customers and the U.S. Corn Industry. The U.S. livestock industry is the number one consumer of domestic corn. Just as we are concerned that the corn production could shift to foreign countries, we are also concerned about livestock production shifts to foreign countries. Both areas must be given the tools and resources to comply with new regulations if we are to remain competitive in a global market place.

Recognizing that there are still significant gains to be made in water quality, we believe that our goals of clean water, productive land and a viable domestic market are attainable. NCGA believes that USDA is the primary federal government resource to assist growers across the country in attaining these goals. Whether it is through the technical assistance provided to growers for compliance with a myriad of government programs or the technical assistance for voluntarily adopting a conservation practice, USDA has the structure with local delivery units, to provide the assistance necessary for growers to continue their commitment to the land.

NCGA closely monitors the amount and speed at which new land comes into production in South America, specifically in Argentina and Brazil. As set aside and acreage idling programs in the United States increase, the rate at which land in South America is cultivated increases. The United States cannot maintain a competitive advantage if the U.S. regulatory activity forces up production costs, if the U.S. transportation infrastructure cannot deliver our goods to domestic and foreign markets in a cost-effective manner and if the United States drives our customers further from the point of

domestic corn production. All of these elements must be considered when analyzing the impacts of domestic environmental regulatory activity.

Transportation

Presently, the U.S. enjoys a comparative advantage in corn production world wide. To maintain this advantage, we must have viable, efficient transportation systems. Currently, the per-ton cost for transporting corn in the United States is lower than in other countries. But as other countries gain the ability to transport their corn at lower costs, they become more direct competitors to U.S. exports and domestic corn markets. The United States has allowed our river transportation infrastructure to deteriorate, thereby jeopardizing our position in world markets.

Unless we make improvements along the inland waterway system, U.S. agriculture will pay the price. We face higher transportation costs as delays on the river increase. We also face the potential loss of domestic and export markets if our transportation costs do not allow us to remain competitive in these markets. The state of transportation infrastructure in the United States is a major concern for our nation's corn growers and for U.S. agriculture as a whole. We must continue to make investments that benefit U.S. agriculture, be those federal, state, local or private investments.

Changes in agricultural policy have made farmers more aware of international competitiveness and the need to maintain and expand foreign markets for U.S. agricultural products. Without continued investments in our transportation infrastructure, U.S. farmers are being placed at a severe disadvantage as foreign countries increasing their commitment to developing their agricultural export markets.

The message from corn farmers is simple - our future is determined by the price of corn. A strong transportation system means strong competitive corn prices. And a poor transportation system will mean low prices for corn and other commodities

Trade

As previously discussed, trade in corn and value-added products from corn are essential to the profitability of U.S. corn farmers. The last Congress approved Permanent Normal Trade Relations with China and passed sanctions reform that will preclude future sanctions on food, medicine and agricultural products. Nonetheless, we still have a long way to go before U.S. producers can reap the full benefit of their comparative advantage in crop production.

First, Congress must pass Trade Promotion Authority legislation to assure that the President and his administration are able to negotiate the best possible trade agreements for U.S. agriculture. According to a recent study by USDA's Economic Research Service the full elimination of agricultural tariffs, domestic subsidies and export subsidies would increase world agricultural prices 12 percent above their expected level. Eliminating tariffs, which distort both consumers' choice and producers' decisions, would account for 52 percent of the potential price increase. Real progress

in market access will only occur through serious trade negotiation. Congress can best demonstrate commitment to trade liberalization by passing Trade Promotion Authority.

Second, U.S. agricultural producers should not be denied access to markets because of foreign policy objectives. Last year's sanctions reform did little to allow trade with countries that were previously sanctioned. We need access to all markets to be able to assure all potential trading partners of our willingness to be a reliable supplier of grains and oilseeds.

Third, we need to continue normal trade relations with China as it completes the final negotiations to join the World Trade Organization. Unfortunately, China has decided to impose new restrictions on imports of biotech crops. The United States must insist that new regulations do not interrupt existing trade or threaten future trade opportunities. U.S. corn producers expect to export corn to China in the future, unworkable regulations should not be used to block these anticipated opportunities.

We realize that these three issues will not form the basis of the trade title of the farm bill. Nonetheless, each of these areas demonstrates the importance of trade policy to U.S. agriculture. Without strong support from the agricultural leaders in Congress, our message can be lost in the rhetoric of those who want to restrict trade.

Let me turn now to those areas that the committee will address that are of particular concern to the National Corn Growers Association: food assistance; the Export Credit Guarantee Program; the Market Access Program, and the Foreign Market Development Cooperator Program. These programs will be the key to expanding corn exports

Food Assistance

These programs provide needed humanitarian assistance and serve as the impetus for future trade development. NCGA recommends reauthorizing the food assistance programs under P.L. 480, Section 416 and Foreign Sales and Exchanges. One policy area that has long frustrated agricultural producers is the requirement that at least 25 percent of the gross tonnage of food assistance shipments be transported on U.S.-flag commercial vessels. NCGA opposes any form of cargo preference. It is time to abandon the antiquated Cargo Preference Act.

Export Credit Guarantee Program

The NCGA supports continued authorization of the Export Credit Guarantee Program (GSM-102), which offers credit terms up to three years, and the Intermediate Export Credit Guarantee Program (GSM-103), which covers longer credit terms. Under these commercial programs, the Commodity Credit Corporation (CCC) guarantees payments due from foreign banks. Because payment is guaranteed, financial institutions in the United States can offer competitive credit terms to the foreign banks. The favorable credit terms facilitate sales of U.S. agricultural products to markets that desire to import our products but that are hindered by the lack of adequate credit. GSM credit guarantees were instrumental in reviving lagging corn exports when our Asian customers experienced serious financial difficulties in the fall of 1997. The availability of

credit allowed South Korea to resume importing U.S. corn and kept a dismal export situation from becoming worse.

NCGA encourages CCC to operate the programs with the greatest possible flexibility with regard to the type or amount of commodities purchased. Market potential, customers' preferences and the ability of foreign buyers to repay loans should dictate country and commodity allocations.

The Uruguay Round Agreement on Agriculture set the issue of export credit aside. The parties agreed to negotiate changes to the export credit programs in the Organization for Economic Cooperation and Development. Negotiations in the OECD have failed to resolve differences between the United States and other trading partners. NCGA would object to export credit guarantee changes within the context of the farm bill while international negotiations continue. If an international agreement is eventually reached, the United States can then modify our domestic policy to conform to our international commitments.

MAP and FMD

The Market Access Program (MAP) and Foreign Market Development Cooperator Program (FMD), both administered by USDA's Foreign Agricultural Service (FAS), help promote U.S. agricultural products - including corn and value-added corn products - in key overseas markets. The U.S. Grains Council represents corn, barley and grain sorghum producers in oversees markets using grower funds supplemented by funds from these two important market development programs.

This on-the-ground presence is vital. We need to be out there on the playing field everyday, constantly marketing the U.S. advantage. We've got to listen and learn what it is our customers want and need. We must continually educate foreign buyers about the superior quality and reliability of U.S. grains. And we have to be the people who these foreign buyers know and trust. This can't be accomplished from Washington - it's got to be done on the ground, in country, day after day. You can only build trust and lasting relationships through direct experience with your customer base - it's the same in any business venture.

These relationships are invaluable when we face challenges such as the recent concerns about biotechnology. Because of relationships the Council has built with industry and government leaders in Japan, USGC and the National Corn Growers Association officials were able to take immediate action when the StarLink controversy erupted last fall, addressing our customer's concerns directly and preventing the shutdown of this key market. And because of our presence and credibility in international markets, we've been able to reverse arbitrary biotechnology bans in places like Egypt and Columbia and we're working right now in places like Saudi Arabia, Algeria and Mexico to educate government and industry about biotech-related issues.

FMD funds also support our ongoing trade servicing efforts, enabling us to educate buyers worldwide how to buy quality products from the United States. And without FMD support, we couldn't operate our technical programs - the demonstration farms, feeding

trials and other initiatives - that have enabled us to build overseas markets for the last 40-plus years.

Funding for MAP and FMD has not kept pace with inflation. Consequently, U.S. export promotion programs are overshadowed by competitors' efforts. Funding for MAP is currently capped at $90 million, while FMD has relied on curious appropriations language to assure continued funding. It is time for this committee to demonstrate a serious commitment to market development to enable U.S. producers to develop and maintain important markets.

NCGA supports S. 366, the Agricultural Market Access and Development Act of 2001. This bill will increase the funding cap for the Market Access Program to $200 million; allow unexpended Export Enhancement Program funds to be used for market access or development programs; and establish minimum funding of $35 million for the Foreign Market Development Cooperator program. But even this increase in funding will not be enough to enable the FMD Cooperator program to recover the effects of inflation over the years. NCGA supports the efforts of a broad-based coalition of agricultural organizations to fund the Cooperator program at $43.25 million per year.

Conclusion

We believe we have identified very real problems with today's farm policy and proposed a policy that we believe addresses them. We also contend that this policy proposal is both less production and trade distorting than current policy, and offers this country's farmers a real safety net when it is needed most.

In conclusion, we must all recognize, and I hope you agree, that there is significant and important public benefit in the food security, wholesomeness and integrity of production resulting from the tremendously efficient food and fiber production machine of America's production agriculture sector. Of equal value and importance to our nation is the economic viability and activity of rural communities and the work ethic, integrity and commitment to community fostered in the domestic food production sector of our economy. In a global market and economy distorted at its best by world political issues and non-production-related economic factors like exchange rates and "Asian flu," there is significant public interest and need to protect the viability of agricultural producers in a manner that is market oriented, WTO compliant, environmentally responsible and responsive to the vast geographical and economical differences faced by our rural farm families and corn grower members.

Thank you for the opportunity to share NCGA's vision in this important effort.

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TESTIMONY PRESENTED BY THE AMERICAN CORN GROWERS ASSOCIATION ON

THE FAMILY FARM AGRICULTURE RECOVERY AND MAINTENANCE ACT

THE FAMILY F.A.R.M. ACT

A Program to Restore and Maintain Prosperity
On America's Family Farms and Ranches

PRESENTED TO THE SENATE AGRICULTURE COMMITTEE
JULY 12, 2001

BY

KEITH DITTRICH

PRESIDENT
AMERICAN CORN GROWERS ASSOCIATION

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Chairman Harkin, Ranking Member Lugar, and members of the Senate Agriculture Committee, I am Keith Dittrich, President of the American Corn Growers Association. Seated with me today is Larry Mitchell, our Washington based Chief Executive Officer.

The ACGA has long recognized the daunting task Congress faces in writing our new farm bill, a task made particularly difficult because of the deepening economic depression endured by family agriculture and rural communities in the United States. A primary goal of our organization is to provide leadership on this new farm bill, through positive and specific suggestions for change. Therefore, on behalf of the 14,000 members of the American Corn Growers Association, I would like to present our comprehensive farm bill proposal to the committee today.

We wish it noted that our farm bill proposal is much more than a corn proposal. We have always attempted to represent the interests of not only corn farmers, but also all those in agriculture. We believe that all family farmers must work together to find a farm policy that restores prosperity to family farmers and ranchers of all types. We adhere to the quote made famous by one of our nation's founding fathers, "we must all hang together, or we will most assuredly all hang separately".

We also understand that corn is the most widely grown crop in the U.S., and has by far the largest production volume of any commodity. It has the largest livestock feed usage, and the largest industrial usage. Therefore, we recognize that feed grain policy has a huge impact on all commodity prices, and also directly impacts the structure of the dairy and livestock industries.

Our broad-based comprehensive proposal, titled The Family Farm Agriculture Recovery and Maintenance Act (The Family F.A.R.M. Act) is much more than a commodity specific farm bill proposal. It is a long-term plan designed to benefit a broad spectrum of agriculture. It has been developed over the past two years through a process of detailed historical analysis of past farm programs, and through grassroots consensus building among a number of farm organizations around the country. Since September of 2000 it has been in the legislative drafting process, and this spring we contracted with the Agricultural Policy Analysis Center at the University of Tennessee to score the proposal.

Our proposal was one of the most detailed of any to be presented to the House Agriculture Committee, and we believe was the only one that makes significant farm income improvements over the status quo, consisting of current policy supplemented with emergency AMTA payments.

That being said, I would like to explain the background, development, and outline of our farm bill proposal.

My testimony will cover three main areas:

1. A brief background of the development process used for our farm bill proposal, and the original goals we had when we started that process.

2. A summary of what has happened to farmers over the past 25 years in the areas of farm prices, farm programs, farm income, agricultural trade, domestic use, total use, and crop

surpluses. I will refer to attached tables called "Key Indicators of the U.S. Farm Sector, A 25 Year History with Inflation Adjustments". This research is a basis for much of our farm bill proposal.

3. An overview and explanation of the main points of The Family F.A.R.M. Act. A copy of the proposal is also attached.

DEVELOPMENT PROCESS AND ORIGINAL GOALS

In the summer of 1999, we saw that it was becoming more and more obvious that the Freedom to Farm legislation was failing on almost every front, just as the American Corn Growers, National Farmers Union, and many others had predicted in 1995 and 1996. We predicted this failure, because we understood that production agriculture was a fundamentally unique business worldwide, and that it would not react as Freedom to Farm supporters had advised Congress.

Farm prices had collapsed as we predicted, and government costs were skyrocketing. In spite of extremely low prices, export volume was stagnant, and foreign production continued to increase. We knew that farm policy needed to change in order to bring agriculture and rural America out of it's ever deepening depression.

Therefore, we perceived the need to provide positive alternatives to current policy as soon as possible. We knew that the process of change in farm legislation would be long, slow, arduous, and confusing. We hoped that improvements in farm policy could be made before 2002. But knew that even if a new farm bill was not debated and passed until 2002, we couldn't wait until then to develop specific solutions, and consensus. And so in the late summer of 1999 we began the process of developing a comprehensive farm bill proposal.

We had five main goals when we started our farm bill development process. These were:

1. Compile factual data to illustrate what has happened to farmers financially over the past two decades, and to discount some myths about farm programs and agricultural trade.

2. Determine what levels of farm commodity prices and/or incomes are required to improve the rural economy, and develop a logical justification and process for achieving these price and income levels.

3. Construct a detailed as possible farm bill proposal that achieved necessary price and income levels. Follow the long held policy positions of the American Corn Growers Association and our friends in National Farmers Union and other like-minded organizations. But very importantly, also address the criticisms of past farm programs voiced by those who have historically not held our policy positions. Appeal to as many interests as possible, including consumers.

4. Make contact with, gain input from, and build consensus with, as many of our friends in other farm organizations as possible. Make contact with, and build the interest of, key individuals in legislative, leadership, and academic positions.

5. Through the combination of these efforts, enact federal legislation that made large improvements in farm and food policy hopefully by 2001, and definitely by 2002. But also be prepared and determined to fight until 2005, and beyond if needed, to make further improvements if necessary, because we knew the powerful agribusiness interests who have helped destroy effective farm programs over the last 15 years would continue to attempt to confuse and manipulate Congress and producers.

The first and second goals resulted in the development of the previously referred to tables called "Key Indicators of the U.S. Farm Sector, A 25 year History with Inflation Adjustments". We compiled these tables in August and September of 1999 for ACGA and Nebraska Farmers Union. They were first used by Ranking Member Charles Stenholm in September of 1999, and have been widely used around the country in a number of forums for over a year. These tables were updated in December of 2000, based on current USDA figures at that time. Neither USDA nor any other farm organization has ever compiled such data.

These tables will be updated again in August of this year to reflect current USDA and inflation data. They will be updated annually every year thereafter, at the end of each marketing year for corn.

The specifics of our farm bill proposal were then developed based on the research contained in the "Key Indicators" tables. But we also reached out to a number of other organizations and individuals during that process, and in particular worked in conjunction with Nebraska Farmers Union. We also continually tried to design the program to appeal to some of the critics of past farm programs, particularly in the areas of flexibility, supply management, and price support.

Our proposal is much different than current farm policy. But while using variations of some of the proven tools of past farm programs, it is also much different than any past farm policy. The American Corn Growers Association is a relatively new and rapidly growing organization for a reason. We have new ideas that make bridges with other organizations, and varied interests.

KEY INDICATORS OF THE U.S. FARM SECTOR

We believe that in order to develop good farm policy we must have an understanding of what has happened in the past. For comparison, on my farm, I have a good idea of what my average yields will be, based on past experience. I know that I cannot expect dramatically higher yields than my past averages, and therefore I should make my economic and production plans accordingly. And also based on past experience, I have a good idea of what production practices worked, which ones didn't work, and what potential problems I might face each year. Farm policy has its similarities.

The attached tables cover 12 very important and interconnected statistics that relate to farm prices, farm programs, agricultural exports, domestic and total use, crop surpluses, and farm income. These figures cover 25 years, and are based on recent and historical statistics from the Economic Research Service and Farm Service Agency at USDA. Inflation figures are from the Bureau of Labor Statistics, which calculates Consumer Price Index data.

The data in these tables go right to the heart of the farm policy debate. I urge all Committee members to examine them carefully. Many of the conventional wisdom statements we in agriculture have heard over the years are simply not true. Many other things we have suspected to be true, we haven't seen quantified. For example, the eroding effects of inflation on farm prices and income or price supports.

All five major storable commodities (Corn, Wheat, Soybeans, Cotton, and Rice) are covered in the tables, and all five show very similar trends. I would like to refer to some of the most important observations apparent from the data in the Key Indicators tables, such as:

1. Real, inflation adjusted CCC price support loan rates have dropped dramatically over the past 25 years, and real farm prices have dropped in a similar manner. Real farm prices are now approximately one third of what they were during the decade of the 1970's.

2. On average, export volume of all major commodities has been virtually static over the past 25 years, regardless of farm price support policy, trade agreements, or currency valuations. While in December USDA was predicting a sharp increase in corn exports to 2.3 billion bushels this crop year, the most recent USDA estimate had fallen to 1.9 billion bushels, right in line with our historical average.

3. Our agricultural trade balance has also been static to declining in nominal terms, and sharply declining in inflation adjusted terms. This indicates that we are not exporting more raw grain commodities in the form of increased net exports of value added foods or meat. New imports are outpacing any increased exports of these sorts of products.

4. On the other hand our domestic use of commodities has increased steadily over the past 25 years. Virtually all of our growth in total use of crops has come from the domestic market, not the export market.

5. Total use of commodities is now at all time record highs, and did not decline during the Asian Crisis (with the exception of cotton). In spite of this, farm prices have collapsed. It is apparent that increased usage alone is not enough to give farmers profitable farm prices.

6. On a historical basis, ending stocks to use ratios, or surpluses, are now tight to modest. Ending stocks or surpluses have not been high during the five years of the Freedom to Farm Act. This year, world ending stocks of wheat are at historical lows, with a poor crop in the U.S. Ending stocks of soybeans for the 2000 crop year will likely drop below 10 percent of usage, a historically very tight level. In spite of this, farm prices have collapsed. It is interesting to note for the 1999 crop year ending in September of 2000, final actual ending stocks to use ratios for soybeans, cotton and rice dropped dramatically versus projections made a year earlier in August of 1999. Yet farm prices moved up hardly at all during that crop year.

   It is obvious that in the absence of other farm policy tools, we will have to run on the razors edge of running out of commodities all the time in order to maintain profitable farm prices. This is an impossible and dangerous task.

7. In spite of increasing yields and government payments, real gross income per acre for basic commodities has dropped 40 to 50 percent over the past 25 years including emergency federal payments. We need to increase gross income per acre on corn about $100 per acre over current levels, just to get back to the real gross income levels we had during the farm crisis years of the mid-1980's.

8. With emergency AMTA payments included, farmers have received a national average equivalent price of over $2.60/bushel for corn, and over $4.00/bushel for wheat for the past 5 years. Yet these equivalent price levels are in reality so low in today's economy, that they have given us our farm depression today. Any mix of income support and/or market price that only achieves these equivalent price levels guarantees a deepening farm depression.

These observations are simply the facts. It is obvious that the farm policy debate must revolve around these realities. We can no longer afford to base national farm policy on misconceptions, misguided economic theory, and poor advice. We must base future farm policy on market realities, fact, and logic.

So, if this is what has happened, where do we go from here with farm policy? Following is an explanation of the key points about our Family F.A.R.M. Act proposal.

OVERVIEW AND EXPLANATION OF THE BILL

The proposed Findings of Congress, formulas, and outline for our proposal are attached to this testimony. Following is an explanation of the main concepts in the bill.

Summary of the Bill

The overall goal of our bill is to give farmers tools to extract profitable farm prices from the market place, with much less reliance on government payments. The 10- year budget for agricultural programs just passed budgets approximately 15 billion dollars less annually than was actually spent on farm programs in Fiscal-Year 2000. If we do not give farmers tools to increase farm prices, we will run far short of the money required just to maintain current income supports, which are still inadequate.

To obtain price, this bill is primarily a free stocks management bill rather than a supply management bill. However it does provide for voluntary production adjustments, but only if deemed necessary by the Secretary, and only if endings stocks reach predetermined minimum trigger levels.

We think that only small acreage idling would be required in some years if current commodity usage were maintained. Farmers can voluntarily manage free stocks and inventories through the extended CCC loan, the farmer owned reserve, and a strategic energy reserve. And if needed, they can voluntarily affect large surpluses with a flexible acreage idling program.

We are strong supporters of S. 670, the Daschle/Lugar Renewable Fuels Standard legislation now proposed in Congress, as part of a national energy policy. Our members had much to do with this legislation. Our bill's Farmer Owned Reserve can at least partially be used for a strategic energy reserve to help stabilize the resulting growth in the domestic renewable fuels industry. Our intention is to keep total commodity use as high as possible, through both new domestic use and trade initiatives.

Findings of Congress

The first part of our legislative bill will contain a section called the "Findings of Congress" as detailed in our attached proposal. This is a preamble to a bill, which describes why Congress feels this important legislation is necessary. The intent of this section is to define by law why a decentralized, competitive, family farm structure of food production is desirable to society. Also defined will be why the business of farming and food production is unique, and why long-term legislation is necessary to allow family agriculture to prosper, and to protect consumers of the world. We feel that it is very important that Congress debate these things, and get these ideas out in the open for public debate. Our proposed "Findings of Congress" language is one of the most important parts of the Family F.A.R.M. Act, and we urge Committee members to closely review this language in our attached proposal.

To summarize the findings language, we believe several things. We believe that a family farm and ranch structure of food production is desirable to society as a whole, and is also a national security issue for our country. We believe that this structure provides many multi-faceted benefits to society that cannot be measured in pure economic terms. We also believe in economic justice for rural regions.

We also must recognize that farming is much different than other businesses in three key areas:

- First, farmers have virtually no ability to negotiate price with buyers. This is because millions of farmers sell to a handful of buyers. Most manufacturing and retail businesses sell to a large base of buyers or consumers, and have much more price setting and negotiating power.

- Secondly, farmers as individuals have no control over their output or inventories, due to weather, long production cycles, and all the vagaries of agricultural production.

- Third, consumers must have a stable food supply, because food is a daily necessity, and food shortages are intolerable. California is experiencing chaos due to rolling power shortages. What sort of chaos do you suppose a rolling food shortage would cause, even once in a lifetime?

Finally, the findings say the combination of all these factors requires legislation that gives family agriculture the tools of price negotiation and inventory management, and that protects consumers.

Next, we state what advantages we feel our proposal will provide. These are:

1. Simplicity.
2. Planting flexibility.
3. Supply stability and food safety.
4. A market orientation.
5. A level playing field for new agricultural trade negotiations.
6. Reasonable and more predictable government costs.
7. Tools to encourage consumption and maintain market share.
8. Family sized crop production will be encouraged.
9. Family sized livestock production will be encouraged.
10. Market concentration will addressed in a more effective manner.
11. The bill is non-inflationary.

Outline of the Bill

The next part of the attached proposal outlines the basic parts of the bill. We have initially proposed very specific ending stocks and reserve trigger levels, maximum volumes eligible for the loan levels targeted to family sized farms, etc. for analysis. We will finalize those specifics after completing computer simulations.

Price and Income Support

Price and Income support would be provided to crop producers by a new, unique CCC "Market Participation Loan" only. This structure would limit any repayment of the loan below loan price to a minimum of 80% of the loan rate, at the discretion of the Secretary. Maximum government exposure in Market Loss Gains would therefore be 20% of the loan rate.

The loan structure is a fair, simple, and easily targeted way to support family farmers. It is the best tool to help farmers negotiate price with buyers, and it can also be a vehicle for counter cyclical income to farmers if repayment below loan price is allowed. However, we believe the current Loan Deficiency Payment option associated with the loan is often unfair, is expensive, and is generally price depressing. We would eliminate this option. Under our proposal, a producer would have to put grain or cotton under loan initially to take advantage of the program. If producers were allowed to repay at less than loan rate to avoid forfeitures, they would have to actually market the grain at that time, or feed the commodity. This would promote actual movement of the commodities at the time, if the producer took his/her option to repay below the loan rate. They could no longer speculate on price volatility in an attempt to maximize government payments, while holding unprotected inventories.

An optional 9-month extension of the loan would encourage buyers to be more competitive, and allow farmers another tool to manage free stocks and inventory.

We would target the loan to family farmers by setting a maximum volume eligible for the loan. For scoring simulations, we have initially proposed maximums of 125,000 bushels for corn, 65,000 bushels for wheat, 35,000 bushels for soybeans, 1,000,000 lbs for cotton, and 65,000 cwt. for rice. These limits would apply per family operator (not employees), including spouses and minor children. Partnerships or family farm corporations would get multiple limits consistent with the number of family operators involved, as just defined.

Agricultural Equity Formula

An "Agricultural Equity Formula" would be used to establish loan rates, which again would be the primary income support mechanism. Presently, loan rates are not based on anything. We believe that must be changed. We would base them on a percentage of what farmers received for gross per acre income during the last generally prosperous period for farmers and rural America, the decade of the 1970's. We define this as a Base Period for gross income purposes. However, the formula would base the actual loan rate on current yields and inflation, and we would balance the loan rates equitably between commodities. This formula is a way of returning a very necessary gross income stream not only to farmers, but to the economies of rural communities. This gross income per acre target is a concept that is important, and could also be used if we eventually arrive at a farm program that combines direct payments and higher loan rates. The specific formula mechanism is detailed in the attached proposal.

We would also adjust the loan rates annually to reflect inflation and trend-line increases in yields. We would use the inflation factor associated with the Food Eaten at Home series of the Consumer Price Index. For the past 25 years, retail food prices have risen at generally the same rate as the total Consumer Price Index, in spite of level to declining farm prices. This is unfair to both farmers and consumers.

Our formula would assure that farmers and rural communities receive an equitable share of the retail food dollar, while assuring that consumers would get the price benefit of increasing yields due to technology. If trend-line yield increases matched inflation, loan rates would stay the same. However, if inflation rates exceeded trend-line yield increases, loan rates would slowly rise. We would also initially phase in higher loan rates over several years, much as minimum wage increases are now phased in.

Our legislative draft would set 2001 loan rates that would equate to 70% of the gross per acre income farmers received during the base period, and phase in to 80% of that gross income over 5 years. Initial loan rates would therefore be about $3.15/bushel for corn. This figure is also very close to the target price of $3.03 farmers had as far back as the mid-1980's, it is very close to USDA's current cost of production estimates, and it is slightly less than the average farm price during 1996, the first year of Freedom to Farm.

Keep in mind, when considering AMTA payments, supplemental AMTA payments, Loan Deficiency Payments, and Market Loss Gains, we have been averaging the equivalent of about $2.60/bushel on corn and $4.00 for wheat during the Freedom to Farm years. We have received these equivalent prices at full production, and with generally excellent crops across the U.S. Yet agriculture is still in a depression.

Other crop loan rates would be set at historical price ratios in relation to corn. The soybean loan rate would then be $7.55/bushel, wheat would be $4.50/bushel, cotton would be 80 cents per lb., and rice would be $10.10 per cwt. These values are less than we originally started at, and we would consider them the minimum prices we need to receive in the absence of direct government payments, in order to restore any prosperity to the family farm economy and rural communities.

Farmer Owned Reserve

A new Farmer Owned Reserve would be established. The reserve is the key tool that allows farmers to manage their inventories and free stocks. If prices are low and free stocks excessive, the market will know that farmers may choose to lock up some of their inventory, and make it unavailable until prices rise. The reserve is a necessary buffer that allows farmers to have high production years without unduly depressing market prices. Acreage idling is then not required after high production years, unless reserve stocks are becoming excessive. At the same time, consumers are assured that if we have a major drought, the U.S. will have reserves that will be made available, though at higher prices. This stability of supply encourages stable growth in exports, renewable fuels production, food processing, and livestock production. A portion of the FOR would be dedicated to a Strategic Energy Reserve for the renewable fuels industry.

For scoring simulations, we have proposed the FOR be opened if projected endings stocks to use ratios outside the reserve are greater than 10% for corn, 20% for wheat, 8% for soybeans, 15% for cotton, and 15% for rice. Maximum reserve levels as a percentage of total use are set at 30% for corn, 30% for wheat, 10% for soybeans, 20% for cotton, and 10% for rice.

Discretionary Authority for Short-term Acreage Idling

The Secretary shall have the authority to institute a short-term acreage idling program only if ending stocks to use ratios including the reserve reach trigger levels. This authority could be used if any commodity reached trigger levels. We have set initial trigger levels at 15% for corn, 20% for wheat, 10% for soybeans, and 20% for cotton. The Secretary must institute acreage idling if FOR levels are projected to reach maximums in the current marketing year.

We would allow set-asides up to 5% to be used in return for eligibility for the base loan rates. We would provide for higher loan rates in exchange for higher set-asides for acreage idling ranging from 6 to 15%.

Tillable Crop Acreage

A Tillable Crop Acreage base will be established for each producer. This will consist of all acres normally cropped by a producer. Farmers will have the same planting flexibility they have now on all acres planted to crops covered by the program. If we have an acreage idling program, farmers will choose what to plant on non-idled acres, based on their ideas of the market.

Target Price System for Livestock

A target price and deficiency payment program would be studied for livestock as detailed in the attached proposal. We believe that livestock producers should have some protection under the farm program. The packing industry has become so non-competitive, and unfair imports have become so common, that we believe livestock producers should have some protection from extreme market drops such as the hog industry has experienced. Therefore, we have proposed this concept, to be reviewed by USDA and livestock producers.

Eligible production would be limited to a maximum number of cwt. or head, targeted to family sized farms or ranches in a manner consistent with the maximums used for loan rates. Payments would be based on the difference between the annually set target price, and the annual national average market price. Target prices could be tied to feed-grain loan rates.

Market Concentration

Market concentration in the food industry is continuing at an unprecedented pace, and is one of the most serious issues we face in the food industry. We believe that this is a very dangerous situation for both consumers and producers. We believe that this ever-increasing market power is affecting producers and consumers in two ways. In the more obvious way, producers and consumers face an ever-shrinking base of food retailers, commodity buyers and farm input suppliers, limiting their opportunities and food choices in the marketplace. In the less obvious way, the concentrated economic power is affecting the political process, and affecting how we debate national farm and food policy.

We believe that unless new legislation is passed, agribusiness and food retailing mergers will continue to overwhelm the will and resources of the Justice Department and USDA. Therefore, we wish to establish a maximum level of market concentration for the agribusiness and food retailing industries. The established maximum level will be consistent with the economic theory of a market share level that causes market distortions. We suggest that no more than 15% of any food related market be held by one company. As much as possible, such legislation should be contained in a competition title of the farm bill. However, we are also open to companion legislation outside the farm bill.

There are also a number of other ways where more effective market concentration legislation can be developed. The ACGA recognizes the Organization for Competitive Markets (OCM) as an expert in this field. We have endorsed the OCM's 2001 Statement of Competition Policy. We urge the Agriculture Committee to review this Statement.

While using these suggestions to work towards more effective market concentration legislation, we also call for a two-year suspension of all large agribusiness mergers.

International Trade

Current trade agreements and negotiating positions do not recognize the unique aspects of food production and food trade around the world, as articulated in our proposed "Findings of Congress". South American production continues to rise, in spite of extremely low world commodity prices. As documented by the Key Indicators of the Farm Sector tables, these agreements have been ineffective in protecting farm income, or in increasing exports. And family farmers in other countries are suffering just as we are.

However, we believe the established agricultural trade negotiation process could be used to develop an entirely new concept in agricultural trade. Let us use the trade negotiation process to provide for a new system of agricultural trade that reduces trade tensions both within and outside agriculture. And let us develop trading rules that allow family agriculture to survive in all countries.

We believe that the Secretary of Agriculture should be directed to approach her or his counterparts in other major exporting and importing countries about their interest in the following concepts:

1. A shared system of international food reserves, to be used for food security, humanitarian relief, and an international school lunch program for developing nations. This reserve could primarily be held in the United States due to our infrastructure advantages.
2. Shared production cuts by food exporting nations when world grain stocks become burdensome, to be enacted only in coordination with an international food reserve.
3. The recognition and limiting of world market distortions caused by anti-competitive commodity trading and food processing companies.

National Farmers Union of Canada proposed similar initiatives this past fall, and in a presentation in France this past spring, the ACGA was told that the largest farm organization in France had similar views.

Scoring

The Agricultural Policy Analysis Center (APAC) at the University of Tennessee has provided preliminary numbers to us. These simulations indicate we can maintain farm prices in ranges that result in modest government costs using our farm bill proposal. We are continuing with this scoring process, to come up with the best combination of specifics that increase farm income, and result in reasonable government cost. In the near future, APAC will also provide stochastic modeling of our proposal. This process injects historical annual variability in yields, exports, etc, into the modeling process, to more realistically project what will happen in the real world.

Conclusion

We believe that our proposals can be enacted and administered with reasonable government outlays. We believe that a farm bill such as proposed here would halt and begin to reverse the decline in family farm agriculture, for the good of rural America, and for the good of the nation.

Secretary Veneman and USDA have classified 1998 supplemental AMTA payments as Amber Box for WTO compliance purposes. This appears to mean that virtually any action taken by the U.S. to protect its farmers could be in violation of current WTO rules. Can we realistically protect our national interests under such rigid and unrealistic rules?

We hope the Agriculture Committee recognizes that based on the facts, current farm policy is not working, though many well-meaning members were assured that it would. We believe it is unreasonable to expect different results in the future, if we do not change direction. And we believe that it is unrealistic to expect good farm bill advice from those who misadvised Congress so badly on current farm policy.

I wish to again thank the Committee for this opportunity, and wish to answer any questions you may have.

STATEMENT BY TONY ANDERSON, PRESIDENT
AMERICAN SOYBEAN ASSOCIATION

before the

COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY
UNITED STATES SENATE

July 12, 2001

Good morning, Mr. Chairman and Members of the Committee. I am Tony Anderson, a soybean and corn farmer from Mt. Sterling, Ohio. I serve as President of the American Soybean Association, which represents 28,000 producer members on national issues of importance to all U.S. soybean farmers. In addition to ASA, I am appearing today on behalf of the National Sunflower Association and the U.S. Canola Association.

I would like to commend you, Mr. Chairman, for holding this hearing on policy priorities for the next Farm Bill. The U.S. agricultural economy has reached a crossroads where a choice must be made between continuing programs that reflect and react to the global marketplace or turning back to the unilateral supply controls and reserves we had prior to the 1996 FAIR Act. This decision must also take into account restraints that the federal budget and international trade commitments place on our policy choices. Oilseed producer organizations look forward to working closely with the Committee to develop legislation that maximizes the competitiveness and future opportunities for U.S. agriculture.

As Committee Members are aware, the FY-2002 Budget Resolution provides an additional $73.5 billion over the next ten years for development of omnibus agriculture legislation. However, $66.15 billion of this amount represents a Reserve Fund that could be reduced if the projected budget surplus is depleted by a downturn in economic conditions or spending on other programs. With estimates of the anticipated budget

surplus already declining, it is important that Congress enact the new farm bill without delay.

Before describing our specific recommendations, I would like to briefly outline the basic policy objectives that oilseed producers have established for the next farm bill.

The FAIR Act's Unfinished Agenda

First, the authors of the FAIR Act did not expect the U.S. agricultural economy to transition from government-dependence to market-orientation solely as a result of changes in domestic farm policy. They made clear that the overall economic and trade environment of U.S. agriculture need to be changed to reduce production costs and enhance the competitiveness of U.S. farm exports. The required changes include:

- Agricultural trade must be given the same weight in U.S. economic and foreign policy decisions as accorded by our primary international competitors and customers;
- Export assistance and promotion programs authorized by the WTO must be fully and aggressively utilized, as our competitors do;
- Ineffective unilateral economic sanctions that discredit our reliability as a supplier and encourage our competitors to expand production and exports must be rescinded and prohibited;
- Funding for U.S. humanitarian assistance programs must be increased and maintained at a level that reflects our responsibility to enhance societal, economic, and political stability in developing countries;
- An effective case must be made for modernizing the U.S. transportation infrastructure, including the lock and dam system on the Mississippi and Illinois Rivers;
- Barriers to U.S. farm exports based on non-scientific standards, including restrictions on biotechnology trade, must be challenged and overcome;
- Funding for agricultural research must be restored and increased;
- Unnecessarily onerous regulations that increase agricultural production costs must be either compensated or eliminated.

Unfortunately, few of these needed changes in the economic environment for production agriculture have been addressed, much less achieved, in the past five years. They remain an unfinished agenda that should serve as the basis for evaluating policy choices for the next farm bill. Unless these key issues are resolved, it will be difficult, if not impossible, to move farm policy beyond the role of a safety net for producers facing disadvantageous conditions, both at home and abroad.

Other Key Policy Objectives

In addition to establishing conditions that will foster a competitive environment for U.S. agriculture, oilseed organizations support the following objectives in the next farm bill:

1. Domestic farm programs should be equitable and balanced among program crops, defined as all loan-eligible crops that can be planted on the same cropland on a farm. No program should favor production of one crop over another.

2. The primary objective of the next farm bill is to provide adequate long-term price and income support for producers of program crops and other crops that have traditionally received multi-year support under federal farm programs. To the extent additional funding is available, other priorities that are appropriate for omnibus farm legislation should be addressed.

3. Additional priorities include providing voluntary incentive payments to encourage improved conservation practices. ASA helped develop and strongly supports the

   Conservation Security Act as a means to raise conservation standards. However, incentives provided under the CSA should not come at the expense of price and income supports.

4. Other priorities also include increased funding of export promotion and assistance programs, and of foreign food assistance. Food aid should be based on a minimum annual tonnage commitment, which should not be subject to variations in production and the availability of surpluses.

5. Programs established under omnibus farm legislation provide multi-year support to crops that are either produced on the same acreage or that have traditionally received support. These crops are also required to comply with conservation measures, including sodbuster and swampbuster requirements. Crops that do not meet these criteria should not be included in the next farm bill. Any assistance required by producers of these crops due to economic or crop losses should continue to be addressed in annual disaster legislation.

Domestic Farm Policy Assumptions

With regard to domestic farm programs, oilseed organizations support maintaining key elements of the FAIR Act in the next farm bill. These include full and unrestricted

planting flexibility, continuation of non-recourse marketing loans, no statutory authority to impose set-asides, and no authority to establish government or farmer-owned reserves for oilseeds. In addition, oilseed producer organizations oppose any limitations on marketing loan benefits, fixed income payments, or any counter-cyclical income support payments.

I will now describe our recommendations on the various components of a domestic farm program for major commodities.

Marketing Loan Program

Oilseed producer organizations support maintaining current oilseed loan rates for 2002 crops, and setting these rates as floors rather than ceilings under the next farm bill. The formula for adjusting loan levels to 85 percent of Olympic average prices in the previous five years should be retained, and discretion should be provided to the Secretary to set loan levels above the floor when prices warrant.

ASA does not believe the current national average soybean loan rate of $5.26 per bushel has been responsible for most of the expansion in U.S. soybean acreage since enactment of the FAIR Act. Instead, we attribute most of the growth to other factors. First, the incentive to build bases for program crops under previous farm bills had created tremendous pressure to exclude soybeans and other non-program crops from rotations. Introduction of unrestricted planting flexibility and decoupled income support payments reversed this pressure, and allowed producers to achieve a more agronomically optimum crop rotation.

A second factor was the relatively high soybean prices between 1995 and 1997 compared to prices for other commodities that compete with soybeans for acreage. Third, new soybean varieties have been developed in maturity groups that are far better suited for northern and western climates than before. Last year, virtually all of the expansion in soybean plantings occurred in North and South Dakota, Minnesota, Wisconsin, Michigan, Nebraska, and Kansas. A fourth factor has been the prevalence of scab and other diseases affecting wheat and other crops. In major wheat states such as North Dakota, moving out of wheat production has been the only way to avoid reoccurrence of scab.

Other factors have encouraged soybean plantings in place of corn. High costs or limited availability of natural gas and fertilizer have offset recent improvement in corn prices. Also, the continuing disruption of foreign and domestic U.S. corn markets resulting from the Starlink debacle may have contributed to this year's decline in corn plantings.

A final issue to consider is that carryover stocks of soybeans this Fall are expected to total about 10 percent of domestic and export use. By comparison, corn stocks are projected at about 21 percent of use, and wheat supplies will be 35 percent of use. Reducing the soybean loan rate would likely increase production of crops that are already in greater surplus.

With unrestricted planting flexibility almost certain to be continued in the next farm bill, there is no reason any commodity organization would want to seek a disproportionate share of government support. The consequences of over-support are overproduction, even lower prices than we have today, and substantial market distortions. Oilseed producers do not want to see these consequences for our crops.

With regard to loan repayment rates, our organizations support requiring oilseed loans to be repaid at the lower of the Posted County Price or an Adjusted World Price (AWP). The AWP would be set on a weekly basis in reference to an index of prices of oilseeds delivered at major foreign markets, including freight costs. For soybeans, these markets would include the European Union and Japan.

The purpose of using an Adjusted World Price is to ensure that U.S. oilseeds and oilseed products are competitive in both foreign and domestic markets under the next farm bill. U.S. crops are currently marketed at prices that reflect the domestic market, but not overseas markets. Basing loan repayment on values that directly reflect the prices of our competitors in foreign oilseed markets would address this situation, and would also help offset the negative effect of the high value of the Dollar on U.S. exports.

PFC (AMTA) Payments

Oilseeds are not included in the formula for determining payments under Production Flexibility Contracts (PFCs). Oilseeds were grown on 31 percent of row crop acreage last year, and the percentage is likely to rise in 2001. Our organizations strongly support expanding the PFC program to include oilseeds.

Specifically, we ask that baseline annual funding of $4.008 billion provided for PFC payments after 2002 be increased to $5.7 billion, with the additional amount distributed to farms that produced oilseeds during the 1997 to 2001 period. USDA data indicate that, during 1996-1999, soybeans averaged 28.5 percent and other oilseeds averaged 1.2 percent of the value of crops that would be included under an expanded PFC program. Our proposed increase in PFC payments reflects this 29.7 percent oilseed share.

Oilseed PFC payments should be distributed based on a farm's acreage and yield for each oilseed produced in any single year during the 1997-2001 period. As under the current

PFC program, oilseed payments would be transferable with the acres on which they were produced in the selected year.

We do not propose changing the current formula or base period for distributing PFC payments for other crops. We recognize that, unless a common base period is used, an oilseed payment could be made on the same acres on a farm on which a PFC payment is already made. However, we believe this situation is preferable to "backdating" oilseed payments to reflect obsolete production data in the early 1990's. The alternative would be to "update" payments for other crops to the same period used for oilseeds. While this approach would result in reduced payments for crops that have lost acreage under the FAIR Act, it would not disadvantage individual farms or producers if PFC payment rates are equitable between crops.

Counter-Cyclical Income Support

Oilseed producer organizations support replacing ad hoc economic loss assistance payments, which have included an oilseed payment, with a counter-cyclical income support program. After three years of improvisation, farmers and their lenders need longer-term assurances that a safety net is in place to protect against low prices and income.

We propose a program that would offset any shortfall in the national gross return per acre for a crop from the Olympic average national gross return per acre for the crop during the 1993-1997 period. Gross return per acre is defined as the higher of the season average price or the loan rate for the crop, multiplied by national production, divided by national harvested acreage.

We propose providing payments to producers equal to the shortfall in a crop's return per acre on 85 percent of harvested acres in the current year. USDA would use estimates for current year prices, production, and acreage to determine the per-acre payment, which would be made as producers document their harvested acres.

The concept of compensating producers for low income based on acres complements the marketing loan program, under which benefits are tied to actual production. It also addresses a perennial shortcoming in the federal crop insurance program. Every year, many producers experience losses due to below-average yields, but not low enough to qualify for compensation under crop insurance. This low-yield gap in income support would be at least partially offset by providing payments on harvested acres rather than actual production.

In our view, this proposal will not count against U.S. commitments to reduce trade-distorting domestic support in the WTO. Paying producers on 85 percent of their current year acreage would support classification as a production-limiting ("blue box") program, which would be exempt from discipline under the Uruguay Round Agreement.

Other Farm Bill Priorities

Mr. Chairman, there are other important priorities that need to be addressed in the next Farm Bill. As I indicated earlier in my statement, ASA has endorsed the Conservation Security Act. ASA also supports a significant increase in funding for agricultural research in the next Farm Bill. Specifically, we encourage the Committee to provide annual funding of up to $1.0 billion for conservation payments and $1.0 billion for research.

Additionally, ASA supports increased funding of export assistance, market development, and food aid programs that are critical to expanding demand and improving commodity prices. The Foreign Market Development Program should be authorized at not less than $43.25 million annually, reflecting the 1986 program level indexed to international inflation rates over the past 15 years. The Market Access Program should be restored to its previous funding level of $200 million per year.

Regarding food aid, a commitment should be made to provide a minimum of 5.6 million tons of food per year under U.S. humanitarian assistance programs. This increased commitment should include a substantial increase in the Food for Progress Program, full funding for the Global Food for Education Initiative, and increased support for both Title I and Title II of P.L. 480. To address market access, regulatory, and marketing issues in agricultural biotechnology, ASA recommends establishment of a new "Biotechnology and Agricultural Trade" (BAT) program.

Conclusion

That concludes my statement, Mr. Chairman. I want to again thank you for convening this important hearing, and for inviting oilseed producer organizations to testify. I will be glad to respond to questions.

Coalition for a
Competitive Food &
Agricultural System

"FARM POLICY FUNDAMENTALS FOR THE NEXT FARM BILL"

STATEMENT OF

JOHN C. MILLER, PRESIDENT

MILLER MILLING COMPANY

ON BEHALF OF THE

COALITION FOR A COMPETITIVE FOOD AND AGRICULTURAL SYSTEM

SENATE AGRICULTURE COMMITTEE

JULY 12, 2001

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Texas Grain and Feed Assoc.
Texas Poultry Federation
The Fertilizer Institute
The Poultry Association
United Egg Association
U.S. Cane Sugar Refiners' Association
U.S. Chamber of Commerce
U.S. Poultry & Egg Association
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Wisconsin Fertilizer and Chemical Assn.

Companies

ABN-AMRO Chicago Corp.
Albany Transport, Inc.
Amber, Inc.
American Commercial Barge Line Co.
American Foods Group, Inc.
Ameri-Pac, Inc.
Arbor Acres Farms, Inc.
Avian Farms, Inc.
BCMG
Benson-Quinn Company
Borden, Inc.
Bunge Corporation
Burlington Northern Santa Fe Railroad
Cargill, Incorporated
Case Foods, Inc.
Central Soya Company, Inc.
CGB Enterprises, Inc.
Chicago Board of Trade
Claxton Poultry Farms
Columbia Farms, Inc.
ConAgra Food, Inc.
ConAgra Feed Company
Consolidated Grain and Barge Company
CPC International, Inc.
Darby Creek Ag
DeBruce Grain, Inc.
DeBruce Fertilizer, Inc.
EMM Sales & Service, Inc.
Farmland Grain Division
Garnac Grain Company
General Mills, Inc.
Gold'n Plump Poultry, Inc.
Hi-Pro Feeds
Illinois Central Railroad
Indiana Port Commission
Industrial Fumigant Company
Ingram Barge Company
Iowa Limestone Company
ISA Breeders
J.G. Boswell Company
Kansas City Board of Trade
Kemin Industries, Inc.
Kraft Foods Inc.
LaCrosse Milling Company
Lesher& Russell, Inc
Louis Dreyfus Corporation
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McLeod, Watkinson & Miller
Midwest Feed Company, Inc.
Miller Milling Company
Mountaire Corporation
Novarco Agriculture Ltd.
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Philip Morris Company
Policy Directions, Inc.
Port of Corpus Christi Auth.
Procter & Gamble
Purina Mills, Inc.
Rabobank International
Ralston Purina Company
Ranch Aid, Inc.
Rocco Farm Foods, Inc.
Quaker Oats Company
Sauder Feeds, Inc.
Seaboard Corporation
Shey & Associates Consultants
The Andersons
The Scoular Company
Thomas Products, Inc.
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Tyson Foods
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United Grain Corporation
United Harvest, LLC
Vigoro Industries, Inc.
Wampler-Longacre, Inc.
Wolcott and Lincoln, Inc.
Zeigler Bros., Inc.

Good morning. I am John C. Miller, President of Miller Milling Company. My company is headquartered in Minneapolis, Minnesota, with U.S. mills in Fresno, California, and Winchester, Virginia.

Today I am representing the Coalition for a Competitive Food and Agricultural System (CCFAS), of which Miller Milling is a member. CCFAS is comprised of more than 120 companies and organizations representing a broad range of agricultural interests. We are committed to working for market-based policies designed to benefit all 21 million people working in the U.S. food and agriculture industries. I testified before this Committee in 1995 as a representative of CCFAS. At that time, the Committee was debating legislation that eventually became the Federal Agricultural Improvement and Reform Act of 1996 (FAIR). Having had the opportunity to provide input to the important process of writing the FAIR Act, I welcome the opportunity to share with you this Coalition's thoughts on how the legislation has performed and our view of what is needed for the future.

I would like to begin with a look at the strengths and weaknesses of the current law.

The 1996 FAIR Act

The FAIR Act broke sharply with the trend of previous farm policy legislation which, was based on a combination of price supports and acreage set-aside programs. FAIR replaced variable target price-deficiency payments with fixed annual payments (Production Flexibility Contract – PFC payments).

The FAIR Act gave producers almost **complete flexibility in planting decisions**. It initiated a system to enable producers to respond to signals that come from the market – not the government. It accomplished this by trying to sever the tie between income support payments and production. The current law also allows grain and oilseeds to continue flowing to world markets, and prevents stocks of government-owned surplus commodities from overhanging the market and interfering with price recovery. It allows full use of our farmers' most productive capital asset --land -- **by not idling acreage**.

So what have been the benefits of these policies?

U.S. Competitors Slow Acreage Expansion

Since we no longer have annual supply management programs in place, and U.S. producers have been supported through marketing loans and Production Flexibility Contract (PFC) payments, we have seen some foreign competitors slow their acreage expansion during the 1990s allowing the U.S. to regain its competitive position in world markets (see CCFAS Policy Paper #2).

The Underlying Health of U.S. Agriculture Remains Strong

During the four years since the passage of the 1996 farm bill, the underlying health of American agriculture has improved when compared to the first half of the 1990s. Between 1990 and 1995, farm income averaged $43.5 billion per year. Between 1996 and 2001, farm income will average $46.4 billion, even without the emergency assistance that will be provided in 2001.

Therefore, current law gives producers freedom of choice and allows them to respond to market signals, while providing income support to farmers. These are positive things that should be continued in any new legislation. Now, what about weaknesses in the current law?

High Loan Rates Distort Planting Decisions

The 1996 farm bill was an important first step toward flexible market-driven farm production. However, income support payments have not been completely decoupled from production. In particular, the current marketing loan program, where some commodity loan rates are high relative to competing crops, distorts farmers' planting decisions by making one crop seem more profitable than another, simply due to government payments. This results in farmers planting crops that are less in demand in the market, resulting in lower overall sales in the cash marketplace. The decision to freeze loan rates exacerbated this distortion. Furthermore, high loan rates depress prices by encouraging excess production. I would also point out that marketing loans are in effect counter-cyclical programs, as the income provided will vary inversely with market price variations.

Fundamentals for the Next Farm Bill

Having examined where we have been, I would now like to look at the future, and where we should be going. As Congress debates the next farm bill, there are some fundamental policies that should not be changed.

CCFAS recommends keeping the following features with some modifications:

1. **Continue PFC payments for current commodities with the addition of oilseeds.** PFC payments should continue to be decoupled from actual plantings. Payments based upon existing contract acres (approximately base acres for the grains and cotton, and the most recent three-year average plantings for oilseeds).

2. **Continue the marketing loan program but revise the loan rate prices for all crops to 85% of the 5-year Olympic average of market price.** Utilize formula loan rates implementing a 10% annual cap (up or down) on loan rates while eliminating the discretionary adjustment of the loan rate by the Secretary of Agriculture.

3. **Continue flexibility provisions** that allow producers to increase income by planting crops that receive more returns from the market and encourage soil conservation practices.

We oppose the inclusion of the following features:

1. **Do not add any supply management features in any form to current policy**. The Conservation Reserve Program (CRP) level of 36.4 million acres is more than adequate to meet its environmental goals and should not be expanded. A "short term CRP" or "flexible fallow" program is not environmentally sound – they are simply supply management in disguise. Set asides, whether mandatory or voluntary, raise farmers' per unit cost of production, as fixed costs are spread over less total production output. In the long-term, economic activity in rural communities is stifled.

2. **Do not create new inventory management programs** such as a Farmer Owned Reserve (FOR), energy (ethanol) reserves or hunger reserves.

3. **Do not add any new counter-cyclical program.**

An Analysis of Marketing Loan and Counter-cyclical Proposals

In order to put these recommendations "to the test," CCFAS commissioned a study by World Perspectives/AgriLogic, Inc., to look at several policy proposals now under consideration by Congress. The analysis compares: a policy of all direct payments (Policy 1), one of direct payments combined with flexible loan rates (Policy 2), and a policy in which direct payments are eliminated and existing loan rates are subjected to a one-time increase of 16 percent and maintained at that level throughout the analytical period (Policy 3). Policy 3 simulates the guaranteed rate of return proposed in most counter-cyclical programs.

Policy 1 (**All Direct Payments**) would eliminate the marketing loan program while establishing direct payments to producers for the life of the program at fixed levels based upon existing contract acres (approximately base acres for the grains and cotton, and the most recent three-year average plantings for soybeans). Assumed total monies committed to direct payments for the major program commodities would be $10.3 billion per year.

Policy 2 (**Formula Loan plus Direct Payments**) would compute future loan rates on the basis of the formula in the existing law (85 percent of the previous five-year average price, eliminating the high and low price years) with the stipulation that loan rates cannot decline or increase by more than 10 percent in any given year. Again, commodity program expenditures would be $10.3 billion.

For the purposes of the analysis, we selected $10.3 billion as the figure for commodity program spending for two reasons. First, it represents an increase in spending over the

1996 farm bill, as evidenced by the need for ad hoc emergency payments over the last several years. In addition, the current budget baseline for agriculture allocates an average of $16.8 billion annually, of which $13.5 billion represents total Commodity Credit Corporation (CCC) outlays. Thus, this analysis assumes that an additional $3.3 billion will be available each year for other expenditures, such as for additional conservation measures, export initiatives, rural development, research, or other crops. However, it is important to point out that the $10.3 billion figure remains a reference point rather than a recommendation since it is ultimately up to Congress to determine how much should (and can) be spent.

The study also analyzed Policy 2 (**Formula Loan plus Direct Payments**) when subjected to two market shocks: one representing a decline in demand similar to the Asian crisis of the late 1990s (Policy 2-a), and one using variable yields, similar to the yield pattern of the late 1980s and early 1990s (Policy 2-b).

Total government payments were held constant across the various policy options for the steady-state baseline comparisons, making the efficiency of transferring government payments, as they positively impact farm income, directly comparable.

While this research does not analyze any specific counter-cyclical policy approach, the higher marketing loan rates assumed in Policy 3 function as a counter-cyclical program, since the income provided would vary inversely with market price variations.

I am submitting a copy of the WPI/AgriLogic analysis with this testimony.

A Note About Baselines

In the WPI/AgriLogic analysis, we chose to use a more conservative price projection for the major commodities than that currently assumed by the Congressional Budget Office. The CBO in many of its previous baselines has tended to be overly optimistic about future price trends. Also, global acreage planted to major crops has declined in the last four years in response to falling prices. It is only reasonable to expect those foreign acres to return to production if prices recover substantially, thus limiting potential price increases. Furthermore, the outlook for global economic growth is not as optimistic as it was six months or a year ago. It's also better to err on the conservative side to ensure that the policy works under less bullish price scenarios.

While a number of differing viewpoints will be put forward this morning, perhaps we can all agree that the current CBO baseline projections are not likely to stand the test of a five-year farm bill. For example, for 2008, the CBO baseline is projecting a price of $2.55 for corn, $3.36 for wheat and $5.56 for soybeans. Does anyone truly believe that these will be the actual prices seven years from now?

I should also point out that because the baseline assumptions used in the WPI/AgriLogic analysis are more conservative, the findings are not directly comparable to analyses offered by other organizations. However, this analysis presents a range of results using

different policies, under consistent baseline assumptions that allow important conclusions to be drawn on how these policies can be expected to perform.

What the Study Shows – Direct Payments Deliver Highest Net Farm Income

Overall, the analysis shows that Policies 1 and 2 -- all direct payments or direct payments combined with flexible loan rates – result in very similar outcomes. Both provide farmers with the highest net farm income, delivered in the most efficient – and least distorting – manner. For instance, as shown on the WPI/AgriLogic chart below, average annual net farm income for Policies 1 and 2 is above $45 billion. The commodity price outcomes in the marketplace are also similar, with soybean prices being slightly higher in Policy 2.

Net Farm Income, Prices, CCC Outlays for Various Policies
7-Year Average, 2002 - 2008

	Policy 1 All Direct Payments	Policy 2 Formula Loan Plus Direct Payments	Policy 3 High Loan Rates	Policy 2-a Low Demand	Policy 2-b Variable Yields
Net Farm Income Avg., 2002 - 2008	$45.1 billion	$45.6 billion	$42.5 billion	$44.3 billion	$47.1 billion
CCC Outlays Average, 2002 - 2008	$13.5 billion	$13.5 billion	$13.6 billion	$13.7 billion	$15.2 billion
Average Corn Price	$2.18/bushel	$2.19/bushel	$2.13/bushel	$2.10/bushel	$2.23/bushel
Average Wheat Price	$3.23/bushel	$3.23/bushel	$3.22/bushel	$3.07/bushel	$3.31/bushel
Average Soy Price	$5.01/bushel	$5.08/bushel	$4.68/bushel	$4.73/bushel	$5.64/bushel
Average Cotton Price	$ .52/lb.	.52/lb.	.52/lb.	.50/lb.	.55/lb.

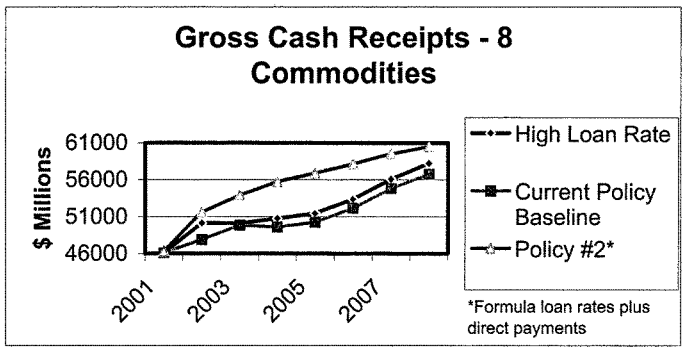
In stark contrast is Policy 3 (high loan rate) that results in lower average annual net farm income by some $3 billion. Average farm prices are also generally lower under this policy. The high loan rates are driving the planting decisions of farmers as much or more so than market signals. Farmers actually receive more money from the market when loan rates are lower. The chart below shows how loan rates and market prices are inversely correlated

Loan Rates and Market Prices Are Inversely Correlated

Average Prices for Soybeans in 2002-2008

	Loan Rate	Market Price
Policy 2		
Formula Loan Rate plus Direct Payments	**4.14**	**5.08**
Policy 3		
High Loan Rates	**6.10**	**4.68**

With high loan rates overriding market signals, farmers plant crops that are not as much in demand, resulting in lower overall sales in the cash marketplace, driving down farm income earned through market channels (note the chart reflecting gross cash receipts for the eight commodities).



The Most Efficient Delivery of Farm Income

CCFAS believes a critical part of any farm policy is its ability to efficiently deliver farm income. The WPI/AgriLogic analysis shows that Policy 3 (**High Loan Rate**) is a less efficient method of delivering government outlays to farmers. The high loan rate policy, while making all payments through the loan deficiency program (LDPs), provides

government incentives for farmers to plant something different from what is called for by the market. Therefore, the farmer is, on average, sacrificing market income in order to qualify for the form of government payment that is being offered – the LDP. Because most of the payments made under Policies 1 and 2 are direct payments unrelated to planting decisions, government payments are transferred to farmers with maximum program efficiency.

Impacts of Formula Loan Rates on Loan Values, Prices, Total Receipts

In the WPI/AgriLogic analysis, we wanted to look at the results of policies both on a macro and micro scale. The table below presents information for the period 2002-2008 on Policy 2 (**Formula Loan plus Direct Payments**). The table shows the loan rates such a policy would generate, as well as projected market prices, assuming a steady state trend, and total receipts per bushel, including both market and government. For example, loan rates for corn decline to $1.58 in two years, but begin to trend upward in future years. Total receipts per bushel of corn range from $2.35 to $2.60, and generally trend upwards through the period.

The loan rate for wheat ranges between $2.26 and $2.82. Total market and government returns per bushel range from $3.84 to $4.24 over the period.

The soybean loan rate ranges between $3.99 and $4.73. Total market receipts for soybeans stay in a financially healthy range throughout the period, achieving a low of $5.45 in 2003 and peaking at $6.10 in 2007.

Cotton results are similar to those for grains and oilseeds. Cotton loan rates are in the mid-40 cent range when computed on the basis of market prices, but total market and government receipts per pound range from $.63 to a high of $.67.

Policy 2: Annual Loan Rates, Prices and Total Receipts per Bushel (2002 – 2008)

CORN

	2002	2003	2004	2005	2006	2007	2008
Loan Rate	$1.70	1.58	1.59	1.69	1.80	1.86	1.89
Price/bushel	$1.99	2.15	2.21	2.22	2.24	2.25	2.26
Total Market &Government Receipts/bushel	$2.35	2.51	2.57	2.57	2.59	2.59	2.60

WHEAT

	2002	2003	2004	2005	2006	2007	2008
Loan Rate	$2.32	2.26	2.34	2.49	2.64	2.76	2.82
Price/bushel	$2.91	3.13	3.27	3.34	3.37	3.34	3.28
Total Market & Government Receipts/bushel	$3.84	4.05	4.17	4.22	4.24	4.20	4.13

SOYBEANS

	2002	2003	2004	2005	2006	2007	2008
Loan Rate	$4.73	4.26	3.99	4.04	4.08	4.19	4.29
Price/bushel	$4.63	4.83	4.95	5.00	5.18	5.50	5.48
Total Market &Government Receipts/bushel	$5.65	5.45	5.56	5.60	5.78	6.10	6.07

COTTON

	2002	2003	2004	2005	2006	2007	2008
Loan Rate	$ .48	.45	.43	.44	.44	.44	.45
Price/lb.	$ .49	.51	.52	.53	.54	.54	.54
Total Market &Government Receipts/lb.	$ .67	.66	.63	.64	.65	.65	.64

The Effect of Market Shocks

The stability of net farm income under various policy alternatives and how it might be affected by unexpected changes in markets should be a major policy concern of Congress. As such, the WPI/AgriLogic analysis compared net farm income results from 2001 to 2008 for Policy 2 (trend analysis), versus low demand and variable yield scenarios (Polices 2-a and 2-b).

Under the Policy 2-a (**Low Demand**) scenario, net farm income declines by a maximum of 11 percent, but recovers to be 8 percent higher than Policy 2 (**Formula Loan Rate Plus Direct Payment**) run under a steady state trend.

These results show that a policy that includes both direct payments and marketing loans maintained at non-distorting levels (which tends to act as a counter-cyclical policy) can offer considerable stabilizing effects on net farm income while also providing a highly-efficient mechanism for transferring government outlays to farmers.

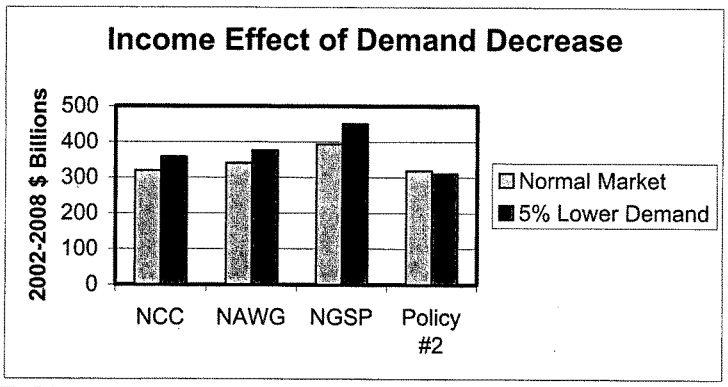
Response of Farm Programs When Demand Falls

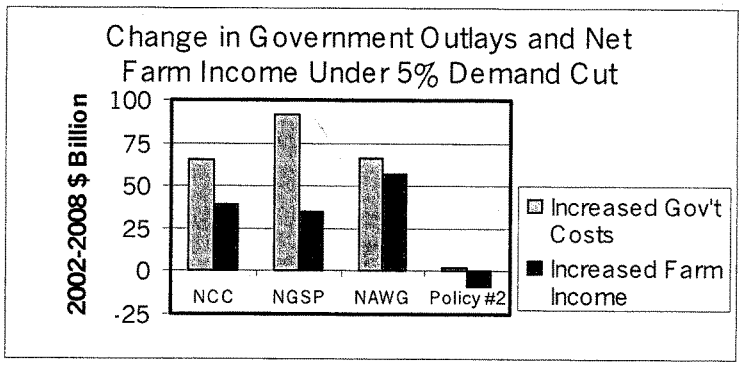
Proponents of counter-cyclical policies want to keep producers whole – or nearly so – in the event of a market downturn. The problem is that, to the extent the income support policy shields the farmer from the fundamental changes in the market, the market may be prevented from restoring a balance in supply and demand in a responsive way and thereby prolonging the pain of lower prices.

The WPI/AgriLogic analysis looked at how Policy 2 (formula loan plus direct payment) responds to a five percent drop in demand. Under this scenario, total net farm income declines from $319 billion to $310 billion over the 2002-2008 period. Government payments increase by $1.7 billion to help "soften" the impact, but clearly do not make the farmer 100 percent whole relative to the "normal" market situation.

A comparison of this result with some of the other farm policy proposals being made is shown in the chart below. Some income support proposals would have the perverse impact of actually making farmers better off financially when market demand drops, signaling a lower demand for farm output. At the same time, government outlays caused by this drop in demand expand more rapidly than the income benefit they deliver to producers. This reflects a lack of efficiency in income transfer to the farmer.

These results send a clear warning signal about the dangers of adopting policies that reward producers in response to negative economic signals. CCFAS believes the policy goal should be to reduce income fluctuations, not to overcompensate for the price and income signals the market delivers to U.S. agriculture.





NCC=National Cotton Council
NGSP=National Grain Sorghum Producers
NAWG=National Association of Wheat Growers

Long-Term Competitiveness

The issue of increasing land values is one of particular concern to CCFAS. As our analysis shows, high loan rates inflate land values more than the same amount of direct payments. It is important to understand that any income support program for farmers, regardless of how it is delivered, will be capitalized into land values to a certain extent. According to USDA, 25 percent of the value of land is in government payments. While this may not be an issue in the short-term, CCFAS is concerned about the long-term implications for U.S. farm policy and its potential adverse impact on maintaining U.S. competitiveness

Trade Policy

CCFAS also believes U.S. farm policies must comply with our international obligations. Marketing loan and other counter-cyclical programs are considered "amber box" domestic support programs under the WTO. The U.S., along with other countries, committed to reducing amber levels for domestic support as part of the Uruguay Round Agreement on Agriculture. It is vitally important that the U.S. continues to comply with our WTO obligations, and continues to shift away from trade distorting programs covered under the "amber box," and toward decoupled direct payments covered under the "green box."

Conclusions

CCFAS believes that a policy based on all direct payments or one based on a formula loan plus direct payments is the best and most efficient way to deliver support to farmers while also ensuring that U.S. agriculture remains competitive in world markets. The benefits of such a policy approach are:

It provides a **more efficient means of enhancing farm income** with farmers receiving more profits from the market. Farm programs should maximize farmers' ability to earn income from the marketplace, not restrict it.

Farmers receive **higher net returns above variable costs**. For example, the WPI/Agrilogic analysis shows that net returns above variable costs for corn are approximately $192 per acre under Policy 2 (formula loan plus direct payments), compared to $174 per acre under a high loan rate scenario (Policy 3).

Farmers receive **higher income from the market** because production is allowed to adjust to market demands. High-loan rates induce excess production, depress prices and increase government outlays.

Decoupled direct payments are "green box," ensuring compliance with our WTO obligations.

Policy 1 (**All Direct Payments**) or Policy 2 (**Formula Loan plus Direct Payments**) is **market responsive, allowing producers to respond to market signals** by adjusting production. The WPI/Agrilogic analysis shows that under such a scenario, market prices generally trend higher so that, combined with fixed direct payments, farmers receive higher gross receipts, improving the farm balance sheet.

Policies 1 and 2 are well within the parameters of the congressional budget resolution and, in addition, **leave substantial funds available for conservation, research, and rural development and health care needs.**

This is important because commodity programs alone cannot address all of the challenges of the farm sector. Only 36% of farms receive direct federal payments, according to USDA. Many farmers' and ranchers' needs are simply outside the scope of any commodity program. Furthermore, the broader issue of the health of rural America as a whole, including technology and infrastructure development, has yet to be fully addressed. U.S. Census figures show that just 10 percent of the rural population today lives on farms. In light of these facts, we hope the Committee will continue to:

- **Press for liberalized world trade**: support swift renewal of the President's "trade promotion authority." Seek open markets through the inclusion of agriculture in regional and bi-lateral trade agreements, the WTO negotiations and vigilant implementation of China's accession to the WTO. All countries must be forced to live up to their trade agreements. Open trade is the engine of world growth, powering immediate and lasting demand increases. Increasing export markets is vital to the future of American agriculture.

- **Work to end all trade sanctions on food.** When we use food as a foreign relations weapon, rural America pays the price.

- **Promote environmental policies that reward sound stewardship**, with emphasis on positive incentives rather than punitive mandates, and a tight focus on conservation goals, not supply management.

- **Assist farmers in managing their risks**, encouraging farm operators to safeguard their future through better marketing. This includes the use of forward pricing with the futures markets.

- **Support development of a sensible energy policy,** bringing more affordable and abundant sources of energy to market and promoting the use of renewable fuels.

- **Increase public investment in research and infrastructure**, providing additional resources for high-priority research topics and improvements to the nation's transportation system and other factors that improve our competitiveness.

Our core belief is that market forces do a better job than government in rewarding efficiency, encouraging productivity, managing risks and allocating resources. Farm programs that are constructed in a market-oriented manner are best equipped to help the producers who directly participate as well as livestock producers and upstream users. An added bonus is that market-oriented policies are not trade distorting and therefore not subject to trade challenges.

Again, thank you for the opportunity to testify today and present the analysis and recommendations of the Coalition for a Competitive Food and Agricultural System.

Statement of Trudi Evans, President
National Barley Growers Association

Before the
Committee on Agriculture, Nutrition and Forestry
U.S. Senate

July 12, 2001

Mr. Chairman, it is a privilege to address this Committee on U.S. farm policy and how it affects our nation's barley producers. I am Trudi Evans, a farmer from Merrill, Oregon, and president of the National Barley Growers Association. The National Barley Growers Association, comprising board members from Minnesota, North Dakota, Montana, Idaho, Oregon and Washington, represents the interests of U.S. barley producers on issues affecting national agriculture policy.

Barley Production

The National Barley Growers have a unique story to communicate to the Committee today. Barley has become an "endangered" commodity in the United States. Barley acres and production have steadily declined from 13 million to 5.8 million over the course of the last 15 years. Barley production in 1999 reached a 25-year low and acreage was the lowest in 100 years.

Barley is a food crop as well as a feed grain. Currently, about one half of U.S. barley production is used for malting. Malting companies pay a premium for this high quality barley. Even with a premium price, however, malt barley production is decreasing due to higher loan rates for other program crops.

The infrastructure of the U.S. barley industry is threatened by this steady decline in acres. Malting barley demand remains constant at around 150 million bushels per year. Yet national barley production continues to decline. The domestic malting industry, whether buying barley from contracted or open market production, has always been most efficient when plants are located closest to the production areas. As U.S. barley acres continue to decline, the domestic malting industry may relocate plants near more stable production areas, taking plants, jobs and labor to Canada and Europe, where barley acres and a supply of malting barley are stable.

NBGA is a strong supporter of the increased planting flexibility provided by the 1996 Farm Bill. However, planting flexibility combined with loan rate provisions in the 1996 legislation is resulting in a sharp downturn in barley acres. Specifically, freezing loan rates and tying barley's loan rate to its feed value relationship to corn have placed barley production at a

competitive disadvantage with other crops. NBGA wants the next Farm Bill to restore equity to the barley loan rate.

Our views on three key areas – the Marketing Loan Program, fixed and decoupled Production Flexibility Contract- or PFC-type payments, and a counter-cyclical income safety net program – comprise the balance of my statement.

1. Marketing Loans

Modification of the Marketing Loan Program is a top priority for the National Barley Growers.

Under section 132 of the current Farm Bill, the barley loan rate reflects only barley's feed value relationship to corn. Since the current Farm Bill caps the corn loan rate at $1.89 per bushel, and since a bushel of barley is only 48 pounds compared to 56 for corn, the barley loan rate is effectively capped at $1.68. This feed value relationship understates the market value of malting and food barley, which have averaged $0.53/bushel higher than feed barley over the last ten years. As I stated earlier, over half of annual U.S. barley production generates higher-value food quality barley malt.

Continuing to link the loan rates for barley and corn based on their respective feed value is inappropriate. The barley marketing loan must provide a safety net comparable to competing crops when prices fall below the loan level. The current feed-based linkage to corn is diverting acres from barley to wheat and oilseeds, which have higher relative loan rates.

The Farm Bill should direct the Secretary to calculate the barley loan rate using 85% of the most recent 5-year Olympic average of USDA's all-barley price, instead of only considering the value of barley's feed relationship to corn. The barley loan rate calculation should be independent of barley's value compared to corn. Furthermore, the next Farm Bill should provide that this loan rate calculation should be no lower than $2.04/bushel (derived from 85% of an average of a recent historical period of years using the all-barley season average price).

If this committee undertakes more comprehensive "rebalancing" of the loan rates of all loan-eligible crops in the next Farm Bill, NBGA supports increasing the proposed $2.04 floor level commensurate with the rebalancing ratio used for all commodities.

Barley growers also support using an "all-barley" price to determine loan repayment rates. Posted County Prices (PCPs) should be set at levels that do not encourage producers to forfeit feed barley in the event marketing loan gains would otherwise be higher than Loan Deficiency Payments (LDPs). In addition, producers should be allowed to lock in LDPs at any time after a crop is planted, with payment after determination of actual production.

Finally, Congress should abolish current federal payment limitations on marketing loan gains and LDPs so everyone can fully utilize this counter-cyclical program for all eligible production.

2. Production Flexibility Contract (PFC) Payments

The National Barley Growers support a decoupled, guaranteed, and fixed crop payment for the life of the next farm bill. Similar to PFC payments, the crop payment should be extended without regard to domestic price fluctuations, and should be decoupled from current and future production to avoid influencing planting decisions. The aggregate level of the annual PFC-type payment should be no less than the $5.6 billion fiscal year 1999 level. The next Farm Bill should maintain the allocation among the seven so-called AMTA crops (wheat, corn, sorghum, barley, oats, upland cotton, rice) at the levels established in the 1996 Farm Bill. Likewise, the Agriculture Committees should restore the barley PFC payment for the period of the next Farm Bill to the 27.2 cents/bushel affiliated with the 1999 Agriculture Marketing Transition Act (AMTA) level. Finally, in the event Congress includes payments for loan-eligible crops not included in the original AMTA formula, the Barley Growers support an offsetting increase in total annual funding.

3. Counter-Cyclical Supplemental Income Program

Low commodity prices have brought out the inadequacy of the current farm program safety net, including AMTA payments and the Marketing Loan Program. Producers of all commodities need an additional program that will provide income support payments when income or the per-acre return of a commodity sector declines. The recent emergency supplemental assistance programs have been extremely helpful – but they provide no long-term protection, which causes great uncertainty among producers and their lenders.

The National Barley Growers support creation of a counter-cyclical income support program based on projected shortfalls in commodity cash receipts. This program would replace current ad hoc emergency payments, and funding for this program should be in addition to the previously mentioned modifications to the Marketing Loan Program and continued AMTA-type payments.

The Barley Growers support a counter-cyclical program proposal put forth by the National Association of Wheat Growers. The program would trigger commodity-specific payments when market prices (including per-bushel or -unit farm program payments) are less than an established Market Support Level for each commodity. Once the Market Loss Support Payment is triggered, per-bushel or -unit payments would equal the difference between (1) the established Market Support Level for a commodity, and (2) the per-unit PFC-type payment and the higher of either the national average marketing loan level or the forecasted national average market price.

Per-bushel or -unit Market Support Levels are derived by dividing a commodity's total average production from 1995-1999 into the commodity's Gross Income and Total Support (cash receipts, LDPs or marketing loan gains, and AMTA and Market Loss Assistance payments) during the same five-year period. Based on this formula, barley's Market Support Level would be $2.72 per bushel.

If barley's established Market Support Level is $2.72 per bushel, the per bushel PFC-type payment is $0.27, and forecasted prices in a year are less than barley's national average marketing loan level of $2.04, barley producers would receive a Market Loss Support payment of $0.41 per bushel. The per unit Market Loss Support payment could be prorated in the event eligible payments would otherwise exceed the funding level allocated for the counter-cyclical program, or if a year's domestic support and counter-cyclical program spending were facing the $19.1 billion Uruguay Round limit on "amber" box spending.

After it is determined that a commodity is eligible for Market Loss Support payments, payments to eligible producers would be based on a farmer's barley acres and yields during a decoupled historical base period.

Other agriculture policy components critical to farm income

The National Barley Growers Association supports further examination of voluntary incentive-based "green payments" similar to the Conservation Security Act introduced in the House and by the Chairman of this Committee in the Senate. The program should provide payments in exchange for implementation of conservation practices, including improving water quality, soil erosion, and wildlife habitat. The program would support farm income, benefit the public at large, and would be classified as "green" box under WTO rules. Identification of funds and implementation of this program should be included with changes to the marketing loan program, PFC-type payments, and a counter-cyclical program. The Barley Growers support at least $1 billion in new annual funding for conservation incentive payments, although our priorities for new funding center around improvements to the Marketing Loan Program, decoupled program payments, and funding for a counter-cyclical program.

Domestic farm policy and income support programs are only part of the solution to the challenges facing barley growers. While recognizing the scope of today's hearing, some mention must be made of needed changes in trade policy. Even if barley growers receive higher loan rates and supplemental income assistance, these supports will not resolve long-term restraints on our export competitiveness, including the strength of the U.S. dollar, unfair foreign subsidies, false phytosanitary non-tariff barriers such as TCK, and unfair practices of monopolistic State Trading Enterprises. Barley growers understand the United States will never convince foreign competitors to reduce subsidy levels and tariffs without reducing our own trade distorting supports. However, when past agreements bind us to unfair levels relative to their spending limits, the rules must be changed.

Economic Loss Assistance for the 2001 Crop

Finally, it is critical to farmers and the farm economy for Congress to provide economic and income loss assistance for the 2001 crop of not less than the AMTA payment and supplemental economic loss assistance provided for the 1999 and 2000 crops. Without adequate emergency assistance for the current crop year, many farmers will be out of business before the next farm bill.

The Fiscal Year (FY) 2002 budget resolution provides $5.5 billion in additional agricultural assistance for crop year 2001 and an increase of $73.5 billion in the agriculture budget baseline through 2011. The budget resolution also provided flexibility in the use of the total sum of $79 billion. Because agricultural prices are not improving and production costs continue to escalate, NBGA believes it will be difficult to fully address the chronically ailing agriculture economy if Congress provides no more than $5.5 billion in assistance for the current crop year.

Although projections show a rise in farm income, this is largely due to the fact that analysis project livestock cash receipts to rise from $98.8 billion in 2000 to $106.6 billion in 2001. At the same time, cash receipts from crop sales are up less than $1 billion.

Further, producers continue to face historic low prices and income as well as increased input costs. In 2000, farm expenditures for fuel and oil, electricity, fertilizer and crop protection chemicals are estimated to increase farmers' cost $2.9 billion. This year, USDA estimates those expenses will rise an additional $2 billion to $3 billion while farm income continues to decrease. These issues affect every sector of agriculture.

We urge Congress to mandate that the Secretary of Agriculture make economic loss assistance for the 2001 crops in the form of a market loss assistance payment at the 1999 PFC payment rate as soon as practicable prior to the end of FY01.

We believe this additional assistance will help addresses the serious economic conditions in the farm sector and does not jeopardize the House and Senate Agriculture Committees' ability to develop effective new long-term farm policy in the near future.

Conclusion

In summary, barley growers support continuation and reformulation of the non-recourse marketing loan program giving barley a more equitable loan rate, continuation of annual decoupled PFC-type payments at no less than the fiscal year 1999 level, and development of a counter-cyclical program to supplement low market prices and farm income when needed.

Mr. Chairman, that concludes my statement. Thank you for the opportunity to appear before the Committee.

Recommendations for the Next Farm Bill

Testimony presented to the

United States Senate Committee on Agriculture

By

Mr. Bill Kubecka

Vice President - Legislation

National Grain Sorghum Producers

July 12, 2001

RECOMMENDATIONS FOR THE NEXT FARM BILL

Testimony Of

Bill Kubecka, Vice President for Legislation
National Grain Sorghum Producers
July 12, 2001

Introduction

Mr. Chairman, members of the Committee, on behalf of grain sorghum producers nationwide, I would like to thank the U.S. Senate Committee on Agriculture, Nutrition and Forestry for allowing us this opportunity to discuss our objectives for federal farm policy.

My name is Bill Kubecka, and I serve as vice president for legislation for the National Grain Sorghum Producers (NGSP). I farm in a family partnership near Palacios between Houston and Corpus Christi, Texas. Our diversified operation includes grain sorghum, rice, and cotton.

NGSP represents U.S. grain sorghum producers nationwide. Headquartered in the heart of the U.S. grain sorghum belt at Lubbock, Texas, our organization works to increase the profitability of grain sorghum production through market development, research, education, and legislative representation. The recommendations we are making to you today have been reviewed and approved by NGSP's 27-member board.

Our recommendations to you today are focused on the specific needs of grain sorghum producers, and we appreciate your consideration of them as you undertake the task of amending commodity titles in federal farm legislation.

Analyses of the recommendations made in this testimony were conducted by NGSP with input from the staff at the Food and Agriculture Policy Research Institute (FAPRI) using their Congressional Budget Office (CBO) model and by AgriLogic, Inc., of College Station, Texas, using their private model, which utilizes the CBO baseline information in their model. This is not the actual CBO baseline but is instead an approximate of the CBO baseline.

Current Industry Overview

Grain sorghum is a versatile, resource-conserving crop that can be used in the cereal, snack food, baking, brewing, pet food and animal feeding industries. The United States grain sorghum industry is comprised primarily of nine states in the Great Plains. The states of Kansas, Texas, Nebraska and Oklahoma account for 85 percent of annual production. Rounding out the U.S. sorghum belt are South Dakota, Colorado, New Mexico, Arkansas, Missouri and Illinois. In most of these states, Mr. Chairman, when it comes to water the issue is not water quality—rather, it is water quantity and the costs associated with irrigating crops. Grain sorghum is a tough crop that has the ability to withstand dry conditions by becoming temporarily dormant during moisture stress. Further, grain sorghum, the water-sipping rather than water-guzzling feedgrain, demands less water than other crops. Thus, in areas where water supplies are limited and low rainfall occurs, grain sorghum and forage sorghum conserves an important resource while offering more yield stability with less risk. Additionally, from a conservation standpoint, sorghum utilizes less pesticides that other commodities.

In 1996, the sorghum industry harvested 11.8 million acres and produced 795 million bushels. However, in 2000, the industry only produced 470 million bushels on 7.72 million harvested acres. Additionally, the forage sorghum industry utilized as silage, hay and direct grazing represents another five million acres of production.

The United States grain sorghum industry services the animal feeding sector of the southern and western United States and Mexico, with poultry, beef and swine industries being major users. However, there are significant new growth markets within the grain sorghum industry, which are leading to increased demand. Ethanol and industrial use in Nebraska, Kansas and New Mexico has increased usage to 13 percent of production for the 2000-2001 market year. With no less than 8 proposed ethanol plants under various stages of development or expansion in the sorghum belt, this industry holds tremendous promise to become the single largest user of grain sorghum in the United States if they can be assured a reliable supply of grain. Additionally, new genetics are allowing new markets in the food industry in the U.S. These markets hold real promise as health benefits of sorghum become better defined. Worldwide, approximately 50 percent of grain sorghum is consumed directly as a food grain leaving a tremendous growth opportunity here in the U.S. where less than one percent of the U.S. production goes directly into human consumption.

Additionally, the U.S. dominates world seed production in sorghum with a billion dollar seed industry focused on 250,000 acres primarily in the Texas Panhandle.

The United States sorghum industry enjoys dominance in the world sorghum trade with an average world market share of 78 percent. However, as a portion of world feed grain supplies we remain a small player at 4.69 percent of the market. This international presence comes from the 30 to 40 percent of U.S. grain sorghum that is exported annually to primarily Mexico, Japan and Spain.

NGSP Farm Policy Background

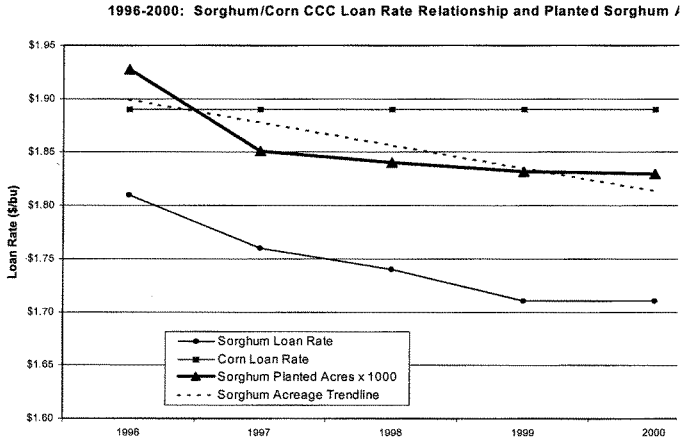
NGSP was among the members of the agriculture industry urging farm flexibility in 1996, and we stand by that concept today. We urge the Committee to find a solution within the framework of the 1996 FAIR Act with a few modifications, and we would like to thank Congress for giving us the framework in 1996 to make planting decisions based on market conditions and the conservation needs of our individual operations.

However, when the 1996 Farm Bill became law, commitments were made to the agricultural community to work on creating an environment in which the 1996 FAIR Act could thrive by opening foreign markets and providing new risk management tools for farmers. For numerous reasons Freedom to Farm did not operate in an optimum environment.

Our recommendations center on correcting inequities that would genuinely give producers the freedom to produce any crop that suits their marketing plans and conservation needs, rather than planting those that are most appealing from a government standpoint. The sorghum industry believes that loan rates and crop insurance subsidies on higher risk crops are greatly driving cropping systems and cropping decisions.

In 1985, farm legislation lowered target prices for grain sorghum compared to other crops, which encouraged farmers to replace sorghum with other crops. Additionally, the loan rate for grain sorghum from 1972 to 1996 was never more than five percent below the loan rate for corn[1], until only recently when the loan rate for grain sorghum began dropping precipitously while the loan rate for other commodities remained steady, culminating in a sorghum loan rate today which is ten percent below, or double the lowest levels of the last 30 years, of the corn loan rate.

[1] USDA-Office of the Secretary (1996)



Perhaps it is not merely a coincidence that we come before you today having last year harvested the lowest number of grain sorghum acres on record since 1953[2]. For this reason, the equalization of the grain sorghum loan rate with other feedgrain loan rates is the centerpiece of our testimony to you today. It is our strongest belief that should the Committee choose to follow any of our other Farm Bill recommendations that are detailed here, such decisions can have little or no positive impact on our industry if we fail to achieve at least an equal loan rate to corn, thereby increasing options for producers and avoiding further grain sorghum acreage losses in times of high energy costs and depressed markets such as today.

Policy Recommendations: Loan Rates

In order to rebalance loan rates and prevent further distortion to acreage and world markets, NGSP recommends that the loan rate for grain sorghum be equalized with loan rates for all feedgrains, and that loan rates for oilseeds be kept at current levels while loan rates for all other commodities be increased by five percent. Additionally, NGSP recommends that this equalization of loan rates for sorghum and corn be extended to sorghum silage.

[2] USDA-National Agricultural Statistics Service (2000)

Commodity	Current Loan Rate	Proposed Loan Rate
Corn	$1.89/bu	$1.98/bu
Sorghum	$1.71/bu	$1.98/bu
Rice	$6.51/cwt	$6.84/cwt
Cotton	$0.52/lb	$0.55/lb
Wheat	$2.58/bu	$2.71/bu
Barley	$1.68/bu	$1.76/bu
Oats	$1.21/bu	$1.27
Oilseeds	No Change	

The 1996 law states under Title I, of the Agricultural Market Transition Act, Section 132, Loan Rates and Marketing Assistance Loans, (b) Feed Grains (3) Other Feed Grains: *The loan rate for a marketing assistance loan under section 131 for grain sorghum, barley, and oats respectively, shall be established at such level as the Secretary determines is fair and reasonable in relation to the rate that loans are made available for corn, taking into consideration the feeding value of the commodity in relation to corn.*

Based on this language from the 1996 law that gives considerable discretionary authority, loan rates could be determined in any number of ways, using various factors. Given the potential for arbitrary interpretation of the law, we respectfully ask that the Committee consider changing the law to set the statutory minimums for corn and sorghum loan rates equal.

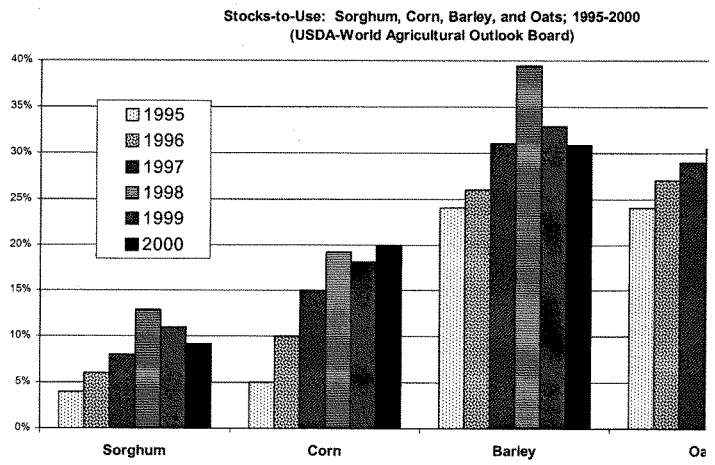
Following are several factors to which NGSP would like to point as verification for equal loan rates.

These factors include demand opportunities as supported by stocks-to-use, relative loan rates based on weights of other commodities, cash markets, nutritional and end-use value, and conservation considerations. Research conducted by FAPRI at the request of the House Agriculture Committee indicates that under this recommendation, equalizing the sorghum loan rate with corn will cost only an average of $31 million annually and will increase production by five percent while decreasing farm prices by only 1.5 percent. Additionally, it would create a 22 percent per acre increase in net returns to sorghum producers.

Projected average cost over eight years for increasing other loan rates by five percent (with the exception of oilseeds) and equalizing the loan rates for corn and sorghum would be $575 million, a high of $1.1 billion in 2002 and no net cost in 2005 resulting from ending acreage distortions between other commodities and oilseeds.

Demand Opportunities:

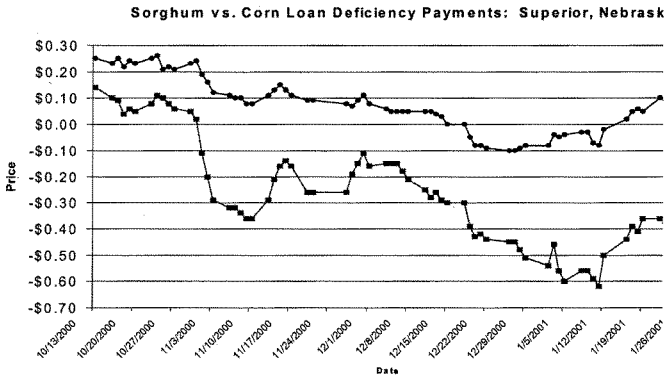
An analysis of recent ending stocks and total use indicates any additional sorghum acreage generated by an equal loan rate with corn would generally be non-distortive to grain sorghum supplies. Indeed, from a critical mass and logistical standpoint, increased production would allow us to compete in several premium markets in which we are unable to compete today because of a lack of a reliable supply. Language in the current law forbids the Secretary of Agriculture from lowering the corn loan rate if stocks-to-use drop below 12.5 percent; yet, sorghum has repeatedly had its loan rate lowered over the last four years despite stocks-to-use ratios for sorghum that were well below 12.5 percent and one-third that of the stocks-to-use ratio of other feed grains whose loan rates actually increased over this time period.



Additionally, our market research documents that our chief complaint from end users is that there is not a reliable supply of grain sorghum. We have lost demand because we cannot ensure production, and existing demand (in the animal feeding industries) has eroded for this reason. Additionally, the sorghum industry has not been in a position to fill demand from replacement markets without a reliable supply.

This inequity in the loan rate also has caused distortions in the marketplace when considering Loan Deficiency Payments (LDP). Last season, cash prices for corn and grain sorghum were very close, but loan rate discrepancies resulted in corn receiving a 20 to 30 cent LDP per bushel while grain sorghum was only getting a two or four cent LDP per bushel if any

at all. This inequity meant $20 to $30 per acre for farmers that were already in a tight cash revenue situation.



Relative Weight and Loan Rates:

Other feed grains that fall under Title I of the Agricultural Market Transition Act, Section 132, in determining loan rates are oats and barley. While the 2001 loan rate for barley is $1.68 per bushel, pound for pound, the loan rate for barley is higher than the loan rate for sorghum and corn because barley weighs only 48 pounds per bushel, compared to 56 pounds per bushel for corn and grain sorghum. Similarly, the loan rate for oats is higher than the loan rate for sorghum and corn, because oats are measured at 32 pounds per bushel. Quoted on a hundredweight basis, 2001 loan rates for corn, sorghum, barley and oats are as follows[3]:

Corn	$3.38
Sorghum	3.05
Barley	3.44
Oats	3.78

NGSP has been told that this is due to cash market comparisons of oats, barley and sorghum to corn. However, we are awaiting information from USDA as directed in an appeal of our December 20 Freedom of Information Act request for further analysis of factors determining the above loan rates for these feed grains. On a pound-for-pound basis, sorghum should be equal with all feedgrains.

Cash Markets:

Recent cuts to the sorghum loan rate despite an already historically wide gap between the loan rate for sorghum and the loan rate for corn came at a time when Nebraska grain sorghum producers were reporting cash sorghum sales as high as ten

[3] USDA-Farm Service Agency (2000)

cents per bushel over corn even as the government loan rate for corn was much higher than sorghum. Nationally in the past year, most farmers realized grain sorghum cash prices that were two to three percent above corn in most sorghum growing areas, while the loan rate for corn was ten percent more than sorghum.

As sorghum acres decline and end-users consolidate and grow, NGSP believes daily cash market reports are increasingly less precise. NGSP's analysis of the data used to calculate loan rates has given rise to concerns that the collection of this data by USDA does not reflect geographic changes in sorghum production and marketing that have occurred in the last five years. Therefore, NGSP believes a level loan rate policy is needed to avoid continual problems in this area.

Nutritional and End-Use Value:

University research trials conducted over the last ten years have clearly shown that the end-use value of sorghum is equal to other feedgrains (corn) when properly processed:

1. a greater reduction in nitrogen-corrected metabolizable energy occurred in corn than in sorghum when the grains were fermented to distillers dried grains (DDGS) with solubles made from those grains, and metabolizable energy values were 24 percent greater for DDGS from sorghum than from corn (see Appendix A)
2. sorghum is comparable to corn in ethanol production, and the dollar value of sorghum dried distillers grain (DDG) is comparable to corn DDG when end-uses are similar with sorghum (see Appendix B)
3. of dairy cattle fed either corn or sorghum in a control group, those fed sorghum showed an increase in the milk protein and milk production over those on a corn ration (see Appendix C)
4. sorghum was equal to corn in feeding value in broiler chicks fed complex diets in crumbilized form (see Appendix D)
5. hard and soft endosperm sorghum milled at the same rate as corn was comparative in nutritional value (see Appendix E)

Conservation Considerations:

Sorghum has been called a "water-sipping" rather than "water-guzzling" crop. University studies have compared water savings through alternative cropping patterns and the use of crops that require less water, such as grain sorghum. Dr. Terry Howell from USDA-ARS facility in Bushland, Texas, found the following in a recent study:

Seasonal Water Use	
Corn	30.3 inches
Sorghum	22.7 inches

Similarly, a Regional Water Plan prepared for the Texas Panhandle Water Planning Group in Amarillo, Texas, has found that the water savings over 50 years for 524,243 acres spread over 21 counties in the Texas Panhandle would amount to 7,360,000 acre-feet of water if irrigated corn acreage were converted to irrigated sorghum. That's on average, 147,200 acre-feet saved per year. An acre-foot of water equals 325.850 gallons—roughly enough to supply two, four-person homes with water for a year. On average, water saved over 50 years in these 21 Texas Panhandle counties alone would amount to 147,200 acre-feet per year—enough to supply water to 294,400 four-person homes in a year. For reference, the city of Austin, Texas, has 276,842 housing units and a population of 642,994, according to the U.S. Census Bureau.

Taking this to a wider scope, economic impact from water savings on irrigated corn and soybean acreage converted to grain sorghum could be astounding when looking at total irrigated corn and soybean plantings in Kansas, Nebraska and Texas combined. These numbers do not take into account the potential savings in other inputs, such as less pesticides and fertilizer use.

Irrigated Corn Acres Planted in 2000 (x 1000 ac)		
STATE	**IRRIGATED CORN**	**IRRIGATED SOYBEANS**
Kansas	1,710,000	398,000
Nebraska	4,975,000	1,940,000
Texas	991,000	93,500
Totals	**7,676,000**	**2,431,500**

From a conservation standpoint, the question is simple: How can a limited resource be most efficiently used? We believe that future water supplies should be a priority, and an equal loan rate would give producers the ability to conserve water without going bankrupt.

Policy Recommendations: Counter Cyclical Safety Net

NGSP is aware that ad hoc disaster and assistance legislation will become increasingly difficult to achieve and defend in the face of projected Social Security, Medicare, and Medicaid needs in the next six to eight years. Such indicators point to the need for a counter cyclical safety net. However, we are very concerned that a counter-cyclical program take into account county and regional production and marketing anomalies that might not trigger payments or impact national supplies. Additionally, NGSP is concerned that, given the federal government's budget concerns and the WTO requirements, it will be difficult for the Committee to construct a meaningful program. We are also concerned that a counter cyclical program could lead to planting decisions based upon government policy such as the current crop insurance and loan rate programs do. In lieu of the above issues, NGSP believes that a FARRM account would likely be the best counter cyclical program of all.

However, even with these concerns, NGSP does have a position on a counter cyclical program. NGSP supports a regionally oriented counter cyclical program in lieu of a nationally oriented program. However, the "devil is in the details."

NGSP proposes basing a counter cyclical program on a commodity-by-commodity basis of actual market receipts averaged over the historical base period divided by average production units over the base period. This establishes the **Base Price** for the 2002-2008 period. To calculate the counter cyclical payment, the **Current Price** per bushel must be established. This price would be the current year's price as defined by total current year marketing receipts, divided by current year production. The **Current Price** ($/unit) is then subtracted from the **Base Price**. This provides a **Per Unit Payment** for each commodity. At the end of the growing year when actual production and price has been reported, each producer is then paid this **Per Unit Payment** for each unit produced on their farm during the historic base period.

Policy Recommendations: Loan Deficiency Payments

NGSP supports the present LDP program, but there must be a re-alignment of loan rates between crops and adjacent counties as previously discussed in this testimony. NGSP believes in the sprit of the law that affords payments to those who sell or agree to sell their production without taking out a non-recourse loan on that production. This action avoids the accumulation of commodities by USDA.

The LDP program is a production program, and the producer must account for production. Upon harvest of the commodity and/or the sale of the commodity (loss of beneficial interest), a producer should be eligible for a LDP on that production. Present law states that the producer must have full possession (beneficial interest) in the commodity at the time he/she applies for an LDP payment. NGSP recommends that beneficial interest rules be changed to allow those who have lost beneficial interest to apply and receive an LDP, at the rate that was calculated on the day the producer lost beneficial interest in that production.

Policy Recommendations: AMTA Payments

We support a continuation of AMTA payments, although we recognize the negative impacts on cash rents in the northern sorghum belt. NGSP believes that the Production Flexibility Contract (PFC) should be extended though the next Farm Bill period, and annual payments should be frozen at the 1999 level. Providing these payments at these 1999 AMTA levels would require $5.8 billion in annual budget authority, or approximately $1.8 billion annually more than the current baseline projection.

The PFC mandates that participants (farmers) carry out and maintain certain conservation practices that are set forth in an individual farm plan that is developed by the Natural Resources Conservation Service (NRCS).

NGSP believes that the AMTA payment should be calculated using the historical crop base acres and yields that established the 1996 Farm Bill payments, and that AMTA payments include historical program crops. NGSP recommends that existing historic bases for current program crops should remain in place throughout the next Farm Bill.

NGSP recommends that the next Farm Bill mandate that participating farmers annually certify their planted and non-planted PFC acres with the Farm Service Agency (FSA). Under the 1996 Farm Bill, mandatory annual certification of planted acres was removed. We believe all crops that are eligible for a federal payment (including price support & loans) should be required to certify planted acres.

Policy Recommendations: Conservation

NGSP recommends that sorghum—both forage and grain—be considered a "resource-conserving" crop for conservation purposes in the Conservation Title of the Farm Bill. Further, any programs that offer compensation, or "green payments," for enhanced conservation practices should remain voluntary. NGSP recommends that the next Farm Bill pursue the possibility of providing these "green payments" to farmers actively engaged in conservation practices only if funds are made available above and beyond that which is needed to secure the farm safety net and to improve other existing programs.

If the Senate decides to expand the role of conservation in the Farm Bill, NGSP would encourage the Committee to consider allowing non-profit organizations like NGSP the opportunity to provide technical assistance to producers.

On a percentage basis, the Conservation Reserve Program has taken more acres from our commodity than any other commodity as well as damaged infrastructure and economic activity in rural communities. For this reason, NGSP supports any increases in CRP-enrolled acres only within the current 36.4 million-acre cap.

CRP contracts that were entered into prior to the 1996 Farm Bill retained crop base history and, upon expiration, producers on that land were eligible to enter into a PFC contract. USDA published regulations for the 1996 legislation that eliminated all the crop base history on CRP contracts signed after August 1, 1996. Under present law, if the PFC program is extended,

those acres coming out of CRP will be ineligible for all farm program crop benefits. NGSP recommends that this problem on CRP acres be addressed now, before the next Farm Bill. These CRP contracts should be given the same eligibility status as those CRP contracts that were accepted by USDA prior to August 1, 1996.

NGSP supports the Environmental Quality Incentive Program (EQIP), the Wetlands Reserve Program (WRP), and the Wildlife Habitat Incentives Program (WHIP).

Finally, sorghum is an excellent carbon sequestration crop. NGSP encourages the Committee to establish criteria that will allow sorghum to participate if a program is created.

Policy Recommendations: Trade

From a trade and export standpoint, NGSP opposes any form of cargo preference. NGSP supports increasing the amount of sorghum on the docket for donation and long-term loans under the PL-480 programs, including Title I, II, III, and Section 416. In order to maintain and expand US market share of exports, we support extending the Export Enhancement Program (EEP) to all buyers of wheat and feed grains to assure US export competitiveness. NGSP supports the continued funding of the US Department of Agriculture's Market Access Program (MAP) and Foreign Market Development (FMD) programs, which enable sorghum producers to effectively address market development needs and stimulate quick response in the market place. Export credits should be utilized to maintain and increase markets when and where available.

NGSP supports contract sanctity legislation (no sanctions should be authorized) and the elimination of agriculture products from sanctions imposed on foreign countries for humanitarian or environmental purposes.

Additionally, NGSP urges Trade Promotion Authority for the president.

Policy Recommendations: Other

While we eagerly await the implementation of the Crop Insurance Reform Act, we are concerned that crops like grain sorghum still are not being rewarded for being a lower-risk cropping alternative. Policy traditionally has favored high gross revenue, riskier crops over sorghum, which has more yield stability.

NGSP as an organization is somewhat split on the issue of eliminating payment limits, in part due to our members' geographic diversity. Some believe having no limits encourages outside ownership of farmland. Others believe that administering the program costs more than

removing all limits. However, NGSP is in agreement that in order to be effective, Counter Cyclical payments should not be subject to payment limits. Additionally, NGSP favors doubling the limits on price support (market loans & LDP) payments to $150,000 with a yearly growth equal to the annual inflation index.

NGSP opposes any effort to use means testing to target benefits of farm programs to any class or size of farming operation.

Producers of commodities not traditionally covered by base farm support programs have sought guaranteed assistance as well. NGSP opposes these efforts.

Impacts

Allied Industries

NGSP has completed a preliminary analysis of our proposal's impact on the livestock industry. This analysis suggests there would be no negative impact on the livestock industry.

World Trade Organization

Designing a proposal that falls within WTO guidelines is a stipulation of the NGSP proposal. NGSP believes that our proposal meets all such requirements.

Impact on Insurance Losses

Sorghum is a low water-use, low-input choice for many producers, and conservation needs such as these and not federal policy should be prioritized in determining where and when it is planted. Many producers feel it is undesirable to use non-renewable resources to grow other crops simply because they are forced to do so in a depressed farm economy combined with government policy that appears to make other crops the "safe" choice from a cash assurance standpoint. Higher loan rates for crops other than sorghum encourage farmers to grow higher risk crops, potentially costing USDA more in terms of insurance losses in dry years when sorghum would otherwise be a natural fit for producers in semi-arid regions of the Great Plains.

Global Implications

A global population that benefited in the latter part of the 20th Century from the Green Revolution led by Dr. Norman Borlaug is today facing a future predicted to have 25 percent of the world population experiencing severe water scarcity by 2025[4]. However, 50 percent of the increase in demand for water by 2025 can be met by increasing the effectiveness of irrigation and by growing more water-use

[4] International Water Research Institute

efficient crops[5]. Further, as water availability in the U.S. Great Plains, dependent on the Ogallala formation, decreases, sorghum has the ability to become dormant during moisture stress, allowing more yield stability with less risk. A second Green Revolution; rather, a Blue Revolution, less dependent on irrigation seems imperative. New thinking suggests a combined approach of water harvesting and appropriate crops such as the more risk-tolerant sorghum to produce "more crop per drop," has a place in U.S. agriculture.

From a long-term global demand standpoint, total meat consumption in developing countries is projected to more than double by the year 2020; and, worldwide, demand for meat is projected to increase more than 60 percent of current consumption by 2020[6]. To meet these projections, net grain imports by developing countries will almost double by 2020. Sorghum is uniquely suited to help satisfy the doubling of meat (protein) demand in the world by 2020, as well as serve as a food source for the world.

CLOSING REMARKS

Mr. Chairman, we would like to thank you and the members of this Committee for the opportunity to present our ideas before you today. We look forward to providing you with additional information as we continue working together on this process.

[5] International Water Research Institute
[6] International Population Research Institute

APPENDIX A

EFFECTS OF CORN AND SORGHUM GENOTYPE ON METABOLIZABLE ENERGY VALUE OF DRIED DISTILLERS GRAINS IN BROILER CHICKS

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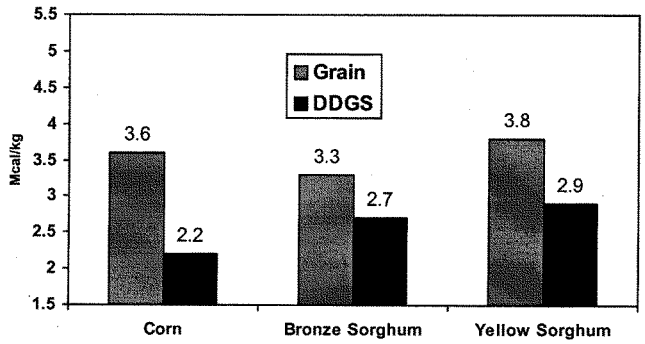
Co-products of the ethanol industry have received considerable attention as economical sources of protein and energy in swine and poultry diets for many years. Testimony to this early interest includes a flurry of research reports concerning use of distillers dried grains in diets for fattening pigs published in the Journal of Animal Science during the 1940's. Since that time, cheap cereal grains and inconsistent supply and quality of distillers grains has resulted in a general "thumb rule" that distillation by-products should be restricted to use in diets for gestating sows, finishing pigs , and laying hens with a maximum inclusion rate of only 5 to 10%. However, it seems likely that production of ethanol as a fuel will increase dramatically during the next 20 years, resulting in a marked increase in the amount of distillers dried grains available for use in the diets of swine and poultry. Thus, we conducted an experiment to determine the effects of the distillation process on (MEn) in corn and two sorghum genotypes. A total of 210 chicks (6 days old with an average initial BW of 104 g) was used in the 8-day experiment to determine the nitrogen-corrected metabolizable energy (MEn) value of corn, the two sorghum grain genotypes, and distillers dried grains with solubles (DDGS) made from those grains. Neither cereal grain source nor distillation treatment affected food intake of the chicks (P>12). Metabolizable energy values were 38% greater for the grains than for the DDGS (P<.001) and 24% greater for DDGS from the two sorghums than from the corn (P<.10).

Conclusion: These results indicate that a reduction in MEn occurred when cereal grains were fermented to DDGS, with a greater reduction for corn than for the sorghums.

Effects of distillation on MEn of corn, bronze sorghum, and yellow sorghum



APPENDIX B

SORGHUM USE IN ETHANOL PRODUCTION

Duane Kristensen
Chief Industries, Hastings, Nebraska, 402/463-6885

Statement:

Sorghum is comparable to corn in ethanol production.

Ethanol by-products:

Dried Distillers Grain (DDG) – The dollar value of sorghum DDG is comparable to corn DDG when end users are familiar with sorghum.

Notes:

APPENDIX C

SUMMARY OF 6 STUDIES: RESEARCH SHOWS STEAM-FLAKED SORGHUM BOOSTS DAIRY PROFITS

Dr. J.T. Huber, University of Arizona

Results from recent dairy research shows that dairymen can increase their profits as much as 65 cents per day per cow by switching from corn to steam-flaked grain sorghum. Six lactation trials involving 215 cows in early to mid lactation were recently conducted at the University of Arizona Dairy Cattle Center. The research showed the following results:

When fed at 30 to 45% of the diet dry matter, steam-flaked sorghum (SFS – 28lb. bu) out-performed steam-rolled corn (SRC) and dry-rolled sorghum (DRS) for milk and milk protein yields, as well as efficiency of feed utilization. A very flat sorghum flake (21 lb/bu) fed at 40% decreased intake and performance, but increased milk production when fed at 15% of the diet.

Summarization of data from six studies showed that steam-flaking of sorghum grain (27 to 31 lb/bu) increased milk production an average of 10% milk fat yield 4%, milk protein yield 16% and feed efficiency 7%, compared to dry-rolled sorghum. The improved performance with steam-flaked grains appeared related to ruminant and total starch digestion.

Table 1. Effect of flaking sorghum on dairy cow performance.

	Sorghum Comparisons		Change	Sorghum vs. Corn[2]		
Item	DRS	SFS	%	SRC	DRS	SFS
Number of cows	69	67		15	15	15
Ruminal starch dig. %3	54	78	44	70	60	81
Total starch dig, %	76	95	25	87	78	95
Dry matter intake (lb/day)	53.6	53.8	0	54.9	55.8	55.6
Milk, lb/day	68.8	75.9	10	68.8	66.6	72.8
3.5% FCM, lb/day	66.8	71.0	6	67.0	65.7	70.1
FCM/DMI	1.30	1.39	7	1.26	1.20	1.30
Milk fat, %	3.35	3.19	-5	3.34	3.42	3.40
Milk fat, lb. day	2.29	2.39	4	2.29	2.29	2.40
Milk protein, %	2.90	3.03	4	2.95	2.86	3.06
Milk protein, lb/day	1.98	2.29	16	1.98	1.92	2.23

Summary of six 56- to 80-day lactation trials
Summary of two 80- and 70-day lactation trials.
From metabolic trials of Poore et al. (1990) and Oliveira (1991).

Table 2. Increased profits from feeding steam-flaked sorghum compared to dry-rolled sorghum or steam-rolled corn to lactating dairy cows.

Assumptions:

1. Cost of flaking sorghum = $10/ton or .5 cents/lb; sorghum intake by cows = 20 lb/day @.5 cents/lb = 10 cents/day.
2. Uniform blend price of milk (Mar, 1992, in Dallas, TX) = $13.22 with 10 cents differential for protein (base = 3.1% and differential for fat (base = 3.5%).

Processing benefits:

Steam-flaked vs dry-rolled sorghum: value of milk = $9.79 (SFS) vs $8.87 (DRS).
Increased profit = 92 cents/d/cow-10 cents (for flaking) = **82 cents**. For 100-cow herd (300 d) = **$24,600**

Steam-flaked sorghum vs steam-rolled corn: value of milk = $9.55 (SFS) vs $8.90 (SRC).
Increased profit = 65 cents/d/cow. For 100-cow herd (300d) = $19,500.

[1]Data from Table 1 values.
[2]Costs of SFS and SRC were equal. (U of A, Apr. 92)

APPENDIX D

EFFECTS OF CORN, SORGHUM GENOTYPE, AND PARTICLE SIZE ON MILLING CHARACTERISTICS AND PERFORMANCE IN LAYING HENS AND BROILER CHICKS

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The effects of grain type (corn, hard endosperm sorghum, and soft endosperm sorghum) and particle size (geometric mean particle sizes of 1,000, 800, 600 and 400 μm) on milling characteristics and performance of laying hens and broiler chicks were investigated. The hens were fed from 20 to 55 wk of age in a curtain-sided, naturally ventilated cage house. Reducing particle size increased percentage egg production, and feed efficiency, especially for birds fed the sorghum grains. Considering energy required for milling, egg production, and feed efficiency, the optimum particle size for the three cereal grains was near 800 μm. In experiment 2, corn required more energy to grind and had lower production rates than the sorghums. As particle size was reduced, energy required to grind (kWh/t) increased and production rate (t/h) decreased. Growth rate, daily feed consumption, and gain/feed were not affected by treatment (P>.2).

Conclusion: Regardless of particle size, sorghum was equal to corn in feeding value in broiler chicks fed complex diets in crumbilized form.

APPENDIX E

SORGHUM GENOTYPE AND PARTICLE SIZE AFFECT MILLING CHARACTERISTICS, GROWTH PERFORMANCE, AND NUTRIENT DIGESTIBILITY IN FINISHING PIGS

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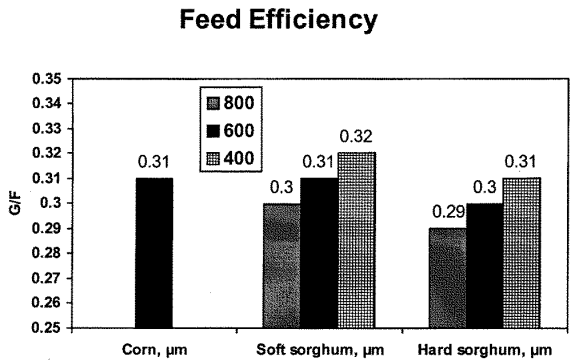
Seventy barrows (avg initial BW of 54.3 kg) were used to determine the effects of sorghum genotype and particle size on milling characteristics, growth performance, and nutrient digestibility in finishing pigs. The pigs were fed a corn-soybean meal-based control diet with the corn milled to a mean particle size of 600 μm. Hard endosperm sorghum and soft endosperm sorghum were milled to mean particle sizes of 800, 600, and 400 μm, and substituted for the corn on a wt/wt basis, so that the overall treatment arrangement was a 2 x 3 factorial plus control. The sorghums required less energy to grind, had greater production rates, and produced less noise during milling than corn. Pigs fed diets with hard and soft endosperm sorghum had ADG, ADFI, and gain/feed that were similar to those of pigs fed corn (P>.10). Pigs fed hard sorghum grew faster (P<.04) but pigs fed soft sorghum were more efficient (P<.03). A linear increase in gain/feed was noted as mean particle size of the diets was reduced from 800 to 400 μm (P<.01). Reducing particle size from 800 to 400 μm decreased DM and N excretion in the feces by 14 and 28% respectively, for pigs fed the hard endosperm sorghum, and by 59 and 67%, respectively, for pigs fed soft endosperm sorghum (P<.001). Considering energy required for milling, production rate, noise produced, and nutrient digestibility, the optimum particle size for hard and soft sorghums will still likely be less than 600 μm.

Conclusion: These results indicate that hard and soft endosperm sorghum milled at the same rate as corn are comparitive in nutritional value.



DOCUMENTS SUBMITTED FOR THE RECORD

JULY 12, 2001

memorandum

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July 11, 2001

To: ***The National Corn Growers Association***

Re: ***Counter-Cyclical Safety Net Programs and WTO Obligations***

Introduction

You have asked whether, in our opinion, the United States could establish a counter-cyclical safety net program for farmers that would qualify as a "Green Box" program under World Trade Organization (WTO) rules.[1] In our view, such a program could be devised. This memorandum contains a description of such a program and explains the legal basis for the conclusion that it meets the requirements of a "Green Box" decoupled income support program.

Analysis

What is a "Counter-Cyclical" Safety Net Program?

Over the past year, there have been increasing calls from various farming interests for a government safety net program that would be counter-cyclical. [2] The term "counter-cyclical" has typically been used to describe programs proposed to compensate farmers in bad economic times. This has generally been equated with periods of low prices. The term "counter-cyclical payments" achieved political currency because of criticisms directed at the 1996 Farm legislation, and in particular, the decision by Congress to lower loan rates and to make set and declining payments to farmers in the form of so-called AMTA payments.

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[1] The "Green Box" refers to domestic support programs providing benefits to agricultural producers that are exempt from reduction commitments because they meet one of the several criteria specified in Annex 2 of the WTO Agreement on Agriculture.

[2] *See e.g.,* The Commission on 21st Century Production Agriculture, *Directions for Future Farm Policy: The Role of Government in Support of Production Agriculture – Report to the President and Congress* (January 2001).

In the 1996 farm bill, Congress decided to pay approximately $35 billion over seven years in AMTA payments to farmers who had previously benefited from the various crop programs. The amount of those payments began at approximately $7 billion in the first year, and was to decline to approximately $4 billion by 2002. Eligibility to receive payments was keyed, not to current production, but rather to historic production – in the case of AMTA payments, to production of program crops during the period 1991-93.

When crop prices declined after 1998, critics complained that government payments were shrinking even while prices were declining. Forgetting the philosophy underlying AMTA – *i.e.*, that AMTA payments were never intended to make up for lower market prices – those critics argued that there should be a government "safety net" program to offset drops in market prices.[3]

There are several problems with defining a "counter-cyclical" program as one under which payments are triggered (or increased) by lower prices. The first problem is that the real concern is not commodity prices, but farmer income. Prices are a rough, but imperfect, surrogate for income.

The second problem is that international trade rules strongly discourage linking producer payments to current prices. WTO domestic support disciplines are intended to push governments toward support policies that are unrelated to price. As a general matter, support policies that are linked to current prices or production – price support policies or deficiency payments – are categorized as "Amber Box" policies and all WTO Members have agreed to specific limits and reductions commitments. For example, the United States has committed not to spend more than $19.1 billion annually on Amber Box programs. Because low prices in recent years have triggered substantially increased spending under the U.S. marketing loan programs, current U.S. Amber Box spending is estimated for the current crop year to be in the $15-16 billion range. A program of the counter-cyclical safety net payment tied to current price levels could very likely subject the United States to a challenge that it had exceeded its WTO commitment level if, in future years, farmers continue to experience low prices.

An alternative way to define a "counter-cyclical" program is one in which payments to farmers are triggered by low income (in distinction to low prices). Whether this approach would permit such program payments to be categorized as "Green Box" and therefore exempt from WTO reduction commitments requires a thorough analysis of the Domestic Support rules in the Uruguay Round Agreement on Agriculture and the policies underlying those rules.

[3] Although the marketing loan programs act in a counter-cyclical fashion to offset a certain amount of decline in market price, farmers felt that this was an inadequate safety net because loan rates were set below traditional market-clearing levels.

"Counter-cyclical" Green Box

The basic WTO Domestic Support framework is to consider all domestic support in favor of producers, and to subtract from that support those payments or benefits that are either non-trade distorting (Green Box)[4] or that have some production limiting effect (Blue Box).[5] As a general matter (and subject to the *de minimis* exceptions),[6] it is only Amber Box payments – those that are left after Green and Blue payments have been subtracted from the totality of support provided -- that are subject to reduction commitments.[7] Where a country's amber box support reaches its reduction commitment levels, therefore, the only WTO permissible way to make additional "counter-cyclical" payments is to fashion a program that qualifies as either Green or Blue.

The criteria for qualifying domestic support programs for the Green Box are set forth in Annex 2 of the WTO Agreement on Agriculture. Paragraph 1 establishes two general criteria that all Green Box programs must meet – *i.e.*, they must involve expenditures of money from the government and not transfers from consumers, and they must not result in price support to producers. Paragraphs 2-4 describe Green Box programs that involve indirect support for producers –*e.g.*, general government services such as research and inspection, public stocks for food security and domestic food aid programs.

Paragraphs 5-13 establish the criteria for programs that provide direct payments to producers, with paragraph 5 establishing the general criteria applicable to all such programs, and paragraphs 6-13 setting for the criteria applicable to specific programs. What is common to all of the criteria applicable to these programs is that the payments cannot be "related to [current] production" or to "prices, domestic or international, applying to such production." Thus, a counter-cyclical program in which payments to producers were triggered by low current price levels, or were paid as a function of current levels of production, would not qualify under any of these Green Box program categories.

While Green Box payments clearly and expressly cannot be related to decreasing farm prices, there is a credible argument that they may be related to decreasing farm income. This argument has textual support in the WTO rules themselves, and specifically in the text of paragraph 6 of Annex A, which is entitled "Decoupled Income Support." To start, the title of that particular Green Box exception -- "Decoupled Income Support" – indicated that governments are permitted to support "income" so long as that support is decoupled. It is difficult to suggest how governments could support income without considering, in some manner, the level of income that farmers are currently receiving.

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[4] WTO Agreement on Agriculture, Annex 2.
[5] *Id.*, Article 6.5.
[6] *Id.*, Article 6.4.
[7] *Id.*, Article 3.2.

Moreover, paragraph 6(a) states that "eligibility for such payments shall be determined by clearly-defined criteria such as income...." Nowhere is paragraph 6 is it stated that the amount of payments may not be made on the basis of shortfall in producer income. To the contrary, the rule expressly forbids the amount of payments to be based on, or related to current "production," or to current "prices, domestic or international," or to "factors of production employed;" and forbids requiring any production in order to receive a payment. However, the rule does not expressly exclude the use of current "income."

The legal question presented, then, is whether one should interpret the phrases "related to, or based on prices" or "related to, or based on production" to include "income." One obvious objection might be that income is the result of production times price and, therefore, must be considered to be "related to or based on" price and production. While this objection appears "obvious," it is not necessarily correct.

Generally applied principles of treaty interpretation and customary international law indicate that paragraph 6 of Annex 2 should not be read to exclude the option of basing decoupled income support on income shortfall. The classic definition of the process of treaty interpretation is "the duty of giving effect to the expressed intention of the parties, that is, their intentions *as expressed in the words used by them in light of the surrounding circumstances.*"[8] The initial focus of any attempt to interpret provisions of a treaty is on the "plain terms...construing terms according to their general and ordinary meaning." [9]

The application of these general principles means that adding terms by implication is strongly disfavored. This is particularly true where the implied term would create a legal exception. "[It is necessary to use] express terms in order to create exceptions from a general rule."[10] Paragraph 6, as written, provides that income support to farmers may be categorized as a Green Box policy *except* where the amounts of payments are related to current prices, production undertaken, or factors or production. As such, the provisions of paragraph 6 (b)-(e) are, in fact, exceptions to the general rule that direct income support is permitted. Applying the above-stated principle that exceptions must be expressed, and should not be implied, it would be legally incorrect to infer that the terms "related to, or based on, price...[or]...production" in paragraphs 6 (b) and (c) include "income."

The rule that exceptions must be expressed and should not be implied is a particular application of the more general principle of treaty interpretation that where one set of conditions has been expressly included, all other conditions are excluded. [11]

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[8] Lord McNair, *The Law of Treaties* (Oxford, 1961) at 365 (emphasis in original).
[9] *Id.* at 366.
[10] *Id.* at 393 *citing The Behring Sea Arbitration Case, reported in* Pitt Corbett, *Leading Cases on International Law* (5th Ed.) at 117.
[11] This doctrine is often referred to as express***io unius est exclusio alterius*** ("The specific expression of one thing excludes all others"). *See* McNair, fn. 8 *supra,* at 402 and fn. 3 *citing The Lusitania Arbitration Case.* Under U.S. law, the *expressio unius* doctrine is considered as "a starting point in statutory construction, not as a close-out bid." *Shook v. District of Columbia Financial Responsibility and Management Assistance*

Paragraph 6 is clearly written to indicate those situations where income support would not be considered "decoupled"[12] and therefore would not qualify as Green Box. The list of exceptions – *i.e.*, conditions that would make payments ineligible for Green Box treatment – is specifically laid out. The ordinary legal presumption is that, those conditions having been expressed, all other conditions are excluded.

There is another important principle of treaty interpretation equally applicable in this case. Annex 2 contains two Green Box categories for fashioning income safety net programs – paragraphs 6 ("decoupled income support") and 7 ("income safety net programmes"). Both permit governments to support producer income, and both provide that the amount of such support cannot be related to, or based on, current prices, levels or production or factors of production. Paragraph 7 expressly provides that "the amount of such payments shall relate solely to income;" paragraph 6, on the other hand, does not mention income. What conclusion, if any, can be drawn from this difference in language? [13] The precise question presented is this: in paragraph 7, it is clear that the phrases "not related to…price…[or]…production…" do not also exclude payment schemes based on income; do those phrases in paragraph 6 convey the same meaning?

Authority, 132 F.3d 775 (1998). However, as it applies to "exclusions," the rule appears to be the same as the international rule. Where a statute contains specific exceptions or exclusions, the courts will not find additional "implied" exceptions. *See e.g., Consumer Product Safety Commission v. GTE Sylvania*, 447 U.S. 102, 1091 (1980). "An item which is omitted from a list of exclusions is presumed not to be excluded." *Qi-Zhou v. Meissner*, 70 F.3d 136, 139 (D.C. Cir. 1995) *citing United States v. Goldbaum*, 879 F.3d 811, 813 (10th Cir. 1989) *and United Steelworkers of America v. Marshall*, 647 F.2d 1189, 1192 (D.C.Cir.) *cert. denied* 453 U.S. 913 (1981). *Accord Detweiler v. Pena*, 38 F.3d 591 (D.C. Cir. 1994); *Jellness v. Pierce*, 30 F.3d 1220 (9th Cir. 1994).

[12] The term "decoupled" in the heading of paragraph 6 does not indicate any additional exceptions beyond those contained in subparagraphs (b)-(e). First, headings are generally viewed as some guide to interpretation, but not as creating substantive obligations or rights. This is akin to the doctrine of interpretation known as *ejudsem generis* ("they are terms of the same kind") which holds that where a general or undefined term directly follow or proceeds special or defined terms, the general term should be interpreted as limited to only those kinds of things indicated by the special words. McNair, fn. 8 *supra*, at 393. *See also* Rupert Cross, *Statutory Interpretation* (1976) at 118.

[13] One argument that might be advanced, for example, would be based on the so-called "negative pregnant rule of construction" – *i.e.*, that where particular language is used in one part of a text, but not in another, it should be presumed that the term was intentionally excluded where not expressly mentioned. This rule is sometimes applied in U.S. law cases construing the language of statutes. *See, e.g., Uniroyal Chemical Co., Inc.*, 160 F.3d 238 (5th Cir. 1998); *Goncalves v. Reno*, 144 F.3d 110 (1st Cir. 1998).

However, the U.S. Supreme Court has recently opined that under U.S. law of statutory construction, the negative pregnant rule, although not entirely illegitimate, is a "limited" rule and that "the rule is weakest when it suggests results strongly at odds with other textual pointers…." *Field v.Mans*, 516 U.S. 59, 75 (1995); *see also Alaska Airlines, Inc. v. Brock*, 480 U.S. 678, 690-91 (1987). The rule would, therefore, be inappropriate applied to construe paragraph 6 of Annex 2 to preclude a decoupled payment program based on income, for the reason that the result would be "strangely at odds" with the title of the paragraph itself, which is "Decoupled Income Support" (emphasis added).

Moreover, "the unexplained disappearance of one word from [a legal text] is not a reliable indicator of…intent" where the result of giving that omission effect would contravene the overall scheme established in that text. *See Mead Corp. v. Telley*, 490 U.S. 714, 723-25 (1989).

Article 31(1) of the Vienna Convention on the Law of Treaties states the general rule of interpretation as follows:

> A treaty shall be interpreted in good faith in accordance with the ordinary meaning given to the terms in light of their *context* and in light of its object and purpose. (Emphasis added)[14]

The requirement that a treaty term be interpreted in light of its "context" means that that a treaty "must of course be read at as a whole. One cannot simply concentrate on a paragraph, an article, a section, a chapter, or a part."[15] This rule of interpretation is consistent with the widely-recognized tenet of construction that a term used in one part of a legal text is ordinarily presumed, in the absence of evidence to the contrary, to have the same meaning when used in another part of the same text. As a leading treaty scholar has noted:

> "...[T]erms, however strong and clear in themselves, whatever the meaning may be attributed – necessarily attributed – to them standing alone, may be modified by other parts of the same instrument.... [T]he whole treaty creates one obligation.[16]

It has been customary, therefore, for international tribunals, attempting to interpret particular terms of a treaty, to assess their meanings in light of the use of those same terms in other parts of the same text or in related texts.[17]

The WTO Appellate Body applied these interpretive principles in two recent decision: *Canada – Measures Affecting the Importation of Milk and the Exportation of Dairy Products ("Canada Dairy")*[18] and *United States – Tax Treatment for Foreign Sales Corporations ("FSC")*. [19] In those cases, the Appellate Body was faced with the

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[14] Again, the international rule for interpreting treaties is in accord with U.S. law governing the interpretation of statutes. "[It is] the cardinal rule of construction that a statute is to be read as a whole...since the meaning of statutory language, plain or not, depends on context." *King v. St. Vincent's Hospital*, 502 U.S. 215, 221 (1991) *citing Massachusetts v. Morach*, 490 U.S. 107 (1989) *and Shell Oil Co. v. Iowa Department of Revenue*, 488 U.S. 19 (1988); *see also Lexecom, Inc. v. Melberg Weiss Bershad Hynes & Lerach*, 523 U.S. 26 (1998); *U.S. Nat'l Bank of Oregon v. Independent Ins. Agents of America, Inc.*, 508 U.S. 439 (1993).

[15] Sir Ian Sinclair, *The Vienna Convention on the Law of Treaties* (Manchester Univ. Press, 1984, 2d Ed.), p 127. The same result obtains under U.S. law. "The normal rule of statutory construction [is] that identical words used in different parts of the same act are intended to have the same meaning." *Guftafson v. Alloyd Co., Inc.*, 513 U.S. 561, 570 (1995); *see also Department of Revenue of Oregon v. ACF Industries, Inc.*, 510 U.S. 332, 342 (1994); ***Brooke Group Ltd. V. Brown & Williamson Tobacco Corp.***, 509 U.S. 209, 230 (1993).

[16] McNair, fn. 8 *supra*, at 381-82, *citing The Ionian Ships* (1855), 2 Spinks Ecc. And Ad. 212, 217.

[17] *Id. citing The Free Zones of Upper Savoy and the District of Gex* (Permanent Court of International Justice, 1930), Ser. A/B No. 46 at 140..

[18] WT/DS103/AB/R and WT/DS113/AB/R (27 October 1999).

[19] AB-1999-9, WT/DS108/AB/R (24 February 2000).

issue of interpreting the phrase "subsidy" as used in various provisions of the Uruguay Round Agreement on Agriculture. The Appellate Body "drew, as context, upon the definition of a "subsidy" in Article 1.1 of the [WTO Agreement on Subsidies and Countervailing Measures]."[20] The Appellate Body, noting how it had previously defined the term in applying the SCM Agreement, concluded that it saw "no reason to reach a different conclusion under the Agreement on Agriculture."[21]

Application of these accepted rules of treaty interpretation, in particular the "context" requirement of Article 31(1) of the Vienna Convention, supports the argument that the phrase "related to...prices...[or]...production" in paragraph 6 of Annex 2 should be read to mean the same thing as the same phrase in the subsequent paragraph 7. This conclusion is further buttressed by recent WTO Appellate Body decisions holding that the same terms used in the same or related texts can be presumed to have the same meaning. Indeed, the case for reaching that conclusion is much stronger in the case presented here than in either *Canada Dairy* or *FSC*. In both of those cases, the WTO Appellate Body looked to a related agreement as context for interpretation; in the present case, the contextual evidence is in the very same agreement, in the very same annex, and in fact, in the very next paragraph. [22]

These authorities support the view that paragraph 6 may be read to permit decoupled income support programs based on income, but not on price or production. This would appear to present an opportunity to shape a program based on farm income that would be both counter-cyclical and eligible for Green Box treatment. Eligibility for payment under such a program would have to be determined by criteria such as "status as a landowner or producer... in a defined and fixed base period." The initial AMTA payments have been notified to the WTO as "green" under paragraph 6 because the eligibility for payments was based on the recipient's status as a producer in a defined base period, *i.e.*, a farmer who had a base in program crops during the period 1991-93, and because the payments were fixed and unrelated to current prices or production. Several criticisms have been made of the AMTA program: first, that it is not counter-cyclical; second, that the list of payment recipients is "out-of-date" – that payments are going, in some cases, to producers that were in business in the early 1990's, but have since left farming.

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[20] *FSC* at paras. 136-140; *Canada Dairy* at para. 87.

[21] *FSC* at para. 139.

[22] The U.S. Supreme Court, confronting comparable legal issues in several recent cases, has held that the same terms used in different sections of a law are strongly presumed to have the same meaning. In *Gustafson, fn. 15 supra*, the Court held that, because the contract at issue could not be a "prospectus" within the meaning of section 10 of the Securities Act, it could not be a "prospectus" for the purposes of section 12 of that same act. 513 U.S. at 570. In *Commissioner of Internal Revenue v. Lindy*, 516 U.S. 235 (1996), the Court was asked to interpret the term "claim" within the meaning of a provision of the federal tax laws, 26 U.S.C. § 6511. The court held that the term must mean the same thing as it did in the succeeding section, 26 U.S.C. § 2612. The "interrelationship and close proximity of these provisions of the statute present a classic case for application of the normal rule of statutory construction that identical words used in different parts of the same act are intended to have the same meaning." *Id.* At 250, *citing Sullivan v. Stroop*, 496 U.S. 478, 484 (1990) *and Sorensen v. Secretary of Treasury*, 475 U.S. 851, 860 (1986) (internal quotation marks omitted).

Nothing in paragraph 6 prevents the formulation of a program that would address, to some degree, both of these criticisms. While paragraph 6 requires that eligibility for payment be based on "income" or "status as a landowner or producer...in a defined and fixed base period," it does not mandate any particular base period. One approach that might be pursued would be to fashion a program of safety net payments that would be triggered by an income shortfall in comparison to some measure of recent average income. This approach was recently recommended by the special 21st Century Commission on Agriculture,[23] and was suggested during exchanges of views at hearings of the Senate Committee on Agriculture, Nutrition and Forestry on August 3, 1999, called to investigate the farm income crisis of that year. [24] Such a program might be developed in the following manner.

First, a list of producers eligible for payments could be enrolled on the basis of actual area planted during a recent period to a defined set of crops. Although USDA does not maintain the types of planting records that it did prior to 1995, it has demonstrated that it has the ability to "enroll" producer acreage for program benefits – *e.g.*, its recent enrollment of soybean acreage to accommodate payments under the supplemental assistance packages. For example, USDA might establish a "base period" of 1997-99 and enroll all producers who planted particular crops (*e.g.*, wheat, cotton, corn, barley, rice, sorghum, soybeans) during that period. While this list of eligible producers would be a historic and not "current" list, it would more nearly reflect the current situation than does the AMTA list. USDA would also establish a set of historical yields.

Second, USDA could calculate some historic average of producer "income" during a fixed and defined base period. For example, USDA might calculate the Olympic average for gross farm receipts for the same crops, as well as the income derived from loan deficiency payments and marketing loan gains for those crops. This average income (or some percentage of it) would become the "trigger" for payments under the program. Whenever current year income (based on USDA projections) fell below the trigger, government payments would be made to eligible producers on the list. The total payments made would be the difference between the projection of current income and the trigger. Individual producer payment rates would be made on the basis of that total revenue shortfall divided by total recent historical production, with each producer getting a payment based on the rate times his historical production. In years where income exceeded the trigger, no payments would be made.

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[23] Commission on 21st Century Production Agriculture, fn. 2 *supra*, at p. 10.

[24] "Farm Income Crisis: Hearing before the Committee on Agriculture, Nutrition and Forestry," S. Hrg. 106-459, 106th Cong. (August 3-5, 1999). As a part of those hearings, testimony was given by J.B. Penn, Senior Vice-President of Sparks Commodities, Inc., that showed *inter alia* that farm income had "been very substantial all across the 1990's." *Id.* at 41 and 72, Chart 23. In his opening statement, Senator Lugar noted that projections for 1999 net farm income were less than $2 billion below average for the previous decade. Senator Lugar said, "I mention this because this is perhaps one parameter for figuring the level of income assistance if farmers are made whole, at the level of either of the average of the decade, or of the last 5-years. One of the questions I have been raising on the floor how do you gauge the appropriate target, what should be the objective."

Does this Counter-Cyclical Income Support Comport with WTO Rules?

The counter-cyclical income support program outlined above arguably meets all of the criteria of Annex 2, paragraph 6, and therefore it can be asserted that it would qualify for "Green Box" treatment. Initially, it should be noted that the proposal complies with the two basic criteria for all Green Box measures – i.e., that the subsidies are "provided through a publically-funded government programme ...not involving transfers from consumers," and that "the support [does] not have the effect of providing price support to producers." [25] This proposal is for direct payments to support income. There is no supply control, intervention or government disposal component that would result in supporting prices.

The proposal also comports with all five elements of paragraph 6:

(a) "Eligibility for such payments shall be determined by clearly defined criteria such as income, status as a producer or landowner, factor use or production in a defined and fixed base period."

Eligibility for payments under this proposal would be based on "status as a producer... in a defined and fixed base period." Eligible recipients would be those who produced any of a defined group of crops in a recent historic period – in my example, producers of certain grains and field crops during the period 1997-99.

(b) "The amount of such payments, in any given year, shall not be related to, or based on, the type of volume of production...undertaken by the producer in any year after the base period."

(c) "The amount of such payments, in any given year, shall not be related to, or based on, prices, domestic or international, applying to any production undertaken in any year after the base period."

The amount of payments is not related to either prices or levels of production. The gross amount of payments made is based on the difference between a projection of current income (gross receipts, in this example) and the same measure of income during the historical base period. The gross difference between the trigger income and projection of current income would not be allocated among eligible recipients on the basis of current production, but rather on the basis of their historical acreage in production. Payments would be made on a "per acre" basis.

(d) "The amount of such payments, in any given year, shall not be related to, or based on, the factors of production employed in any year after the base period.

[25] WTO Agreement on Agriculture, Annex 2, paragraph 1.

Factors of production play no part in this proposal.

(e) "No production shall be required in order to receive such payments."

No production is required under this proposal to receive payments. The use of a more recent producer activity as a basis for eligibility is a good, if imperfect, surrogate, for current producers.

Does this Proposal Have Any Other Policy Benefits?

One of the criticisms that has been leveled against counter-cyclical payment schemes is that they have the potential to insulate producers from market signals and, thereby, to worsen an already bad situation. This is especially true of counter-cyclical payments that would be triggered by price declines. Where a government payment is specifically linked to a decline in a commodity price, the producer receives above-market income for his crop and has no incentive to cut back on plantings. Because low prices are typically (although not always or exclusively) a function of oversupply, a counter-cyclical payment linked to price will not dampen production and will tend to contribute to additional downward pressures on price. Without some other intervention, a counter-cyclical payment scheme linked to price could accelerate a downward price spiral.

A counter-cyclical payment program based on income, although it would continue to supplement producer earnings, would not insulate the producer's planting decisions from the impact of lower prices. This is because increased plantings, even in the face of low prices, would tend to increase projections of current gross receipts. And, because, payments under the program would be based on the difference between the trigger and current receipts, any increase in projections of current gross receipts would result in reduced government payments. In other words, a counter-cyclical payment scheme based on an income trigger contains a general disincentive to increased production in times of low prices. In this respect, it is an economically more rational policy because it not only deals with the short-term problem (maintaining a particular level of producer income), but it also contributes toward the longer-term solution (strengthening market price by reorienting production decisions to market signals).

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THE FAMILY FARM AGRICULTURE RECOVERY AND MAINTENANCE ACT

THE FAMILY F.A.R.M. ACT

A Program to Restore and Maintain Prosperity
On America's Family Farms and Ranches

Updated with "Findings of Congress"
December, 2000

Developed for general consideration by John M. Dittrich,
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THE FAMILY FARM AGRICULTURE RECOVERY AND MAINTENANCE ACT
THE FAMILY F.A.R.M. ACT

A Program to Restore and Maintain Prosperity on America's Family Farms and Ranches

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THE CONGRESS FINDS THAT:

1. **Short and long-term legislation is necessary to address the economic and social emergency that exists on America's family farms and ranches, and within small rural communities. It is in the vital and national security interest of the United States to preserve a stable, viable, and competitive food producing system. Such a food producing system is best maintained through a family farm and ranch structure, based on small business and individual entrepreneurship.**
   - In addition to food security, maintenance of a family farm structure provides numerous social, environmental, leadership development, quality of life, and other benefits to society which cannot be measured in pure economic terms
   - An effective national farm and food policy is no less necessary than Social Security, minimum wage law, worker protection law, or a national defense. Technology, productivity, and trade agreements have not eliminated the need for realistic farm programs, any more than the need for these other widely accepted forms of market intervention has been eliminated.

2. **To maintain such a food production system, a continuous national farm policy and international trade policy is required that recognizes the market realities of the fundamentally unique business of food and fiber production. Without such continuous policy, this nation will:**
   - Lose the family farm system of decentralized production, which has proven to be the most successful of agricultural systems, and is preferred by the vast majority of the general public.
   - Through agribusiness concentration, increasingly put domestic and export consumers at risk of food shortages, increasingly raise their concerns about food safety, and increasingly limit their food choices.
   - Force farmers and rural residents into a form of second-class citizenship in an otherwise healthy economy, and lose economic activity that may be needed in any economic downturn of the overall economy.
   - Cause rural regions to view themselves as separate and unequal economies, ignored or exploited by an outside economy.

3. **Farming is a fundamentally unique business worldwide that does not and cannot follow the typical supply and demand economics applicable to most businesses.**
   - The farm marketing system is the reverse of most businesses. Millions of farmers (manufacturers) sell to a very few "consumers" (large food processing and exporting companies). This is exactly opposite the usual marketing system, wherein an individual manufacturer or retailer sells to a large number of consumers. The system is best defined by the words "monopsony" and "oligopsony". This marketing system severely limits farmer's ability to negotiate profitable prices. ***Food industry consolidation sharply worsens this system. But the uniqueness of the farm marketing system is ingrained in agriculture, and will still exist if the number of farmers is reduced, or the number of buyers increased.***

- Individual farmers cannot predict or control their final annual output due to weather, and cannot individually impact total supply. Large fixed costs and living costs must be covered regardless of planting decisions. Final production and selling price is unknown at the single annual time a farmer must plant. Therefore, in the absence of policy incentives, an individual farmer must attempt to maximize total output regardless of current commodity price. This eliminates an individual farmers ability to manage inventories, as most non-farm businesses are able to do.
- When short-term crop surpluses occur, total farm output will not drop due to resulting low farm prices, unless very large geographic areas go completely out of production. Severe social and economic disruption in all farming regions, over a period of many years, will be required to force such areas out of production. If such areas go out of production due to low prices, they will not be available if short-term food shortages occur due to localized or international climate problems, or other unforeseen problems. Food production cannot increase rapidly in response to shortages, unlike manufactured items.
- Food is a daily necessity; therefore farmers must produce a surplus of food, because food shortages are intolerable.
- If excessive food surpluses occur, food demand will increase very little in response to low farm prices. This severely limits the ability of the market to self-adjust inventories in such situations.
- World food needs cannot be met by production from low cost food exporting nations only. On an average basis, all of the world's foods producing lands are required to feed the world. And unlike factories, the land cannot be moved to lower cost countries.
- The combination of these and other factors makes the production of food, trade in food, and the business of farming unique. National and international involvement in the marketplace is therefore necessary to allow farmers to prosper, and consumers to be protected.
- ***Recent and historical evidence confirms that any farm or agricultural trade policy that does not recognize these market realities is fundamentally flawed and will be ineffective, regardless of economic theory or Congressional intent.***

4. **Therefore, long-term, continuous legislation is necessary to allow family agriculture to prosper, and to allow consumers to be assured of a safe, reliable, and fairly priced food supply. The primary goal of such legislation should be to provide family agriculture the farm policy tools that allow it to participate in a competitive market economy and receive profitable prices, just as other non-farm businesses do.**
   - Current farm losses must not only be stopped, but profits must be foreseen. Young entrants must be attracted to production agriculture, with nearly two generations already lost.
   - Farmers must have the ability to receive profitable prices in times of adequate supply, not just years of supply shortage. Therefore, price-negotiating tools are required to allow profitable prices in times of adequate supply.
   - Farm policy that requires extremely tight supplies to achieve profitable farm prices will provide very rare profits to farmers. At the same time, without reserves, consumers are constantly at risk of food shortage. Inventory management tools are therefore required to protect farmers and consumers.
   - Farmers and ranchers, through their participation in a market economy, will use their labor, entrepreneurship, and natural resources to provide an economic base for rural communities. Profitable commodity prices can provide a tax base, an infrastructure, and economic activity that will attract non-farmers and non-farm businesses to rural communities because of quality of life issues.
   - Farm policy that promotes profitable farm prices in the marketplace frees federal funds for other uses, such as direct non-farm rural community development through infrastructure or local school improvements, small business loans, and homebuilding incentives.

This Bill will achieve these primary goals by providing the following advantages:

1. **Simplicity**
   - Price negotiating tools will be provided through a single simplified CCC price support loan. mechanism for each crop commodity. This will be the primary income support provided.
   - Producer confusion and program complexity is reduced.
   - Administrative expense and complication is reduced.
   - Promotes greater understanding of farm programs by the general public.

2. **Planting flexibility**
   - Total planting flexibility between crops is maintained.
   - Inventory management options are also flexible and voluntary.

3. **Supply stability and food safety.**
   - Domestic and export consumers are assured of reliable supplies, and insured against shortage.
   - Producers have inventory management tools that allow them to keep price depressing excess free stocks from building.
   - Promotes decentralized family agriculture system and increased food industry competition, reducing risk of disruptions in food supply due to unforeseen decisions or events.

4. **Market orientation**
   - Price support levels will be balanced between crops.
   - Producers will have the flexibility and incentive to plant crops based on market prices.
   - On average, most of farm income will come from the marketplace.
   - Gives producers the economic flexibility to meet customer demands that require extra producer expense or risk.

5. **Levels playing field for new agricultural trade negotiations.**
   - Support levels more closely approximate those levels provided to farmers by our industrialized trading partners, particularly the European Union.
   - This allows U.S. farmers to negotiate from a position of economic strength, rather than weakness.
   - New trade negotiations would emphasize shared production cuts and food reserves, and the uniqueness of agricultural production around the world.

6. **Reasonable and more predictable government costs.**
   - The goal of the program will be to encourage average farm prices to be at or above CCC loan levels in most marketing years.
   - Inventory management options provide the Secretary of Agriculture and individual farmers the tools to keep government costs at more predictable and more modest levels.

7. **Tools are available to encourage consumption, and maintain market share.**
   - Inventory management options guarantee reliable supplies and promote reduced price volatility to domestic and export customers. This will encourage stable growth in the processing, industrial, and feed use areas.
   - Farm prices could fall under very high stocks situations to encourage consumption. However, producer income would still be protected.
   - The likelihood of large acreage idling programs will be low, since price-depressing surpluses can be held off the market until needed in the future. It will not be necessary to reduce production after a single year of favorable weather. (Since the ups and downs of production will be buffered).

8. **Family sized crop production will be encouraged.**
   - Price support and inventory management tools will be limited to a maximum volume of production based on bushels or pounds. Production beyond these maximum volumes will be subject to increased market risk.
   - Profitable farm prices reduce the need to expand unnecessarily.
   - Profitable farm prices reduce the opportunity to expand through financially forced sales of cropland.

9. **Family sized livestock production will be encouraged.**
   - Grain prices that, on average, are above costs of production allow producers who grow at least a portion of their feed to be more competitive with mega-livestock facilities. These facilities now buy their feed at a lower price than the family producer can grow it, therefore giving them a competitive advantage over the diversified producer.
   - Language addressing market concentration and packer ownership of livestock will improve the ability of family producers to receive profitable prices.
   - A targeted livestock target price/deficiency system, if adopted after study, would put mega-facilities at greater market risk than the family sized producer.

10. **Agricultural market concentration would be addressed in a more effective manner.**
    - Limited resources now used to determine whether an obviously anti-competitive market does indeed exist could instead be used for enforcement once concentration triggers action at pre-determined levels.

11. **Non-Inflationary**
    - The formula for establishing annual crop price supports factors in long term productivity gains, offsetting inflation adjustments. Farmers are protected from high inflation, but consumers get full benefit of agricultural productivity gains due to technology and increased efficiency.
    - The retail All Food Index rises at the same general rate of inflation as the Consumer Price Index regardless of the fact that farm level prices have been stable to declining for 25 years. This confirms that farm level prices have little relationship to retail food prices.

OUTLINE OF BILL

1. **Price and income support will be provided to producers of wheat, feed-grains, soybeans, oilseeds, cotton and rice by means of a new CCC nonrecourse "market participation loan" only. No direct payments will be provided. Program signup required to be eligible for the loan or reserve.**
   - Loan periods will be for 9 months with an optional extension for an additional nine months.
   - No Loan Deficiency Payments will be made; the current LDP option will be eliminated.
   - The producer will be required to put grain under loan initially to take advantage of the program.
   - Loans may be repaid with marketing authorizations or cash, at principle plus interest. Marketing authorizations only could be used to pay back the loan at less than loan price, only at the discretion of the secretary.
   - Forfeiture will also be allowed at the end of the loan period.
   - A maximum level of production will be eligible for the loan, targeted at family sized farms.

2. **An "Agricultural Equity Formula" system for establishing price supports will be created. Crop loan rates will be based by formula on a percentage of the average gross income per acre received during the decade of the 1970s's, adjusted for inflation and current higher per/acre productivity. The 1970-79 period is widely recognized as the last generally prosperous period in modern U.S. agriculture.**
   - Initial loan rates will be based on approximately 75% of the adjusted average gross income per acre received by farmers during the years 1970 to 1979.
   - Loan rates thereafter will be adjusted to annual inflation and a rolling average of the past 4 year national average yield.
   - In addition, over a 5-year phase in period, loan rates will be adjusted upward until they reach 90% of the gross per acre income levels received in the 1970's.
   - Historical price ratios between crops (such as a corn/soybean price ratio of 2.4 to1) will also be maintained when establishing crop loan rates.
   - **See Addendums 1 and 2 for examples of formula loan rates and calculations.**

3. **A Farmer Owned Reserve (FOR) will be established.**
   - A multi-year reserve will be maintained for commodities covered by the loan program, to ensure consumer food security and adequate livestock feed supplies.
   - The reserve shall be open whenever ending stocks to use ratios reach predetermined trigger levels.
   - Entry will be capped at 30% of projected total annual use of each commodity. *In the 1988/89 crop year, drought reduced crop yield 20 to 30% nationwide in one year.*
   - Minimum reserve levels will be targeted at 10% of projected annual use, in years of adequate supply.
   - A release level will be established at 125% of the loan price to avoid pushing reserve stocks on the market in times of adequate supply.
   - Storage payments will be made annually in advance.

4. **The Secretary of Agriculture will have the discretionary authority to institute a short-term acreage idling program if necessary to provide a balance between actual demand and supply.**
   - Discretionary authority could not be used if the Farmer Owned Reserve is open, and projected ending stocks are less than 15 to 20 % of projected total usage (including reserve stocks). *Acreage idling requirements would be minimal in crop year 2001 under these criteria.*
   - Parcels idled by farmers will be set at minimum acreage levels designed to mitigate "slippage" (production cuts less than percent of acres idled).
   - A short-term flexible CRP should be considered.
   - A variable set-aside in exchange for higher loan rates would be an option.

5. **A Tillable Crop Acreage (TCA) base will be established for each producer, with full planting flexibility on the base. The TCA will consist of all acres normally cropped by a producer.**
   - Base for each producer established by recent planted acres for commodities covered by program (including alfalfa).
   - Producers will have full planting flexibility for program crops on their TCA, subject to any non crop specific acreage idling programs determined by the Secretary of Agriculture.

6. **A target price and deficiency payment system will be studied for livestock. Such a program could be automatic compensation for livestock producers damaged by non-competitive markets or unfair imports. Such a system could include:**
   - A national average target price for fat hogs, feeder calves, and fat cattle could be established.
   - Target price levels could be set by historical corn price/hog price and corn/steer price ratios as measured by USDA. Ratios would be then be tied to corn or feedgrain loan rates to determine annual target price levels.
   - Payment rates would be calculated in a similar manner to past target price programs for grains.
   - Producer payment could be = [Target Price] minus [National Average Market Year Price] x [Number of Head marketed per market year].
   - Payments would be limited to a number of head per producer, targeting family sized producers.
   - Incentive would be intact for producers to market at best possible price.
   - Producers beyond payment limits would take increased market risk.

7. **A maximum level of market concentration will be established for agribusiness companies doing business with farmers.**
   - Market concentration maximum will be consistent with economic theory of level causing market distortions.
   - Market concentration exceeding this established maximum would be cause for Federal Anti-trust action including denial of merger requests and possible divestiture by some industries to reestablish competitive markets.

8. **The U.S. negotiating position for agriculture at the World Trade Organization negotiations shall be redirected to emphasize:**
   - Shared production cuts by food exporting nations when world grain stocks become burdensome.
   - Shared international food reserves.
   - Market share agreements between food exporting nations.
   - The elimination of export dumping of agricultural goods.
   - The reduction of market distortions caused by monopolistic transnational grain trading and food

ADDENDUM 1

An "Agricultural Equity Formula" system for setting price support levels will be established. Crop loan rates will be based by formula on the inflation adjusted gross income per acre (national average) farmers received from 1970-1979 (titled *Base Period Gross Income per Acre Constant*). The 1970-79 period is widely recognized as the last generally prosperous period in modern U.S. agriculture. Loan rates will be adjusted annually by indexing to annual inflation and a rolling average of the past 4 year national average yield. Over a 5-year phase in period, loan rates will be raised from 75% of the Base Period Gross Income target, to 90% of that target (3% per year).

- Base Period Gross Income per Acre Constant (BPGIAC) for each commodity = *(The 1970-79 Average Inflation Adjusted National Average Farm Price) x (The 1970-79 National Average Yield)* ***see addendum 2***
- Annually Determined Commodity Loan Rate = ***(BPGIAC) divided by (past 4 year National Average Yield) x (inflation adjustment) x (75% year 1), (78% year 2), (81%year 3), etc. to 90%.***
- Crop loan rates will therefore be adjusted each year to reflect the effects of inflation and crop productivity.
- Historical price ratios between crops (such as a corn/soybean price ratio of 2.4 to 1) will be considered when setting loan rates.

EXAMPLES OF CCC LOAN RATES USING AGRICULTURAL EQUITY FORMULA

CORN

BPGIAC = [1970-79 Inflation Adj. Avg. Price ($6.39/bu)] x [National Avg. Yield (89.6)] = **$573/acre**
2000 Loan Rate/Bu = [BPGIAC ($573.00)] divided by [1996-1999 Avg. Yield (130.7 bu./acre)]
x [Inflation factor (1.00 beginning year)] x [.75 year 1] = **$3.29/bu**
2001 Loan Rate/Bu = BPGIAC [($573.00)] divided by [1997-2000 Avg. Yield (132.0 bu/acre est.)]
x [Inflation factor (1.02 at 2% projected inflation rate)] x [.78] = **$3.45/bu**

Notes* U.S. Inflation Adjusted Average Target Price, marketing years 1980-84 **$4.54/bu**
European Union 1999 total price support (from Sen. Conrad's FITE bill) **$4.85/bu**

WHEAT

BPGIAC = [1970-79 Inflation Adj. Avg. Price ($8.40/bu)] x [National Avg. Yield (31.4)] = **$264/acre**
2000 Loan Rate/Bu = [BPGIAC ($264.000] divided by [1996-1999 Avg. Yield (40.4)]
x [Inflation factor (1.00 beginning year)] x [.75 year 1] = **$4.90/bu**
2001 Loan Rate/Bu = [BPGIAC ($264.00)] divided by [1997-2000 Avg. Yield (41 bu/acre est.)]
x [Inflation factor (1.02 at 2% projected inflation rate)] x [.78] = **$5.12/bu**

Notes* U.S. Inflation Adjusted Average Target Price, marketing years 1980-84 **$6.82/bu**
European Union 1999 total price support (EU yields much higher than U.S.) **$5.20/bu**

COTTON

BPGIAC = [1970-79 Inflation Adj. Avg. Price ($1.347/lb.)] x [National Avg.Yield (475lbs.)] = **$640/acre**
2000 Loan Rate/Bu = [BPGIAC ($640.00] divided by [1996-1999 Avg. Yield (649 lbs.acre)]
x [Inflation factor (1.00 beginning year)] x [.75 year 1] = **$.74/lb.**
2001 Loan Rate/Bu = [BPGIAC ($640.00)] divided by [1997-2000 Avg. Yield (629lbs./acre)]
x [Inflation factor (1.02 at 2% projected inflation rate)] x [.78] = **$.81/lb.**

Note* U.S. Inflation Adjustd Average Target Price, marketing years 1980-84 **=$1.21/lb**

ADDENDUM 2
INFLATION AND PRODUCTIVITY ADJUSTED FARM PRICES

CORN

CPI Inflation Factor	Market Year	Average U.S. Farm Price $/bu.	Inflation Adjusted U.S. Farm Price $/bu.	Average U.S Yield bu./acre	Inflation Adjusted Gross Income $/acre
4.13	1970/71	$1.33	$5.49	72.4	$398
4.00	1971/72	$1.08	$4.32	88.1	$381
3.86	1972/73	$1.57	$6.06	97.0	$588
3.53	1973/74	$2.55	$9.00	91.3	$822
3.16	1974/75	$3.02	$9.54	71.9	$686
2.95	1975/76	$2.54	$7.49	86.4	$647
2.81	1976/77	$2.15	$6.04	88.0	$532
2.62	1977/78	$2.02	$5.29	90.8	$481
2.40	1978/79	$2.25	$5.40	101.0	$545
2.12	1979/80	$2.48	$5.26	109.5	$576
AVERAGE	**1970-79**	**$2.10**	**$6.39**	**89.6**	**$573**
AVERAGE	**1996-99**			**130.7**	

1996-99 FARM PRICE REQUIRED TO EQUAL 1970'S GROSS INCOME PER ACRE: **$4.38/BU.**

1980-84 Inflation Adjusted Average Target Price $4.54/bu.

1999 European Union Total Price Support $4.85/bu.

WHEAT

CPI Inflation Factor	Market Year	Average U.S. Farm Price $/bu.	Inflation Adjusted U.S. Farm Price $/bu.	Average U.S Yield bu./acre	Inflation Adjusted Gross Income $/acre
4.13	1970/71	$1.33	$5.49	31.0	$170
4.00	1971/72	$1.34	$5.36	33.9	$182
3.86	1972/73	$1.76	$6.79	32.7	$222
3.53	1973/74	$3.95	$13.94	31.6	$441
3.16	1974/75	$4.09	$12.92	27.3	$353
2.95	1975/76	$3.56	$10.50	30.6	$321
2.81	1976/77	$2.73	$7.67	30.3	$232
2.62	1977/78	$2.33	$6.10	30.7	$187
2.40	1978/79	$2.98	$7.15	31.4	$225
2.12	1979/80	$3.80	$8.06	34.2	$276
AVERAGE	**1970-79**	**$2.79**	**$8.40**	**31.4**	**$264**
AVERAGE	**1996-99**			**40.4**	

1996-99 FARM PRICE REQUIRED TO EQUAL 1970'S GROSS INCOME PER ACRE: **$6.53/BU.**

1980-84 Inflation Adjusted Average Target Price $6.82/bu.

1999 European Union Total Price Support $5.20/bu.

CPI Inflation Factor	Market Year	Average U.S. Farm Price $/bu.	Inflation Adjusted U.S. Farm Price $/bu.	Average U.S Yield bu./acre	Inflation Adjusted Gross Income $/acre
		SOYBEANS			
4.13	1970/71	$2.85	$11.77	26.7	$314
4.00	1971/72	$3.03	$12.12	27.5	$333
3.86	1972/73	$4.37	$16.87	27.8	$469
3.53	1973/74	$5.68	$20.05	27.8	$557
3.16	1974/75	$6.64	$20.98	23.7	$497
2.95	1975/76	$4.92	$14.51	28.9	$419
2.81	1976/77	$6.81	$19.14	26.1	$499
2.62	1977/78	$5.88	$15.41	30.6	$471
2.40	1978/79	$6.66	$15.98	29.4	$470
2.12	1979/80	$6.28	$13.31	32.1	$427
AVERAGE	**1970-79**	**$5.31**	**$16.01**	**28.1**	**$449**
AVERAGE	**1996-99**			**38**	
1996-99 FARM PRICE REQUIRED TO EQUAL 1970'S GROSS INCOME PER ACRE:				**$11.81/BU**	

CPI Inflation Factor	Market Year	Average U.S. Farm Price cts/lb.	Inflation Adjusted U.S. Farm Price cts/lb	Average U.S Yield Lb./acre	Inflation Adjusted Gross Income $/acre
		COTTON			
4.13	1970/71	22.9	94.6	438	$414
4.00	1971/72	28.2	112.8	438	$494
3.86	1972/73	27.3	105.4	507	$534
3.53	1973/74	44.6	157.4	520	$819
3.16	1974/75	42.9	135.6	442	$599
2.95	1975/76	51.3	151.3	453	$686
2.81	1976/77	64.1	180.1	465	$838
2.62	1977/78	52.3	137.0	520	$713
2.40	1978/79	58.4	140.2	420	$589
2.12	1979/80	62.5	132.5	547	$725
AVERAGE	**1970-79**	**45.5**	**134.7**	**475.0**	**$640**
AVERAGE	**1996-99**			**649**	
1996-99 FARM PRICE REQUIRED TO EQUAL 1970'S GROSS INCOME PER ACRE:				**98.6 cts/lb**	

CPI Inflation Factor	Market Year	Average U.S. Farm Price $/cwt.	Inflation Adjusted U.S. Farm Price $/cwt.	Average U.S Yield lbs./acre	Inflation Adjusted Gross Income $/acre
			RICE		
4.13	1970/71	$5.41	$22.34	4,617	$1,032
4.00	1971/72	$5.62	$22.48	4,719	$1,061
3.86	1972/73	$7.20	$27.79	4,697	$1,305
3.53	1973/74	$15.30	$54.01	4,276	$2,309
3.16	1974/75	$11.40	$36.02	4,440	$1,599
2.95	1975/76	$8.35	$24.63	4,558	$1,123
2.81	1976/77	$7.02	$19.73	4,663	$920
2.62	1977/78	$9.49	$24.86	4,412	$1,097
2.40	1978/79	$8.16	$19.58	4,484	$878
2.12	1979/80	$10.50	$22.26	4,599	$1,024
AVERAGE	**1970-79**	**$8.85**	**$27.37**	**4,547**	**$1,244**
AVERAGE	**1996-99**			**5,904**	
1996-99 FARM PRICE REQUIRED TO EQUAL 1970'S GROSS INCOME PER ACRE:				**$21.07/cwt**	

SOURCE OF ALL DATA:

1. *ERS-USDA SUPPLY AND UTILIZATION TABLES*
2. *BUREAU OF LABOR STATISTICS: CONSUMER PRICE INDEX-ALL URBAN CONSUMERS*
3. *EU SUPPORT LEVELS FROM SENATOR KENT CONRAD'S 1999 FARM BILL PROPOSAL "THE FARM INCOME AND TRADE EQUITY ACT OF 1999"*

NOTES

1. *MARKET VALUE ONLY INCLUDED TO DETERMINE GROSS INCOME /ACRE. DEFICIENCY PAYMENTS RECEIVED IN SOME YEARS WERE SIGNIFICANT.*
2. *INFLATION ADJUSTMENTS TO JAN/1999 = 1.00*

Prepared by John M. Dittrich, Policy Analyst, American Corn Growers Association 12/99

KEY INDICATORS OF THE U.S. FARM SECTOR

A 25 YEAR HISTORY WITH INFLATION ADJUSTMENTS, December 2000

Period (Yearly Average)	Price Support Loan Rate $/bu.	Inflation Adjusted Price Sup. Loan Rate $/bu.	Export Volume Billion bushels	Domestic Use Billion bushels	Total Use Billion bushels	Ending Stocks % of Use	Inflation Adjusted Government Payment $/acre	Average U.S. Farm Price $/bu.	Inflation Adjusted U.S. Farm Price $/bu.	Average U.S Yield bu./acre	Inflation Adjusted Gross Income $/acre
CORN											
1975-79	$1.74	$4.39	1.9	4.5	6.4	21	$1.00	$2.30	$5.91	95	$562
1980-84	$2.54	$4.31	2.0	5.1	7.1	29	$20.00	$2.83	$4.83	100	$503
1985-89	$1.94	$2.76	1.8	5.6	7.4	46	$110.00	$2.11	$2.97	112	$443
1990-95*	$1.73	$1.99	1.8	6.5	8.3	16	$60.00	$2.45	$2.80	119	$393
1996-2000*	$1.89	$1.91	1.9	7.4	9.3	16	$58.00	$2.16	$2.19	132	$347
2000 proj.	$1.89	$1.89	2.3	7.8	10.1	17	$68.00	$1.90	$1.90	138	$330
*7/20001 USDA Corn export projections for 2000 crop are 1.9 billion bushels, dropping 1996-2000 average to 1.8 billion bushels.											
WHEAT											
1975-79	$2.14	$5.44	1.2	0.8	2.0	49	$18.00	$3.10	$7.94	31	$264
1980-84	$3.46	$5.88	1.5	1.0	2.5	52	$28.00	$3.61	$6.15	37	$256
1985-89	$2.45	$3.48	1.2	1.1	2.3	56	$61.00	$3.10	$4.34	35	$213
1990-95*	$2.33	$2.63	1.2	1.2	2.4	23	$37.00	$3.35	$3.82	37	$178
1996-2000*	$2.58	$2.61	1.0	1.3	2.3	35	$35.00	$3.08	$3.13	41	$163
2000 proj.	$2.58	$2.58	1.1	1.3	2.4	42	$41.00	$2.60	$2.60	42	$150
SOYBEANS											
1975-79	$3.45	$8.63	0.7	1.0	1.7	12	$0.00	$6.11	$15.67	29	$454
1980-84	$5.02	$8.54	0.8	1.1	1.9	15	$0.00	$6.60	$11.27	29	$327
1985-89	$4.77	$6.74	0.7	1.2	1.9	18	$0.00	$5.76	$8.09	32	$259
1990-95*	$4.90	$5.62	0.7	1.4	2.1	16	$0.00	$5.93	$6.80	36	$245
1996-2000*	$5.20	$5.26	0.9	1.7	2.6	11	$13.00	$5.63	$5.72	38	$230
2000 proj.	$5.26	$5.26	1	1.8	2.8	13	$27.00	$4.70	$4.70	38	$206

U.S. AGRICULTURAL TRADE BALANCE
(FY's corresponding to marketing years)

	Nominal	Inflat. Adj.
1975-79	$15.1 bill.	$37.6 bill.
1980-84	$19.8 bill.	$34.2 bill.
1985-89	$12.5 bill.	$17.3 bill.
1990-95	$20.1 bill.	$22.8 bill.
1996-2000	$15.4 bill.	$15.7 bill
2000 proj.	$12.0 bill.	$12.0 bill.

NOTES: 1. Source of all data: ERS-USDA, FSA-USDA, and Bureau of Labor Statistics.
2. Each average annual period begins with passage year of new farm bill (except 1977 bill).
3. Averages calculated from data for 25 individual years.
4. Inflation adjustments made to Jan. 1999 Consumer Price Index-All Urban Consumers. 1999 and 2000 crop years are therefore not adjusted for ongoing inflation after 1/1999

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KEY INDICATORS OF THE U.S. FARM SECTOR

A 25 YEAR HISTORY WITH INFLATION ADJUSTMENTS, December 2000

COTTON

Period (Yearly Average)	Price Support Loan Rate cts/lb.	Inflation Adjusted Price Sup. Loan Rate cts/lb.	Export Volume Million Bales	Domestic Use Million Bales	Total Use Million Bales	Ending Stocks % of Use	Inflation Adjusted Government Payment $/acre	Average U.S. Farm Price cts/lb.	Inflation Adjusted U.S. Farm Price cts/lb.	Average U.S Yield lbs./acre	Inflation Adjusted Gross Income $/acre
	upland	upland	all	all	all	all	upland	all	all	all	all
1975-79	42.4	107.7	5.8	6.7	12.5	31	$0	57.7	148.2	481	$713
1980-84	53.5	90.6	6.1	5.6	11.8	42	$115	62.1	106.0	529	$676
1985-89*	53.3	75.3	5.8	7.6	13.4	51	$175	59.2	83.1	624	$693
1990-95*	51.3	58.8	7.3	10.1	17.4	19	$76	64.3	73.5	640	$546
1996-2000*	51.9	52.5	6.6	10.6	17.2	22	$80	58.7	59.5	646	$464
2000 proj.	51.9	51.9	7.6	10.0	17.6	22	$88	53.0	53.0	622	$418

RICE

Period (Yearly Average)	Price Support Loan Rate $/cwt	Inflation Adjusted Price Sup. Loan Rate $/cwt	Export Volume Million cwt.	Domestic Use Million cwt.	Total Use Million cwt.	Ending Stocks % of Use	Inflation Adjusted Government Payment $/acre	Average U.S. Farm Price $/ctw.	Inflation Adjusted U.S. Farm Price $/cwt	Average U.S Yield lb./acre	Inflation Adjusted Gross Income $/acre
			rough equiv.	rough equiv.	rough equiv.						
1975-79	$6.82	$17.70	70.6	47.4	118.0	28	$61	$8.70	$22.21	4,543	$1,070
1980-84	$7.88	$13.36	74.9	62.2	137.2	38	$147	$9.27	$15.95	4,699	$896
1985-89*	$7.03	$9.95	75.6	77.7	153.3	30	$417	$6.35	$8.89	5,577	$913
1990-95*	$6.50	$7.45	78.9	97.8	176.7	17	$250	$7.35	$8.39	5,663	$725
1996-2000*	$6.50	$6.58	83.6	112.3	195.9	14	$212	$8.11	$8.23	5,958	$702
2000 proj.	$6.50	$6.50	80.0	122.9	202.9	14	$282	$6.00	$6.00	6,236	$656

** Marketing loan implemented, reducing the historical market price support mechanism of the CCC nonrecourse loan. LDP option implemented with 1996 Farm Bill.*

NOTES: 1. Emergency legislation payments for crop years 1998, 1999, and 2000 are included. These payments increased 1996 to 2000 average payments by approximately: corn by $18/acre, wheat by $11/acre, soybeans by $2.00/acre, cotton by $23/acre, and rice by $66/acre.

2. 2000 crop cotton average price from August/October 2000 average price quoted by FSA-USDA.

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Farm Policies to Preserve a Competitive U.S. Agriculture

-An Analysis of Market Implications of Various Farm Policy Proposals-

Analysis conducted by:

World Perspectives, Inc/AgriLogic, Inc.

on behalf of member clients in:

Coalition for a Competitive Food and Agricultural System

July 9, 2001

I. Purpose of the Study

The Coalition for a Competitive Food and Agriculture System (CCFAS) is a coalition of individual agribusiness companies and trade associations that have actively participated in farm policy discussions since prior to the passage of the FAIR Act in 1996.[1]

CCFAS commissioned this study by World Perspectives, Inc./AgriLogic, Inc. (WPI-AL) in an effort to demonstrate market impacts and financial outcomes of a range of various farm policies under various market conditions. More specifically WPI-AL was asked to look at several specific policy proposals now under consideration by Congress and, holding total government outlays relatively constant over the period of analysis (2002-2008), compare the different policies as to their impact on:

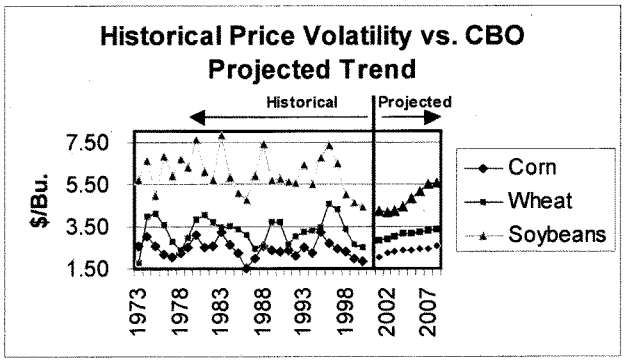
- Gross and net farm income
- Farm prices
- Farm income from the marketplace
- Efficiency of transfer to farmers of government outlays, and
- Impacts on the U.S. long-term competitive position

II. Explanation of Analysis Framework and Assumptions

A. Baseline used for comparative analysis. The analysis compares three policy alternatives under a "steady state" normal baseline trend assumption. The baseline used in this analysis assumes a more conservative upward price trend for the major commodities than that currently assumed by the Congressional Budget Office (CBO). There are several reasons why CCFAS took this approach. First, the CBO in many of its previous baselines has had a tendency to be overly optimistic about future price trends. Using optimistic baselines tends to understate the potential government costs when programs have a counter-cyclical impact on price fluctuations. Another reason to be conservative in estimating future price trends is the fact that global acreage planted to major crops has declined in the last 4 years in response to falling prices (foreign acres alone are down about 60 million acres). It is only reasonable to expect those foreign acres to return to production if prices recover substantially, thus limiting potential price increases. A third reason to be conservative in future price projections is the fact that the outlook for global economic growth is not as optimistic as it was 6 months or a year ago. While positive economic growth is still expected, it is expected to be slower, particularly in the developed world.

[1] CCFAS is comprised of more than 120 companies and organizations representing a broad range of agricultural interests. CCFAS is committed to working for market-based policies designed to benefit all 21 million people working in the U.S. food and agriculture industries.

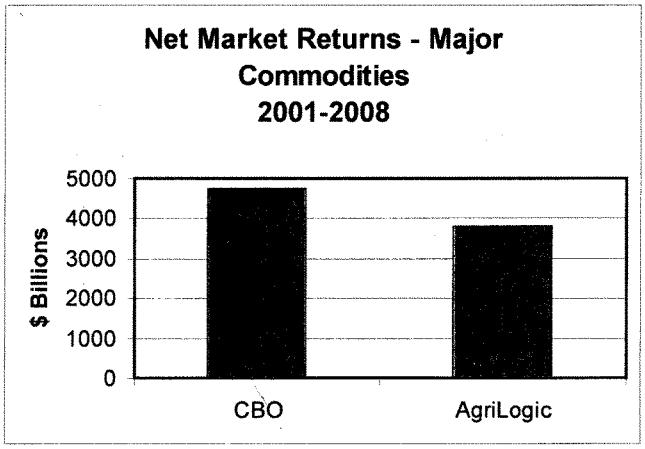
No single analytical approach can be unfailingly prescient about the future. Global production problems caused by weather, new uses for agricultural products, or a declining dollar value, could all have positive effects on anticipated future farm prices. The chart below shows the pattern of past U.S. prices of major commodities and the projected CBO baseline trend. The following table compares the AgriLogic baseline prices for 2008 used in this analysis with CBO baseline prices for 2008.

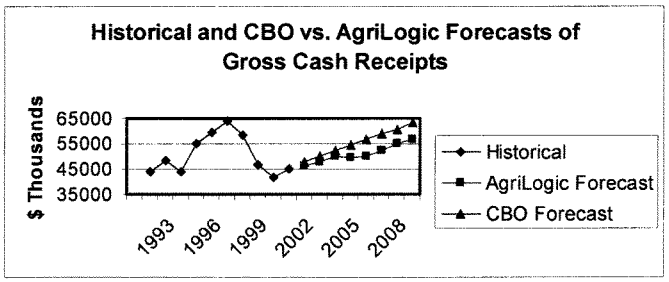


Baseline CBO Prices vs. Baseline AgriLogic, 2008		
Baseline	**CBO**	**AgriLogic**
2008 Corn Price	**$2.55**	**$2.25**
2008 Wheat Price	**$3.36**	**$3.24**
2008 Soybean Price	**$5.56**	**$5.51**

Other comparisons of the CBO and AgriLogic baseline used in this analysis are reflected in the following charts comparing net market returns for major commodities and gross cash receipts for the 8 program crops. The CBO baseline average for 2002-2008 is $58 billion, compared with $53 billion in the AgriLogic baseline. To put the comparative trends in perspective, gross cash receipts for the eight program crops averaged $51.1 billion in the last five years, a period which included two very good years in 1996 and

1997 along with three relatively low-price years more recently. Based upon the recent history, the more conservative projection may well be the most appropriate. The CCFAS baseline uses a simulation (supply and demand components mimic the CBO's baseline but AgriLogic's macroeconomic forecast is used in the simulation) of CBO's April 2001 baseline in certain areas but most of the analysis makes use of the AgriLogic baseline.





Because the baseline assumptions used in this analysis are more conservative than CBO's current baseline, the absolute levels of variables such as net farm income and farm prices are not directly comparable with analyses offered by other organizations. However, this analysis presents a range of results using different policies, under consistent baseline assumptions that allow important conclusions to be drawn concerning a number of important policy parameters, and how policies can be expected to perform. If future market outcomes are more favorable than baseline assumptions, the net farm income picture will only improve that much more.

B. Policies analyzed/economic settings. The analysis presented here is comprised of five separate policy runs. These policy runs are described in detail below, but in general,

were designed to compare a government income support program comprised of **All Direct Payments** (assumes elimination of the loan program), a program using price formulas to keep loan rates at competitive levels supplemented with direct payments **(Formula Loan plus Direct Payments)**, and a program based entirely on higher loan rates for income support **(High Loan Rates)**. A very important characteristic of this analysis is that total government payments were held constant across the various policy options for the steady-state baseline comparisons. Thus, the efficiency of transferring government payments, as they positively impact farm income becomes directly comparable. As a second part of the analysis, the program of formula loans plus direct payments was subjected to two market shocks: one scenario of a decline in demand (a decline similar to the Asian crisis of the late 1990s); and a second scenario using variable yields, similar to the yield pattern of the late 1980s and early 1990s.

Policy 1: All Direct Payments. This policy proposal would eliminate the marketing loan program. It would establish direct payments to producers for the life of the program at Fixed levels based upon existing contract acres (approximately base acres for the grains and cotton, and the most recent 3-year average plantings for soybeans). Assumed total monies committed to direct payments for the major program commodities would be $10.3 billion per year. Total annual CCC outlays (which include conservation, export and other minor commodities) would be $13.5 billion. (The reader will note that the current budget baseline for agriculture allocates an average of $16.8 billion annually. Thus, this analysis assumes that an additional $3.3 billion (16.8-13.5 = $3.3 bil) will be available for other expenditures, such as for additional conservation measures, additional export initiatives, research, or other crops. As a general rule, CCFAS thought a conservative approach to the actual monies available might provide the most useful analysis.) Annual total and per bushel direct payments for the major commodities are assumed to be: 1) corn: $3.906 billion ($.46 per bushel); 2) wheat: $2.219 billion ($.82 per bushel); and 3) soybeans: $1.855 billion ($.70 per bushel).

Policy 2: Formula Loan plus Direct Payments. This policy proposal would compute future loan rates on the basis of the formula in the existing law (85% of the previous 5-year average price, eliminating the high and low price years) with the stipulation that loan rates cannot decline or increase by more than 10% in any given year. Again, total average annual CCC outlays are set at $13.5 billion, with commodity program expenditures at $10.3 billion. (The outcome of this policy proposal, because it maintains competitive loan rates, was very similar to **All Direct Payments**. The vast majority of the government program benefits in this policy analysis are dispensed through direct payments, because loan rates are generally maintained below price levels, thus eliminating the loan deficiency payment.)

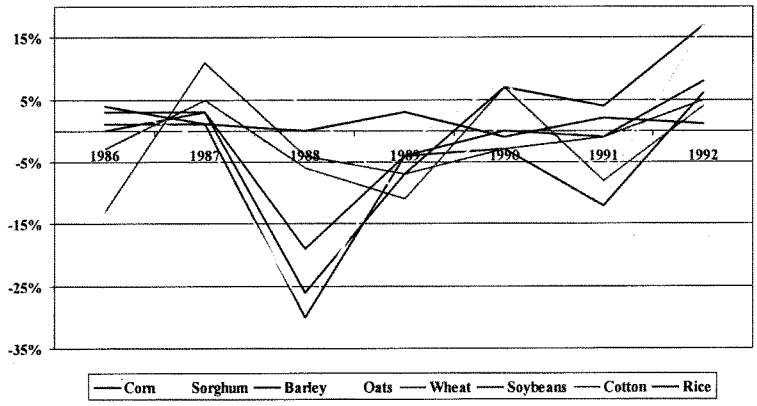
Policy 3: High Loan Rates. Under this policy, direct payments are eliminated and existing loan rates are subject to a one-time increase of 16% and maintained at that level throughout the analytical period. Under the baseline scenario, this 16% increase in current loan values (corn loan rate goes from $1.89 to $2.19; wheat loan rate goes from $2.58 to $2.99; and the soybean loan rate goes from $5.26 to $6.10) results in a major shift in program benefits toward soybeans and cotton and away from the grains. The

program has other distorting effects in the marketplace and, across all commodities, tends to reduce net farm income potential. While this analysis does not analyze any specific "counter-cyclical" policy approach, it can be argued that higher marketing loan rates assumed in this analysis function similarly to counter-cyclical programs, as the income provided varies inversely with market price fluctuations.

Policy 2-a: Formula loan plus direct payments/decline in demand. For this analysis, the **Formula Loan plus Direct Payments** (Policy 2) was re-evaluated using an assumed 5% decline in total market demand in year 2003, and gradually improving to "normal" demand by 2008. In contrast to the "steady state" smooth baseline trends, this kind of variability, whether positive or negative for the market, is more realistic than a straight-line trend. Thus, how a particular policy might be expected to perform under market variations caused by an external shock (such as a drop in demand) has important policy implications.

Policy 2-b: Formula loan plus direct payments/assuming variable yields. For this analysis, the **Formula Loan plus Direct Payments** (Policy 2) was re-evaluated using an assumed variable pattern in yields for 2002-2008 identical to the variations experienced in 1986-1992. The chart below reflects the yield pattern for the 1986-92 period. On net, this yield variability over the entire period of analysis causes a relative shortage of stocks beginning in 2004, leading to price improvements in 2004-2006. By the end of the period (2008), most of the prices return to near trend prices (close to the levels generated under the Policy 2 analysis above), or in some cases, falling below trend due to favorable yields in 2007 and 2008.

Yieldshock Variability

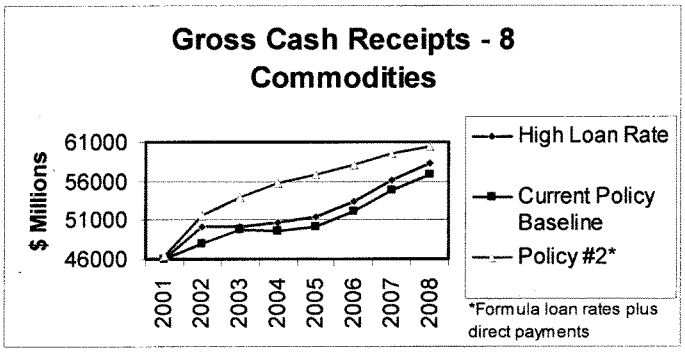


III. Comparison of Analytical Results

A. Overall Results. The table on the following page presents an overview of average results for 2002-2008, comparing the various policies. The three policy runs on the left are all conducted on a consistent steady-state baseline. The two policy runs on the right (policy 2-a and policy 2-b) are conducted under the assumptions that stochastic variables create disturbances that contribute toward more market variability (note that CCC outlays are not held at constant levels for these two runs). The outcomes for Policy 1 (**All Direct Payments**) and Policy 2 (**Formula Loan plus Direct Payments**) are very similar. Net farm income for both analyses is above $45 billion. The commodity price outcomes in the marketplace are also similar, with soybean prices being slightly higher in Policy 2.

Net Farm Income, Prices, CCC Outlays for Various Policies
7-Year Average, 2002 - 2008

	Policy 1 All Direct Payments	Policy 2 Formula Loan Plus Direct Payments	Policy 3 High Loan Rates	Policy 2-a Low Demand	Policy 2-b Variable Yields
Net Farm Income Avg., 2002 - 2008	$45.1 billion	$45.6 billion	$42.5 billion	$44.3 billion	$47.1 billion
CCC Outlays Average, 2002 - 2008	$13.5 billion	$13.5 billion	$13.6 billion	$13.7 billion	$15.2 billion
Average Corn Price	$2.18/bushel	$2.19/bushel	$2.13/bushel	$2.10/bushel	$2.23/bushel
Average Wheat Price	$3.23/bushel	$3.23/bushel	$3.22/bushel	$3.07/bushel	$3.31/bushel
Average Soy Price	$5.01/bushel	$5.08/bushel	$4.68/bushel	$4.73/bushel	$5.64/bushel
Average Cotton Price	$ .52/lb.	.52/lb.	.52/lb.	.50/lb.	.55/lb.



Policy 1 and 2 stand in contrast to the **High Loan Rate** policy that results in lower annual net farm income by some $2 billion to $3 billion. Average farm prices likewise are lower under the high loan rate policy (cotton prices are only fractionally lower in the case of **High Loan Rates**, and with rounding are reported in the table at 52 cents per lb. for Policies 1, 2 and 3). Functionally, the high loan rate is driving the planting decisions of farmers as much or more so than market signals. With **High Loan Rates** overriding market signals, farmers plant crops that are less valuable to customers, resulting in lower overall sales in the cash marketplace, driving down farm income earned through market channels (note the chart reflecting gross cash receipts for the 8 commodities).

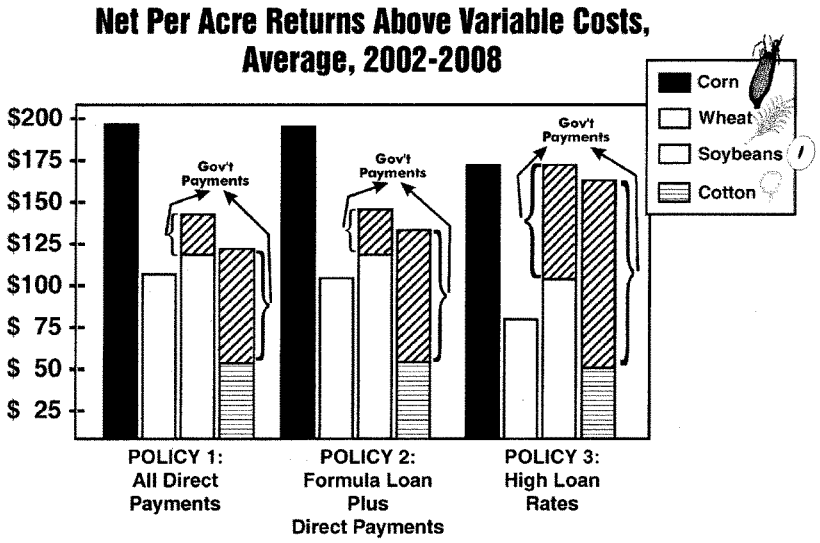
At the same time, both Policy 1 and Policy 2 are more efficient at delivering government outlays to farmers, resulting in higher direct benefits to farmers' bottom line income. The high loan rate policy, while making payments through the loan deficiency payments (LDPs), is requiring farmers to plant something different than the market demands. The farmer is, therefore, on average sacrificing market income in order to qualify for the form of government payment that is being offered---the LDP. Because the vast majority of the payments made under Policy 1 and Policy 2 are direct payments unrelated to planting decisions, government payments are transferred to farmers with maximum program efficiency. Virtually all the dollars spent by government are taken home by the farmer as increased net income.

The results for the two runs assuming market disturbances (Policy 2-a and 2-b shown on the far right of the table on page 7) are not directly comparable to the other results because CCC outlays varied somewhat from the original assumptions. However, the comparison of these runs to Policy 2 does make an important point. With Policy 2-a (lower demand), government payments escalate somewhat in response to lower prices generated by lower demand, but the increase in government outlays is substantially less than the decline in market farm income. This is a positive outcome from a policy standpoint in that policies should be responsive to farm need, but should not be so generous as to over-compensate producers for market losses. (This outcome is contrasted with some of the policy proposals offered by some producer groups that actually cause

farm income to increase when market demand softens [see section VI below]). When market fundamentals change (such as a shift to a lower level of demand), for the market to be able to efficiently adjust, the producer needs to "feel the market" to a certain extent. If policies prevent or slow such needed market adjustments, excessive stockpiles of commodities accumulate, further depressing prices.

B. Net Returns Above Variable Costs for Major Grains and Oilseeds. The chart on the following page compares net returns above variable costs for corn, wheat, soybeans and cotton for the three policies being analyzed with a steady-state, trend baseline assumption. The general outcome for this comparison might be anticipated, given the relative strength of Policy 1 and Policy 2 in generating the highest net farm income across all commodities (shown in the previous table). Net returns above variable costs for corn are about $192 per acre under Policies 1 and 2, and decline to $174 per acre for Policy 3, the high loan rate policy. Wheat returns also decline from about $101 per acre for policies 1 and 2 to $77 per acre for Policy 3.

Total soybean and cotton net returns actually show an increase. However, the only reason for these increases in net returns for these two crops is the rapid escalation in government payments. To demonstrate this point, the increase in government outlays is shown as a separate section of each bar representing net returns per acre for soybeans and cotton. Note that if an adjustment is made to equalize government payments across the various policies for soybeans and cotton, the net returns for these commodities would also be higher under either Policy 1 or Policy 2. Government payments, delivered through a high loan rate program, are in fact crowding out the ability of these commodities to earn maximum revenue from the market. (The fact that the soybean loan rate at $5.26 per bushel is already at the highest level of the major grain and oilseed commodities, probably influences this outcome greatly. A more modest increase in soybean loan rates (less than the $6.10 assumed here) might result in a more modest outcome. Still, the results hold that producers will receive a higher percentage of their income from the government through higher loans than from the market.)



C. Impacts of Formula Loan Rates on Loan Values, Prices and Total Receipts. While the results of both Policies 1 and 2 appear promising on a macro scale that looks at total net farm income, it is also helpful to look at the micro level. The table on the following page presents information on Policy 2, and the loan rates that such a policy, driven by formulas, would generate. The table also shows projected market prices, assuming a steady state trend, and total receipts per bushel, including both market and government. Loan rates for corn decline to $1.58 in two years, but begin to trend upward in future years. Total receipts per bushel of corn range from a low of $2.35 to $2.60, and are generally up-trending through the period. These per bushel revenues compare favorably to average variable costs of production for corn of $1.13 reported by USDA for 2000.

Policy 2: Annual Loan Rates, Prices and Total Receipts per Bushel (2002 – 2008)

CORN

	2002	2003	2004	2005	2006	2007	2008
Loan Rate	$1.70	1.58	1.59	1.69	1.80	1.86	1.89
Price/bushel	$1.99	2.15	2.21	2.22	2.24	2.25	2.26
Total Market &Government Receipts/bushel	$2.35	2.51	2.57	2.57	2.59	2.59	2.60

WHEAT

	2002	2003	2004	2005	2006	2007	2008
Loan Rate	$2.32	2.26	2.34	2.49	2.64	2.76	2.82
Price/bushel	$2.91	3.13	3.27	3.34	3.37	3.34	3.28
Total Market & Government Receipts/bushel	$3.84	4.05	4.17	4.22	4.24	4.20	4.13

SOYBEANS

	2002	2003	2004	2005	2006	2007	2008
Loan Rate	$4.73	4.26	3.99	4.04	4.08	4.19	4.29
Price/bushel	$4.63	4.83	4.95	5.00	5.18	5.50	5.48
Total Market &Government Receipts/bushel	$5.65	5.45	5.56	5.60	5.78	6.10	6.07

COTTON

	2002	2003	2004	2005	2006	2007	2008
Loan Rate	$ .48	.45	.43	.44	.44	.44	.45
Price/lb.	$ .49	.51	.52	.53	.54	.54	.54
Total Market &Government Receipts/lb.	$ .67	.66	.63	.64	.65	.65	.64

For wheat, the loan rate declines initially from $2.32 to $2.26, before recovering to $2.82 by 2008. Total market and government returns per bushel of wheat bottom out at $3.84 and reach a peak of $4.24 in 2006. These market revenues also compare favorably with average variable costs of production of $1.37, reported by USDA for 2000.

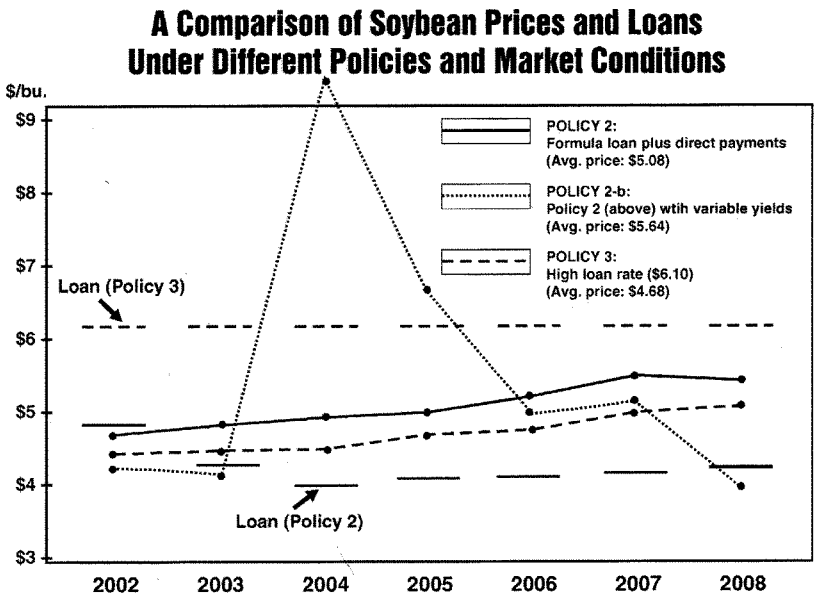
The soybean loan rate, computed by the formula, declines the farthest, going from $4.73 to $3.99 per bushel in 2004, before rising back to $4.29. However, total market receipts for soybeans stay in a financially healthy range throughout the period, achieving a low of $5.45 in 2003 and peaking at $6.10 in 2007. For comparison purposes, soybean variable costs reported by USDA for 2000 are $2.01 per bushel.

The results for cotton are similar to that for the grain and oilseed crops. Cotton loan rates decline to the mid-40 cent range when computed on the basis of market prices, but total market and government receipts per pound range from a low of $.63 to a high pf $.67.

IV. The Tendency of High Loan Rates to Depress Market Prices

Some of the previous reported results have demonstrated that high loan rates tend to depress market prices. The graph on the following page further emphasizes this point by comparing year-to-year loan rates and prices under Policy 2 (**Formula Loan plus Direct Payments**) and Policy 3 (**High Loan Rates**) for soybeans. The solid lines depicting Policy 2 show that prices tend to stay above both the formula loan rates and also consistently stay above the prices generated by a high loan rate policy approach. The high loan rates are generating excess production that cannot be readily absorbed by the market, thus keeping stocks high and prices low.

Note also what happens to prices in Policy 2-b, where the formula loan policy is conducted under assumed variable yields (the price pattern is reflected by the smaller dotted line). Because soybean stocks are kept in relatively good balance by formula-driven loan rates, when an unexpected yield decline affects output in 2004, prices spike, and stay relatively high for two years. Under a program of high loan rates, with stocks maintained at higher levels throughout the period, such price rallies would be less frequent, and less beneficial to growers.



V. The Impacts of Market Shocks on Net Farm Income Stability

The stability of net farm income under various policy alternatives and how such stability might be influenced by unexpected changes in markets is a major policy concern of Congress. The table on the following page compares the net farm income analytical results from 2001 to 2008 for Policy 2 (steady state baseline trend), Policy 2-a (**Low Demand**) and Policy 2-b (**Variable Yields**). Both the demand shock and yield shocks are rather large, and should provide a good test of the downside risk to net farm income by adopting such a policy and maintaining it through the entire 7-year period to 2008. For each policy and market situation outcome, the change in net farm income is also expressed in a percentage form.

With an unexpected drop in demand as reflected in Policy 2-a, net farm income declines by a maximum of 11 percent, but finally recovers to be higher than the policy 2 run under a steady state trend. Two successive years in which net income falls by approximately 10 percent (2003-2004) would definitely be felt in farm and rural communities, but should not be so large as to cause large dislocations or disinvestments.

The variable yield situation, reflected in Policy 2-b, shows a net benefit over time, compared to the steady state trend analysis, with a maximum variation of plus 19 percent (see chart below).

The results of this exercise offer some basis for developing confidence that a policy that includes both direct payments and marketing loans maintained at non-distorting levels (which tends to act as a counter-cyclical policy) can offer considerable stabilizing effects on net farm income, as well as providing a highly efficient mechanism in transferring government outlays to farmers.

Impact of Market Shocks on Net Farm Income Stability

	Net Farm Income ($ bil) Policy 2	Net Farm Income ($ bil) Policy 2-a	% Change in Net Income	Net Farm Income ($ bil) Policy 2-b	% Change in Net Income
2001	55.3	55.3		55.3	
2002	47.1	47.1	0 %	45.8	- 3 %
2003	47.5	42.6	-10 %	47.2	- 1 %
2004	46.4	41.4	-11 %	47.5	+ 2 %
2005	48.3	45.5	- 6 %	57.4	+19 %
2006	44.3	43.4	- 2 %	43.8	- 1 %
2007	44.0	45.4	+ 3 %	44.4	+ 1 %
2008	41.6	44.8	+ 8 %	43.9	+ 6 %

VI. Other Significant Issues

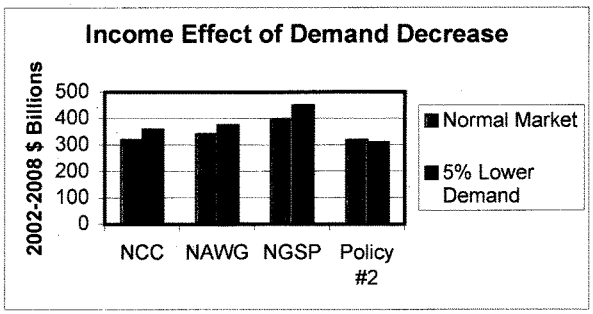
A. How farm programs respond when demand falls. Some of the proponents of counter-cyclical policies state their intent to make the producer whole or nearly so in the event of a market downturn. The difficulty with such a goal is that, to the extent the income support policy shields the farmer from the fundamental changes in the market, the market may be prevented from restoring a balance in supply and demand in a responsive way.

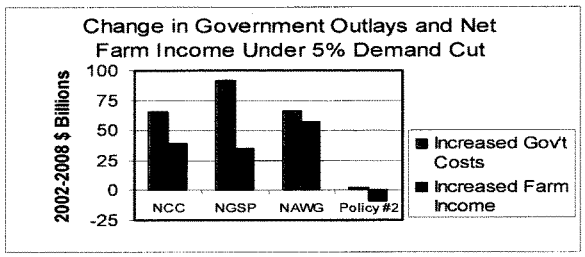
This scenario looked at the impact on net farm income of a fall in demand, and how Policy 2 (**Formula Loan plus Direct Payments**) responds to the decline in demand. Under this analysis, the 5 percent drop in demand results in a decline in net farm income from $319 billion to $310 billion over the entire 7-year period. Government program expenditures increase by $1.7 billion to help soften the impact, but clearly do not make the farmer 100 percent whole relative to the "normal" market situation.

A comparison of this result to some of the other farm policy proposals being made is shown in the charts on page 15. Under these proposals, the drop in demand causes government outlays to increase. Furthermore, these government expenditures are

proportionally larger than the income benefit they deliver to the producer. This reflects a lack of efficiency in income transfer to the farmer.

Government policy makers should take great care to avoid adopting policies that reward producers in response to negative economic signals. The policy goal should be to reduce income fluctuations, not to overcompensate for the price and income signals the market delivers to U.S. agriculture.





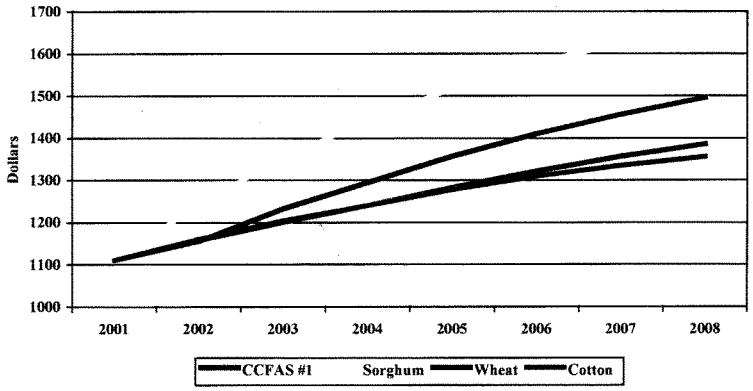
NCC=National Cotton Council
NGSP=National Grain Sorghum Producers
NAWG=National Association of Wheat Growers

B. WTO issues related to farm policy. Global agricultural trade for the last several decades has seriously lagged the growth in trade for other industrial sectors. Many economists attribute this to the substantially higher protection of agricultural sectors throughout the world. The U.S. has much to gain by achieving some success in upcoming trade talks, and reducing trade barriers and protectionist policies.

One advantage of the direct payment approach is that it would clearly be considered "Green Box" and non-distorting of trade. Adopting this kind of domestic policy would

give the U.S. additional leverage in trying to convince other nations to reduce trade distorting policies. Strategies used in domestic policy and trade policy are quite closely related. Non-distorting subsidies in U.S. farm policies not only provide the most efficient transfer mechanism for government outlays for farmers, they also potentially offer a tool to achieve more market expansion through trade talks.

C. Land price increases are a concern for long term U.S. competitiveness. Relying on direct payments and loans set at reasonable levels is a sound approach to maintaining U.S. price competitiveness in the near term. But the consequences of government subsidies on long term cost competitiveness are becoming more of a concern.



In the June issue of Outlook magazine, the Economic Research Service of USDA (ERS) estimates that average U.S. farmland values have been artificially inflated by 25 percent over market values in the absence of government programs. ERS states this is the highest level of artificial inflation in land values in the last three decades.

The chart above indicates what is expected to happen to land values through 2008 if various policy proposals are adopted. While the proposal analyzed in this report tends to inflate land values less that some others, it too causes land prices to continue to rise faster than the general level of inflation. As the U.S. competes against South America and other countries where land values and cash rents are considerably less expensive, at some stage the basic economics of farming in the U.S. is not sustainable without continuous heavy subsidization.

Given the projections of this analysis for continued land price inflation, and the analysis of ERS that there may already be a substantial farmland price "bubble" in the U.S., the relationship between government subsidies and land prices need to be carefully

considered in future legislation. The long-term competitiveness of the agricultural sector is at stake.

VII. Conclusions

1. In this analysis, Policy 1 (**All Direct Payments**) and Policy 2 (**Formula Loan Plus Direct Payments**) appear to perform well by maintaining a reasonably high level of net farm income. Under the relatively conservative assumption that $10 billion annually (conservative in that this assumption would still leave $3.3 billion in budgeted annual CCC payments for other programs) will be invested in support of major program commodities, and conservative assumptions on baseline prices (lower than CBO), net farm income throughout the next seven years averages more than $45 billion annually. In contrast, with the same amount of government funding, a farm policy driven by **High Loan Rates** (even when the loan rates are marketing loans that keep commodities moving into markets), performs relatively poorly, generating net farm income about $3 billion less annually ($42.5 billion).

2. Comparing Policy 1 (**All Direct Payments**) and Policy 2 (**Formula Loan plus Direct Payments**), shows little difference in overall performance. To maintain comparable efficiency, however, formula loan rates must keep loans generally below market price levels, so that prices do not remain depressed and below loans for extended periods. Larger temporary swings in price than assumed in this analysis would tend to favor the loan rate being maintained as part of farm policy to minimize year-to-year income variations.

3. The more income support coming through loan rates, the less government outlays reach the farmer in terms of net income improvement. For Policy 2, $10.3 billion in government payments raised net income to $45.6 billion. Assuming this policy is 100% efficient in delivery of government payments to farmers (excluding program administration costs), a high loan rate policy is computed in this analysis to be only 70% efficient in delivery of government support to the benefit of farmers -- only 7 out of 10 dollars expended in government payments actually reach the farmer.

4. This analysis did not look at counter-cyclical policies specifically, but a high loan rate program is a form of counter-cyclical policy. To the extent that high loan rates or any other counter-cyclical policies tend to distort market price signals, the less efficient these programs will be in transferring government funds to deliver bottom line net income benefits to farmers.

5. The more loan rates are relied upon for income support, the more likely farm prices for the given commodity will undergo long periods of depressed markets. High loan rates do not cause high prices. High loan rates are more likely to cause low prices.

6. When market shocks occur, such as demand surges (reductions) or yield variability due to weather, income variability should be an expected outcome. The analysis

presented here suggests Policy 2 (**Formula Loan plus Direct Payment**) allows income to fall when markets soften, but not to a degree that threatens a sizable segment of the farming population. This policy does have a "cushioning" effect on farm income, but farmers continue to "feel" the market signals. To allow the marketplace to continue to allocate resources efficiently, policies should be designed to only cushion farm income when demand declines, and not be designed in such a way that effectively rewards weak prices or weak demand.

7. The **Formula Loan plus Direct Payment** approach also has the desirable feature of continuing to allow the farmer to maximize market returns. This analysis indicates that some farm policy proposals may tend to substitute for (and thus crowd out) market returns of farmers. To maintain economic efficiency in the U.S. agriculture sector, farm programs should maximize farmers' ability to earn income from the marketplace, not restrict it.

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