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THE NEW FEDERAL FARM BILL

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

JULY 17, 2001

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HEARING ON THE NEW FEDERAL FARM BILL

TUESDAY, JULY 17, 2001

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

The Committee met, pursuant to notice, at 9:08 a.m., in room SR–328A, Russell Senate Office Building, Hon. Tom Harkin, [Chairman of the Committee], presiding.

Present or submitting a statement: Senators Harkin, Conrad, Baucus, Lincoln, Miller, Wellstone, Lugar, Cochran, Roberts, Thomas, and Crapo.

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

The CHAIRMAN. The Senate Agriculture Committee will come to order.

In today's hearing, the committee will receive testimony from the wheat, rice, cotton, peanut, and sugar industries. I look forward to hearing the testimony and learning more about these commodities, their programs and issues.

Combined with last week's hearing, we will have heard the views of producers of nearly all commodities involved in farm programs; however, I hasten to add that we will be having all of the livestock people in either next week or the week after. Then we intend to have at least one hearing on specialty crops, which we have not heard from in the past because they have not been all that involved in farm programs, but we will have them also before the committee.

Starting with wheat, wheat remains the predominant crop in regions of this country where rainfall is too variable to plant feedgrains and oilseeds. Historically, wheat is one of the top crops in acreage in this country, but it has lost ground in recent years due to foreign competition and more favorable prospects for some other crops.

Cotton and rice are the other two program crops under the AMTA program. These crops are very important in a number of States represented on this committee. Cotton, peanuts, and sugar, as well as certain classes of wheat, also face import competition, which differentiates them from the feedgrains and oilseeds that we examined last week.

These pressures are likely to play a continuing role in devising the appropriate policies.

In particular, we already know that the current sugar policy is not functioning well. A combination of increased imports of both sugar and sugar products and increased domestic production have created an oversupply situation. This imbalance has driven down prices and forced the forfeiture of over 800,000 tons of sugar into Government stocks.

The peanut program faces similar challenges in responding to import competition and increasingly global markets.

I look forward to the valuable testimony from our witnesses this morning and now turn to my friend and distinguished ranking member, Senator Lugar.

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

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

I thank you for holding another farm bill hearing this morning. I commend you on last week's hearing, in which a number of commodity proposals were thoroughly considered.

In reviewing the agenda for today's hearing, I was once again reminded of the significance of the trade promotion authority for agriculture. About 45 percent of our Nation's rice crop is exported. It is also interesting to note that previous key rice markets are countries against which the United States placed unilateral economic sanctions. Rice farmers have therefore taken a double hit in the trade area.

By congressional inaction on trade promotion authority, the message to rice and other farmers is clear—you are not a priority in the Congress. Hopefully, we will remedy that.

Two topics on today's agenda represent extraordinary public policy difficulties; they are the sugar and peanut programs. According to the General Accounting Office, 40 percent of the benefits of the sugar program go to only 1 percent of the growers.

While the Farm bill envisioned a sugar program that would operate at no cost to taxpayers, last year's USDA purchased $54 million worth of sugar, initiated a payment in-kind program, and now pays $1 million a month in storage fees for surplus sugar. The sugar program cost the taxpayers $465 million in fiscal year 2000.

The peanut program is an example of an outdated and market-controlled Federal farm policy. Supply is managed by an arcane national poundage quota and important restrictions. The price support feature of the program has been two tiers—one for domestic food and one for peanuts crushed into peanut oil and meal.

The current national peanut policy is a combination of efforts to hold onto a quota system that benefits quota-holders, not necessarily peanut producers.

More than 60 percent—60 percent—of the peanut quota is not produced by the quota-holder. Quota rents add 12 cents per pound to the cost of peanuts to consumers.

I am heartened by reports that some peanut growers are attempting to develop proactive peanut reform ideas, and we look forward to reviewing those proposals, especially if market-oriented.

My personal commitment to major reform in the sugar and peanut programs will be vigorously reflected as the Farm bill develops.

Again, Mr. Chairman, I thank you for holding today's hearing.

The CHAIRMAN. Thank you very much, Senator Lugar.

I would like to recognize the Senators who are here for any brief opening statements or introductions that they might want to make. I will start with Senator Conrad.

Senator CONRAD. Thank you, Mr. Chairman.

Thank you for having this hearing. I have a lot of things I could say, but I would like to get to the witnesses, and I know you would, too.

The CHAIRMAN. Thank you very much, Senator Conrad.

Senator Cochran.

Senator COCHRAN. Thank you, Mr. Chairman.

I am pleased that the Deep South is well-represented here this morning with witnesses from Louisiana, Tennessee, and Mississippi.

Rice and cotton producers in our States in the Deep South are confronted with some very challenging problems, and I know the witnesses will help us understand those better, and we welcome them all here and appreciate their attendance and assistance to our effort.

The CHAIRMAN. Thank you very much, Senator Cochran.

Senator Baucus.

Senator BAUCUS. I will pass, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Senator Roberts.

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

Senator ROBERTS. Well, you have to have somebody make a statement, Mr. Chairman.

I want to thank you for holding the second hearing on a commodity title of the next Farm bill. I am very pleased that we can continue this very important discussion.

The House goes in at 10 o'clock on a markup on a draft bill, so we are acting in commensurate fashion.

As the Senator from Kansas, I am especially pleased to welcome the National Association of Wheat Growers. As I indicated when I came into the hearing, I love you all, but I love Dusty in the morning.

I do not intend to give a long statement today. I have addressed most of my concerns in the previous statements last week when you held the hearings. I look forward to hearing from the same groups today. I do want to say to them what I said to the others in a more succinct fashion.

We all understand the situation that we have been facing in the countryside, all of us who are very privileged to represent our farmers and ranchers. We are not in very good shape with the shape we are in.

However, I am concerned that many of the proposals that have been brought before us have perhaps not been written with too much consideration of our budget situation or the WTO obligations, and many of them have simply been a rehashing of proposals and policies from the past. That is not bad; in some ways, it is possibly good. I have been through six farm bills now.

Mr. Chairman, I just came from a 30-member meeting of EU members who are over in the Mansfield Room, talking about the United States' position on the WTO, where they are, and where we are. Senator Dorgan was the host of this event, and it was an interesting exercise.

I would simply say that a farm bill is no longer a bill about just the commodity title and how much investment we can put into it. A farm bill is a bill for rural America, and that means we should and must put funding into rural development and conservation programs.

Let me simply say that we have to make some difficult choices. You have all brought your proposals before us, but again, the reality of our budget constraints and our WTO commitment says that we may not be able to act on all of these proposals. I wish we could.

I remember when I had the duty or the cap in the House, that we used to shut all of you up in room 1338-A and close the door and say, "If you cannot come out with some kind of compromise, we will see you at 5 o'clock." In most cases, you came out with a compromise.

Finally, I have a little concern. The distinguished former chairman and now ranking member made this comment before in his comments: "If you look at all the proposals, different as they are, I see all of them resulting in an ever-increasing capitalization of payments into land values and cash rents."

We are in tough times in farm country, yet if you go to the region of FDIC in Kansas City, you will find the land values have gone up 7 percent. If that is not a paradox of enormous irony, I do not know what is, and I worry that we are going to price many young people out of the ability to enter into farming—and that is a speech that we have often given.

Mr. Chairman, we also have hearings in the Armed Services Committee on missile defense, and I am going to have to leave, but I am familiar with all the comments. Most of you have been to see me in a very fine courtesy call, as far as I am concerned.

I have four questions that I would like to submit for the record, and if the witnesses could respond at their convenience in the not-too-distant future, and they are these: Without the flexibility of the 1996 Farm bill, where do you think wheat production and the wheat industry would be today? It is true we have come down 20 percent in Kansas, but we have gone to other crops, including cotton, I would inform my dear colleague and friend from Mississippi. We have 40,000 acres of cotton now, Mr. Echols. When Stephen Foster wrote the same about "those old cotton fields back home," you did not think he was writing about Kansas, but that is true.

My second question is how important is it to your producers that this year's market loss assistance be at last year's level? Mr. Chairman, we have to make that decision very quickly, and I know you are on top of that.

No. 3, it is my understanding that the National Association of Wheat Growers believes the AMTA-based acres should remain unchanged in this farm bill; and, Dusty, if you could please go over that.

Finally, regarding your counter-cyclical proposal—this is to Wheat Growers—what happens if overall crop projections, not just

wheat, fall due to drought or flooding, et cetera, and thus the price would rise above the market support level—what happens to a producer in that situation?

Those are the questions that I am going to submit for the record, and I apologize and will try to stay as long as I can, but we do have the other hearing.

Thank you, Mr. Chairman, for your leadership.

The CHAIRMAN. Thank you very much, Senator Roberts, for those very incisive comments and questions.

The CHAIRMAN. Senator Miller.

Senator MILLER. Thank you very much, Mr. Chairman, and thank you for holding this hearing.

I have a short statement that I would like to submit for the record.

The CHAIRMAN. Without objection.

Senator MILLER. You will not be surprised that it deals with cotton and with peanuts.

I would also like to thank the witnesses today, and I would like to especially thank and recognize two gentlemen from Georgia who will appear on the second panel—Mr. Armond Morris of Ocilla, Georgia, and Mr. Wilbur Gamble of Dawson, Georgia. Not only are Mr. Morris and Mr. Gamble tremendous advocates for Georgia agriculture; they are very strong leaders in their communities, and they know first-hand the difficult times that we are having, and I look forward to hearing from them and working with them.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Miller.

The CHAIRMAN. Senator Thomas.

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

Senator THOMAS. Thank you, Mr. Chairman.

Like everyone else, I have other hearings as well, but I am particularly interested in being here today and appreciate you calling this hearing.

As you know, Wyoming is largely livestock and agriculture; however, wheat and sugar are probably our largest crops, so we are very much interested in that.

The sugar industry, which I want to focus on for just a moment, is in trouble, with the lowest prices in 22 years. Some of the largest refiners are in bankruptcy. These are critical times certainly for producers. Last year, the sugar industry forfeited a great deal of production, and that is not good and not an action the producers wanted to take. We do not want to see that cycle go over again.

Obviously, the current policy in sugar is not working. Ending the sugar program is not a viable answer. We have one of the few things where we have value-added in Wyoming where, instead of sending it out in first form, it goes out refined. We have plants in three towns. It is more than just producers; it is also part of the economy. Certainly, we have all been involved in the trade problems with the letter in Mexico and the molasses problem in Canada and so on.

I hope that we can come up with some answers for the sugar issue. Some people have said the price goes down, but the product

price goes up, and that is true. The products that use sugar go up, but the price of sugar goes down, and that is a difficult thing to deal with.

I will not take any more time, but I do want to tell you how important it is to us and how we are focusing. Some of our producers are seeking to lease or buy the processing facilities and so on.

This is a major issue for us in agriculture in Wyoming, and we look forward to working on it, and I thank you for the hearing.

The CHAIRMAN. Thank you, Senator Thomas.

Senator Wellstone.

STATEMENT OF HON. PAUL D. WELLSTONE, A U.S. SENATOR FROM MINNESOTA

Senator WELLSTONE. Mr. Chairman, I am going to do this in a minute so we can go forward with the panels.

I would like to thank all of you for being here. I apologize that there is a debate on the bankruptcy bill that starts at 9 o'clock, and I have to be down there at 9:30. I will read all of the testimony, and I have read some of it already.

The only thing I would say, Mr. Chairman, is that the Senator from Minnesota thanks you for the hearing. I appreciate the way in which you are moving forward very expeditiously.

I view this committee—this will sound a little melodramatic—with a sense of history, because I think we do need to write a farm bill, and I do not disagree with some of what I have heard. Senator Roberts was saying that it is about commodity price, but it is also rural economic development; I could not agree more. We had a focus on energy yesterday, and a lot of people in rural America think they have part of the answer to that question; I am very excited about that.

That you deserve a tremendous amount of credit for focusing on the environment. This could very well be a farm bill that is connected to environmental land stewardship and also connected to family farm structure of agriculture. God knows, I have a passion for that.

Finally, I just want to mention my very strong interest in trying to put a little bit—I will say to my Republican colleagues that I am actually becoming more conservative now, and I think my battle cry—and I saw Zell Miller's head just switch over this way—my battle cry for the committee is going to be to put more of free enterprise into the food industry. I would like to see more competition. I would like to see us focus on how our producers are at such a disadvantage vis-a-vis all the mergers and acquisitions here and there. I am very interested in talking about how we can have more competition.

Thank you.

The CHAIRMAN. Thank you very much, Senator Wellstone.

Senator WELLSTONE. I am a free enterprise guy, Pat.

The CHAIRMAN. Senator Baucus.

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

Senator BAUCUS. Very briefly, Mr. Chairman, thank you very much.

Mr. Chairman, I have a few points, and I will submit my statement. One, sugar—it is a problem. I cannot tell you how important beets are to a large part of our State's economy, and I know this committee is going to work to be sure that we have a very strong sugar industry. That is very important to me, Mr. Chairman.

With respect to the other commodities, and in my State of Montana, particularly wheat and barley and a few specialty crops, I have got to tell you it is tough. It is as tough as I have seen it. I have been talking to farmers during the last break, and there are several reasons. One is drought. There are spots in my State where there are absolutely no crops. There are not going to be custom cutters around for, in one area, at least 100 square miles. They are not going to be there; they are not going to cut. It is that dry.

On top of that is the continual drumbeat of low, low prices with higher, higher costs. It is finally reaching a breaking point. As a consequence, some of the good news is that groups are now starting to come together a little more, and I applaud that. It is critical, and it is necessary, whether it is grain growers, Farm Bureau, Farm Union, all of them.

I am doing what I can to help make that happen. I am inviting them to come and meet in my office all together at the same time—same date, same place, same time—because in my judgment, when we start to finally work together better in agriculture, it is more likely that we are going to get some results. Often, it takes a real crisis to get people to finally come together on all the issues—trade, literally a large component, safety net, risk management—there are lots of issues here.

On conservation, I might say, Mr. Chairman, that in my State, conservation has lots of different cross-eddies. We are one of the largest CRP States in the Nation—some of the counties have met or passed the 25 percent—and the best farm land, the most productive land, is in CRP, and some of the marginal stuff as well. It is perverse. It is creating a situation where a lot of farmers put their place in CRP and then go south. It adds to the stress on the smaller towns where there are no implement dealers, seed, fertilizer distributors. It probably makes sense, frankly—and these are farmers for conservation; they are not at all, in any way, complaining about conservation needs and conservation measures, but they are just getting hurt perversely in a way that was unintended when CRP was first put together.

I am thinking and they are thinking, Mr. Chairman, that when we get to the Farm bill, we have to modify some of the conservation provisions and maybe make CRP more regional so it is not so much nationwide. Maybe the payment structure needs to be changed so the most productive land put in CRP gets a disincentive or something—pretty low—and the least productive land gets higher payment as encouragement to put the less productive land in the CRP, as a thought.

That is what I hear over and over and over again. It is universal among Montana farmers—again, partly because the situation is so dire, it is so difficult.

I urge all of us, too, not just the groups, to come together and try to work better together, all of us on the committee as well. I know you will, and I will not take any more time, Mr. Chairman.

I just want to thank you so much for holding an early hearing on this subject. It is needed.

The CHAIRMAN. I appreciate that, Senator Baucus. Many areas of the country are facing the CRP problem that you have talked about, and it is hurting our small towns and communities, too, because there is not much economic activity going on there when people lock up all the land.

Senator BAUCUS. Yes. A lot of small towns are losing population as a consequence of a weak agriculture policy.

Senator CONRAD. Mr. Chairman.

The CHAIRMAN. Yes, Senator Conrad.

Senator CONRAD. Might I just associate myself with the remarks of the Senator from Montana? He has described the situation that we face in a way that I agree with every word that he said.

Senator BAUCUS. Thank you.

The CHAIRMAN. I recognize that problem to be one of the things that we are really going to have to work out in this bill coming up.

I note the arrival of Senator Lincoln. We are just getting ready to go on to the panel, but if you have an opening statement, I would be more than happy to recognize you for that at this time, Senator.

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

Senator LINCOLN. Thank you, Mr. Chairman, and I will try to be very brief so we can get to the witnesses.

I want to thank you first of all for your leadership and for holding this hearing, setting our committee on a path to complete a new farm bill, which I think is absolutely essential to our growers.

I am excited that we have begun this series of hearings because we have a lot to cover and a lot of problems to resolve, and I know that the gentleman who appear before us today will assist in that. We owe it to our farmers and certainly to our rural communities to confront these problems as soon as we possibly can.

I certainly know from personal experience as well as from my visits back to Arkansas that our farmers are facing some very critical pressures right now as they have been over the past several years—our terribly low prices, our dismal markets overseas, and an economic outlook that really does not offer much hope in the near term.

Some of the problems are beyond the reach of a farm bill, trade being one. We are certainly working with Senator Baucus as chairman of the Finance Committee to look at ways that we can improve on that on behalf of agriculture and on behalf of our farmers, and I hope that we will continue to do that.

As for the near term, we have talked a lot—and I hope it has been discussed some—about the need for an emergency relief package that can lift our farmers in rural communities out of their short-term misery. At this point, we will be looking at that.

As for the Farm bill, we need to craft a policy that will work for all farmers and all rural communities. I know we have our differences due to demographics across this great Nation, but without a doubt, I have confidence that with the leadership of Chairman Harkin and those of us working toward the same end, we can rise

above any of those differences and come up with a complete farm bill that will be productive for this country.

I appreciate Senator Lugar's leadership as well and his hard work on this issue.

It is not going to be an easy task that is before us. I am looking forward to today's hearing as well as many of the others that we will be holding in order to gain the knowledge that we need to produce the package that is ultimately going to benefit the agricultural producers of this country.

Mr. Chairman, thank you again for your leadership. I look forward to the testimony today and certainly to working with all of these gentlemen, several of whom I am very familiar with and have worked with in the past.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Lincoln.

The CHAIRMAN. We will now turn to our first panel today and welcome Mr. James Echols, Chairman of the Board of the National Cotton Council, from Cordova, Tennessee; Mr. Dusty Tallman, President of the National Association of Wheat Growers, from Brandon, Colorado; and Mr. John Denison, Chairman of the Rice Foundation, from Iowa, Louisiana, which has got to be a wonderful place, and he is accompanied by Mr. Nolan Canon, Chairman of the U.S. Rice Producers Association, of Tunica, Mississippi.

We will proceed in that order. All of your statements will be made a part of the record in their entirety. Most of them I have read over in the last day. We will ask if you could highlight it, tell us the most important things you want us to absorb here today so we can get into questions, and if you could try to keep it to about seven minutes or so, I would appreciate it.

We will begin with Mr. Echols. Welcome to the committee again.

STATEMENT OF JAMES ECHOLS, CHAIRMAN, NATIONAL COTTON COUNCIL OF AMERICA, CORDOVA, TENNESSEE

Mr. ECHOLS. Thank you.

Mr. Chairman, on behalf of the seven segments of the U.S. cotton industry, I want to commend you first for holding these hearings on farm programs and express our appreciation for this opportunity to testify.

I want to focus this testimony on the next Farm bill, but I cannot discuss long-term policy without emphasizing how important it is for the committee to provide additional assistance for 2001.

The supplemental income support provided by Congress in the last three years has been crucial, and it is no less important this year. I know this committee is working to develop an assistance package for 2001, and we appreciate your efforts.

We recommend supplementing existing AMTA payments with additional market loss assistance payments at the highest rates possible, or at least the 1999 AMTA rate; allowing producers to receive these supplemental payments on the higher of existing crop basis or an average of recent planting history, provided adequate funds are available; and continuing financial assistance to help offset the adverse impact of low cottonseed prices.

We know that the needs of the agricultural community strain the budget authority provided for 2001. We want to work with this

committee to ensure a 2001 assistance package is sufficient to make a difference for cotton producers this year and help them survive until 2002.

Turning to our work on the next Farm bill, I think the next approach is to be brief and straightforward. The cotton industry is undergoing serious economic stress from the producer through to the textile manufacturer. Depressed prices, increased costs, and slack demand are threatening to shrink our infrastructure and dramatically transform our industry.

No farm program for cotton will be complete without an effective marketing loan program, with redemption provisions keyed to the world market price. This aspect of our program is especially important given the low prices we have been enduring for the past three years.

We believe the next Farm bill must have improved income support. Therefore, we have proposed that new farm policy rely on a combination of fixed and counter-cyclical payments. Our goal is income support from programs and the market that will provide cotton producers with a return equivalent to what they have received in recent years from all sources, including emergency assistance.

With the objective of complying with our WTO commitment, we encourage as much reliance on decoupled, AMTA-like payments as feasible. Additionally, we recommend some type of counter-cyclical income support that is as coupled and as commodity-specific as practical given our budget considerations and our commitments within the World Trade Organization.

Our members prefer crop-specific payments that are triggered when the price of a covered commodity falls below a specified threshold, similar to the target price concept in 1990 farm law.

Our members can support crop-specific payments triggered when revenue for a covered commodity falls below a specified threshold.

All of these counter-cyclical programs share the important common advantages of cost-effectiveness and predictability. Our producers want the new program to retain as much cropping flexibility as possible. We support base acreage provisions that offer farmers the choice of keeping their current payment base or opting for updated payment base. We also urge continuation of assistance to offset low cottonseed prices.

The National Cotton Council has consistently been opposed to payment limitations. We believe limits on marketing loan gains are particularly counterproductive as they impair producers' utilization of the marketing loan when they need it the most—namely, when prices are very low.

Mr. Chairman, our internal discussions have not led the industry to a consensus on loan rates. Our producer members favor a somewhat higher loan than the capped 51.92 cent level under current law. Other segments of our industry have reservations about raising the loan rate. Our leadership continues to discuss this matter, and we believe that we will be able to provide a timely recommendation with respect to loan formulas and/or rates during the course of the new farm bill discussions.

Mr. Chairman, extra-long staple crop producers in Texas, New Mexico, Arizona, and California have not been isolated from the difficult economic circumstances facing the cotton industry. These

extra-long stable producers need improvements in their program as well. We support continuation of the ELS Non-Recourse Loan Program, frozen at the current level, and continuation of the ELS competitiveness provisions. We also support the establishment of some form of counter-cyclical payments for extra-long staple cotton commensurate with those that may be established for upland cotton.

The U.S. continues to need a strong export assistance program and an aggressive trade agenda. We urge the reauthorization and improvement of the Export Credit Guarantee Program, the Foreign Market Development Program, and the Market Access Program. We support funding for FMD of $43.25 million and for MAP of $200 million.

We are concerned with the decision to classify market loss assistance payments as amber box. Because of this decision, we need clarification from the administration concerning their negotiating goals in the WTO.

We are also very concerned about the OECD negotiations involving the Export Credit Guarantee Program. This is a very valuable program for our industry. We believe these negotiations will undermine its effectiveness.

The Council supports the continuation and enhancement of the existing conservation programs such as EQUIP, the conservation reserve and the wetlands reserve programs.

We are also supportive of incentive-based programs that encourage and reward conservation practices and environmental enhancements to agricultural land in production.

We are concerned that the current spending authority Congress has provided while developing a new farm bill may be inadequate to provide the necessary level of support. We cannot help but take a "first things first" approach to this debate. Without an adequate farm program, our producers will not be able to continue in business.

There is another serious issue confronting the U.S. cotton industry. Our sector is especially vulnerable to the effects of an appreciating dollar because of its impact on imports of cotton textile and apparel products. The strong appreciation of the dollar has significantly lowered the price of foreign-produced textiles and apparel in the U.S. market, causing dramatic increases in textile imports.

During the first half of 2001 alone, 45 textile mills have closed, and almost 15,000 jobs have been lost. As a result, domestic mill use of cotton is expected to fall by 3 million bales this year.

We need to offset the adverse consequences of a strong dollar with new farm policy. One adjustment we can recommend is elimination of the one and one-quarter cent threshold currently used in the calculation of our Step 2 payment rates. This adjustment would reduce the cost of raw cotton to domestic textile manufacturers and would enable merchants and shippers to price U.S. cotton more aggressively in the export market.

Beyond this, we are continuing to explore other options that could help avert the devastating exchange rate impact on our industry.

Again, Mr. Chairman, thank you for the opportunity to testify. I would be pleased to respond to any questions the panel may have.

[The prepared statement of Mr. Echols can be found in the appendix on page 56.]

The CHAIRMAN. Mr. Echols, thank you very much for a very fine statement.

Now we will turn to Mr. Dusty Tallman, President of the National Association of Wheat Growers.

STATEMENT OF DUSTY TALLMAN, PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS, BRANDON, COLORADO

Mr. TALLMAN. Let me begin by thanking you, Mr. Chairman, ranking member Lugar, and the rest of the committee for the invitation to appear before you today.

My name is Dusty Tallman. I am from Brandon, Colorado, where my family and I operate a wheat farm. It is an honor for me to present testimony on behalf of the National Association of Wheat Growers, or NAWG.

NAWG is a grassroots organization of 23 member State associations representing American producers of all classes of wheat from all over the Nation.

In the brief time I have here today, I would like to share NAWG's views on the key elements of the next Farm bill. My prepared testimony is much more detailed and covers numerous proposals, many of which I will only summarize today.

We believe there are nine titles in the Farm bill for a very good reason. Farming in today's world economy requires a comprehensive approach to production that relies on free markets, innovative research, advanced technologies, and an ecologically sound and productive environment.

A top priority of the committee should be agricultural trade, beginning with the immediate passage of trade promotion authority. NAWG also strongly advocates the renewal of P&TR, the Export Enhancement Program, FMD, MAP, and other market promotion programs.

We cannot ask our producers to compete in a world market without an aggressive national trade agenda.

Our Nation's research infrastructure also plays a vital role in agriculture. We need to maintain and improve our research infrastructure in order to develop a viable, value-added market for the wheat industry and for wheat gluten, to improve grain yield and quality, and to combat pests such as scab.

A tragic irony of the current crop year is that many producers' budgets are being squeezed by escalating input costs, driven primarily by higher fuel and energy prices. The answer to fuel costs lies in farm and in the products we harvest. We need to further develop our farm-based resources of renewable energy, including biomass, biodiesel, and ethanol.

We have heard many say that this will be the "greenest farm bill yet," and we have heard some very intriguing proposals from carbon credits to conservation incentive payments like those proposed by this committee's chairman. NAWG agrees that conservation initiatives should play a significant role in development of the Farm bill.

Wheat growers have never shied from their responsibility to the Nation's wildlife and to the environment.

Many other issues deserve our attention, from risk management to rural development. All of these discussions are meaningless if we fail to keep our farmers on the land. Keeping producers on the land should be our first priority. As such, NAWG has the following recommendations for the commodity title of the next Farm bill.

Despite economic hardships that have befallen rural America over the last three years, NAWG remains confident that the path outlined in the 1996 FAIR Act continues to serve the Nation's farmers well. In the case of wheat, lower prices can be directly traced to economic troubles in major importing nations, good weather, record levels of production across the globe for 5 straight years, as well as the unfair trading practices of our major competitors.

Indeed, without the freedom-to-farm elements of the FAIR Act, conditions of the Nation's wheat producers would be much worse.

NAWG's first recommendation is to maintain the flexibility afforded to farmers by the current Farm bill.

NAWG's second recommendation is to maintain a guaranteed and decoupled fixed payment based on current AMTA contracts. These payments should be frozen at at least the 1999 level to ensure adequate support. Fixed payments have become an important financial tool for wheat producers, offering some financial security to our business operations.

The third recommendation of the NAWG plan is a commodity marketing loan program that maintains the current loan formula. In an effort to meet budget limits, caps were established on each commodity marketing loan, including a $2.58 cap for wheat. NAWG believes that the next Farm bill must establish more equitable caps. A proposed schedule appears on page 15 of the prepared testimony.

In addition to the caps, many marketing loans currently have a floor. No floor was established for the wheat marketing loan. Wheat producers continue to view this inequity as unfair and believe that all formulas should be reestablished to include a minimum guaranteed amount to better protect in years of low prices.

Accordingly, NAWG has calculated the new floors and believes the schedule contained on page 16 of the prepared testimony provides equitable market support across all commodities.

Our fourth recommendation is the creation of counter-cyclical payments that would be made only when prices fall so low as to create real need across the agricultural economy. NAWG does not seek the establishment of a safety net so expensive and complex that it would guarantee the success of each producer across the country. NAWG seeks only modest support which would only meet producers' most pressing needs.

The NAWG plan for the counter-cyclical payment is based on the establishment of commodity-specific market support levels for each eligible crop. A schedule of these support levels is on page 21 in the prepared testimony. Each was calculated by taking the average total gross income and program support for each commodity as calculated by FAPRI and dividing it by the average production for each commodity over the same 1995-to–1999 period.

Under the NAWG plan, a counter-cyclical payment would be calculated by subtracting the fixed payment and the higher of either

the national average cash price or the national average marketing loan rate from the market support level on a commodity-by-commodity basis.

NAWG is aware that other organizations and individuals have provided testimony to the committee regarding support for the creation of a counter-cyclical program based on whole-farm income or other non-commodity-specific criteria. NAWG opposes these efforts. We learned in 1997 and 1998 that forces in the wheat market do not always follow those that impact other commodities. In addition, the domestic wheat market does not always react the same from region to region. Income-based triggers may present real inequities across the country.

Finally, on the issues of base and yield, NAWG believes that the existing historic bases for current program crops should remain in place throughout the term of the next Farm bill.

In conclusion, I would like to comment on the agricultural economic assistance package for this year. NAWG firmly believes that in the face of declining PFC payments, low commodity prices, escalating fuel and fertilizer costs, anything less than a market loss payment at the 1999 level, which is 64 cents for wheat, would fail to offer sufficient income support to our producers.

We urge the committee to take up the assistance package as soon as possible. On behalf of the Nation's wheat producers, I wish to express our sincere appreciation for this committee's efforts. We know that if not for your hard work and that of your staff, many more of us would no longer be farming.

It has been a great honor for me to appear before you today. NAWG and its 23 State Wheat Grower Associations stand ready to provide further assistance.

Thank you.

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

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

Next we go to Mr. John Denison, Chairman of the Rice Foundation.

STATEMENT OF JOHN DENISON, CHAIRMAN, RICE FOUNDATION, IOWA, LOUISIANA

ACCOMPANIED BY NOLAN CANON, CHAIRMAN, U.S. RICE PRODUCERS ASSOCIATION, TUNICA, MISSISSIPPI

Mr. DENISON. Good morning, Mr. Chairman and members of this distinguished committee.

My name is John Denison, and I am a rice, soybean, and cattle producer from southwest Louisiana, in Iowa, Louisiana. I am currently Chairman of the Rice Foundation and our National Research Board and past Chairman of the U.S. Rice Federation.

I am accompanied today by Mr. Nolan Canon, a rice and soybean farmer from Tunica, Mississippi. Mr. Canon also currently serves as Chairman of the U.S. Rice Producers Association.

I am pleased to appear before this committee today on behalf of all of the rice industry that has voted to support the testimony that we are presenting on the commodity segment of the Farm bill. Gentlemen and ladies, we are united as an industry on this part of the Farm bill.

I am also pleased to thank this committee for your support in increasing the agriculture budget baseline to provide additional economic assistance for crop years 2001 and beyond.

I also urge you to act as soon as possible with regard to authorizing the supplemental AMTA payments to the current crop year. It is absolutely necessary that producers across the rice industry get this in order to satisfy their loan obligations with financial institutions.

U.S. agriculture in general and rice producers in particular are facing continued low prices and declining income. Prices for energy-related products, including fuel, natural gas, and fertilizer, have increased substantially, placing many rice producers in a further cost-price squeeze. This is occurring while aggregate rice exports remain stagnant, and farmers face growing costs due to increased environmental and pesticide use regulations.

Our economic analysis indicates that rice is the only major commodity for which net market returns after variable costs for the 2001 crop will be negative if Government payments are excluded. That is a terrible situation, and we are not proud of it.

Mr. Chairman, this additional financial assistance is critical to help rice farmers through this very, very difficult economic period.

Before I go on, Mr. Chairman, I would like to strongly urge Congress to give President Bush Trade Promotion Authority, because we export, as Senator Lugar pointed out earlier, 45 percent of our crop. Our industry's economic health absolutely depends on access to foreign markets, and increased market access will only come from further multilateral and trade negotiations under the authority of the President.

Mr. Chairman, we appreciate the opportunity to recommend specific changes in our farm programs that will allow our growers to earn a reasonable return on their efforts, to contribute to the economic success not only of their own operations, but to rural communities, and provide critical habitat to hundreds of wildlife species in addition. In the rice industry, we are very proud that we make a major contribution, probably the largest contribution of any crop, toward migratory birds with our water flooding of rice fields.

We are pleased to provide your committee with a detailed analysis of various issues associated with counter-cyclical payment—it is included in our formal testimony—which has been completed by Texas A & M University faculty, members of the Food Agriculture and Food Policy Center.

We recommend specific changes as my cohorts here have. Overall and most important, we wish to recommend that you maintain the planting flexibility provisions in the 1996 FAIR Act.

We continue to support marketing loan and loan deficiency payments, the LDP structure, as currently administered under the 1996 FAIR Act.

We continue to want you to establish loan rates at no less than $60.50 per hundredweight. If loan rates for other basic commodities are realigned upward to what the loan rate for soybeans, currently at $5.26, then rice rates should be looked at and upwardly adjusted.

We continue to want that basic commodity programs are not contingent on mandatory idle acreage programs of the past.

We ask you to continue to provide decoupled PFC-type payments. We would like to see these production flexibility payments for rice in the next Farm bill at an average over the last 7-year period.

We would like to ask you to provide a more effective income safety net for producers through a counter-cyclical program that everyone on the Hill here is talking about, particularly to support our farmers when we have low price periods so we do not have to depend on you each and every year to provide these additional supplemental payments.

As we know, the current program is providing inadequate income supports in periods of very low prices, and that is where this counter-cyclical program could supplement. We recommend that it be established with a base period of the Olympic average of 1994 through 1998 receipts and a payment trigger of 100 percent. If there have to be any budget adjustments, then we would recommend that you just lower the amount that this formula provides.

We encourage you to eliminate the payment limitations for income support and marketing loan deficiency payment limits.

We ask you to compensate producers for current and future conservation and environmental practices that will enhance water and soil quality and wildlife habitat.

Mr. Chairman, we have reviewed the provisions of the Conservation Security Act, and we commend you for your leadership, because we believe that the rice industry is one of the foremost leaders in this area already, and we support your efforts in moving toward a better program.

In conclusion, Mr. Chairman, the Nation's rice producers collectively urge Congress to move rapidly to enact a new farm bill that addresses the fundamental issues of an enforced and improved safety net through a combination of a fixed PFC-type payment, extension of the current marketing loan mechanisms, and a counter-cyclical income support payment.

Equally important, the new Farm bill should maintain the 1996 FAIR Act's planting flexibility and refrain from any return to annual supply controls.

The bill should also provide for incentive payments for wildlife habitat and other environmental benefits voluntarily provided by rice producers.

It is also important for Congress to develop a new long-term farm bill that targets payments to those who have actually produced or shared in the risk of producing the crop while maintaining consistency with our domestic support obligations under the WTO. We think it is possible to do both.

Thank you, Mr. Chairman. Nolan and I will be very happy to answer any specific questions you may have.

The CHAIRMAN. Thank you, Mr. Denison.

I will just say that in your testimony where you talked about—and a couple of the other witnesses have already referred to—the fact that any conservation payments or green payments should be in addition to and not a substitute for others, I agree with that. That is our thrust in that. Also, the most important point you made there—that payments should be made available not only to producers who begin to invest in such habitat production but also those who have already implemented important wildlife protection.

Mr. DENISON. Yes indeed.

The CHAIRMAN. That is most important.

Mr. DENISON. Thank you, sir.

[The prepared statement of Mr. Denison can be found in the appendix on page 127.]

The CHAIRMAN. Now let us turn to Mr. Nolan Canon, Chairman of the U.S. Rice Producers Association, Tunica, Mississippi.

Mr. CANON. We are jointly providing this testimony, Mr. Chairman. We drew straws to see who would testify before each body, and Mr. Denison won.

The CHAIRMAN. All right.

Mr. DENISON. He will testify before the House tomorrow.

The CHAIRMAN. All right.

The CHAIRMAN. Thank you all very much for your testimony.

I note the arrival of Mr. Crapo from Idaho, and I do not know if you want to make any opening statement before we get into the questions, Mike, but I would recognize you for that purpose.

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

Senator CRAPO. Thank you very much, Mr. Chairman. I will be very brief.

I know the hard work that we have put into pulling this hearing together, and I appreciate your efforts as well as the time that everybody has put in to come before us today and testify.

It is my hope that we will be able to work quickly and in a bipartisan manner to develop a strong bill that will serve as a national domestic food policy.

There is an immediate need in farm country, and I hope that we can provide the safety net that our producers deserve. Most pressing right now is the need to pass an economic assistance package, Mr. Chairman. There is much need in my State, as there was last year, and the need is becoming increasingly severe. From water loss to power interests to droughts to persistent low prices and rising input costs, Idaho farmers need help.

I look forward to working with you and the committee to pass a fair and reasonable bill as soon as we can possibly take action.

Thank you very much.

The CHAIRMAN. Thank you very much, Senator Crapo.

I thank you all for being here and for excellent testimonies and for excellent summations of some very lengthy testimonies which you gave.

I particularly want to thank Mr. Tallman. The way you presented your paper I thought was very concise in terms of your summations and recommendations and tabulations; I thought it was very well-done.

Mr. TALLMAN. Thank you.

The CHAIRMAN. I have a question for all of you. It is a question that I asked a couple of weeks ago when we started this series of hearings, picking up where Senator Lugar left off in his hearings.

The question is this. The broader question is why do we do what we do. The subset of that question is should we continue to support every bushel and every bale produced in this country—actually, I should add "pound" also—every bushel, bale, or pound. Should we

continue to support every one produced, because if we do, does that not send signals to producers that they can produce more than the market can bear?

However, I recognize at the same time that farmers are in dire straights financially. How do we weave through this and find some kind of a rational policy that also enables farmers to remain in business?

That is the essence of my question. Should we continue to support every bushel, bale, and pound that is produced, or is there some other rational way of doing this that helps our farmers, keeps them in business, and tries to get more money from the consumer?

My feeling is simply this. The AMTA payments and supplemental AMTA payments, you are right, have kept us afloat. They sure have—and I can speak about that for Iowa. I can tell you that. God help us, that cannot be our policy for the future. We just cannot go on like that. I do not know if the Congress will let us go on like that—I do not think the Budget Committee will let us go on like that—in fact, I know they will not; I have seen the budget we have to work with here.

Somehow, when you look at the situation right now, the farmers' share of the consumer dollar is at the lowest point ever in our history. We have got to find some way to get more of the consumer dollar back down to the farmer.

That is why I have proposed an energy title. Maybe we have had blinders on, looking at it only from the standpoint of food and fiber. Maybe there is a way of getting some of that consumer dollar on the energy end of the spectrum and shifting some of our production into that energy area. The other way, of course, is through conservation—not just taking more land out of production, but to actually start paying farmers who are already being good practitioners on their own land.

I ask that question. Should we continue to support every bushel, bale, and pound that is produced?

I would welcome any response from any of you—Mr. Echols, Mr. Tallman, Mr. Denison.

Mr. ECHOLS. From a cotton perspective, certainly I would not want to turn my back on any farmer and say we need not support any pound or bale of cotton that is produced, but I think one of the most serious problems that has really impacted us in the last couple of years is the appreciating dollar. When you look at a Pakistan textile mill that can produce, because of their currency being so weak, at about 60 percent cheaper because they can bring it in here and sell it for good, old hard currency U.S. dollars, it has impacted us tremendously, and I think that is one of the real challenges that we have. We know that we are not going to have a lot of impact on the Treasury Department or the Administration in trying to weaken the dollar, and that is not necessarily in our long-term benefit. We need to look for some way that we can mitigate the impact because that not only effects urban areas but it also goes to rural America, because most of these textile mills where we have lost thousands and thousands of workers are in rural areas. The value of the dollar impacts a broad spectrum, across our industry, and I think that is one of the real key challenges that we have. How do we compete with the strong dollar? We have made one rec-

ommendation of eliminating the 1.25 threshold from our competitiveness provisions, but that is not going to be nearly enough, and there are some other considerations being given as far as indexing currencies to try and mitigate the impact in some way. The strong dollar is impacting rural America as well as our cotton farmers and our textile mills and our entire industry.

The CHAIRMAN. Thank you.

Mr. Tallman, the question being should we continue to support every—in your case bushel produced.

Mr. TALLMAN. All of the other programs you mentioned, from conservation to energy, everything else is extremely important to the wheat industry. Wheat has not been one of the crops that has done a lot of research in the last 20 or 30 years. We have gotten some of that started in the last 4 or 5 years, and I think there are chances for that to be important, and also try to get, again, some of those consumer dollars going directly to producers instead of in between.

We are faced right now with 5 years of very low prices, 5 years of enormous crops. We have to find a way to get the guys and ladies to the next 2 or 3 years, and at that point, I think we can work a little harder at developing different styles of programs.

The CHAIRMAN. Senator Roberts raised a really good point. I watch this all the time, too—prices are going down and land values are going up, and something is just not connecting there.

Mr. TALLMAN. Yes, sir. That has been the way it has been in Eastern Colorado and Western Kansas—well, throughout the Wheat Belt.

The CHAIRMAN. Again, I wonder if the fact that we are still in the position of supporting every bushel, bale and pound has something to do with that.

Mr. Denison.

Mr. DENISON. Senator Harkin, in response to your question should we support all of agriculture, I would start by responding that currently, Congress is not supporting 100 percent of agricultural poundage, bales, and bushels, because the AMTA and the market loan assistance payments are based upon 85 percent of a base back in 1975 to 1980 and yields that were established in that period.

You are supporting 100 percent of the production on the LDP, and should you continue that practice, I would answer the question this way. It depends upon how much you want the consumers to depend on foreign supply food, because I can promise you, as has been said here today, that all parts of agriculture are having extreme financial difficulties except for perhaps portions of the livestock industry. I can assure you that if you start cutting back on any kind of income safety net, you are going to reduce the size of the domestic production sector in my opinion. You will not have a shortage of food, but it will simply do the same as oil—it will come in from foreign countries.

It just depends upon where you want to rely upon for your food sources and let that guide you on budget exposure, just like you do on defense. You determine how important is defense to the national policy and move accordingly. That would be my answer to you. It just depends on how much you want to have a secure domestic pro-

duction of food and fiber—because I can assure you I do not know of many people who are making much money, and I do not know of many young people in my area who are wanting to come into agriculture.

The CHAIRMAN. I am not talking about cutting back.

Mr. DENISON. No—I understand.

The CHAIRMAN. I am talking about is there a different way of doing it out there that does not pay every bushel, bale, and pound, but gets the support out in a different way. That is what I am talking about. I am not talking about cutting back on the support.

Mr. DENISON. Oh, I see. That as long as the money stream continues into production agriculture, that is what is important, how it is delivered; we depend upon you go guide us on that.

The CHAIRMAN. We depend upon you to help inform us, too.

Mr. DENISON. We are happy to be here, Mr. Chairman.

The CHAIRMAN. I have a few more questions of a general nature that I want to ask, but I will yield now to my distinguished ranking member.

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

I have many of the same questions that chairman has raised, and I suspect these are the same questions we are going to be raising with each of our hearings.

I do not think there is a good way that we as a committee can mitigate the effect of a strong dollar, and I think you recognize that, and you are suggesting, however, that that is another problem, as it is for manufacturing, steel, automobiles, our whole economy.

In the past, when times were not so good in this country, things picked up abroad. The great danger that many of you would point out as economists is that things are doing so poorly abroad that this country is about the last hope of this side, and as a result, we are a large consumer nation because we are picking up the gap for what otherwise might be a devastating international spiral downward. That is not helpful to many of you who are testifying today or to any of us who are farmers, but nevertheless that is a very big problem from which we pray that somehow or other, the world will recover and we will recover and have good policy to do that.

I pick up your point, Mr. Tallman, because you are correct, there have been 5 years of low prices for many commodities including wheat and most commodities represented here today and the ones we will be hearing from. Some would point out that this is to be expected in large part because our policies have been ones of attempting to keep every farmer in business.

In that respect, we are promoting supply in this country, and as farmers stay in business, some produce more and learn how to do it better and utilize resource. The rest of the world has had pretty good weather. Some periods of 5 years have not been as good as this one.

The dilemma here, I suppose, is one in which you ask the unmentionable question—should the policy of the country be to keep every farmer in business. This is the only industry in the country in which that is the policy. There is no safety net for people in retail stores at the county square or for people in dot-com business and so forth. Unhappily, people fail all the time, lots of them.

This is a unique situation in which, as a matter of national policy, we hope that we will keep everybody in business. To do that, maybe our policies have been correct, and the chairman is astute in asking how we are distributing the money. Essentially, we have distributed it in ways which should not be surprising that land values go up. Many economists have come before this committee and pointed out that we are capitalizing these payments into land values. The land values for my farm have gone straight up throughout the nineties, and I have enjoyed that, and we have gotten a pretty good assessment every year that details precisely how the wealth effect is occurring. The net worth of the farm increases every year.

Some have pointed out that that is OK if you own your land and even better if you have no debt, but if you are a young farmer or a young farmer who has debt, this is not so good. The policy clearly works in favor of those of us who own the land and have no debt.

Should it? The chairman is raising the question obliquely in this way. If we were to follow the same policies we have presently, the AMTA, the LDP, and the other situations are likely to increase the situation indirectly the way we now have it, and yet each of you have testified that we should not mitigate that, as I understand it. There has not been an original suggestion today as to how you revamp the sites or shake up the batting order. These are questions which we hope you will continue to think about with us, because they are serious ones.

Finally, how important is it that we have a secure domestic production of food and fiber? Of course, it is absolutely essential. I do not know of anybody who reasonably anticipates that we will not have an adequate supply of food and fiber.

The interesting question is should some of it come from abroad. We take the position with regard to other countries that it certainly should—namely, American wheat or American rice or American cotton ought to be a part of their economies, largely because it will benefit their consumers. People will have a higher standard of living and perhaps better quality, as a matter of fact.

It is difficult to argue against that in the reverse process as we get into serious trade negotiations. To suggest, for example, as I suspect will hear from some, that even if American consumers should pay more—after all, it is American grain or American sugar or what-have-you—it seems to me to stretch credibility, which consumers mostly think of. By and large, they have not thought of it a lot. Essentially, we have low food cost and we have a higher standard of living because that is the case, and many of us are trying to figure out how more of the food dollar goes to farmers. Most of us would not be in favor of increasing food costs for all Americans and diminishing the consumer benefits.

The reason I raise these questions is that in your testimony today, I would not say that it is predictable, but nevertheless it is predictable—it tries to do the best you can for the clients that you have—but it does not really address these questions or at least these thoughts that I think are important if we are to fashion a farm policy that is good for agricultural America and good for the rest of the country.

I do not ask all of you to comment about this, but if you could not revise your testimony but additionally think through some of

these questions, I think it will be at the heart of what we finally decide, at least in the Senate. Our House colleagues are now working on an outline, a draft concept, and maybe some of these questions will introduce likewise into their thinking. If you can in due course give us the benefit of additional wisdom on this, I would appreciate it.

With that, Mr. Chairman, I yield the floor.

The CHAIRMAN. Please do not pay any attention to the timer.

Senator LUGAR. That is all right. I simply wanted to just raise these issues rather than ask for responses. I would like more preparation of the witnesses for that.

The CHAIRMAN. I appreciate that. Thank you very much, Senator Lugar.

Senator Miller.

Senator MILLER. First, I would like to thank all the witnesses, and I would especially like to thank Mr. Echols for what he had to say about the exchange rates and how that relates to the textile industry which, as we know, is in so much trouble. I thank you for bringing that to our attention in a good and forceful way.

As you know, the 1996 Farm bill gave certain planting flexibility, and also, there are economic factors that drive planting decisions. Because of both of those, many farmers have made significant changes in their planting histories from the way that they used to do.

My question to you is how does the National Cotton Council feel about allowing farmers to update or modify their base history to reflect more recent planting history?

Mr. ECHOLS. We certainly support the ability of farmers to update or maintain. We think producers should not be penalized by exercising the freedom-to-farm options that were given to them or to punish them in any way for their planting decision. We strongly support the options to update or maintain base.

Also, I would like to comment, I realize that I did not answer the chairman's previous question directly, but one thing that can mitigate having to continually subsidize agriculture is if we can increase consumption and off take to levels that will raise commodity prices. That is one of my concerns with our domestic textile industry and the reason exchange rate comments I made—not to try to dodge the question but to find a way that we can mitigate those problems and raise the price so that we will not have to come to Congress every year.

Senator LUGAR [presiding]. In the absence of the chairman, I will recognize Senator Crapo.

Senator CRAPO. Thank you very much.

I will focus my questions on you, Mr. Tallman, since we do not have cotton or rice in Idaho, but we do have a lot of wheat and grain.

You are aware, I am sure, of the administration's recent decision to classify supplemental AMTA payments in the amber box. In light of that decision by the administration, could you expand a little bit on your proposal for a counter-cyclical proposal and whether you believe that it would be classified as an amber or green box proposal?

Mr. TALLMAN. We were very disappointed when those were classified as amber, because we had fairly well been assured all along that they were assumed to be green box.

We have looked at all the counter-cyclicles that everybody has proposed. We have been told that none of them is green box, some of them are green box. We feel that even though ours is driven off of price, it is driven off of 85 percent of acres, it is a guaranteed fixed decoupled payment. That was the main test for the AMTA to be green box.

What we would like to see the Senate and the House do is tell the administration that this is something we need to fight for, that we need to fight to prove to the WTO that these are green box or that they are at least not amber.

Like I said, we heard the other day that all of them were going to be classified amber from different people, so I guess it is just going to come down to that we are going to have to implement one of them and see what kind of test comes out of it.

Senator CRAPO. You have anticipated my second question here, and in fact, I will ask each member of the panel to respond to the second question. I agree with the point—I was disappointed in the determination that these proposals were amber box proposals. As I said, I disagree with that determination and hope we can find some way to resolve it better so that we can move forward with these types of proposals which I support and not find ourselves violating WTO requirements.

The question comes down, however—and it may be a tough question that this Congress has to address in crafting this farm bill—if it turns out that we are not able to win that war, and either the administration or, on a broader scale, the entire determination under WTO is that these counter-cyclical proposals are amber box proposals—and this is what I would like each of you to give me your thoughts on—should this Congress proceed with counter-cyclical proposals that support our producers, or should we proceed in crafting proposals that we know are WTO-compliant?

Mr. TALLMAN. Well, to the degree that we have to stay within our amber box commitments, there is quite a great deal of leeway, $19 billion or so that we can put within amber box every year. We need to maximize that allowability to use our amber box commitment, and one of the advantages of a counter-cyclical program, to answer Senator Lugar's concerns, is that if you tie it back to current production to farmers, it rewards those farmers who are the most productive and penalizes those who are least productive, and also when prices return to a normal level, that level of support would be diminished.

Senator CRAPO. Are there any other thoughts on the panel?

Yes.

Mr. DENISON. The first thing that I would like to say is that we have got to go back to the trade round and recognize that Europe and Japan and the major protectionist countries gave up far less than we did. That is the first thing we have to realize when we talk about domestic support.

The second thing we need to recognize—and I served on the APAC Committee to the last U.S. Trade Representative and the last Secretary of Agriculture—if we were able to base domestic sup-

ports on a straight percentage of our gross domestic product value of agriculture in each country, then, basically, everybody else would have to come down substantially just to meet where we are.

The third point I want to make is that there is another blue box in the current trade-negotiated pie that fits only Europe, and I think that if the House version gets any momentum—and I am not necessarily declaring whether we are totally in support or whatever—but if that gains momentum, and you go back to a target price system, it is possible that you might be able, with some ingenuity of our trade lawyers, to utilize that blue box in whatever domestic support Congress chooses to come forth with.

We do need to persevere in our trade negotiations, because for the rice industry, we are probably the most discriminated commodity in world trade. Japan as a 1,000 percent tariff on our products; Europe, 150 percent; many of the Southern Hemisphere countries, as much as 45 to 50 percent. If we are going to transfer our income from the Treasury to the marketplace, we absolutely in the rice industry, as Senator Lugar pointed out so well and Chairman Harkin, have got to have more trade access. Cuba, with 350,000 tons annually, 90 miles away from the rice country, we totally have no access to.

That is the first place where Congress can go if you want to redirect the income coming into farming. I know that I am preaching to the choir.

Senator CRAPO. Mr. Tallman.

Mr. TALLMAN. We will attempt to stay under WTO limitations. We think it is more important to keep growers in the field, on the farm. every one may not, but we have got to try to protect as many of them as we can. I agree with a lot of what he said, that if we do not pass a strong agricultural policy, we go to the WTO negotiations with nothing to negotiate, because we have already given much too much of it away, in our opinion.

Senator CRAPO. Thank you.

Mr. ECHOLS. I would agree exactly with Mr. Tallman.

Senator CRAPO. Thank you very much.

The CHAIRMAN. Thank you, Senator Crapo.

Let me pick up on the trade issue. I have supported all the trade bills that have come before Congress and believe in the globalization of trade as long as it is fair. As Senator Conrad has pointed out many, many times with his charts, I think that if you lock in a trade agreement where you have huge imbalances between what Europe is doing for its farmers and what we have done, and you lock those into a trade organization, then we are always at a disadvantage.

I do not necessarily worship at the altar of this World Trade Organization. It is OK, and I know that we have got to proceed down that path, but not blindly and not just agreeing to keep in these distortions that we have had in the past, especially with Europe and a few of our other trading partners and especially when they have been so hard on accepting any of our new biotech crops that we are producing in this country, and they have no scientific basis for that whatsoever. They are purely dragging their feet on it and causing us a lot of consternation because we can grow more effectively and efficiently using biotech, yet they will not accept it.

Again on the trade aspect, we have two programs that many of you spoke about in your testimony—the Foreign Market Development Program, the cooperator program, and the Market Assistance Program, both about which I feel strongly and hopefully, this committee will look upon favorably as we develop the farm bill and try to increase the level of support for those two programs.

Let me ask a question about some more pertinent things to what we are talking about in terms of crop commodity programs. If I am not mistaken, Mr. Tallman, you basically argue to maintain our historical bases; Mr. Denison, you talked about updating our bases. I do not know what you said at all, Mr. Echols.

Mr. ECHOLS. We need the flexibility to either update or maintain base.

The CHAIRMAN. I want to ask you a question about these bases, because if we maintain, Mr. Tallman, the historical bases, you are locking in planting processes and patterns that are almost 25 years old, and that has no relevance to what people are doing today.

I hear more and more from my farmers in the Midwest that we need to update our base acreage, because it is just not relevant to what is happening today.

I will just throw that out again for any comments that you have, because I want to know why there is this discrepancy. More than anything, I hear from farmers that we have to update our bases to reflect what we are doing today.

Mr. TALLMAN. Part of our concern when we ask to remain with the historical basis is because we feel that over the last 4 or 5 years, both crop insurance and the loan rate have influenced planting decisions. We think that some of the wheat ground that has been switched to oilseeds has come about because of loan rates, and also crop insurance is very favorable to some crops as opposed to others.

Our biggest concern with updating them was that if we just use the last 5 years—we have 30 to 40 years of history that are good planting history—if we just update them to the last 4 or 5 years, or I guess it is 5 or 6 years now, that is a very short snapshot of planting decisions by producers. We at least think that if we are going to update them, it ought to be a weighted average taking into account some of those past years.

The CHAIRMAN. Other thoughts or comments?

Mr. Canon.

Mr. CANON. We agree with Mr. Tallman that you should not be penalized for operating under a system over the last Farm bill that allows you to have flexibility and then, at this date, penalizes a man for exercising that flexibility.

Senator HARKIN. I agree with that. That is a good observation.

I have just a couple of last things for all of you. Do you believe that marketing assistance loans and LDPs have had a price-depressing effect in your commodity market? I have heard a lot about that. In other words, if you have a good position in the market, the lower the prices go, the bigger the LDP you get, and if you get that big LDP, you can market your grain leaders. It has a price-depressing effect. I have heard that from many, many producers.

Again, Mr. Echols, Mr. Tallman.

Mr. DENISON. Mr. Chairman, I will react to that. Unfortunately, I think many of our farmers still do not understand the mechanism of the marketplace. For the rice industry, particularly in the last two years, we have worked very closely with USDA, and we believe that that lower market price that is being set accurately reflects the world market price out there. Had it not been for the lowering of the world market price and the increasing of the LDP, we would have had a lot more rice going into commodity credit and further depressing prices to the farmer.

Yes, you are right, some farmers believe that, but no, the market reality is I do not believe that it does. It accomplishes the original goal that Senator Cochran and some of the earlier leaders had—generally, it makes us competitive with the world, and I think it is an important tool for the rice industry. We strongly support it.

Mr. TALLMAN. I do not think it has been price-depressing in wheat. We still feel that just good wheat years has been price-depressing in wheat. We have grown an awful lot of wheat worldwide. It has probably actually made most producers a little more acquainted with the market; it gives them something else to watch. A lot of people do not market with an awful lot of strategy. They get to play a little game at the local elevator of who can get the highest LDP, not just who can get the highest price.

It has helped clear the market; it has put a floor under the market basically at the loan rate, so I do not think it has been depressing to the price.

Mr. ECHOLS. I agree. I do not think it has been depressing on price, especially not this year. For most of the producers this year, the LDP was very small in cotton earlier—it was something like 2 cents—and then, after our domestic industry fell apart, it has gone to 20 cents, but they did not benefit at all, and that was not the reason why that happened.

The CHAIRMAN. Again, Mr. Echols, there was an article in The New York Times just yesterday about cotton—maybe you saw it—but it is buzzing around. It quotes a farmer who says, "'God, I hated growing soybeans, hated it with a passion,' said Vern Pruitt, who farms 3,000 acres of rich loam here in Mississippi's Delta region, 'but I love growing cotton.' This year, the numbers finally clicked back into position, and for the first time in 37 years, there are more acres of cotton planted in Mississippi than soybeans." Then, it says "But there is little pride in farmers' voices as they explain why they collectively gave up on beans and sowed cotton this year. As much as they love growing cotton, farmers are almost ashamed to admit the reason for their choice is that soybean prices have plunged because of foreign competition, while cotton prices, though just as low, are being propped up by Federal farm subsidies."

"Cotton prices in fact have sunk to a 15-year low of about 38 cents a pound, a bit more than half of what it costs to grow." Yet we have more acres planted to cotton. This bedevils us.

Mr. ECHOLS. That bedevils all of us. We need to examine the insurance program; There are some potential problems there. Granted, cotton does have a program that is a little more favorable than perhaps beans were, but I think I am as bedeviled as the writer of that article as to why this has happened.

The CHAIRMAN. I just raise this because—and I do not swear by it just because it is in The New York Times, I want you to know that—but things do tend to bounce around here a lot.

That is really all that I wanted to bring up. Senator Lugar, do you have anything else?

Senator LUGAR. Just a quick comment. I appreciate your mention of the cotton article. I would just say, not in behalf of cotton, but that the bean loan rate in Indiana is $5.46. The market price for beans has not come close to that for ions. I know that on my farm, every bushel of beans that I can produce this year is going to get $5.46. That is quite an incentive.

I would just say that our whole structure of these payments is bedeviled by these anomalies in which people are obviously making choices, usually for beans as opposed to corn in Indiana, because LDP is $1.89. Even there, and following up on the chairman's question, there is a good number of corn farmers in Indiana who are very good farmers, and they have the right kind of soil and so forth. In terms of their marginal cost for each additional bushel, it is an incentive for them to produce a lot more just to get their $1.89. Others are lamenting that this is a floor and a very sad situation. Some who are very good at it are saying this is an incentive.

However you look at it, the Crop Insurance Program—and I supported that as did the chairman—we think is a very important safety net for American agriculture. As one of you pointed out, a good number of our farmers are still just discovering the crop insurance business. They cannot find agents, I suppose, or people who can explain it to them, but it is amazing the percentages of farmers in America who might have that benefit of a highly federally subsidized insurance who are not signed up for it, or if they were signed up, presumably, the subsidy would be even higher—it may be at $3 billion as it stands this year. To say the least, a lot of marginal land in various parts of our country is being planted with the thought that if it fails, they are a pretty good safety net for it even at 85 percent of anticipated revenue.

How we work all of this through, I do not know, but we need your expertise in trying to think through it, because very clearly, we are seeing the capitalization, as has been pointed out, of payments into land; we are seeing more problems for young farmers; the elderly farm population is retiring, not failing, but retiring, and the young farmers are trying to rent this land essentially from people who have estates who are leaving the land. These are serious human problems in addition to the ones of price that we have been talking about.

If you can, as I said, give us a second effort, we would appreciate it, because these anomalies are not going to go away; either that, or the Congress in sort of broad brush strokes will simply send the money. It will have ricochets in each of your industries without sophistication as to why people choose and why overproduction might occur which depresses prices, and if they have been depressed for 5 years, they will be depressed for 5 more if we do the wrong things—encourage overproduction even when we are trying to save every farmer.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Lugar.

Senator Miller, did you have any followup?

Senator MILLER. No, Mr. Chairman.

The CHAIRMAN. How about set-asides? Do you any of you have any thoughts on set-asides as a condition for program acceptance, entrance, set-asides?

Mr. TALLMAN. Yes, Senator. The National Association of Wheat Growers is opposed to a mandatory set-aside. We have had some discussions among the States of different types of voluntary set-asides.

Supply management has not worked the best in the past. We seem to have exported wheat acres to other countries rather than exporting wheat when we have reduced our acreage here in this country. That would be something else that I guess could be discussed.

The CHAIRMAN. I want to thank you all very much for your excellent testimony. As you can see, we do have a bit of a problem to work through with the budget that is facing us and with world trade, so we ask for your continued involvement and your continued observations of what we are doing and your continued suggestions and advice. We appreciate it very much.

Thank you all.

The CHAIRMAN. I now call forward our second panel.

Mr. Jack Roney is Director of Economic Analysis for the American Sugar Alliance.

Mr. Art Jaeger is Assistant Director of the Consumer Federation of America, on behalf of the Coalition for Sugar Reform.

Mr. Armond Morris is Chairman of the Georgia Peanut Committee, and he is accompanied by Evans Plowden, Jr., General Counsel of the American Peanut Shellers, from Albany, Georgia.

Mr. Wilbur Gamble is a producer and Chairman of the National Peanut Growers Group.

We welcome all of you to our continuing hearings on the development of the next Farm bill and, as I said with the other panel, your statements will be made a part of the record in your entirety.

I will ask that you try to keep your testimony to 7 minutes, and we will start with Mr. Roney, with the American Sugar Alliance.

STATEMENT OF JACK RONEY, DIRECTOR OF ECONOMIC POLICY AND ANALYSIS, AMERICAN SUGAR ALLIANCE, ARLINGTON, VIRGINIA

Mr. RONEY. Mr. Chairman, Senator Lugar, members of the committee, thank you for the opportunity to testify here today. I am Jack Roney, Director of Economics and Policy Analysis for the American Sugar Alliance. I am proud to speak on behalf of American Growers, Processors and Refiners of sugarbeets and sugarcane—172,000 farmers, workers, and their families, in 27 States, employed directly and indirectly by the U.S. sugar-producing industry.

I would like to describe to you the current plight of American sugar farmers, the financial and policy crises we are facing, and the legislative remedy that will work best for American sugar farmers, consumers, and taxpayers.

Producer prices for sugar began to decline four years ago and plummeted in the past two. Wholesale refined sugar prices have

been running at 22-year lows. Since 1996, 17 beet and can processing mills have closed or announced their closure. Other mills threaten closure. The Nation's largest seller of refined sugar is in bankruptcy.

As a result of these low prices, last year for the first time in nearly two decades, sugar producers forfeited a significant amount of sugar to the Government. The forfeited sugar is overhanging the domestic market. Additional forfeitures are likely this summer, unless prices recover.

American consumers have received no benefit from the disastrously low producer prices for sugar. In fact, grocers and food manufacturers have continued to raise retail prices for sugar and sweetened products. I am sure the consumer representative on this panel will address the issue of grocers and food manufacturers converting lower producer prices for sugar entirely into higher profits for themselves rather than into any savings for consumers.

Trade policy problems are at the core of our oversupply problem. The Government is no longer able to limit sugar imports sufficiently to support prices and avoid sugar loan forfeitures.

International trade commitments—the WTO and the NAFTA—require the United States to import as much as 1.5 million tons of sugar per year, essentially duty-free. That is about 15 percent of our consumption. We must import this foreign sugar whether we need it or not. Mexico wants more—Mexico is disputing NAFTA sugar provisions and demanding unlimited duty-free access to the U.S.

To make matters worse, U.S. borders no longer effectively control the entry into the U.S. market of subsidized foreign sugar outside the quota. These non-quota imports are rising and are out of control.

There are two main problems. First, a sugar syrup called stuffed molasses, concocted solely to circumvent our import quota, continues to enter through Canada and from other countries despite a U.S. Customs Service ruling to stop it. Second, the NAFTA reduces the so-called second-tier tariff on Mexican sugar and Mexican sugar only to zero by 2008. Second-tier entries from Mexico have occurred and virtually unlimited amounts are possible.

We ask the committee members to support legislation to resolve the stuffed molasses circumvention—the Breaux-Craig bill, S. 753—and to support administration efforts to negotiate a workable solution with Mexico.

The policy path we are recommending can be effective only if the United States regains control of its borders through resolution of the stuffed molasses and Mexican access problems.

The policy that we recommend has four basic elements: No. 1, continue the non-recourse loan program; No. 2, retain the Secretary's authority to limit imports under the tariff rate quota system, consistent with WTO and NAFTA import obligations; No. 3, operate the program at little or preferably no cost to the Government; No. 4, resume and improve the permanent-law sugar inventory management mechanism. Such a mechanism would balance domestic sugar marketings with domestic demand and import requirements, would provide stable market prices at a level sufficient

to avoid sugar loan forfeitures, and can be administered by the Government at little or no budgetary cost.

Since the Government requires us to reserve such a large share of our market for foreign producers and is currently unable to limit overall sugar and syrup imports, and because American sugar farmers remain committed to earning their revenues from the marketplace rather than from Government payments, it is essential that the Government regain control of our borders and resume potential limits on our sugar marketings.

An inventory management mechanism for sugar can be designed in a manner that does retain planting and production flexibility for farmers and processors; that does not provide producers an incentive to increase marketings to maximize market shares should the control measures be imposed; and that does ensure that only producers who expand marketings in excess of the rate of growth in domestic demand would be required to curtail marketings when the program is in effect.

The sugar industry is working diligently with the Congress and the administration to solve the immediate sugar policy threats—stuffed molasses and Mexico—and to address the current surplus sugar situation.

We are eager to work with Congress and the administration on the basic changes to U.S. sugar policy that will restore long-term economic viability to American sugar farmers with ample benefit for our consumers and at little or no cost to American taxpayers.

We thank you again for the opportunity to testify.

The CHAIRMAN. Mr. Roney, thank you very much for your testimony.

[The prepared statement of Mr. Roney can be found in the appendix on page 137.]

STATEMENT OF ART JAEGER, ASSISTANT DIRECTOR, CONSUMER FEDERATION OF AMERICA, WASHINGTON, DC, ON BEHALF OF THE COALITION FOR SUGAR REFORM

Mr. JAEGER. Thank you very much, Mr. Chairman.

I am pleased to be here today on behalf of both the Consumer Federation of America and the Coalition for Sugar Reform. CFA is a nonprofit association of approximately 285 pro-consumer organizations nationwide. The Coalition for Sugar Reform includes trade associations representing food companies and cane sugar refiners. In addition, it includes taxpayer advocacy groups, consumer organizations like CFA, and environmental groups.

Our coalition opposes the Federal sugar program and has for many years, for reasons that have been detailed before this committee many times. We do not oppose sugar producers. The distinction is important at this point, because today's sugar program, as we have heard from Mr. Roney, is not just overcharging consumers and food companies; it is not serving the growers well, either.

Much has changed since Congress last addressed the sugar program in a farm bill—that was 1996. As we heave heard this morning, domestic sugar production is up almost 25 percent—or, we have heard that it is up—it will be up 15 percent this year. Meanwhile, imports have fallen by 40 percent. Growers' comments to the contrary, imports are not the problem here. The problem is our

high sugar price support which has led to an unmanageable surplus of sugar.

In 1996, the Government owned no sugar. Last year, USDA acquired more than a million tons of sugar. It purchased sugar in the spring and then acquired much more through forfeitures later in the year.

As we have heard, today the Government is spending more than $1 million a month—that is $1 million a month—simply to store this surplus sugar. In 1996, there had been no recent forfeitures, and there was little likelihood of forfeitures. Today forfeitures are a given—fewer this year than last, probably, but still a substantial cost to taxpayers. In 1996, the sugar program resulted in no direct outlays of taxpayers' dollars; last year, taxpayers spent $465 million, almost half a billion dollars, on the sugar program.

Finally, in 1996, the sugar program's effect on employment was not as evident as it is today. In the past year, the cane sugar refining industry, again as we have heard, has been devastated by the collapse of refining margins. In addition, Chicago's candy industry has been threatened by plant closings that are partly the result of the high Federal support price.

In the face of these developments, supporters of the sugar program, I think somewhat incredibly, suggest increasing the price support, both directly and indirectly. There has been a suggestion for rebalancing of the sugar loan rate and a suggestion that we get rid of the one-cent per pound forfeitures penalty. The forfeiture penalty reduces Government costs by reducing the price at which a rational processor would forfeit his sugar. Abolishing the forfeiture penalty will increase the support price by one cent.

The Coalition for Sugar Reform has to ask how can the solution be a higher price support that will only trigger more sugar production. The problem that we have already is too much sugar. Despite lower than normal prices—and the prices are down—sugarcane acres are forecast to rise 3 to 5 percent this year. What will happen if supports are even higher?

Growers and processors also propose marketing allotments. Congress repealed allotments in 1996 along with production controls for almost all other commodities. Allotments too will only make things worse by widening the spread between the U.S. and the world price.

The Coalition for Sugar Reform strongly supports H.R. 2081, the so-called Miller-Miller bill, which would phaseout the sugar price support and expand the tariff rate quota. H.R. 2081 was introduced by 53 House Members representing a range of regions and ideologies.

This bill does not exhaust the possibilities for reform. Our Coalition has four principles that it would suggest for any changes in sugar policy this year. First, policy should allow the market to operate in a manner that supplies are adequately balanced. Shorting the market through production controls should be off the table.

Second, our markets need to be more open to world supplies. Imports are important to meeting our trade obligations and encouraging expanded markets for our agricultural exports, as we have heard this morning.

Third, our policies should not provide incentives for overproduction. The current support system clearly has encouraged too much sugar production. That needs to change.

Finally, market prices must be better able to fluctuate with supply and demand. Too often in the past, the price movements have been the result of Government policy changes, not the marketplace. That too must change.

Thank you very much, Mr. Chairman. I will be happy to answer questions at the appropriate time.

[The prepared statement of Mr. Jaeger can be found in the appendix on page 182.]

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

Now we turn to Mr. Armond Morris, Chairman of the Georgia Peanut Commission, from Ocilla, Georgia.

Welcome.

STATEMENT OF ARMOND MORRIS, CHAIRMAN, GEORGIA PEANUT COMMISSION, OCILLA, GEORGIA,

ACCOMPANIED BY EVANS J. PLOWDEN, JR., GENERAL COUNSEL, AMERICAN PEANUT SHELLERS ASSOCIATION, ALBANY, GEORGIA.

Mr. MORRIS. Thank you, Mr. Chairman.

Mr. Chairman, members of the committee, I am Armond Morris, Chairman of the Georgia Peanut Commission, from Ocilla, Georgia. Today I am representing a coalition of State peanut organizations from across the country: The Georgia Peanut Commission, the Georgia Peanut Producers Association, the Florida Peanut Producers Association, and the Panhandle Peanut Grower Association, the Western Peanut Growers Association, and the North Carolina Peanut Growers Association—approximately two-thirds of the peanuts produced in the United States. Thank you for allowing us to testify before your committee on our plan for the future of the peanut program.

In 1993 and 1994, the passage of the NAFTA and the GATT trade agreements, respectively, changed the way peanut growers have conducted business. Minimum access for other peanut-exporting countries caused reductions in our poundage quotas. The export market for U.S. growers is virtually nonexistent. Export and domestic marketing promotion moneys are the right strategy for the peanut industry but have little chance for success with our current pricing structure.

This is just the beginning of the problem. As tariffs decline under NAFTA and with the very real prospect of a Free Trade Area of the Americas Agreement by 2005, we will see a continued increase in access to our markets by foreign-produced peanuts. The current peanut program's effectiveness will continue in its current downward spiral. This spiral must be stopped.

Evidence of this downward trend occurred in the last few appropriation cycles. Peanut growers came to Congress for help to offset peanut program costs for our "no net cost" program. If the no net cost program remains in its current form, growers will have to come back to Congress to ask for help. The losses will increase year after year due to increased imports. This die has been cast. Our coalition of the largest peanut growing areas of the country, produc-

ing the majority of U.S. peanuts, wants to break this trend. To save the peanut industry in the United States, we have to develop a peanut program that responds to the marketplace. The Congress made sweeping changes to farm programs in 1996, but the peanut program remained structurally intact.

Now it is time to transform our program to meet the variables of the future. Are these trade agreements to be reversed? Will Congress reject the Free Trade Area of the Americas initiative? I think not.

We believe that we have a plan that keeps American producers competitive in America and the world marketplace. Let us compete. Let us reverse a trend that does not allow our sons and daughters to come back to the farm that breeds depression among growers and prevents any form of long-term business planning. Our proposal is a plan for the future.

On transition payments, the first part of our plan is to establish transition payments based on the historical quota. The quota would be suspended just as bases were in the last Farm bill. Payments would be made to the quota-holder for the life of the Farm bill, not less than 5 years, at a level of 14 cents per pound. Peanut quotas have been capitalized into farm values, and in many cases, producers carry debt based on the purchase of these quotas. These quota-holder payments need to be made exclusive of payment limits. The 14-cent annual payment is an approximate average peanut lease rate in the State of Georgia, the largest peanut-producing State.

For our cost estimate, we used the 2001 quota level of 1.28 million tons of farmer stock peanuts. This results in a projected annual Government cost of approximately $358,400,000 per year. Since these payments would be decoupled from production, they would not be subject to any WTO constraints. For purposes of this transition payment, the quota should be held at the 2001 level for the life of the Farm bill.

The second component of our plan is to establish a marketing loan program for peanuts, the same structure developed by this committee for other commodities. After grower meetings in counties across the country, we suggest a $500 loan rate. We feel, based on a Texas A & M study, that this is a reasonable level in comparison to other commodity program prices. This level of support providers growers with a safety net while allowing growers to compete in the market with foreign imported peanuts.

Payments resulting from the marketing loan should not be subject to payment limitations. Farmers have to get larger to survive. Still, these farms are family farms that need some form of safety net on all the commodities they produce. The current payment limit structure inhibits farmers from obtaining adequate financing at local banks in many cases. If the elimination of payment limits cannot be accomplished in this farm bill, we propose that the payments would be in the form of generic certificates that allow the grower marketing options to manage the payment limits.

Because we are significantly reducing our support rate, we request that the committee consider an annual escalator based on the increase or decrease in the cost of production that would be applied to the marketing loan rate. This would be tied to the Consumer

Price Index with a maximum increase or decrease of two percent per year of the total loan rate.

We have included a chart with the potential Government exposure using data from the University of Georgia and the U.S. Department of Agriculture. In developing these cost estimates, production figures from each peanut-producing State have been based on that State's maximum annual production during the period 1978 to 2000. The total U.S. production based on these figures amounts to 2.7 million tons, which reflects a 50 percent increase in production over the current production level.

The peanut production of many States today is significantly below the maximum it attained in the past that has been used in our cost estimates. The estimated cost of our proposed marketing loan program should be approximately $350 million per year. The repayment price would be based on the world market price using Rotterdam as the reference point. This does not reflect any increase in the marketing loan rate over the life of the legislation.

We understand that in making this transition to a more market-oriented program, there are some questions that will not be answered until the new program is in place. For that reason, we are suggesting a safeguard against excessive Government costs.

Currently, we are charged with $347 million for our level of support under the Uruguay Round of the GATT. We suggest that if loan deficiency payments exceed $350 million, the Secretary of Agriculture is given the authority to limit loan eligibility based on prior production history. This would involve structuring an incentive based, proven recent production history, that only becomes active in the event the Secretary determines that it is necessary for the U.S. to stay within its GATT commitments.

Mr. Chairman, as peanut leaders, this has been a difficult road in determining the best program proposal for the future of the peanut industry. We believe that we are on the right track in developing a program that works for growers.

We recognize the investments in quota over the years, and we have sought a remedy to protect those investors. Our highest priority is the future of the industry. We will gain back the consumption lost to imports and at the same time will be more competitive in the export market. This program will put money back into our rural communities as our growers prosper.

Again, I appreciate you allowing us to present our testimony this morning. We are glad to answer any questions at the appropriate time.

Thank you.

The CHAIRMAN. Mr. Morris, thank you very much for your testimony.

[The prepared statements of Mr. Morris and Mr. Plowden can be found in the appendix on page 192 & 199.]

The CHAIRMAN. We will now turn to Mr. Wilbur Gamble, producer and Chairman of the National Peanut Growers Group, from Dawson, Georgia.

STATEMENT OF WILBUR GAMBLE, PRODUCER, AND CHAIRMAN, NATIONAL PEANUT GROWERS GROUP, DAWSON, GEORGIA

Mr. GAMBLE. Thank you, Mr. Chairman, for this opportunity to discuss options for a new farm bill. Peanut producers want and need your support.

My name is Wilbur Gamble. I am a farmer from Dawson, Georgia. I will summarize my written comments.

I am here today representing the National Peanut Growers Group, and my purpose is to help sustain thousands of active farm families in peanut production. Our organization is the only national peanut producer organization and represents all of the Nation's peanut-producing families. All growing areas are represented on the NPGG.

The peanut program is absolutely necessary to peanut producers. U.S. producers are dependent on this program. Additionally, consumers and manufacturers are dependent upon a program that provides a safe and economical supply of peanuts.

We are told that about 80 percent of all U.S. peanuts are sold to only two processing companies. One of these companies is owned by one of the Nation's largest agribusiness processors. What marketing ability does a small family farmer have in this situation? The clear answer is very little without the peanut program.

As compared with the program before the current law, peanut producers have lost 10 percent of the peanut support price, resulting in a loss in income of millions of dollars to peanut producers. Growers also lost the escalator provision in this current program. Thus, the peanut support price and thus, farm income from peanuts, have been frozen since 1996.

There has been essentially no benefit to the housewife from these losses to producers. Consumer peanuts and peanut butter price are higher today than they were in 1955.

Mr. Chairman, we have two recommendations for this committee, short-term and long-term.

Short-term, peanut producers must receive market loss payments as have been made available the last two years. Again, we are deeply appreciative to you and to this committee for helping to make those payments available to peanut producers.

In the long term, Mr. Chairman, despite the value of the peanut program, peanut producers realize the political realities in Washington involving budgets, trade agreements, and anti-program proponents. The National Peanut Growers Group has voted on various options for consideration as a new farm bill begins and present to you today a description of the option we feel is best for the taxpayer, consumers, processors, manufacturers and, most important, the farmers.

In reviewing the options to make producers competitive with imports and at the same time offering the consumer a product with no domestic price disadvantage, the Step 2 concept/market competitiveness option, similar to cotton, is viewed as the most viable option by the National Peanut Growers Group.

Under this option, producers are offered a price support level that will allow them to keep up with the cost of production. Additionally, the processor will be afforded a peanut that is priced com-

petitively to imports. This will also answer consumer advocacy organizations that wrongly contend that U.S. peanuts artificially drive up retail prices, although we believe that this is not the case. Finally, we believe the cost associated with this option will be below the current WTO support levels attributed to peanuts. This option would allow the domestic poundage to be bought at a price competitive with other origins.

The quality of U.S.-produced peanuts continues to be generally superior to imported peanuts. A domestic competitiveness option for peanuts would be helpful to processors and would ensure that U.S. consumers continue to have high-quality peanuts available. The processor would be buying based upon quality and delivery. The marketing option for any production above the domestic consumer level then could be enhanced by an increased lower level for additional or export production.

As is mentioned in the written testimony, this is the only proposal that keeps total cost under control, estimated well below the attributed AMS level of $347 million.

The competitive revision is also a cost-containment provision. By limiting domestic supply to domestic average consumption, the cost of this option is limited through supply management. This is based upon the only official measurement of support. In a USDA referendum, 94.8 percent of all peanut producers supported a supply management program. Also, about 85 percent of producers oppose the marketing loan concept according to responses to a recent peanut growers' magazine poll.

In addition to providing the producer a cost-of-production adjusted support rate, the processor is buying on quality and delivery. Therefore, there would be no price incentive to purchase foreign peanuts, and it would reduce the need for tariffs that are currently being reduced under trade agreements. At the same time, this would not be considered trade distortion, because there is only leveling of the market and not undercutting the market.

We feel that the best containment tool is the use of a supply management mechanism. This is not to control the amount of peanuts grown, but to control the amount eligible for domestic support. There would be no planting restrictions.

We also believe that the Federal-State Inspection Service is a pivotal part of delivering quality peanuts to the processor.

The NPGG supports a farmer stock price support adjusted for inflation.

Additionally, we support a cost of production adjustment provision that would be adjusted annually at a rate of not less than 2 percent, using the Consumer Price Index. We recommend that peanuts grown for export be allowed to move into the domestic market if a shortage occurred.

The market competitiveness Step 2 option brings about a condition enabling the producer to stay viable and keep up with the cost of production. This option also creates minimal Government outlays with positive returns for the producer, the processor, the manufacturer, and the consumer.

Mr. Chairman, on behalf of the National Peanut Growers Group, we thank you for this opportunity and would be happy to try to answer any questions that might be asked.

Thank you.

[The prepared statement of Mr. Gamble can be found in the appendix on page 204.]

The CHAIRMAN. Thank you very much, Mr. Gamble. I appreciate your testimony. I am trying to weave through it and figure out what you are proposing. I am going to start with you because I just want to know a little more about your proposal.

You say there would be no planting restrictions, and that only an amount of peanuts equal to domestic consumption would be eligible for the domestic support rate. How does the quota fit into that?

Mr. GAMBLE. You could move the quota system to a base system similar to other crops, and you would have your base, and that would be the same as what the quota is, and the farmer would receive a price that could be set, I would suggestion somewhere around $6.80. If it were set at $6.80, and the lower price were $500, that price between the two prices would be the cost to the Government. If you had 1,280,000 tons at $180 ton, you would have approximately $230 million, and that would be the total cost. There would not be any other cost incurred. That would enable the manufacturer to buy peanuts at grower price, so there should not be any reason for them to want to buy an excessive amount of foreign peanuts, which we should gain back part of the market we have already lost; plus, to us, it would be a far cheaper program than any other program that we could come up with.

On the national board, we had a vote between the marketing loan and this concept, and the vote was 12 to 4 in favor of this concept, and it would have been 13 to 4 had the chairman voted. That is what it is in a nutshell.

The CHAIRMAN. You move off a quota to a base, and then, someone who raised more peanuts than were allowed under the domestic support price, how would they market those peanuts?

Mr. GAMBLE. There would be a marketing loan, but it would set prices similar to what additional peanuts are now, which should be—you would have to set it somewhere in the neighborhood of what oil is to be assured there would be no cost to the Government. Then, those peanuts could also be moved in the domestic market if need be.

The CHAIRMAN. Mr. Morris, let me ask you now about peanuts. You suggest that a 14 cent annual payment would be the transition payment level. How did you come up with 14 cents? Is that for all sizes of peanut producers in all States? Is that what you are suggesting?

Mr. MORRIS. Yes. That is for the base or the quota that the farmers have now and a lot of those people—if you go back to the years that they were developed, back in the forties, I reckon, the World War II years, peanuts was basically an oil as well as a staple for our soldiers abroad, and that was back when you had the allotment system, and that is when it was a developed acreage system. Then, it transitioned in around 1977 into a quota system.

If you go back to the family farmers and those who have developed the quota and peanut basis and those who have bought peanut bases, and this would be a decoupling or a buyout-type program because of the moneys that are loaned to these peanut farms

and these farmers who have loans on their farms, and this would be a transition to help them recover the costs because of the fact that they had to buy this peanut quota or they developed it through their family farm.

The CHAIRMAN. On the sugar side, Mr. Jaeger says that imports have fallen 40 percent, yet, Mr. Roney, I was under the impression that imports from Mexico and stuffed molasses were increasing in this country. How am I going to square these two testimonies?

Mr. RONEY. Mr. Chairman, had we been able to reduce imports adequately to rebalance our market, we would not be in the crisis that we are in now. Our imports have fallen from about 2.25 million tons just as recently as four years ago to the WTO minimum. What would have balanced our market would have been to reduce our imports further to about three-quarters of a million tons. Our imports have varied over the last 20 years from 3 million tons to about three-quarters of a million tons, with variations in domestic production and consumption. What we are up against now is the problem that WTO and NAFTA commitments force us to import one and one-quarter to one and a half million tons each year whether we need that sugar or not.

The drop in imports that you mentioned has been related to some unusually large production during the 1998–1999 crop and the crop before that.

I would note an error in Mr. Jaeger's remarks. He said that production is up 15 percent this year. In fact, production this year is down 7 percent and is expected to be flat for the coming year. Sugarbeet acreage is off 13 percent because of the closure of sugar mills in California. It is possible that our imports will be rising again above the minimum because of this further shakeout in domestic production with more of our producers going out of business.

The CHAIRMAN. You said that the wholesale refined sugar price has plummeted nearly 30 percent since 1996, and yet you point out that consumers have not benefited from this.

Mr. RONEY. Yes, Senator. In fact, Mr. Jaeger's presentation includes a chart that shows the widening gap between the wholesale refined sugar price, which is the blue line in his chart, and the retail price, the red line.

What we are seeing is a dramatic drop in our producer prices but absolutely no passthrough to consumers. The retail sugar price has risen 1.5 percent during the same period that the producer price—that is the wholesale price that grocers and food manufacturers are paying for their sugar—has dropped by nearly 30 percent. Mr. Jaeger referred to the desire to see more fluctuation in sugar prices. What we have seen since the import quota was first put into place in 1982 is fluctuation in domestic sugar prices only down, as far as producers are concerned, because every time there would be the prospect that we might have a short crop and market prices for producers might begin to rise, we have simply imported more. We have continually had a ceiling. Traditionally, we had a floor until we got into the problem in the last two years of not being able to reduce imports adequately to compensate for larger production. We have had the price fall through the floor, but we have always had an effective ceiling on it. Unfortunately, consumers have not seen any benefit in passthrough from the lower wholesale prices, but

they have, however, enjoyed retail sugar prices that are essentially unchanged for 10 years. That one percent increase that I mentioned is pretty modest, and that holds for a 10-year period.

In addition, our retail consumer prices are 20 percent below the developed country average. In terms of minutes of work to buy a pound of sugar, our sugar is about the most affordable in the world; only two countries have lower minutes of work to buy a pound of sugar—Switzerland and Singapore.

The CHAIRMAN. Thank you very much.

Mr. Jaeger, I have a couple of questions, but my time has run out, so I will come back on my second round.

I yield now to Senator Lugar.

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

Mr. Chairman, I have wrestled with questions regarding these two programs during the entirety of the time I have served on this committee, and the dilemma—and I hesitate to mention this, because my colleagues, Senator Miller and Senator Thomas have constituents, and they have to do the best they can for them—but the problem is, with both sugar and peanuts, the cost of production around the world in many countries is substantially lower than in our own.

Leaving aside all the formulas that we have today, the fact is that the American people as consumers of sugar and peanuts as a whole, the 250 million of us, would be better off in fact if we were paying the lower prices for sugar and peanuts that would result from the worldwide competition if it were allowed to occur.

There are all sorts of arguments as to why the price of sugar worldwide is roughly one-half what we are paying sugar producers in the United States, and some have said in fact that if we did not support our local industry, and someone abroad were to jack up the price and have a sugar OPEC or some cartel of that variety that did offer peanuts, the differentiation has never been as great. As we have heard today, the difference between 500 and 680 is sizable, and that remains to be the case.

Throughout the 24 years I have served on the committee, I have had one success in the early eighties in the Farm bill with regard to peanuts. There was modest reform—it was so long ago, I can hardly remember what the argument was about, because these reforms come along so seldom. With regard to sugar, we have had zero throughout the entire 24 years and attempt to reform each time without visible success.

In large part, I appreciate that the dynamics of this committee are that coalitions of support would gather among groups that felt threatened and circle the wagons to protect what was left. The public as a whole has never quite understood any of the formulas of the programs or the public interest, at least as I see it.

Now, having said all that, there are real problems for human beings involved in these occupations. The quota business and the peanut thing is serious in the same way as when we were discussing tobacco reform a while back, and some of us suggested a buyout of quota-holders, many people who are no longer producing tobacco but who do have need for pensions or money for their children's schooling or what-have-you. It was really an attempt to bring closure to a chapter of American life in that respect.

It might have worked except that the tobacco bill failed. It cost a lot of money to buy people out, even though there was some equity in doing that. A good number of States are now attempting that. Kentucky, near us in Indiana, is actively seeing if they can get money to these people who are in need, and somehow divorce the production situation from the history of quotas that were offered in the 1930's and remain in our farm programs.

I do not know what we can do in this bill with regard to that. I am interested in your testimony, Mr. Morris, because you have made an earnest attempt with the growers to wrestle through this. What I would hope you would try to do more of is figure out how we get the differential between the world price and the domestic price closer so there is not what I perceive to be an economic loss to the United States as a whole.

I suppose the fact is in the sugar situation there have been the additional environmental issues that we are wrestling with in a different field, and that is trying to provide money for restoration of the everglades. Now, this is not entirely a sugar cultivation problem, but that has been a large contributor to it. On the one hand, we have tried to boost the production of sugar in Florida, and there has been an environmental cost to that that is very substantial. It is now recognized as a large issue in Florida in their referendum just a few years ago.

It offers still another reason for being thoughtful as to how much we want to promote, at least under those conditions.

I am hopeful that the committee and the Congress as a whole will come to at least some movement toward the overall good of the country and consumers as a whole in addition to trying to protect the individual farmers, the quote-holders and what-have-you who are involved, and that is a serious political problem.

That is going to be my quest as we get into these particular titles. I am going to do the best I can to offer what I think are constructive ideas in this respect, but they will be at variance with the testimony you have given today, and that is why, up front, I want to indicate that, that there is some history of study of this and maybe a different point of view.

At the end of the day, you could argue—and you may, or Senators may argue in your behalf—that after all, a lot of money is going to wheat farmers in this country, corn farmers, soybean farmers. We have never gotten into too much money for livestock producers, but even that may come along, specialty crops; in the last year, we had money for a whole list of people. You could ask, why be so fastidious about this. After all, we are farmers, too. Granted, we have a troubled history of how these programs came about, and we are always trying to reform them, but what is in it for us?

I understand that. If there is a big pot of money here, the equities of how it goes out State by State, crop by cop, are difficult to fathom, leaving aside the economics of this.

I do not know how much money there is. I am not sure how much the taxpayers of the country want to spend on farm programs as opposed to Social Security reform or prescription drugs for the elderly or various other things that come in this budget picture from the same emergency box as we take a look at it. That, only

the political system can finally decide. We are dipping into that, clearly, with the farm programs that we have now and the ones that are being suggested.

I will try to keep equity for peanuts and sugar in mind as we take a look at the equity for other groups. I appreciate, Mr. Chairman, this opportunity simply to make a comment, because I think the proposals and the sophistication of what has been presented are very fine and helpful to our understanding of the programs, but I wanted to offer a different view.

The CHAIRMAN. Thank you very much, Senator Lugar.

Senator Miller.

Senator MILLER. I welcome my friends from Georgia. It is good to see you, and I appreciate your testimony.

You all are not exactly together on this thing, are you?

[Laughter.]

Senator MILLER. When I sit here at this committee table and get into a situation like this, I always kind of glance up there over my shoulder at Herman Talmadge and wonder what he would do in a situation like this. I was thinking a while ago about that story they used to tell about Herman, when they asked him his position on a very difficult issue, and he said, "Well, some of my friends are for it, and some of my friends are against it, and I am for my friends."

You all have given me—if you do not mind my using this analogy in the Agriculture Committee—a tough row to hoe. I mean, how am I, a freshman Senator, with some wonderful people on this committee whom I respect and have affection for, but to tell you the truth, whenever I bring up peanuts, they begin to groan—how am I supposed to come up with what I am supposed to do for the industry when you all cannot come up with how best to advise me on what to do for the industry?

Do you appreciate my position?

Let me ask you this, Armond. I have read all of your testimony—in fact, I have read it twice. I am not sure that I understand exactly—it is a complicated program; I knew it was, and it is. If I were to meet up with you down the street in Ocilla—about where Charlie Harris' department store is, God rest his soul—and I said, "Armond, you all are trying to take the peanut program in a new direction. Why are you doing that?" How would you answer that, just you and me talking there on the streets of Ocilla? Why this new direction?

Mr. MORRIS. Why the new direction?

Senator MILLER. Why the new direction—so I can understand it.

Mr. MORRIS. The new direction being, I believe, that whenever the last bill was implemented and the trade agreements and looking at the future and where we are going and the tariffs being taken off of the imports coming in, I feel that it is going to take my peanut program with it; that my quota will continue to be reduced at whatever the level might be priced—if it is 16 or 550 or 500 or whatever. It might be that if there is no mechanism to be able to put my peanuts in the domestic market that they will continue to import those peanuts, those cheaper peanuts, and take my market.

Senator MILLER. Let me ask you this, Mr. Gamble. If the current quota peanut program does remain throughout the next Farm bill, and peanut imports do move in the U.S. markets as forecasted and as we think they are going to during those years, what options will the producers have if the quota poundage is continually reduced?

Mr. GAMBLE. The program I just outlined should stop that. If you brought that price down to the manufacturer so that he could buy the peanuts at a lower price, there would be no incentive for him to buy them from an export market, and it would certainly be much, much cheaper than the marketing loan concept if you had a price set at, say, let us just use $680, but you could use a different figure—the lower the figure, the less the cost—but if it is $680 against $500, you would have $180 per ton, and you would have the same protection you have now in additional peanuts, and that would keep us in the business of competing, and it should help all parties.

I just cannot believe that Congress is going to be ready to support this program, a marketing loan program that would be adequate to give us a proper peanut program at a cost of three-quarters of a billion dollars a year. That is about what it would cost, and this other program would be around one-quarter billion or less. It just seems to me that we have a program that has worked so well for so many people for so long, and the people that I talk to throughout Georgia and other States in the national growers group, they are happy with it. If we could keep it, I think everybody would be happy. I would just hate to see us with a marketing loan program, and all of a sudden, we find ourselves not with a 14-cents-a-pound bite but a 2-cents-a-pound bite, and not with a $500 support price but with a $250 support price. Where I live, we would be out of business.

When you get to the cost figures, it is going to be very clear. I believe it would work. I would think that the manufacturers should support it, because they would be able to buy the peanuts at the world price, and it would help a lot of our communities. When this money ripples through these communities where I live, we live in the lowest income-producing area in the whole United States in Southwest Georgia, and it looks like peanuts follow the poorest areas of this Nation. I just wish you all would give it a thorough review and look at it, and I think you will not find it unacceptable.

Senator MILLER. Evans, you are sitting there in the middle, and I am sitting here in the middle. Do you have anything to say on it?

Mr. PLOWDEN. Our folks are always in the middle, Senator, but everybody has recognized that the trade agreements have put enormous pressure—both the agreements and the world trade—there are a lot of peanut-containing products that come into this country that the trade agreements have not really affected. They increase manufacturing with peanuts of other origins.

The trade agreements are driving this concern. Our people support the marketing loan concept. We think it supports our competing with other origins. In addition, it will open up production somewhat to younger farmers and give them an opportunity to get into this business, and it will be a less regulated environment.

Senator Lugar has alluded to the complications involved in the current program and perhaps in any farm program, but the peanut program has developed a fairly byzantine set of regulations, perhaps necessary under the old program, but those things are costly, and they prevent innovation.

We believe that a marketing loan concept would allow growers and shellers to solve problems that exist in a free market environment and would eliminate costly and inefficient and sometimes counterproductive regulations. We think the marketing loan will solve the import problem and will solve a lot of other problems as well.

Senator MILLER. My time is about up. This place is not exactly overflowing with people who are advocates of the peanut program any way you describe it. You all really need to get together before this thing goes much further. It is a difficult enough problem as it is, but to have people back in your home State in the industry, and one wants to go in one direction and one wants to go in the other, and I am up here like the "Lone Ranger" on this committee for peanuts, I really wish you could get together and give me a little bit better idea of what you all want to do.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Miller.

Senator Crapo.

Senator CRAPO. Mr. Chairman, I would defer to Senator Thomas, since he has a time problem.

The CHAIRMAN. Senator Thomas.

Senator THOMAS. Thank you. I have a little something going on over in my new committee today. I appreciate it.

I wanted to question just a little bit on the sugar program. I listened to the ranking member's comments and need to have a little further discussion about it.

The sugar program has been in effect for a good long time, and the last year has been one of the most difficult ones. How much involvement has this molasses thing and the letter in Mexico had in terms of the overall activity and program?

Mr. RONEY. Senator Thomas, the amounts of sugar entering—and I believe Senator Harkin was asking about this as well—the amounts of sugar entering from Mexico so far are not that great, but what we are concerned about there is that the amounts could increase very dramatically over the next several years, and that is why we are looking at renegotiation with Mexico on the provisions of the NAFTA for their sugar access to the U.S. There is the potential that we could be swamped with subsidized Mexican sugar unless we have some successful resolution of those negotiations.

The quantity of stuffed molasses coming in from Canada, the greatest year so far has been 125,000 tons. Again, that is not an enormous amount, but we are seeing evidence that mimicked products are being created as stuffed molasses was, for the sole purpose of circumventing the quota. We are getting evidence that mimicked products are coming in from Mexico and Brazil. We fear that unless the Breaux-Craig bill passes, manufacturers who see the opportunity to exploit this loophole will continue to grow.

Senator THOMAS. Well, if those were relatively insignificant numbers, how did we end up with 800,000 tons of excess sugar?

Mr. RONEY. The problem, Senator Thomas, is that we could not really adjust our import quota adequately to compensate for increased production. The increased production that has been alluded to as a result of support prices that are too high is a far too simplistic way to look at the increase in production that we have had.

Our support price had been the same from 1985 until the 1996 Farm bill, which reduced it effectively with the forfeiture penalty, and was the only commodity to have a support price reduction.

Many producers dropped out of business. We had enormous contraction in the industry. Hawaiian production, for example, dropped by two-thirds and California by one-half.

The producers who stayed in business did so by increasing their efficiency, enormous investment in technology to improve their yields, to improve the efficiency with which they remove sugar from cane and beets, and those technology improvements began to kick in.

We also had a shift in acreage from other program crops to beet and cane, because those other crop producers under freedom-to-farm were given flexibility to plant any crop they wanted.

Senator THOMAS. As you know, I am a great fan of this program and want to continue it. If that is the case, and the production goes up, and there is a support price that encourages production, how do you begin to manage production with demand?

Mr. RONEY. Well, that is exactly what our proposal is, Senator Thomas, and that is to return to the inventory management program that is a permanent part of U.S. law. It was not repealed, as Mr. Jaeger said, but rather suspended in the 1996 Farm bill. What that will do is restore to the Secretary a tool that had been taken away, and that was to limit domestic marketings to balance the market.

Senator THOMAS. What is your analysis of the efficiency comparison, domestic versus foreign?

Mr. RONEY. Thank you for raising that, and Senator Lugar alluded to it, and I would be very happy to comment on that. Senator Lugar is absolutely right—there are some countries that can produce sugar at a lower cost than we can. However, those are in the minority. There are about 130 countries that produce sugar. A study was done on the 102 biggest producers. I have the results of that finding at Figure 8 in my full testimony, which shows that we are the 28th lowest cost out of 102 producers. Senator Lugar is right; there are 27 countries that are lower cost. I would just note two things. One is that most of the sugar produced in the world is produced at a higher cost than in the United States. Further, I would note that the vast majority of these countries are developing countries with extremely low labor and environmental standards. Mr. Jaeger referred to candy operations going to Mexico. That is the factor there. Mexican sugar prices are higher than here, but their labor costs are about one-tenth of ours.

Senator THOMAS. The world price, then, is not necessarily a world price based on production; it is a world price on dumping, if you please.

Mr. RONEY. Yes, sir. Those 130 countries all intervene in their sugar markets in some way, and classically, what they want to do is maintain domestic supplies, and they tend to overproduce. The

surpluses are then dumped on the world market for whatever price it would bring. Figure 9 shows how low that dump market price has been—little more than half the world average cost of producing sugar.

Senator THOMAS. I am not sure I know how to pronounce your name, sir.

Mr. JAEGER. Jaeger.

Senator THOMAS. With a "J".

Mr. JAEGER. Correct. It is German.

Senator THOMAS. You indicated that you are not against sugar farmers, but your proposal would basically put them out of business. How do you justify that view?

Mr. JAEGER. Well, I do not think that what we would propose would put all sugar farmers out of business, although that comment is often made by the other side.

You have identified in your comments earlier and in the exchange with Mr. Roney the relevant issues here. We have a program that is not working anymore. It has not worked for consumers for years. It raises food prices—and I am happy to get into that with Mr. Roney in a minute——

Senator THOMAS. You are going to get into it with me, too, because I do not think that that is true. The difference between the final product and the sugar cost that goes in does not reflect——

Mr. JAEGER. I will be happy to address that in a minute.

Senator THOMAS. Do not go too long, please.

Mr. JAEGER. This program is not helping the farmer at this point, either. That clearly, something has to change. Our solution, of course, is a phaseout of the sugar program. I am aware of two studies that have looked at what would happen if we scaled back or completely eliminated the sugar program. One was done by FAPRI in the last Farm bill cycle. It projected that if you did away with both ends of the sugar program, both the support price and the import restrictions, the U.S. price would float down not to the world level but to about 15 cents a pound. That would generate in our view substantial savings for consumers and users in the range of what the General Accounting Office has projected for many years. At the same time, it only projected modest decreases in production—I think it was 11 to 12——

Senator THOMAS. Try not to give your whole statement again, please. I have a few more questions that I would like to ask.

Mr. JAEGER. —11 to 12 percent over 10 years. More recently, an ERS analysis just out looked at what would happen with a 50 percent increase in imports. It said the loan rate again would float down to about 14 cents, or the loan rate would have to float down to 14 cents to accommodate that increase. At the same time, production would decline only 10 to 15 percent over 10 years.

This does not sound like destruction of an entire industry to those on this side of this issue.

Senator THOMAS. Now I have forgotten what I was going to ask you.

Mr. JAEGER. Would you like me to——

Senator THOMAS. No. You have indicted that you do not like the corn program or the soybean program or the other programs. Why

do you focus on sugar as being inappropriate—if you were going to just let things go at the market cost.

Mr. JAEGER. I am sorry?

Senator THOMAS. If you are dedicated to the market cost, how can you promote and support corn and ethanol and soybeans and the other programs?

Mr. JAEGER. My organization has concerns about all these farm programs. We are particularly concerned about the sugar program and the dairy program because those costs are, instead of taxpayer costs, costs paid by the consumer through the marketplace. They are basically, in our view, a subsidy paid at the supermarket checkout counter.

Senator THOMAS. I see. Well, I disagree with you, but thank you so much.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Crapo.

Senator CRAPO. Thank you, Mr. Chairman.

Mr. Roney and Mr. Jaeger, I also have some questions on the sugar program. Mr. Jaeger, you just referenced the GAO study that assumes there would be a significant passthrough of savings to the consumer. Do you know what percentage of passthrough to the consumer the GAO study assumed?

Mr. JAEGER. It assumed a 100 percent passthrough.

Senator CRAPO. We have had some experience in this last little while of significantly reduced sugar prices—I think it was a 28 percent or so reduction in sugar prices. Could you tell me what passthrough to the consumer has actually occurred?

Mr. JAEGER. Well, it is important to look at this in a broader perspective, and I would draw your attention to the line graph that is attached to my testimony. It shows the raw cane sugar price versus the retail price going back as far as 1977, and I think a couple of things are evident from this.

First, I think that over time, in general, the retail price does rise and fall with the raw price. You do see also over time—well, several things are evident here. First, as Mr. Roney said, the raw price is basically flat going back many years. The retail price does slowly creep up. There is a slow widening of the gap between the two prices. This is easily explained. While the wholesale price is flat—and here, we are looking at refined sugar, basically, a 5-pound bag of sugar—the sugar price is basically flat over time, but everything else that goes into producing that 5-pound bag of sugar is subject to an inflationary factor—the cost of the bag that the sugar goes in, the cost of the ink that goes on the bag, the cost of labor for the person who runs the machine that puts the sugar in that bag——

Senator CRAPO. Electricity.

Mr. JAEGER [continuing]. Right—the cost of energy for the truck that delivers that bag to the supermarket.

It is understandable that over time, that gap will slowly widen even though the wholesale price is flat.

Senator CRAPO. You are saying that the sweetener industry actually did pass through the reduction in cost of sugar to the consumers—is that your testimony here today?

Mr. JAEGER. I am saying that if, over time, that happens, and if this program were eliminated, we are convinced that consumers would see a definite benefit from it.

Senator CRAPO. Mr. Roney, did you have a comment on that issue?

Mr. RONEY. Well, Senator Crapo, I believe that Mr. Jaeger's own charts indicate just the opposite—that there is no passthrough and that over time, there is no passthrough; that the reason why the grocers and food manufacturers oppose U.S. sugar policy is not from any altruistic sense of passing some benefit along to consumers, although they would contend that that is their reason, but rather to create a profit opportunity for them. As businessmen, I suppose they are entitled to do that. To reduce their input costs and raise the price they charge for their product, that is a terrific opportunity for profits.

What we chafe at is the cynicism of that approach, that they are willing to put efficient American sugar farmers out of business to get access to subsidized foreign sugar as a way to increase their profits, with absolutely no evidence of any passthrough to consumers whatsoever.

When they talk about the $1.8 billion consumer cost of U.S. sugar policy, as you pointed out, Senator, and as Mr. Jaeger acknowledged, that assumes a 100 percent passthrough, when in fact all of our history shows that there is no passthrough whatsoever, which makes that figure from the GAO completely bogus.

Senator CRAPO. It seems to me that the key issue here is a policy issue that we have to determine in Congress and as a Nation which way we want to follow. The situation in Mexico is sort of an example of that.

Mr. Roney, the sweetener concerns are very interested, as you know, in more access to the Mexican sugar. I just want to get a few facts out on the table. Are the Mexican sugar prices higher or lower than American prices?

Mr. RONEY. Their wholesale price—that would be the price that users would pay for their sugar—is running about three cents higher than ours and has been since the beginning of 2000.

Senator CRAPO. Are their producers more efficient than ours?

Mr. RONEY. We have no evidence that they are. Their industry is in complete disarray. They are worse off than we are in many ways, with many mills going bankrupt and enormous problems. The government has been bailing them out with literally billions of dollars in debt reduction to try to keep the industry afloat.

Senator CRAPO. That was my next question. Is the Mexican sugar industry subsidized by its government?

Mr. RONEY. Yes, sir, very strongly. We have been doing a lot of work on this, and the evidence suggests that just since the NAFTA was passed, there has been about $2 billion in subsidy for Mexican sugar producers just to keep them afloat.

Senator CRAPO. It seems to me that the broad question that we have to ask ourselves with regard to what the U.S. policy on sugar should be, which is the same question, in my opinion, that we have to answer with regard to almost every commodity, is this: An argument can be crafted to allow subsidized commodities to be dumped into U.S. markets that would benefit the consumer. One could

argue that it may or may not be a short-term benefit and that if we drive our producers out of business, we will ultimately see prices go up, as you do in situations in which you have monopoly or oligopoly impacts. The argument can be crafted that we as a Nation should adopt a policy of allowing other countries to subsidize their commodities to the detriment of our producers. It would benefit our consumers. I believe that is the argument that the groups who are opposing the sugar program are basically making.

The responsive argument is that the United States should protect its producers against anticompetitive conduct, or subsidies, and that means we are going to have to get engaged in some kind of program ourselves which would protect our commodities—which is then attacked in the United States as a subsidy.

It is an interesting dilemma, but it is a very direct question that we have to face. In my opinion, the proper policy is for the United States to protect its producers. Ideally, we should negotiate in our trade negotiations and should aim in our trade policy to get to a point where there are no tariffs and no subsidies, and we have a truly free and fair market operating, at which point we do not have a need for protective programs.

It seems to me that when we are not operating in a free market, fair market climate globally, it is proper for the United States to protect its producers.

Now I would like to ask both of you if you would like to comment on that, and I see that I have only about a minute left, but I would like to get your perspective from both of you on that basic issue.

Mr. RONEY. Thank you, Senator Crapo.

Just very quickly, because we are efficient by world standards, with cost of production below the world average, we do support the goal of genuine global free trade in sugar. We have supported that goal since 1986 at the start of the Uruguay Round, and we do so because we believe that in the absence of subsidies globally, the world price would rise to reflect the cost of producing sugar, our costs are below the world average cost of production, and we could survive.

I agree with you completely, though, that until other countries eliminate their subsidies, we have got to maintain some kind of a U.S. sugar policy, some limits in the amount of subsidized sugar coming into this country. Otherwise, our efficient producers will be replaced by foreign producers who are not more efficient but more heavily subsidized.

Senator CRAPO. Mr. Jaeger, your perspective?

Mr. JAEGER. Well, as Senator Lugar first mentioned and as I think Mr. Roney acknowledged, there are countries that produce sugar at substantially less cost than we do in this country, and many of those countries do not heavily subsidize their producers. I would toss out Australia as one example.

From our perspective, we want to see more foreign sugar brought in as a benefit to consumers. There are, of course, anti-dumping laws on the books. The best example of heavily subsidized sugar, of course, is Europe, and we do not import sugar from Europe right now as I understand it, and it seems to us that our anti-dumping laws would protect us from heavily subsidized sugar in the future.

Senator CRAPO. Would you support an approach which would prohibit any subsidized sugar from being brought into the United States and only allow unsubsidized sugar to be brought into the United States?

Mr. JAEGER. We would support vigorous enforcement of the anti-dumping laws, yes.

Senator CRAPO. I have no further questions.

The CHAIRMAN. Thank you very much, Senator Crapo.

Well, Mr. Jaeger, I have a lot of respect for the Consumer Federation of America. You do a good job; I think you do a good job in representing consumers in many, many areas. There may be reasons to examine the sugar program and maybe new approaches, but I have got to tell you that benefit to consumers is not one of them. There may be other reasons, but not benefit to consumers.

I looked at your chart, the one you referred to, where you have the wholesale price and the retail price going back to 1977 and how it closely follows. I wish I had seen a chart from the Consumer Federation of America that showed the wholesale price of sugar and the retail price of commodities that shoppers buy and that we buy and that we consume that use sugar—not the retail price of a 5-pound bag of sugar. We do not do that. You go to the store, and sugar is cheap. You might buy a little bit of sugar for your coffee or something else. Let us face it—most of the sugar that we eat is in cereals, candy, cookies, baked goods, things like that. It is not a 5-pound bag of sugar that you go to the grocery store to buy.

The more realistic comparison would have been the wholesale price of sugar compared to the retail prices of those items that use sugar. When you do that, you come up with Mr. Roney's chart at Figure 12, and you see the producer prices of raw cane and wholesale sugar down 30 percent, cereals up 25 percent, candy up 25 percent, ice cream up 29 percent, cookies up 31 percent, other bakery products 35.9 percent.

It seems to me that that is the more realistic comparison rather than wholesale and retail prices.

Mr. JAEGER. I certainly do not dispute Mr. Roney's numbers as you have cited them, but in our view, the percentage of the cost in the items you cite, cereal in particular, the percentage cost in a box of cereal that goes for sugar is relatively small, so you are not going to see a dip in the cost of a box of cereal when the wholesale price of sugar dips.

What you would see in our view over time, if you reformed or phased out the sugar program, is a lessening in future increases in the price of that box of cereal.

The reason why we focus on a 5-pound bag of sugar is because that is the easiest way in our view to see the direct relationship between the wholesale price and the retail price, and there is——

The CHAIRMAN. You would agree that for the average consumer in America, that the lowest usage of sugar is buying a bag of sugar in the grocery store.

Mr. JAEGER. Right. We certainly buy more candybars and boxes of cereal than we buy bags of sugar.

The CHAIRMAN. Cookies and cakes and ice cream—everything we buy—sure——

Mr. JAEGER. Correct.

The CHAIRMAN [continuing]. That is where we get the bulk of our sugar intake, not from a cube or a packet of sugar.

Mr. JAEGER. Yes. Mr. Roney's charts do not suggest to us that there will not be a consumer benefit if you phaseout the sugar program.

The CHAIRMAN. Say it again.

Mr. JAEGER. We argue that there will still be a consumer benefit in the price of that box of cereal over the long haul, over the future, if you phaseout the sugar program.

The CHAIRMAN. Wait—you just said two things, Mr. Jaeger. Just 90 seconds ago, you said there is so little sugar in the box of cereal that, of course, you could have these big increases in prices, and it would have nothing to do with sugar, you said, because there is such little sugar in it. Now you are telling me that if we reduce the wholesale price of sugar, we will see some reduction in price in the box. You cannot have it both ways.

Mr. JAEGER. You will see a lessening of future increases.

The CHAIRMAN. Pardon.

Mr. JAEGER. You will see a lessening of future increases in the price of that box of cereal.

The CHAIRMAN. Well, if the past is any indication, that just cannot be so, because we see the price of sugar going down, yet the prices going up. How far does it have to go—100 percent?

What if we asked the sugar producers to give it to us free? Would that reduce it? Would that reduce the price of that box of cereal if we just gave it to them free?

You have a 30 percent reduction, and in cereal, you have a 24.8 or 25 percent increase in price. You are saying that if we reduce this wholesale price even further, the rate of increase will be less in cereal.

I am just asking you to give me some ball park figure. If we have had a drop of 30 percent, how much lower do we have to go before we see the price of cereal come down a little bit?

Mr. JAEGER. I cannot give you an exact figure, Senator.

The CHAIRMAN. I know you cannot; it is a rhetorical question. I am just making my point. I have been through this sugar program with five farm bills, and I hear the same arguments time after time after time. A few years ago, I challenged people on how expensive sugar was. I said go to any restaurant, and you will see packets of free sugar sitting there. It cannot get much cheaper than that. It is free—you just pick up a packet of sugar and put it in your coffee or on your cereal—it cannot get much cheaper than that. You do not pay more in a restaurant. They do not say, "We are going to charge you for that sugar you used," do they? They do not add it onto your bill. It cannot get much cheaper than that.

As I said, there may be some reasons, and there may be valid reasons, to look at the sugar program we benefit to the consumer—as I said, I have a lot of respect for the Consumer Federation of America, but I think you are barking up the wrong tree on this one on the benefit to consumers on the sugar program.

I will say a couple of other things on sugar and on trade. You mentioned Australia. I have been to Australia, and I have looked at the sugar production in Australia. One person's subsidy is another country's interest in land use and land preservation, that

kind of thing, so what is a subsidy and what is not? Australia has different ways that they promote their sugar industry, and they have for years. It is just different than how we do it. It is a subsidy nonetheless. I have looked at it. They just do not call it that.

The third thing on this deal on sugar—I do not think that is our biggest problem. Our biggest problem is some of the countries that produce sugar at very low labor rates. While I am all for enhanced trade negotiations or whatever fast-track is called these days, and I have supported fast-track in the past, I have come to the point in my career here where I am saying wait a minute—I am all for enhanced trade, but if countries are using things like child labor, which is anathema to us and to most of the civilized world, to produce items that come in here and compete with our farmers and our producers, I am drawing the line. Many of these countries that produce this sugar are doing exactly that. They are using child labor, they are keeping the kids out of school, they are working them ungodly hours in terrible conditions, yet they are sending that sugar here to compete with our farmers.

That is why I am saying I am drawing the line. If you want to have fast-track, if you want to have enhanced trade negotiations, fine, but I believe there should be some provisions in there dealing with labor—and I would not cover all labor, because some of it gets into gray areas, but when it comes to child labor, I think that that should be in there. The use of child labor to make any products or goods that come into this country should be actionable under our trade agreements—should be actionable. Just like a CD—if you make a CD, and you violate intellectual property, that is actionable. If you use a kid working in a sugarcane field with ungodly working conditions and ungodly hours, and you ship that sugar in, and that is not actionable—I am sorry, I do not buy that.

Then, environmental conditions—our sugar farmers, peanut farmers, all of our farmers in this country, livestock producers, everyone, are asked—not asked, but told—by this Government that they have got to adhere to strict environmental standards. That does benefit us, but it benefits the rest of the globe as well. Yet we are going to let other countries thumb their nose at that and say that they can go ahead and dump things and foul the water, foul the land, foul the atmosphere, but that is OK, and we will bring it into this country—I do not think so.

Those are two areas where I think we have got to at least level the playing field in terms of child labor and environmental conditions.

I have two other things on both sugar and peanuts. My knowledge on peanuts is a little bit lax here, but as you know, I am promoting the inclusion of an energy title into the Farm bill. Most people think of that as ethanol, but there are also things like diesel. Obviously, I am from soybean-producing country, so I am talking about soy diesel, but you can make it from peanut oil, too—as well as from cottonseed oil, I would say to my cotton friends who are here. I do not know what is leftover—when you take the oil out of peanuts, there must be some protein feed left from that, and I do not know what it is. Could you inform me—or, if you do not want to today, at least get that information to me. I need to know what

happens when you extract the oil out of peanuts. I know what happens to soybeans and corn, but I do not know peanuts.

Mr. GAMBLE. Peanut meal can be used for feed purposes.

The CHAIRMAN. It has got to be good feed.

Mr. GAMBLE. Yes.

The CHAIRMAN. You must do that, right?

Mr. GAMBLE. Yes, Senator.

Mr. MORRIS. They even developed a peanut flour that was used after the extraction of the oil.

The CHAIRMAN. I would like to take a look at that aspect, too, if there is a possibility that we can use oil in that regard also, from peanuts and cottonseed, too, for energy production.

Of course, sugar is great for ethanol. I know that we have taken some of the Government stock and put it into ethanol production, and quite frankly, I think that is a great outlet for some of our sugar production in this country; again, it is energy production.

I am also aware that some sugar producers in some parts of the country—not sugarbeets, but sugarcane producers—are using the residue to burn in boilers to make electricity. What is that called?

Mr. RONEY. Bagasse. It is the fiber from the cane.

The CHAIRMAN. Yes. They are using the bagasse to make electric energy. That seems to be a good source, a stock source, for energy production.

Mr. RONEY. In its heyday in Hawaii, when sugar production was still relatively high, the bagasse was used to generate as much as 12 percent of Hawaiian energy. Now, with the decline of the sugar industry, production is down about two-thirds from a decade ago, and they are having to rely more on imported oil. They did have a very aggressive program for using the bagasse not only to run the cane mills, but it generated so much surplus energy that they could sell that to the electrical grid, and in the outer islands, it became a critical source of energy.

The CHAIRMAN. I wonder what that means for their energy production in terms of cost of importing the oil compared to the bagasse that was used before? I do not know the answer to that; I am sure somebody has done a study of that. I would like to find out.

It just seems to me that, again, in both sugar and peanuts, we ought to be thinking about other uses, other ways we can use these products, rather than just for the food use that we have had in the past.

I want to echo what Senator Miller said. I have been a supporter of the peanut program for a long time. I recognize the value of peanuts. I happen to be a strong believer in peanut butter as being a great source of protein use in our schools, our school lunch programs, our feeding program. You cannot find a better source of good protein. I have always felt that peanuts play a very integral part in our food supply in this country, and I am hopeful to be able to work with you and your industries to try to figure out how we can keep a viable peanut industry. I am talking about the whole thing, from the farmers on through the shellers and the processors of peanuts.

We have to keep in mind—and I would say this to you, Mr. Morris, maybe more than I would to Mr. Gamble—that the budgets are

not like we used to have in the past. If you do not mind—Senator Miller was talking about Senator Talmadge—and I hope his health is good; I hear he has been having some problems lately—but in that day, if there was a problem, we would have just given more to both. That was before we had a Budget Committee. Now we have a Budget Committee that gives us our marching orders, so we no longer have the freedom to do that.

I hope that we can work this out in a good manner.

Senator Lugar, I do not know if you have anything further.

Senator LUGAR. Let me just add one comment to supplement your last thought, Mr. Chairman. That is, there probably is considerable promise in the energy area and the research that this committee has tried to foster at the cutting edge. This is not to negate for a moment the nutritional value of either sugar or peanuts. That to the extent we really get into the economics of what is in the best interest of this country, it may very well be that alternative uses of these products will offer some hope as they have with regard to other products. As long as our thinking is less rigorous, and we simply push along the same program on the basis that it is just very difficult to change it, we will not really get into these alternative situations, but we have been forced to do that in other areas, and I think we probably should here.

Ultimately, I do not want to get into an argument as to where the consumer benefit lies with any of these situations, but it occurs to me that our best bet is always to try to find the best quality, the most efficient, low-cost producers, that our trade in this country, domestically as well as abroad, really rests on that. Now, others may violate that principle in almost every different direction, but in essence, we usually come out best because we are the most efficient and the most competitive, and once we begin to make excuses for our own situation, we give that latitude to all of our foreign competitors, our trade advantage is gone, and that is a mess.

Leaving that aside, we look forward to working with you and appreciate very much your testimony, as I know the chairman has.

The CHAIRMAN. Thank you very much, Senator.

I am remiss in not recognizing the great leadership of Senator Lugar in the research bill that he has offered and we have adopted and passed to move us in the direction of trying to get more research into how we can change some of our products and make more energy out of our products. We are well on our way, I really do, and I think you have been a great leader in that, and I appreciate that very much, Senator Lugar.

Senator LUGAR. Thank you.

The CHAIRMAN. Thank you all very much for your testimony.

The committee will stand adjourned until Thursday morning at 10 o'clock.

[Whereupon, at 12:10 p.m., the committee was adjourned.]

APPENDIX

JULY 17, 2001

Testimony of James Echols
Chairman of the National Cotton Council
before the
Committee on Agriculture, Nutrition and Forestry of the U.S. Senate
July 17, 2001

Introductory Remarks

My name is James Echols, I am President of Hohenberg Bros. Company in Memphis, Tennessee, and currently serve as the Chairman of the National Cotton Council of America. I have been in the cotton merchandizing business for 40 years. My testimony today reflects the consensus view of all seven segments of the U. S. cotton industry, including producers, ginners, seed crushers, warehousemen, shippers, cooperatives and textile manufacturers.

On behalf of the entire cotton industry, I would like to commend you for holding these hearings on the next farm bill and express our sincere appreciation for this opportunity to testify.

My testimony this morning will discuss what our industry would like to see in the next farm bill and will focus on the commodity titles. However, until such time as commodity titles **are** amended we urge Congress to continue to provide relief similar to the emergency assistance provided during the last three marketing years. Specifically, we urge Congress to:

1. Supplement existing AMTA payments with additional marketing loss payments at the highest rates possible,
2. Allow producers to receive supplemental payments on the higher of existing crop bases or an average of recent planting history, provided adequate funds are available,
3. Mitigate the impact of limitations on supplemental payments, enabling producers to qualify for total payments of not less than the amount of AMTA and marketing loss payments received for the 2000 crop, and
4. Reauthorize cottonseed payments when seed prices are low.

Thumbnail Sketch of the U.S. Cotton Industry

Upland cotton is grown primarily in 16 states across the lower part of the United States, and production of ELS cotton is confined to irrigated regions in California, Arizona, New Mexico and Texas. Over the past 10 years, U.S. production of upland cotton has averaged 16.9 million bales, produced on some 14.1 million acres. During the same period, ELS production has averaged 457 thousand bales on 238 thousand acres.

On average, domestic mills account for 60% of U.S. cotton offtake, and export customers for 40%. U.S. exports normally account for about 26% of world cotton trade. Our biggest competitors in the world market are centrally planned economies and/or developing countries, the largest being China, India, Pakistan and Uzbekistan.

U.S. cotton faces intense competition both from foreign-grown cotton and manmade fibers. U.S. cotton accounts for only 14% of world fiber consumption. The U.S. cotton and textile industries are also confronted with intense competition from textile imports. Currently,

Council economists estimate that U.S. cotton accounts for only 50% of the cotton content of textile products sold across U.S. retail counters. [1]

The U.S. cotton industry and its suppliers, together with the cotton product manufacturers, account for one job of every thirteen in the U.S. Annual cotton production is valued at more than $5 billion at the farm gate. In addition to the fiber, cottonseed products are used for livestock feed, and cottonseed oil is used for food products ranging from margarine to salad dressing. Cottonseed and cottonseed products tend to account for about 3% of annual revenue generated from U.S. cotton production.

While cotton's farm gate value is significant, a more meaningful measure of cotton's value to the U.S. economy is its retail value. Taken collectively, the business revenue generated by cotton and its products in the U.S. economy is estimated to be in excess of $120 billion annually. Cotton stands above all other crops in its creation of jobs and its contribution to the U.S. economy.

Background

Mr. Chairman and members of the panel, when the bill hailed as *Freedom to Farm* was initially debated in 1995, National Cotton Council members expressed grave reservations about its ability to provide the support mechanism needed by American agriculture. Our leaders favored policy more analogous to the target price concept that had been effectively providing counter cyclical income protection under 1990 farm legislation.

Some advocates of *Freedom to Farm* characterized the National Cotton Council's program recommendations as "depression-era farm policies." Council President Jimmy Sanford responded by saying, "...We are concerned about international competitiveness in the face of widespread subsidization. We are fighting for downside price protection to help cotton farmers when our prices are unreasonably low."

Thankfully, a number of amendments were eventually approved that made the bill conform more closely to the National Cotton Council's policy recommendations. Chief among those changes were:

- Restoration of a marketing loan with the same formulas as used in 1990 legislation, although capped at 51.92 cents per pound;[2]
- Retention of the 3-step competitiveness program, but with funding capped at $701 million;[3] and
- Retention of the 3-entity rule for determination of payment eligibility.

When *Freedom to Farm* was being debated, we had experienced several years of relatively strong agricultural prices. However, we were not convinced that prices would remain

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[1] Total U.S. retail consumption of cotton products in 2000 is an estimated 20.86 million bale equivalents while gross U.S. imports of cotton textile and apparel products are an estimated 15.87 million bales equivalents. However, U.S. cotton returning to the United States as finished goods comprises 5.52 million bale equivalents of this amount, much of it originating from NAFTA and CBI countries. Hence, total retail consumption of foreign cotton in 2000 is an estimated 10.35 million bale equivalents.

[2] The initial Freedom to Farm bill included a 9-month non-recourse loan established at 70% of a 5-year olympic average of prices received by farmers. The cap was not consistent with NCC policy.

[3] The cap was not consistent with NCC policy.

consistently strong over the next seven years. With removal of the target price concept and the imposition of a cap on the marketing loan rate, we had reservations about the FAIR Act's ability to provide an adequate income safety net in periods of low prices.

Our analysis showed that the farm income safety net would be deficient when prices fell even to moderately low levels. In the case of cotton, for example, that low price threshold would be reached when prices on the New York Board of Trade fell below the mid-to-high 60-cent range. Of course New York cotton prices during calendar 1995 were above 80 cents.

The bill finally enacted as the Federal Agriculture Improvement and Reform Act (FAIR) served us well enough for two years, after which the prevailing strong prices gave way to deep and persistent price troughs across virtually all agricultural commodities. These pervasive low prices meant that we could not flex to alternate crops for any appreciable relief.

Low prices for agricultural commodities have proven to be chronic, and the FAIR Act's Achilles' heel has been painfully exposed. During the past three years, many cotton farmers have avoided bankruptcy only because Congress has authorized emergency relief to supplement the FAIR Act's inadequate fixed payments.

Mr. Chairman we are most appreciative of the supplemental assistance provided by Congress during the past three marketing years and for the consideration that is being given for a fourth year. The combination of fixed payments under the FAIR Act and the emergency funding authorized by Congress has not only kept many farmers afloat, but our nation's agricultural infrastructure has been maintained as well. When the cotton industry's current situation is compared to the one confronting us when 1985 farm law was being debated, we are much better off. Throughout the first half of the 1980s, U.S. mill consumption averaged only 5.75 million bales. By 1985, total offtake of U.S. cotton, including domestic mill use and exports, had dropped to a dismally low 8.4 million bales.

In the years leading up to 1985, we saw cotton inventories build to levels exceeding 9 million bales. We were subjected to "PIK" programs that gave farmers back their own forfeited loan cotton to sell in exchange for sharply reduced plantings. These drastic supply adjustments dropped production in some years to 8 or 9 million bales, whipsawing our processing and handling infrastructure and convincing our entire industry that loan floors above market-clearing prices are a poor way to provide price and income support for farmers.

Thanks to the marketing loan introduced in 1985 farm law and the 3-step competitiveness plan added in 1990 law,[4] offtake of U.S. cotton quickly recovered to levels that have been consistently more than twice the 1985 rate. We regained our traditional position of prominence in the world cotton market and costly, market-wrenching loan build-ups have been avoided. Under most market conditions, we have been able to offer U.S. cotton to our domestic and foreign customers at generally competitive prices.

This experience with market-oriented federal farm policy is in sharp contrast to pre-marketing loan policy that put a floor under U.S. cotton prices, allowed our foreign competitors to undercut our prices and resulted in large accumulations of U.S. cotton in the hands of the Commodity Credit Corporation.

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[4] These provisions were included in the FAIR Act, although funding for step 2 payments was capped at $701 million.

NCC Policy Recommendations

Over the past 15 years, our industry's experience with a marketing loan keyed to the world price for cotton has been mostly good. We strongly support its continuation in future cotton titles.

The initial marketing loan concept was not perfect, however. We found that a marketing loan that was intended to allow U.S. cotton to be quoted competitively against a world market price defined as the average of the 5 cheapest growths quoted for delivery in Northern Europe would not ensure a consistently competitive price. There are times when the lowest-priced foreign growth is well below the average of the 5 cheapest growths, and when such low quotes are backed with a substantial exportable supply, the U.S. is relegated to the role of residual supplier.

To help deal with such competitive situations, the cotton industry recommended, and Congress implemented, a 3-step competitiveness plan in 1990 farm law.[5] This addition to U.S. cotton's overall competitiveness plan improved our ability to offer competitively priced cotton more consistently. The 3-step plan has been amended several times since 1991 to make technical corrections. It is an important part of our competitiveness program, and we strongly urge Congress to continue it in new farm law.

We recognize that prevailing WTO agreements are designed to impose disciplines on U.S. farm policy. In general, the WTO provisions tend to favor price and income support measures that are decoupled from acreage, production and prices. Such supports are considered to be non-trade-distorting and are not limited under current WTO rules.

Support measures that are coupled to acreage, production and prices are, with some exceptions, considered to be trade distorting and are subject to disciplines under WTO rules (referred to as "amber box" spending). The United States agreed to a $19.1 billion ceiling on this type of coupled agricultural support for the 2000 and subsequent crop years, which, if exceeded, could subject the U.S. to sanctions.

Generally, the most cost effective support measures are those that are coupled to prices and production, since outlays under such programs are made only when prices and/or returns fall below an established threshold. Fixed, decoupled payments, on the other hand are less cost effective but more WTO friendly. The multiple goals of income support, cost effectiveness and WTO compliance leads the National Cotton Council to propose new farm policy that relies on a combination of coupled and decoupled payments.

Since we like the planting flexibility that goes hand-in-hand with the FAIR Act's decoupled payment provisions, we encourage as much reliance on decoupled, AMTA-like payments as feasible. Additionally, we recommend some type of counter cyclical income support that is as coupled and as commodity-specific as practical given budget considerations and our commitments within the World Trade Organization.

Mr. Chairman, we know that a number of different counter cyclical payment programs have been tentatively discussed among agricultural interests. Among them are:

1. Crop-specific payments, triggered when the price of a covered commodity falls below a specified threshold (the target price concept in 1990 farm law featured such a program);

[5] Provisions of 3-step competitiveness plan are summarized in Appendix A.

2. Crop-specific payments, triggered when revenue per acre for a covered commodity falls below a specified threshold (the modified SIP program falls in this category); and
3. A market-basket approach, whereby payments are triggered when gross revenue for a specified number of commodities falls below a threshold level.

Our analysis of these concepts suggests that each has some strengths and weaknesses and I would like to share our views about them.

1. Crop-Specific, Price Deficiency Payment Program

This kind of program has several advantages. It is sensitive to prices for individual crops; payments are coupled to production and can be paid to producers either on the basis of actual plantings or recent planting history; payments are made only when prices are below the specified threshold; and the payment rate has typically been computed on the basis of the national average price received by farmers. Such programs have merit because they tend to do the best job of delivering appropriate, timely assistance while avoiding outlays when they are not needed.

There are also some potential disadvantages, the chief of which is that these programs are often to be considered to be "amber box" under current WTO rules. While planting flexibility could be retained, the relative size of anticipated payments for each crop could influence planting decisions if payments are made on actual production, possibly prompting counterproductive acreage shifts among alternative crops.

2. Crop-Specific, Revenue Deficiency Payment Program

The principal advantage of a program based on crop-specific revenue per acre deficiency as opposed to a price deficiency is that it provides protection against both low prices and low yields on a commodity-by-commodity basis. Such programs are generally coupled to production, and payments are made only when revenue for a covered crop falls below the specified threshold.

Among the disadvantages of such programs is the possibility that they may be subject to WTO disciplines. Also, it is difficult to identify a common historical period that provides an appropriate revenue baseline for all the major commodities. Moreover, problems could occur in years of very low, or no, production. Price and yield experience in any given year could be offsetting, with the result that no payment would be received in a year of high prices and very low production.

3. Market Basket, Gross Revenue Deficiency Payment Program

The main, and perhaps the only, advantage of such a program over a crop-specific revenue deficiency payment program is the possibility that it would be classified as green box spending under WTO rules.

Its WTO classification is uncertain, and there are disadvantages. There would most likely be years when the revenue for an individual commodity would be out-of-sync with the market basket of commodities. Smaller acreage, Sun Belt crops like cotton and rice would be more vulnerable to such outlier revenue years than the larger acreage crops, since (1) the latter would make up such a high percentage of the market basket revenue from year to year and (2) there is a very real possibility of significantly different weather conditions in the primary cotton and rice growing regions as opposed to the grain producing regions. The cotton industry would be supportive of a market basket approach only if it would be classified as green box within the

WTO concepts and if appropriate adjustments could be made to accommodate smaller acreage crops, like cotton and rice.

All these counter cyclical programs share the important common advantages of (1) cost effectiveness as compared to fixed payment programs and (2) predictability as compared to the emergency assistance packages Congress has approved during the past three years. Presumably these programs would be authorized as entitlement spending and, as such, would provide producers and their lenders with far greater certainty that production loans could be repaid each season.

Model Programs

Mr. Chairman, our industry favors a cotton program with a nonrecourse marketing loan keyed to world prices and administered in combination with the 3-step competitiveness plan. Our producer members favor a loan rate of not less than 55 cents, while our shipper segment has expressed opposition to raising the loan rate above 55 cents. Our members have serious concerns with any program that eliminates the nonrecourse marketing loan. Our industry unanimously favors some combination of fixed and counter cyclical payments, although we find it difficult to offer a firm recommendation about the specific level of payments that should be authorized for each without knowing how CBO would score the various loan and counter cyclical programs that might be proposed. However, we have appended two model programs illustrating mixes that would offer significant income protection improvements over the FAIR Act's diminished fixed payment scheme.

Both models establish a revenue goal for producers of base grade cotton that is not less than returns received during the '99 marketing year from all sources, including the market price, marketing loan gains, decoupled AMTA payments and emergency assistance payments[6] that were authorized by Congress.[7]

Both models also incorporate the FAIR Act's capped loan rate of 51.92 cents. This loan rate entry should not be construed as Council support for that specific loan rate. This matter remains under consideration by industry leaders. If a different loan rate were to be authorized, there would be corresponding changes in our recommended fixed or counter cyclical payment rates.

The **first model contains a counter cyclical price** concept preferred by the cotton industry. It includes:

a) A nonrecourse marketing loan with a redemption level keyed to the world market price;

b) Continuation of cotton's 3-step competitiveness plan;

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[6] Including so-called market loss assistance payments.

[7] The '99 marketing year was chosen because it was a year when commodity prices were quite low and government support, including emergency assistance, brought farm returns up to reasonable levels (by December '99 the farm price of cotton had dropped to around 43 cents; LDP's were paid at a rate of approximately 22 cents; and the combination of AMTA and supplemental emergency assistance payments totaled 15.21 cents.

c) Fixed, decoupled commodity payments at the rate of 5.99 – 10 cents per pound[8];

d) Commodity-specific, counter cyclical payments triggered when the average per-unit revenue received by farmers (including market returns, the fixed, decoupled payment and marketing loan gains) falls below the '99 marketing year per-unit revenue (also including market returns, fixed, decoupled payments, and marketing loan gains);

e) Fixed, decoupled commodity payments and counter cyclical payments made on the basis of frozen yields;

f) Farmers' choice to use either the contract acreage base under the FAIR act or an updated acreage base using a more recent mix of crops on each farm for the calculation of fixed and counter cyclical payments; and

g) Elimination of payment limits.

The **second model** is the same as the first except the counter cyclical payments are triggered when gross farm revenue for seven major crops[9] falls below the higher of $43.89 billion [10] or the most recent 5-year moving average of gross revenue generated by the seven crops.

The intent of the second model's payment system is to establish payments that are not trade distorting and, therefore, potentially eligible for green box status under WTO rules.

Model # 1

We append two iterations of Model # 1. Both Model 1-A and Model 1-B incorporate CBO's April baseline prices for upland cotton. The loan is shown at the current, capped rate of 51.92 cents per pound.

The first iteration (Model # 1-A), includes a fixed, decoupled payment rate of 10 cents per pound. The operation of the model looks at the combination of farm price, LDP[11] and fixed, decoupled payment and then computes the counter cyclical payment necessary to return 80 cents for base grade cotton.[12] In this iteration, the requisite counter cyclical payment for 2002 turns out to be 8.56 cents per pound. In subsequent years the counter cyclical payment is higher, but there is no cost associated with Loan Deficiency Payments (LDPs) because CBO's baseline commodity prices exceed baseline loan rates. The resulting program cost, according to estimates by NCC economists, would be about $18.7 billion in 2002 and then move progressively lower, declining to $9.0 billion by 2011. Amber box spending (including $6.2 billion calculated as

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[8] The FAIR Act's 2001 AMTA payment rate is 5.99 cents/lb; raising the rate to 10 cents/lb would reduce the residual counter cyclical payment and keep amber box spending below the WTO ceiling, according to NCC estimates.

[9] Corn, wheat, sorghum, oats, barley, rice and cotton.

[10] Average gross revenue for the seven "program crops" was $43.885 billion for the 1995-1997 marketing years. These were years of relatively strong commodity prices. The 1995-99 five-year average gross revenue for the seven crops was $38.67 billion.

[11] The loan and AWP entries in the models would not produce an LDP because the AWP exceeds the loan rate. However, CBO's probabilistic scoring protocol results in a projected LDP of just under 1 cent/lb.

[12] Payments are factored down by 15% as is the case under the FAIR Act. Accordingly, the benefits are not entirely comparable with those shown in Model # 2, which are NOT reduced by 15%.

AMS for dairy, sugar and peanuts and not counted as farm program spending) totals about $17.9 billion in 2002 and follows a similar downward trend through 2011. These estimates of program costs and the amount falling into the amber box category assume loans and payment rates for other crops that are commensurate with those noted for cotton.

The last row of numbers in Model # 1-A shows estimated cumulative spending over baseline. For 2002, spending over baseline is estimated at $9.7 billion. This compares with $7.35 billion earmarked for 2002 in the FY '02 Budget Resolution. However, the average annual rate of over-baseline-spending declines each year thereafter, so that the total for the years 2002 – 2011 reaches $72.9 billion.[13] This compares with a 2002 - 2011 authorization of $73.5 billion in the FY '02 Budget Resolution.

The second iteration (Model # 1-B), drops the fixed, decoupled payment rate to 5.99 cents per pound (the FAIR Act's 2001 rate). The residual counter cyclical payment, therefore, rises to 12.56 cents per pound in 2002 and rises in subsequent years, again because LDP's disappear. This mix of fixed and counter cyclical payments results in projected program costs of about $18.6 billion in 2002, but the amber box category rises to almost $20.8 billion – slightly exceeding the $19.1 billion WTO ceiling. However, both total spending and amber box spending decline in subsequent years, and by 2006, amber box spending drops back below the WTO ceiling and continues to decline in each succeeding year through 2011.

The amber box totals in Models # 1 A and 1 B, include the counter cyclical costs shown for each year. However, if a counter cyclical program is put in place and 1) pays on fixed area and yields and 2) on 85% or less of base level of production, and if that program is determined to be "production limiting," it could be exempt from the calculation of aggregate measure of support (AMS). Accordingly, amber box computations may be overstated in both iterations.

In both iterations of Model # 1, fixed, decoupled payments as well as counter cyclical payments have been estimated using modified PFC base acres and frozen yields. Our industry supports provisions in new farm law that would allow growers the choice of using their existing PFC base acres or updating it based on a more recent cropping history. We believe this modified base approach has merit since it does not penalize farmers for having taken advantage of the cropping flexibility allowed under the FAIR Act and it does not add burdensome program cost. This modified base protocol would add about 5% to fixed and counter cyclical payments while facilitating delivery of benefits more in keeping with current cropping practices.

Although our producers' most preferred counter cyclical program would be linked to actual plantings of the specific program crop, cost considerations led us to base the counter cyclical program outlined in Model #1 on a fixed acreage base[14] established at the beginning of the farm bill term.

It is widely understood that the more closely the receipt of benefits is tied to production, the higher the expected cost score for any given level of protection. That is, the necessity to have production in order to qualify for benefits is likely to increase crop production and possibly lead to lower crop prices. Any increase in production and correspondingly lower prices would then combine to further add to expected costs and increased budget authority.

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[14] Again, this acreage base is modified from the FAIR Act contract acreage base to allow producers, at their choice, to reflect more recent planting history.

If there is sufficient budget authority, cotton producers would prefer a counter cyclical program to be based on some minimum production or planting requirement.

Model # 2

Model # 2, appended, summarizes our perception of a market basket approach for triggering counter cyclical payments. It incorporates the same market price and loan rate assumptions as model # 1. And, here too, we have the same grower revenue goal for base grade cotton and the same goal of keeping amber box spending below limitations imposed by WTO agreements.

In this model, which relies on CBO's April baseline price estimates for revenue projections, we estimate that counter cyclical payments would be triggered in 2002 because aggregate gross revenue for the seven constituent crops is projected to fall below the '95-'97 gross revenue benchmark for the same seven crops. The estimated revenue shortfall is about $8.5 billion, which would then be the amount of money available for counter cyclical payments in 2002. In our model, we divide the $8.5 billion among seven program crops using the same percentages applicable under the FAIR Act. Cotton would receive 11.63% of the total.[15]

Relying on CBO's April baseline projections for price and production, annual costs would decline after 2002 as they would in Model # 1. Total costs would average less than in Model # 1. However, amber box spending would be substantially less, provided that counter cyclical payments under this calculation/delivery mechanism would not be considered amber box.

The concept of the market basket approach to revenue protection can apply if all crops included in the market basket move in close correlation with each other. The market basket approach can fail to provide the necessary support for a particular crop if that crop's price or output pattern does not closely parallel the pattern of crops that account for a higher percentage of the revenues in the market basket total. Revenues for corn and wheat account for a much larger percentage of the total market basket than does upland cotton.

In the CBO April baseline the prices and outputs of U.S. corn and wheat increase substantially faster than those of upland cotton over the next ten years (page 2 of Model #2 attachment). The result is that the revenue protection provided cotton producers is insufficient as shown in the Model #2 attachment. If market outcomes over the course of the next 10 years closely approximate the CBO baseline, U.S. cotton producers will suffer from this critical shortcoming of the market basket approach. Expected total returns to upland cotton growers would fall from 78.42 cents in 2002 to 70.06 cents per pound by 2011.

The National Cotton Council would prefer the concepts outlined in Model #1 and supports having the fixed payment as high as economically feasible in order to retain as much cropping flexibility as possible and to have more expenditures classified as WTO "green box" spending. Given the potential shortcomings of the market basket approach (Model #2), serious consideration must be given to addressing the economic well being of producers of crops whose revenue pattern differs from that of larger revenue crops.

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[15] The percentages applicable for other commodities are: wheat 26.6%, corn 46.22%, grain sorghum 5.11%, barley 2.16%, oats, 0.15%, and rice 8.47%.

Mr. Chairman, the costs assigned to all these model programs, as well as the benefits derived, assume that no benefits would be denied because of payment limitations. If benefits are reduced because payment limits are imposed, both the benefits and the costs will be reduced accordingly.

Since scoring farm program provisions requires numerous judgement calls about economic and market interactions that may be seen differently among economists, I cannot tell you that the spending levels assigned to each model program, or the spending estimates categorized as amber box, will precisely match CBO's scores or our government's determinations about how costs should be categorized under WTO. However, National Cotton Council economists have proven adept at estimating the actual cost of past program provisions, and I believe their estimates should closely approximate scores assigned by CBO.

Mr. Chairman, our objective in presenting these model farm programs is to summarize policy concepts our members could support and note any special considerations of policy components. We would prefer that our presentation be understood as supportable concepts rather than final recommendations with respect to loan rates and the mix of fixed and counter-cyclical payments.

I should also tell the panel that neither our program provisions nor our estimate of costs includes any program changes for soybeans or other commodities that do not currently receive AMTA payments. Limiting participants in these models to the seven program crops covered under the FAIR Act is not a suggestion on our part that other crops should not be included. However, it is clear that the "payment pie" would need to be enlarged if other commodities are included and if the objective is to bring participants' support up to the price or gross revenue levels established as goals in these model programs. [16]

Commodity titles patterned after these models should not prompt appreciable acreage shifts from one commodity to another, since payments for all commodities would be increased by the same percentage. Neither should there be an increase in total acreage, since prices received by farmers, including government payments, would not be appreciably different than those received during the past three marketing years and payments would be based on historical bases and yields, not production.

Exchange Rate Provisions

Mr. Chairman, currency exchange rates have a well-documented effect on international trade. The U.S. cotton industry is especially vulnerable to the effects of an appreciating dollar because of its impact on imports of cotton textile and apparel products. The strong appreciation of the dollar since the mid-1990s – especially in comparison to Asian currencies -- has significantly lowered the price of foreign-produced textiles and apparel in the U.S. market, increasing the competitive advantage of foreign firms at the expense of U.S. based enterprises. For example, at current prices and exchange rates the FOB price of Pakistani yarn in U.S. dollars is approximately 87.5 cents/lb. In 1995, this same Pakistani yarn would have cost about $1.42/lb. Appreciation of the dollar relative to the Pakistani Rupee has lowered the effective

[16] If, for example, oilseed funding were to be authorized at the '00 rate of $500 million, and be paid to farmers in the same manner, both program cost and amber box spending would rise by that amount. Amber box spending in Model # 1-A and Model # 2 would still remain under the WTO ceiling of $19.1billion.

price of Pakistani yarn in the U.S. market by over 60%. Not surprisingly, imports of cotton products from Pakistan had almost doubled by 2000 to about 1.24 million bale equivalents.

Likewise, imports of cotton textile and apparel products from all sources have soared over the past few years. In 1997, the United States was importing 10.5 million bales of cotton textiles and apparel; by 2000, imports had grown to 15.9 million bales. This surge in imported cotton products has decimated U.S. textile mills – the best customer of the U.S. cotton producers. In 1997 U.S. mill use of cotton was 11.4 million bales; by 2000 it had declined to only 9.5 million bales. Currently the annual rate of U.S. mill consumption is just over 8 million bales.

This drop in mill consumption, as significant as it is, does not fully reflect the exchange rate damage that is being incurred by our industry. During the first half of 2001 alone, 45 plants have closed and almost 15,000 jobs have been lost as a direct result. These are plants and jobs that were involved in spinning, weaving, knitting and fabric finishing only. This does not include plants and farms involved in fiber production, nor does it include apparel cut-and-sew operations.[17] Some of the biggest names in the textile industry are in various phases of bankruptcy and almost every company has shut down plants or substantially reduced operating times.

Cotton industry leaders have done some preliminary thinking about ways the adverse consequences of a strong dollar can be offset in new farm policy. One adjustment that comes immediately to mind is elimination of the 1.25-cent threshold currently used in the calculation of Step 2 payment rates. This adjustment would reduce the cost of raw cotton to domestic textile manufacturers and would enable shippers to price U.S. cotton more aggressively for export.

Elimination of the 1.25-cent threshold would not provide nearly enough adjustment to fully offset the adverse effects of a strong dollar. However, it would be a move in the right direction and one that our industry fully supports. Beyond this, we are continuing to explore other options that could help avert the devastating exchange rate impact on our industry.

Cottonseed Program

Cottonseed is a critical component of total farm revenue generated from cotton production. From 1994 to 1998, cottonseed accounted for approximately 13% of the total value of cotton production, averaging over $58 per acre. Unfortunately, cottonseed prices weakened significantly in 1999 as a result of weak crushing demand as well as low oilseed prices. Cottonseed values remain well below those of previous years. The special cottonseed payments authorized by Congress for the 1999 and 2000 marketing years were vitally important in boosting producer income and helping to maintain the industry's ginning infrastructure.

The two primary markets for cottonseed are: 1) oil mills for crushing to produce oil, meal, hulls and linters; and 2) dairies, where whole cottonseed is used in feed rations. The crushing industry is undergoing rapid consolidation in response to severe financial pressures. Prices for cottonseed meal and oil have collapsed while EPA and OSHA regulatory initiatives have significantly increased processing costs. As a result, a number of cottonseed crushing facilities have either closed or merged. In 1995 there were 25 cottonseed oil mills in operation; by 1999 the number of operating oil mills had declined to 18. The struggles of the cottonseed

[17] Source: American Textile Manufacturers Institute. The Bureau of Labor Statistics shows a reduction of 39,000 textile mill products jobs lost during the same period from all causes.

crushing industry have forced more cottonseed into the whole seed market, with a predictable price-depressing effect.

Crushing demand remains weak while soybean prices remain mired well below $5/bushel. Soybeans are the dominant oilseed and, as such, effectively dictate the market values of both raw cottonseed and its end-use products, as is the case with other oilseeds. The correlation between soybean and cottonseed prices since 1950 is approximately 0.88. A simple regression shows that changes in soybean prices account for approximately 76% of the total variation in cottonseed prices over this period. In animal diets, factors such as protein components, digestibility, energy, and lysine and methionine content make cottonseed meal easily replaceable by soymeal. An analogous situation exists with respect to oil products. Hence, the prices of cottonseed end-use products are inexorably linked to those of soyoil and soymeal.

Without a significant recovery in soybean prices, prices for cottonseed will remain under pressure, further exacerbating the financial stress faced by cotton producers and ginners.

Cottonseed assistance needs to be continued. We urge Congress to consider making statutory provisions for counter cyclical cottonseed payments to be triggered when prices fall below an established threshold.[18]

Payment Limits

The National Cotton Council remains opposed to payment limits in any form. They are both counterproductive and discriminatory. Limiting farm program benefits on the basis of size tends to disadvantage the larger, more efficient farming units, causing them to be broken up into smaller units that are less efficient and less capable of surviving in a global market when, and if, subsidies are discontinued. Moreover, crops such as cotton, with a relatively high cost of production compared with other crops, are especially disadvantaged by payment limits since the imposition of payment limits results in a smaller percentage of a cotton farmer's output being eligible for benefits.

Accordingly, Mr. Chairman we encourage Congress to discontinue all forms of payment limits and benefit targeting. If this is not done, we strongly urge (a) establishment of separate and reasonable payment ceilings for each type of program benefit, (b) retention of provisions for CCC loan redemptions with marketing certificates and (c) retention of the 3-entity rule.

NCC Recommendations for ELS Cotton Policy

I would like to summarize our recommendations for Extra Long Staple (ELS) cotton policy. Extra long staple cotton differs from upland cotton in that its staple length is "extra long" and can be spun and knitted to produce a finer material than regular upland cotton. ELS cotton can be grown successfully only in arid-type climates. The major production areas of this or similar cotton are California and Arizona in the United States, Peru and Egypt. U.S. produced ELS cotton is also known as "American Pima."

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[18] NCC policy does not specify program details for a cottonseed program. However, a counter cyclical payment sufficient to provide revenue comparable to the combination of price and cottonseed payments received by producers during the past two marketing years, and delivered through the gins as in those years, would be consistent with broad policy language in NCC delegate resolutions and generally comparable to the goals specified for cotton lint.

Over the last six marketing years the price of American Pima on the U.S. spot market has fluctuated by more than 100%, from a low of 77.5 cents to 166.5 cents. Producers of American Pima very badly need reinstatement of a program that will provide them a measure of downside price protection. ELS cotton had a program very similar to that for upland prior to the 1996 farm bill. However, several aspects of the ELS program were gutted in 1996, leaving ELS producers only with a non-recourse loan without any marketing loan component. The loan rate for ELS is currently capped at 79.65 cents per pound. The Council supports continuation of the loan with the loan rate frozen at 79.65 cents per pound.

We also support continuation of the competitiveness provisions that were authorized in the FY 2000 Agricultural Appropriations Bill, but with funding capped at $10 million. Mr. Chairman, we would like to see this provision authorized as an entitlement in new farm law to ensure that funds are available when needed to keep American Pima price competitive.

Finally, we support establishment of some form of counter-cyclical payments commensurate with those that may be established for upland cotton. We believe a price objective for American Pima cotton, in the neighborhood of $1.00/pound,[19] including returns from the market plus counter cyclical payments, would be commensurate with an 80 cent price objective for upland.

While cost estimates for the proposed ELS program have not yet been completed, NCC economists believe it would not add appreciably to total farm program costs but would help to maintain equity among alternative crops in the western cotton producing region.

Conservation

Mr. Chairman, the Council supports the continuation and enhancement, subject to adequate funding, of the existing conservation programs such as EQIP, the Conservation Reserve and the Wetlands Reserve Programs. These programs and the technical assistance delivered by NRCS are vitally important in assisting farmers in meeting new and existing air and water quality regulations. And, these programs have enabled farmers to better manage soil erosion, protect and improve water quality and preserve wetlands and wildlife habitat.

The Council also supports incentive-based programs that encourage conservation and environmental enhancements to agricultural land. We have reviewed the proposed "Conservation Security Act" and find agreement with many of its provisions. We are encouraged that it benefits are focused on land in production and offer flexibility by being tiered in value depending upon the level of participation. We are also encouraged that it is not tied to farm program eligibility. We do not support linking additional conservation or environmental requirements to farm program benefits eligibility.

We have some concerns. First, we are concerned that the current spending authority Congress has provided for developing a new farm bill may be inadequate to provide the necessary level of support for commodity programs and a new conservation program. As much as we support an incentive-based conservation program, our first priority must be to have a farm bill with commodity provisions that are adequately funded. Secondly, we are concerned with the payment limits that are contained in the bill. We oppose payment limits for any program and believe they will restrict commercial-sized operations from fully participating in programs such as the Conservation Security Act. Mr. Chairman, we would urge that this committee work for

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[19] CBO's baseline price projection for the FYs 2000-2005 averages 99.22 cents/pound.

adequate funding for both a viable farm program and a conservation/environmental benefits bill, without payment limits that will work for U.S. farmers, consumers and rural communities.

Trade

About 40% of the approximately 17 million bale crop of cotton is exported each year. In addition, the equivalent of 5 million bales of cotton in the form of textile and apparel products was exported in 2000.

Our industry is facing the stiffest international and domestic competition I can remember. Five countries, China, the United States, India, Pakistan and the former Soviet Republics produce about 70 percent of the world's cotton. China, India, Pakistan and many developing countries are unalterably committed to textile production and are, through one mechanism or another, subsidizing either their production or manufacturing industries – or both. This competition is reflected in some fairly stunning forecasts for 2001.

Domestic mill use of cotton is expected to fall over 3 million bales below its 1997 level – a drop of more than 25 percent. The anticipated U.S. crop of cotton is expected to be similar to the past two years or larger – meaning we will have to find a home in foreign markets for at least an additional 2 to 3 million bales of cotton – or see our carryover levels soar.

One of the most significant influences on the U.S. cotton market is cotton textile imports. Over half of the 21 million bale U.S. market is sourced by imported textiles made from foreign cotton. Competition will continue to intensify as textile quotas are phased out.

Further, compared to other agricultural products, cotton is uniquely vulnerable to the effects of an appreciating dollar through its impact on imports of cotton textile and apparel products.

In order to meet these challenges, Congress has worked to forge a partnership between government and the private sector to enhance our competitiveness and help secure markets against sometimes unfair competition. There are signs this partnership is unraveling.

- The Foreign Market Development program has seen its funding fail to keep pace with inflation, and then decline;
- The Market Access Program has had no increases in funding, despite its clear positive impact and its categorization as a green box trade activity in the World Trade Organization. In nominal terms, support under MAP has fallen by 55 percent since 1992. In real terms, it has fallen even more;
- The most cost-effective export program of all, the export credit guarantee program, has been offered up by our trade negotiators in return for no significant concessions by any of our competitors;
- The U.S. insistence on real cuts in tariff levels – cuts that begin from applied tariffs – has been ridiculed within the World Trade Organization;
- The export enhancement program, in which cotton has never participated, has been left dormant in the face of increasing competition in international and domestic wheat markets; and

- The Administration has chosen to classify supplemental market loss assistance payments -- an obviously green box domestic agricultural program -- as subject to WTO limits. This amounts to leading with our chin and further hampers our efforts to secure meaningful, effective long term domestic agricultural policy.

The upcoming farm bill provides this Committee the opportunity to reassert itself and fill an ever widening void being created as the U.S. government appears to retreat in the face of international competition and the self-serving demands of our competitors.

The National Cotton Council urges this Committee to define an aggressive trade policy agenda that can help live up to the promise of free trade that has been marketed so profoundly the past ten years.

We urge the Committee to improve existing export assistance programs and ensure these programs are utilized.

Over $5.5 billion in agricultural exports have benefited from the export credit guarantee program the past 2 years alone. Yet, the latest proposal being considered in the Organization for Economic Cooperation and Development contains fee increases, shortened loan terms and repayment requirements that would make the program ineffective for U.S. exports of cotton. We have estimated these changes could reduce annual U.S. cotton exports around 500,000 bales and have as much as a 3 cent per pound impact on prices.

The OECD proposal undermines GSM-102 while providing **no** corresponding reductions in export subsidy programs operated by our competitors.

Instead of moving to cripple this important program, we should be attempting to improve its effectiveness. The cotton industry supports changes to this program that can begin to address differences in currency valuations, that will allow repayment in local currencies, and that will include freight and other shipping charges in the total amount guaranteed.

We recommend that the Department carry out a pilot program under which the repayment of credit is guaranteed based upon documentation other than letters of credit, and we suggest that the amount of loan guaranteed under the supplier credit program be increased to 85% of the credit made available.

Concern over the OECD negotiations is discouraging new crop sales. Therefore, we urge the Department to announce the terms of the 2002 program right away. We need every competitive edge possible to export cotton for 2002.

We encourage the Committee to provide funding for the Foreign Market Development program of $43.25 million per year and to restore annual support for the Market Access Program to its 1992 level of $200 million.

Given the decision of the United States to back harmful changes to the export credit guarantee program, increased support for FMD and MAP is crucial.

Cotton's marketing loan and three-step competitiveness provisions continue to form the cornerstone of an effective U.S. cotton program. Maintaining all aspects of cotton's competitiveness program is central to the long-term competitiveness of our industry. Without cotton's Step 2 program to partially offset the impact of a strong dollar, U.S. raw cotton exports would likely have experienced a far larger decline than was the case in 2000. Elimination of the

1.25 cent threshold contained in Step 2 will help offset the negative impact of the strong dollar. We also support farm law provisions to compensate for the strong U.S. dollar.

The cotton industry supports the efforts of our government to further liberalize market access and trading rules within the **WTO** and has outlined a set of priorities for the ongoing negotiations, including improving market access for cotton and textiles and improving rules restricting the use of downstream export subsidies. It is very important that our competitors agree to tariff reductions beginning from their applied rates.

We need to meet our competition aggressively. We look forward to working with this committee to improve our export programs and to enhance our competitiveness.

Summary

In summary, for upland cotton, our industry supports continuation of a nonrecourse marketing loan, with redemption provisions keyed to the world market price. We urge you to continue the 3-step competitiveness program for cotton with elimination of the 1.25 cent threshold for step 2 and the continuation of the issuance of marketing certificates. We favor augmenting these programs with a combination of fixed and counter cyclical payments, which, together with returns from the market, will provide producers a return equivalent to what they have received in recent years from all sources, including emergency assistance. We encourage you to retain as much cropping flexibility as possible. We support base acreage provisions that will offers farmers the choice of keeping their current payment base or opting for an updated payment base. We support the retention of frozen yields. Weak oilseed markets necessitate establishment of a permanent program for cottonseed, and other adjustments in program provisions should be made to offset the double impact on cotton of a strong dollar. Importantly, we urge you to eliminate payment limits or, at a minimum, retain the 3-entity rule and provide for separate and reasonable limits for each category of benefits.

Our recommendations for ELS cotton would retain the current non-recourse loan without change, establish the competitiveness program as an entitlement and implement a counter cyclical payment to help ensure returns of approximately $1.00 per pound.

We support a re-invigoration of our export assistance programs, including changes to the export credit guarantee program and increased support for FMD and MAP. The Council supports the continuation of the existing conservation programs such as EQIP, the Conservation Reserve and the Wetlands Reserve Programs assuming adequate funding is available. There is also support for incentive-based programs that encourage conservation and environmental enhancements to agricultural land, but commodity programs remain the funding priority and there are concerns about restrictive payment limitations.

The farm policy concepts we recommend are full-production programs that provide a reasonable level of support for farmers and ranchers while indirectly underpinning our processing and handling infrastructure. Projected costs are generally in line with outlays over the past several years, including special emergency appropriations.

Mr. Chairman, that concludes our farm policy recommendations for upland and ELS cotton. I would be pleased to respond to any questions the panel might have.

MODEL #1-A	Fiscal Years									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
	Cents per Pound									
CBO 's Projected Farm Price for Cotton:	57.72	59.34	59.97	59.98	60.05	60.09	60.15	60.13	60.13	60.06
Assumed New York Board of Trade Price	64.72	66.34	66.97	66.98	67.05	67.09	67.15	67.13	67.13	67.06
CBO's Projected A Index	64.70	68.90	69.45	69.29	69.20	70.18	68.99	68.80	68.64	68.57
Assumed AWP	50.70	54.90	55.45	55.29	55.20	56.18	54.99	54.80	54.64	54.57
Assumed Loan Rate	51.92	51.92	51.92	51.92	51.92	51.92	51.92	51.92	51.92	51.92
CBO Assumed LDP	3.72	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Assumed Fixed De-Coupled Payment Rate	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Counter Cyclical Payment to Reach Target	8.56	10.66	10.03	10.02	9.95	9.91	9.85	9.87	9.87	9.94
Expected Return to Grower (Cents/Lb)	80.00	80.00	80.00	80.00	80.00	80.00	80.00	80.00	80.00	80.00
Market	57.72	59.34	59.97	59.98	60.05	60.09	60.15	60.13	60.13	60.06
LDP	3.72	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Decoupled Payment	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Counter Cyclical Payment	8.55	10.66	10.03	10.02	9.95	9.91	9.85	9.87	9.87	9.94
	Millions of Dollars									
Decoupled Payments, All Commodities	7,240	7,240	7,240	7,240	7,240	7,240	7,240	7,240	7,240	7,240
Loan Cost, All Commodities	4,991	4,908	4,548	3,879	2,991	1,731	867	354	318	290
CBO Projected Loan Cost	4,917	4,908	4,548	3,879	2,991	1,731	867	354	318	290
Added Loan Cost	0	0	0	0	0	0	0	0	0	0
NCC Counter Cyclical Cost	6,324	5,676	5,303	5,163	4,670	4,136	3,063	2,319	1,641	1,267
CBO Projected Step 2	58	43	51	51	51	51	74	107	106	105
NCC Estimate Eliminate 1.25 Step 2 Threshold	100	100	100	100	100	100	100	100	100	100
NCC Estimate of Score (Loan + Counter-Cyc)	11,315	10,584	9,851	9,042	7,661	5,867	3,930	2,674	1,958	1,557
POTENTIAL AMBER BOX 1/ (NCC Est.)	17,988	17,753	16,994	16,172	14,748	12,905	10,895	9,604	8,827	8,391
TOTAL PROGRAM COST (NCC Est.)	18,712	17,967	17,242	16,432	15,052	13,258	11,344	10,120	9,404	9,001
1/ Includes $6.2 billion in AMS that is not counted as farm program spending										
AMTA CONTRACT	4,080	4,080	4,080	4,080	4,080	4,080	4,080	4,080	4,080	4,080
CBO LOAN COST	4,917	4,908	4,548	3,879	2,991	1,731	867	354	318	290
Est. Cumulative Spending Over Baseline	9,715	18,693	27,307	35,760	43,761	51,208	57,604	63,290	68,297	72,928

Testimony of National Cotton Council

MODEL #1-B	Fiscal Years									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
	Cents per Pound									
CBO 's Projected Farm Price for Cotton:	57.72	59.34	59.97	59.98	60.05	60.09	60.15	60.13	60.13	60.06
Assumed New York Board of Trade Price	64.72	66.34	66.97	66.98	67.05	67.09	67.15	67.13	67.13	67.06
CBO's Projected A Index	64.70	68.90	69.45	69.29	69.20	70.18	68.99	68.80	68.64	68.57
Assumed AWP	50.70	54.90	55.45	55.29	55.20	56.18	54.99	54.80	54.64	54.57
Assumed Loan Rate	51.92	51.92	51.92	51.92	51.92	51.92	51.92	51.92	51.92	51.92
CBO Assumed LDP	3.72	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Assumed Fixed De-Coupled Payment Rate	5.99	5.99	5.99	5.99	5.99	5.99	5.99	5.99	5.99	5.99
Counter Cyclical Payment to Reach Target	12.57	14.67	14.04	14.03	13.96	13.92	13.86	13.88	13.88	13.95
Expected Return to Grower (Cents/Lb)	80.00	80.00	80.00	80.00	80.00	80.00	80.00	80.00	80.00	80.00
Market	57.72	59.34	59.97	59.98	60.05	60.09	60.15	60.13	60.13	60.06
LDP	3.72	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Decoupled Payment	5.99	5.99	5.99	5.99	5.99	5.99	5.99	5.99	5.99	5.99
Counter Cyclical Payment	12.56	14.67	14.04	14.03	13.96	13.92	13.86	13.88	13.88	13.95
	Millions of Dollars									
Decoupled Payments, All Commodities	4,337	4,337	4,337	4,337	4,337	4,337	4,337	4,337	4,337	4,337
Loan Cost, All Commodities	4,991	4,908	4,548	3,879	2,991	1,731	867	354	318	290
CBO Projected Loan Cost	4,917	4,908	4,548	3,879	2,991	1,731	867	354	318	290
Added Loan Cost	0	0	0	0	0	0	0	0	0	0
NCC Counter Cyclical Cost	9,132	8,470	8,092	7,952	7,438	6,882	5,809	5,066	4,387	4,013
CBO Projected Step 2	58	43	51	51	51	51	74	107	106	105
NCC Estimate Eliminate 1.25 Step 2 Threshold	100	100	100	100	100	100	100	100	100	100
NCC Estimate of Score (Loan + Counter-Cyc)	14,122	13,378	12,640	11,831	10,429	8,613	6,676	5,420	4,705	4,303
POTENTIAL AMBER BOX 1/ (NCC Est.)	20,795	20,798	20,035	19,213	17,764	15,899	13,888	12,598	11,821	11,384
TOTAL PROGRAM COST (NCC Est.)	18,617	17,857	17,128	16,319	14,916	13,101	11,187	9,964	9,247	8,844
1/ Includes $6.2 billion in AMS that is not counted as farm program spending										
AMTA CONTRACT	4,080	4,080	4,080	4,080	4,080	4,080	4,080	4,080	4,080	4,080
CBO LOAN COST	4,917	4,908	4,548	3,879	2,991	1,731	867	354	318	290
Est. Cumulative Spending Over Baseline	9,619	18,488	26,988	35,348	43,193	50,483	56,722	62,251	67,101	71,575

Testimony of National Cotton Council

MODEL #2	Fiscal Years									
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
	Cents per Pound									
CBO 's Projected Farm Price for Cotton:	57.72	59.34	59.97	59.98	60.05	60.09	60.15	60.13	60.13	60.06
Assumed New York Board of Trade Price	64.72	66.34	66.97	66.98	67.05	67.09	67.15	67.13	67.13	67.06
CBO's Projected A Index	64.70	68.90	69.45	69.29	69.20	70.18	68.99	68.80	68.64	68.57
Assumed AWP	50.70	54.90	55.45	55.29	55.20	56.18	54.99	54.80	54.64	54.57
CBO's Assumed Loan Rate	51.92	51.92	51.92	51.92	51.92	51.92	51.92	51.92	51.92	51.92
Assumed CBO LDP	1.22	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Assumed Fixed De-Coupled Payment Rate	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
	Millions of Dollars									
Benchmark Gross Revenue 7 Crops	43,885	43,885	43,885	43,885	43,885	43,885	43,885	43,885	43,885	43,885
Assumed CBO Revenue for 7 Crops*/	35,407	37,454	38,639	39,328	40,396	41,527	43,352	44,784	46,316	47,213
Gross Revenue Shortfall	8,478	6,431	5,246	4,557	3,489	2,358	533	0	0	0
Cotton's Share of Revenue Shortfall (11.63%)	986	748	610	530	406	274	62	0	0	0
	Cents per Pound									
Expected Return to Grower (Cents/Lb)	78.42	76.53	75.83	75.07	73.95	72.72	70.75	70.13	70.13	70.06
Market	57.72	59.34	59.97	59.98	60.05	60.09	60.15	60.13	60.13	60.06
LDP	1.22	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Decoupled Payment	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Counter Cyclical Payment (Market Basket)	9.47	7.19	5.86	5.09	3.90	2.63	0.60	0.00	0.00	0.00
	Millions of Dollars									
Decoupled Payment Cost, All Commodities	7,240	7,240	7,240	7,240	7,240	7,240	7,240	7,240	7,240	7,240
Loan Cost, All Commodities	4,991	4,908	4,548	3,879	2,991	1,731	867	354	318	290
Expected Loan Cost	4,917	4,908	4,548	3,879	2,991	1,731	867	354	318	290
Added Loan Cost	73	0	0	0	0	0	0	0	0	0
NCC Counter Cyclical Cost	8,478	6,431	5,246	4,557	3,489	2,358	533	0	0	0
CBO Projected Step 2	58	43	51	51	51	51	74	107	106	105
NCC Estimate Eliminate 1.25 Step 2 Threshold	100	100	100	100	100	100	100	100	100	100
NCC Estimate Score Loan + Counter-Cycle	13,468	11,340	9,794	8,436	6,480	4,089	1,400	354	318	318
TOTAL POTENTIAL AMBER BOX 1/ (NCC Est.)	19,827	17,683	16,144	14,787	12,831	10,440	7,773	6,762	6,724	6,723
TOTAL PROGRAM COST (NCC Est.)	20,808	18,679	17,133	15,775	13,820	11,428	8,739	7,694	7,657	7,657
1/ Includes $6.2 billion in AMS that are not counted as farm program spending.										
*/ CBO does not report detailed "minor grain" baseline, NCC uses long-term averages for minor grains.										
AMTA CONTRACT	4,080	4,080	4,080	4,080	4,080	4,080	4,080	4,080	4,080	4,080
CBO LOAN COST	4,917	4,908	4,548	3,879	2,991	1,731	867	354	318	290
Est. Cumulative Spending Over Baseline	11,810	21,501	30,006	37,823	44,572	50,189	53,981	57,241	60,501	63,788

Testimony of National Cotton Council

CBO Projected Baseline Prices					
Fiscal	Dollars/Bushel			Dollars/Cwt.	Cents/Lb.
Year	CORN	WHEAT	SOYBEANS	RICE	COTTON
2002	2.23	2.93	4.16	6.17	57.72
2003	2.29	3.08	4.23	6.25	59.34
2004	2.30	3.16	4.45	6.58	59.97
2005	2.30	3.22	4.76	6.58	59.98
2006	2.35	3.26	5.17	6.58	60.05
2007	2.40	3.32	5.43	6.57	60.09
2008	2.50	3.42	5.62	6.85	60.15
2009	2.56	3.52	5.70	7.09	60.13
2010	2.61	3.62	5.88	7.40	60.13
2011	2.62	3.72	6.08	7.81	60.06
% CHG	17.5%	27.0%	46.2%	26.6%	4.1%

CBO Projected Baseline Crops					
Fiscal	Millions of Bushels			Million Cwt	Million Bales
Year	CORN	WHEAT	SOYBEANS	RICE	COTTON
2002	9,784	2,225	2,952	197	17.589
2003	10,096	2,283	2,946	195	17.662
2004	10,354	2,336	2,964	193	17.668
2005	10,507	2,385	2,997	193	17.793
2006	10,644	2,415	3,025	193	17.749
2007	10,779	2,441	3,086	192	17.768
2008	10,899	2,467	3,133	193	17.754
2009	11,018	2,501	3,182	192	17.803
2010	11,212	2,540	3,208	191	17.755
2011	11,373	2,578	3,245	193	17.771
% CHG	16.2%	15.9%	9.9%	-2.0%	1.0%

CBO Projected Baseline Crop Revenues					
Fiscal	Millions of Dollars				
Year	CORN	WHEAT	SOYBEANS	RICE	COTTON
2002	21,818	6,519	12,280	1,215	4,873
2003	23,120	7,032	12,462	1,220	5,031
2004	23,814	7,383	13,190	1,273	5,086
2005	24,166	7,678	14,266	1,269	5,123
2006	25,013	7,872	15,639	1,267	5,116
2007	25,870	8,104	16,757	1,261	5,125
2008	27,248	8,438	17,607	1,319	5,126
2009	28,206	8,805	18,137	1,358	5,138
2010	29,263	9,194	18,863	1,411	5,125
2011	29,797	9,590	19,730	1,507	5,123
% CHG	36.6%	47.1%	60.7%	24.1%	5.1%

APPENDIX A

Cotton's Three-Step Competitiveness Plan

The cotton program has provisions designed to make U.S. cotton competitive, both for domestic textile mills and for export. These provisions are referred to as the 3-step competitiveness plan for cotton, and they have worked very well. Each step is interrelated -- they work together. They were designed to function as sequential steps for keeping U.S. cotton price competitive.

- Step 1 provides discretionary authority for the Secretary of Agriculture to reduce the Adjusted World Price (AWP) when the US price for Northern Europe delivery (USNE) exceeds the Northern Europe Price (NE) and the AWP is less than 115% of the loan rate. The maximum reduction is the difference between the USNE and the NE. Step 1 is designed to help make the cotton marketing loan program more effective in keeping U.S. prices at world levels;

- Step 2 mandates the issuance of marketing certificates to domestic users and exporters of cotton when the USNE exceeds the NE by more than 1.25 cents/pound for 4 consecutive weeks (provided the prevailing world price does not exceed 134% of the loan rate). The certificates help bridge part of the gap between the price of U.S. and foreign growths;

- Step 3 mandates the opening of a special import quota if the USNE (adjusted for certificate value) exceeds the NE by more than 1.25 cents for 4 consecutive weeks. The amount of the quota is equal to 1 week's consumption by domestic mills at the seasonally adjusted annual rate for the 3 most recent months for which data are available. In addition, during any month in which Secretary estimates that the season ending upland cotton stocks to use ratio will be below 16%, the USNE will not be adjusted by the previous week's certificate value. This makes it more likely that Step 3 will trigger. Total raw cotton landed in a calendar year under the Step 3 special import quotas is limited to the equivalent of 5 weeks of U.S. mill use of upland cotton. Step 3 allows raw cotton imports to act to lower U.S. cotton prices and bring U.S. prices more in line with world prices.

The 3-step competitiveness program has been in effect since August 1991. In the 1996 farm bill, Congress imposed a $701 million ceiling on expenditures under Step 2. That ceiling proved inadequate for the life of the 1996 farm bill and was reached in December 1998. When Step 2 ceased operating in 1998, cotton's competitive situation deteriorated. Congress restored funding in October 1999.

Marketing certificates help ensure U.S. cotton is competitive with foreign growths. The certificate payment rate is determined by a statutory formula based on the difference between the price of U.S. cotton quoted for Northern Europe delivery and the average world price. The 1.25 cent gap was originally built into the calculation for budget purposes, requiring the United States Northern European price of U.S. cotton to exceed the average world price by more than 1.25 cents per pound before marketing certificates are triggered.

APPENDIX B

COUNTER-CYCLICAL TARGETS, PAYMENT RATES AND TOTAL RETURNS Based on CBO Baseline for 2002							
Crop	Units	2001 Base Loan Rate	CBO Projected Farm Price	Implied CBO LDP	AMTA Payment	Estimated Counter Cyclical Payment	TARGET TOTAL RETURN
COTTON	Cents/Lb.	51.92	57.72	4.68	5.54	12.06	80.00
CORN	$/Bu.	1.89	2.23	0.00	0.26	0.59	3.08
WHEAT	$/Bu.	2.58	2.93	0.02	0.46	1.12	4.53
RICE	$/Cwt.	6.50	6.17	2.53	2.04	4.23	14.97
SORGHUM	$/Bu.	1.74	1.84		0.31	0.79	2.94
BARLEY	$/Bu.	1.56	2.07		0.19	0.42	2.68
OATS	$/Bu.	1.11	1.21		0.02	0.44	1.67
SOYBEANS	$/Bu.	5.26	4.16	1.35			
PROG.COST*	$ Millions			$4,991	$4,337	$9,132	$18,617

COUNTER-CYCLICAL TARGETS, PAYMENT RATES AND TOTAL RETURNS Based on CBO Baseline for 2002							
Crop	Units	2001 Base Loan Rate	CBO Projected Farm Price	Implied CBO LDP	AMTA Payment	Estimated Counter Cyclical Payment	TARGET TOTAL RETURN
COTTON	Cents/Lb.	51.92	57.72	4.68	10.00	7.60	80.00
CORN	$/Bu.	1.89	2.23	0.00	0.45	0.40	3.08
WHEAT	$/Bu.	2.58	2.93	0.02	0.79	0.79	4.53
RICE	$/Cwt.	6.50	6.17	2.53	3.51	2.76	14.97
SORGHUM	$/Bu.	1.74	1.84		0.54	0.56	2.94
BARLEY	$/Bu.	1.56	2.07		0.34	0.27	2.68
OATS	$/Bu.	1.11	1.21		0.37	0.09	1.67
SOYBEANS	$/Bu.	5.26	4.16	1.35			
PROG. COST*				$4,991	$7,240	$6,324	$18,712

* Total program cost includes CBO projection of $58 million for Step 2 and NCC estimate of $100 million for elimination of Step 2 1.25 cent threshold.

Recommendations for the Next Farm Bill

Prepared Testimony of

Mr. Dusty Tallman
President
National Association of Wheat Growers

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

July 17, 2001

*Final Draft – Embargoed Until
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1.0 Introduction

Let me begin by thanking the Chairman, the Ranking Member, and the rest of the Committee for the opportunity to appear before you today. My name is Dusty Tallman and it is an honor for me to present testimony on behalf of the nation's wheat producing farmers. I currently serve as President of the National Association of Wheat Growers (commonly referred to as NAWG by wheat producers). My family and I operate a wheat farm in Eastern Colorado.

NAWG is a grassroots organization of twenty-three state associations representing American producers of all classes of wheat from across all regions of the nation. NAWG's large and diverse membership stretches from the durum growers along the Canadian boarder, through red wheat producing regions in the center of America's heartland and Southern states, across the white wheat producing Pacific Northwest, to the winter wheat producers along both coasts.

Today, I will present our views on how the commodity program section of the Farm Bill can best be improved to meet the needs of the nation's agricultural producers. A summary of NAWG's recommendations is contained in Appendix A and a complete list of the budget estimates is contained in Appendix B. Other appendixes provide more supportive material in greater detail.

1.1 Process

NAWG's diverse membership, with all its varied interests and points of view, requires NAWG to seek consensus among all its members before staking out any policy position or before making any recommendation to this Committee. The views expressed in my testimony today have been thoroughly vented through NAWG's rigorous policymaking process.

In preparation for the next Farm Bill, NAWG leaders set out in mid-1999 to chart a clear course towards positions that would enjoy the broad support of wheat producers from every state and class of wheat. Following organizational meetings with representatives from the Food and Agricultural Policy Research Institute (FAPRI) and U.S. Wheat Associates (USW) – the wheat industry's export promotion arm – the NAWG Executive Committee called a special meeting of the National Board of Directors to develop possible farm bill positions.

The responsibility to unravel the results from these exploratory meetings and develop a unified position that enjoys the broad support of the entire U.S. wheat producing industry fell to the NAWG Domestic Policy Committee. This committee, chaired throughout 1999 and 2000 by Oregon Wheat League President Sherman Reese and currently chaired by North Dakota Grain Growers Association President Allan Skogen, has spent countless hours, several conference calls and four national meetings to seek input from growers and hammer out an agreement.

This three-year effort has resulted in my testimony today.

1.2 Budget estimates

Analysis of the recommendations made in the NAWG testimony was conducted by NAWG with input from the staff at FAPRI and is based upon FAPRI's estimates. The FAPRI analysis is in response to a request from Congressmen Mike Simpson (Idaho) and Earl Pomeroy (North Dakota) and Senators Larry Craig (Idaho) and Max Baucus (Montana)

2.0 The 1996 FAIR Act

Early in 1995, NAWG endorsed the free-market orientation which became the cornerstone of the Federal Agriculture Improvement and Reform Act of 1996 – the 1996 FAIR Act (Public Law 104-127). Since then, some organizations and even policymakers

have made a name for themselves by second guessing the Farm Bill, blaming it for the low prices which continue to plague agriculture producers of almost every commodity.

Despite the economic hardships that have befallen rural America over the last three years, NAWG remains confident that the path outlined in the 1996 FAIR Act continues to serve the nation's farmers and ranchers well. In the case of wheat, lower prices can be directly traced to economic troubles in the major importing nations, especially those in Asia, good weather and record levels of production across the globe for five straight years, and the unfair trading practices of our major competitors. Likewise, agricultural exports continue to suffer in a world dominated by a strong U.S. dollar. None of which can be blamed on the 1996 FAIR Act.

Indeed without the "freedom to farm" elements of the 1996 FAIR Act the conditions of the nation's wheat producers would be considerably worse off. Guaranteed fixed payments, planting flexibility, and the non-recourse marketing loan have allowed wheat producers to change with market conditions and maximize returns on every acre of their operation.

2.1 Planting flexibility

The impact of the 1996 FAIR Act could not be more evident than by examining what has happened to wheat production since its adoption. Figures from the U.S. Department of Agriculture's (USDA) Economic Research Service (ERS) show that farmers have capitalized on the farm bill's planting flexibility to reduce wheat plantings by twenty percent, from 75.1 million acres in 1996 to a forecasted 60.3 million acres in 2001. Had farmers not been allowed to make such market adjustments on their own,

wheat production and stocks would have continued to climb and wheat prices would have been even more depressed. [1]

Recommendation to the Committee (#1): NAWG recommends that the next Farm Bill build upon the success of the 1996 FAIR Act by keeping the basic farm support structure in place and that nothing be done to jeopardize the planting flexibility of "freedom to farm."

3.0 Fixed payments

The second important element of the 1996 FAIR Act that continues to play a considerable role in keeping American wheat producers successful is its guaranteed transition payments. While the amount of the payments decrease each year[2] and payments have been limited to only $40,000 annually per entity, transition payments have become an important part of the farm support system. Creditors, suppliers, landlords and others have become as dependent on such payments as have the farmers that receive them. Wheat producers feel that maintaining such a support system in the next Farm Bill is critical to their ability to conduct business with the multiple partners necessary to make their operations successful.

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[1] Data taken from the publication "Wheat Outlook," published eleven times a year by USDA's Economic Research Service.

Year	Planted Acres(millions)
2001	60.3
2000	62.5
1999	62.7
1998	65.8
1997	70.4
1996	75.1
1995	69.1
1994	70.3
1993	72.2

[2] Data taken from "USDA Agricultural Baseline Projections to 2010," published by USDA's Farm Service Agency, February 2001.

Year	AMTA Payment
2002	$0.46
2001	$0.47
2000	$0.59
1999	$0.64
1998	$0.66

However, there remains a great deal of concern regarding the value of such payments in coming years, when budget restraints require severe reductions in the amount of payments. Accordingly, NAWG believes that such payments should be frozen at the 1999 level to ensure adequate support

Recommendation to the Committee (#2): NAWG recommends that the next Farm Bill include a guaranteed payment similar to the current transition payment equal to the amount provided for in 1999.

3.1 Budget Estimates

Providing a fixed payment to producers of currently eligible crops at a level equal to the 1999 AMTA would require $5.470 billion in annual budget authority, or $1.533 billion more than the current baseline projection. These figures do not include the costs associated with adding a fixed payment for oilseed producers as described below.

3.2 Oilseeds

In addition to the crops currently eligible for fixed payments, wheat producers support expanding eligibility to oilseed producers should they seek such a payment. However, this support is predicated on changes being made to equalize the commodity marketing loans as outlined below.

Recommendation to the Committee (#3): NAWG recommends that the next Farm Bill expand the eligibility for a guaranteed payment similar to the current transition payment to oilseed producers.

3.2.1 Budget Estimates

I point out to the Committee that throughout NAWG's testimony budget estimates relative to oilseeds include only those costs associated with soybean and sunflower programs which make up the bulk of all oilseed crops. Other oilseed programs, such as those for canola, mustard, rape seed and flax, would add a small amount of additional spending but only a very limited amount.

In addition to the figures above (section 3.1), extending fixed payments to oilseed producers would cost $808.5 million in budget authority each year.

3.3 Base acres

Of course, adding oilseed producers to the fixed payment equation will require the establishment of additional base. NAWG believes that the Committee should address this concern by employing the same base used to calculate the 1999 crop year ad hoc financial assistance that was distributed to these producers. However, once established, this base should not be updated each year, as is the current practice. With only this one exception, NAWG believes that existing historic bases for current program crops should remain in place throughout the term of the next Farm Bill.

Recommendation to the Committee (#4): NAWG recommends that the next Farm Bill maintain the current historical base for calculating support payments.

3.3.1 Total base

Special consideration should be given to guarantee that no individual producer is afforded more base acres than he actually farms. Such discrepancies should be addressed on a farmer-by-farmer basis as part of the contracting process. In the event that an individual producer is allocated more base acres than crop land acres, NAWG proposes that these

excess base acres be pooled nationally to be redistributed to counties which have lowest base to planted acre ratio.

The NAWG analysis and cost estimates have been calculated with the above mentioned pooling of base in mind. All estimates were calculated with the assumption that payments would be made on all new eligible oilseed base acres as well as all existing base acres regardless of the producer's actual farm size. Accordingly, allowing producers to pool base or allowing base to be shifted among producers would not have any expense in addition to those figures included throughout this section of NAWG's testimony.

3.4 Other commodities

In addition to oilseeds, producers of a number of other commodities not traditionally covered by this part of the Farm Bill have sought guaranteed assistance as well. NAWG opposes these efforts to divert funds into other areas.

Recommendation to the Committee (#5): NAWG recommends that the next Farm Bill not include an expansion of base farm support programs to previously ineligible crops.

3.5 Payment limits

Section 115 of the 1996 FAIR Act limits the amount of assistance each farming entity receives from a fixed payment at $40,000 annually. While some still argue that such limits are a necessity in the preservation of some romantic vision of the "family farm," the truth of the matter is that most farming operations have grown over the life of the 1996 FAIR Act and that most farm families now plant and harvest more acres, raise more livestock, have more equipment and bear larger debts than they did just five years ago. To maintain a $40,000 payment limitation would ignore the changes that have swept agriculture and punish those producers that have made their operations a success. In

addition, NAWG believes that eliminating the payment limitation on fixed payments would have no budget impact.

Recommendation to the Committee (#6): NAWG recommends that the next Farm Bill eliminate the payment limitation on all fixed support payments.

3.6 Budget estimates

Implementing the recommendations relative to fixed payments contained in this section of the NAWG testimony will require an average of $6.278 billion in budget authority each year over the life of the next Farm Bill, or an increase of $2.341 billion over the current projected baseline. This figure includes the $808.5 million necessary to extend fixed payments to oilseed producers (as outlined in section 3.2.1). A more complete summary of the analysis is contained in Appendix C.

Recommendation to the Committee (#7): NAWG recommends that the next Farm Bill include $6.278 billion annually of budget authority for fixed payments.

4.0 Commodity marketing loans

The third critical element of the 1996 FAIR Act that wheat producers believe must be continued as part of the next Farm Bill is the wheat marketing loan. In the last three years, a total of 533,072 loans have been made to producers of eligible crops, totaling $19,226,665,155.30 in value.[3] Of this activity, wheat loans make up 12.88 percent of the loans and 9.22 percent of the value.[4] Corn, for example, makes up 44.13 percent of the loan activity and 41.57 percent of the value and soybeans account for 26.86 percent of the activity and 24.89 percent of the value.[5]

[3] Data for 1998, 1999, and 2000 crop years (through January 13, 2001) from various reports on the Price Support Division of the Farm Service Agency's web site.
[4] Ibid. Wheat loans = 68,651. Wheat value = $1,771,635,203.26.

More important to producers are the gains they made on this loan activity. According to the Price Support Division of USDA's Farm Service Agency (FSA), in the last three years, producers have received $14,437,764.32 worth of LDPs and another $3,293,571.31 in marketing loan gains.[6] Of these totals, wheat accounts for 14.32 percent of the LDP total and 4.52 percent of the gain.[7] One must stop and ask where would our nation's wheat producers be with out this much needed assistance? Or how many more would have been forced off their land without this important program?

Recommendation to the Committee (#8): NAWG recommends that the next Farm Bill maintain the marketing loan provisions of the 1996 FAIR Act with only minor modifications.

4.1 Secretary's discretion

For the purposes of today's testimony the NAWG analysis assumes that the next Farm Bill would be written in such a manner as to eliminate the Secretary's discretionary authority to set commodity marketing loan rates. Accordingly, rates would be set at 85 percent of the five year Olympic price average (with the exception of those commodities whose marketing loan is based upon a relationship to either corn or soybeans) but no less than the stated floor or no higher than the stated cap.

Removing this discretionary authority will result in significant savings in the commodity loan program. Under the NAWG scenario, the overall impact of rebalanced loan rates between commodities results in an average increase of only $23 million annually in CCC outlays for the marketing loan program, limiting the WTO exposure of coupled support.

[5] Ibid. Corn loans = 235,254. Corn value = $7,991,810,761.13. Soybeans loans = 143,192. Soybean value = $4,786,440,173.22.
[6] Data from 1998, 1999 and 200 crop years through January 1, 2001 from activity reports on the Price Support Division of the Farm Service Agency's web site.
[7] Ibid. Wheat LDP = $2,068,007.91. Wheat gains = $148,837.15. Corn LDP = $5,007,246.19. Corn gains = $870,550.72. Soybean LDP = $4,925,703.84. Soybean gain = $663,727.68.

4.2 Payment limits

As with other types of federal assistance, Section 115 of the 1996 FAIR Act limits the amount of assistance each farming entity can receive from commodity marketing loan gains at $75,000 annually. In addition, NAWG believes that eliminating the payment limitation on commodity marketing loan gains and LDPs would have no budget impact.

Recommendation to the Committee (#9): NAWG recommends that the next Farm Bill eliminate the payment limitation on all commodity marketing loan gains and LDPs.

4.3 Loan rate caps

In an effort to meet what were at the time agreed upon budget limits, section 132 of the 1996 FAIR Act set strict limits on the Secretary's authority to set commodity marketing loan rates. Several caps were created to limit expenses. In the case of the wheat marketing loan, a cap was placed at $2.58. While all loan eligible commodities received caps, wheat producers have long felt that the $2.58 cap, which is only 69.54 percent of what the wheat marketing loan rate would have otherwise been in 1998,[8] was unfair (especially when compared to the $1.89 cap for corn which is 74.12 percent of what the corn marketing loan rate would have been in 1998 if left uncapped and the $5.26 cap for soybeans which is 84.52 percent of what the soybean marketing loan rate would have been in 1998).

Nevertheless, the cap has remained in place and has, over the life of the 1996 FAIR Act, undoubtedly saved the federal treasury millions of dollars. However, with market prices in their fourth straight year of decline, the marketing loan rate cap issue is today almost irrelevant. In fact, USDA projections tell us that the wheat marketing loan rate will remain below the cap for the life of the next Farm Bill.[9]

[8] From figures included in the USDA Economic Research Service's 2000 Baseline Projection Tables.
[9] Ibid.

4.3.1 Budget estimates

Given projected prices over the next ten years, none of the commodity marketing loans will reach the new caps. This factor, when combined with the repeal of the Secretary's discretionary authority to set loan rates, eliminates any costs associated with them.

4.4 Loan rate floors

In addition to setting caps, section 132 of the 1996 FAIR Act established floors in the marketing loan rates for several commodities. For example, the floor on the upland cotton marketing loan was set at $0.50 (per pound), the soybean floor was set at $4.92, the floor for other oilseeds was set at $0.087 (per pound), and the rice floor was set at $6.50.

No such floor was created for the wheat marketing loan.

Wheat producers continue to view this inequity as unfair and believe that all formulas should be reestablished to include a minimum guaranteed amount to better protect them in years of low commodity prices.

Accordingly, NAWG believes that the following floors in the commodity marketing loans would better reflect the need to treat all commodities fairly:

Crop	Current Floor	New Floor
Wheat	none	$2.85
Corn	none	$1.90
Barley	none	$1.90
Grain Sorghum	none	$1.90
Oats	none	$1.10
Upland Cotton	$0.50	$0.52
Rice	$6.50	$6.50
Soybeans	$4.92	$4.92
Sunflowers	$8.70	$8.70

While concerned of what effect an uncapped wheat marketing loan rate would have on our export markets at some future date should prices rebound, wheat producers do support raising the cap to a more equitable level.

NAWG believes that the following caps would better reflect the historical relationship of commodity prices:

Crop	Current Cap	New Cap
Wheat	$2.58	$3.05
Corn	$1.89	$2.09
Barley	$1.89	$2.08
Grain Sorghum	$1.89	$2.09
Oats	$1.12	$1.24
Upland Cotton	$0.5192	$0.567
Rice	$6.50	$7.31
Soybeans	$5.26	$5.26
Sunflowers	$9.30	$9.30

NAWG arrived at these new caps by calculating the uncapped commodity marketing loan value for each crop and averaging them over the life of the current Farm Bill. For example, had there been no cap on the soybean marketing loan rate, the loan would have averaged $5.25 or 99.81 percent of the current cap. Each commodity's average was then multiplied by 1.0019 to reflect an unchanged soybean loan. The results are listed above as the proposed caps with the following exceptions: 1) the historic relationship between sunflowers and other oilseeds to the soybean marketing loan was maintained; 2) the historic relationship between oats and the corn marketing loan was maintained; 3) the grain sorghum cap was made equal to the corn cap; and 4) the barley cap was set at the pound-per-pound relationship between the feed barley price and the corn price (or $1.80) plus the long term average premium for all barley assuming an even division between food and feed uses (or $0.28).

Recommendation to the Committee (#10): NAWG recommends that the next Farm Bill include the commodity marketing loan caps included in its testimony.

These new commodity marketing loan rate floors are the outcome of NAWG's lengthy work to provide equality across commodity programs. In preparing these recommendations, NAWG considered historical pricing patterns, the policy statements of national commodity and farm organizations, current federal farm policy and practices, reform efforts introduced by Members of Congress, grower concerns and perspectives, comparative production costs, changes in historical production patterns and other factors. Taken as a whole, we believe they accomplish our goal of providing equitable market support.

Recommendation to the Committee (#11): NAWG recommends that the next Farm Bill include the commodity marketing loan floors included in its testimony.

4.4.1 Budget estimates

The analysis conducted by FAPRI shows that the loan adjustments described in this section, including the changes to the barley and grain sorghum loan calculations explained below, would result in only an increase of $23 million annually in marketing loan gains and LDPs over baseline. In total, an average of $3.700 billion in budget authority will be needed each year of the next Farm Bill (compared to 3.677 current baseline) to fully implement these reforms. A more complete summary of the budget analysis is contained in Appendix D.

Recommendation to the Committee (#12): NAWG recommends that the next Farm Bill include $3.700 billion annually of budget authority for commodity marketing loans.

4.5 Non-recourse v. recourse loans

Following many debates among wheat producers, NAWG is confident in stating that the non-recourse nature of the wheat marketing loan has served the industry well. In 1998, for example, wheat consisted of only 13.75 percent of the loan volume but made up 37.95

percent of the value of all forfeitures. In 1999, wheat made up 6.08 percent and 12.15 percent respectively.[10] This added flexibility has allowed wheat producers to further limit risk when faced with low prices (in both years) or a damaged product (in 1999).

Recommendation to the Committee (#13): NAWG recommends that the next Farm Bill retain the wheat marketing loan as a non-recourse loan.

4.6 Barley loan formula

In preparing for this hearing, NAWG has been in close communication with a number of other producer organizations that either have or will shortly testify before the Committee as well. We understand that as part of its testimony, the National Barley Growers Association has proposed reforming the barley marketing loan formula to reflect an all barley price independent of the corn marketing loan rate.

NAWG supports this change and has incorporated it into its budget estimates and analysis. These changes, including the reformulation of the calculation as well as the new marketing loan floor and cap, will cost an average of $65.875 million annually to implement. This figure is included in the budget estimate above (section 4.4.1).

Recommendation to the Committee (#14): NAWG recommends that the next Farm Bill establish the barley marketing loan independently of the corn marketing loan and that it reflect 85 percent of the all barley price.

4.7 Grain Sorghum loan formula

NAWG understands that the National Grain Sorghum Growers Association will propose reforming the grain sorghum marketing loan rate in a manner that would make it equal to the corn marketing loan rate.

[10] Data for 1998 and 1999 crop years (through January 13, 2001) from various reports on the Price Support Division of the Farm Service Agency's web site.

NAWG supports this change and has incorporated it into its budget estimates and analysis. These changes, including equalizing the marketing loan with the corn marketing loan as well as the new marketing loan floor and cap, will cost an average of $28 million annually to implement. This figure is included in the budget estimate above (section 4.4.1).

Recommendation to the Committee (#15): NAWG recommends that the next Farm Bill establish the grain sorghum marketing loan rate equal to the corn marketing loan rate.

4.8 Fixed LDP rates

While maintaining the integrity of the commodity marketing loans is essential in NAWG's recommendations on the next Farm Bill, wheat producers, especially those in the northern states, believe that the program could be dramatically improved by allowing producers to "lock in" their LDP rate up to 60 days prior to harvest. Wheat prices traditionally hit their yearly low when harvest is nearing completion in the Midwest; some months before harvest is completed further north. This historic pattern has allowed producers in the Midwest to collect higher LDPs than their northern neighbors regardless of when the wheat is actually marketed.

While producers may not be able to establish their actual yield until harvest has been completed, allowing them to establish the LDP rate earlier would allow producers in northern states to benefit from the same rates enjoyed by Midwestern farmers who traditionally harvest their wheat earlier. NAWG believes that allowing a pre-harvest "lock in" of LDP rates would help bring equity to the commodity marketing loan program.

Due to a number of factors, including grower participation, changing LDP rates and production variability, NAWG believes that the costs associated with implementing this

section of its testimony would be minimal. However, further study will be necessary to establish a more precise estimate.

Recommendation to the Committee (#16): NAWG recommends that the next Farm Bill include provisions that would allow producers to "lock in" their LDP rates up to 60 days prior to reporting harvested production.

4.9 Grazed-out wheat payments

Last year, Congress approved as part of its efforts to provide relief to producers included in the Agriculture Risk Protection Act of 2000 (Public Law 106-224) legislation authored by Congressman Frank Lucas (Oklahoma) that authorized a payment in lieu of an LDP on wheat production that is grazed-out instead of harvested traditionally. This practice is an important part of wheat production in the South and these payments will provide much needed relief for many wheat producers.

NAWG supports reauthorization of these payments for the coming year and making them permanent as part of the next Farm Bill. Calculations based upon wheat production in areas approved for grazed-out payments would indicated that an additional $30 million annually would be required to make this provision permanent.

Recommendation to the Committee (#17): NAWG recommends making the payment in lieu of an LDP on grazed-out acres permanent.

5.0 Creating a counter-cyclical safety net

While NAWG believes that the 1996 FAIR Act, coupled with the emergency spending authorized by Congress each of the last three years, has provided a workable network of programs for the nation's agricultural producers, wheat producers just as strongly believe that the Act lacks the proper counter-cyclical supports necessary. In addition, while some may propose replacing the entire Act with a production-based system of controls and

payments, NAWG believes that the more prudent strategy would be to improve the existing programs and add an additional layer of support to them.

The NAWG plan for providing counter-cyclical payments is built upon the principle that such payments should only be made when prices have fallen so low to create dramatic need across the agricultural economy. Or, in other words, NAWG does not seek the establishment of a "safety net" so expensive and complex that it would guarantee the success of each producer across the country. To the contrary, NAWG seeks modest support that would only meet producers' most pressing needs.

5.1 Market Support Levels

The NAWG plan for counter-cyclical payments is based on the establishment of a commodity specific Market Support Level for each eligible crop. Such levels should be kept modest, but should be high enough to make the program effective. NAWG has based its analysis on the following initial levels for the 2003 crop year and has indexed each by one percent annually through the tenure of the next Farm Bill resulting in the following levels for the 2010 crop year.

	Market Support Level	
Crop	2003	2010
Wheat	$4.25	$4.56
Corn	$2.65	$2.84
Barley	$2.72	$2.92
Grain Sorghum	$2.65	$2.84
Oats	$1.40	$1.50
Upland Cotton	$0.722	$0.774
Rice	$12.15	$13.03
Soybeans	$5.55	$5.95
Sunflowers	$9.82	$10.53

The Market Support Levels listed above were calculated by taking the average total crop gross income and program support for each commodity[11] as calculated by FAPRI in their

[11] Cash receipts plus LDPs and market loan gains plus fixed payments plus market loss assistance.

work for the Commission on 21st Century Production Agriculture[12] and dividing it by the average production for each commodity over the same 1995-1999 period.[13] These amounts were then adjusted to reflect historical inequities among crops that are driven primarily by the commodity marketing loan program as explained above.

For example, the above calculation for wheat resulted in a $4.25 average and become the base from which all other Market Support Levels were compared. The soybean average was $6.15. This inflated soybean number is symptomatic of the high levels of inequity among commodity marketing loan values and dramatic increases in production since the adoption of the 1996 FAIR Act. Accordingly, the soybean number was reduced to return the comparative levels of support to equilibrium across commodities based on historical price relationships. Other commodities were adjusted in a similar manner but none to the extent of this particular example.

5.2 Calculating a payment

Under the NAWG plan, counter-cyclical payments would be calculated by subtracting the fixed payment and the higher of either the national average cash price or the national average marketing loan rate from the Market Support Level on a commodity-by-commodity basis. For example, a $0.64 fixed payment and a $2.85 marketing loan rate would result in a $0.76 counter-cyclical payment for wheat in 2003 if the national average cash price fell below the marketing loan rate.

However, should the price of wheat improve the amount of the counter-cyclical payment would decrease. The above example would yield a $0.11 payment if the national average cash price of wheat reach $3.50 and no payment would be made if the national average cash price reached $3.61 or higher.

[12] From "Preliminary Assessment of CCP Options," November 2000.
[13] Data from 1995-1999 crop years through January 1, 2001 from activity reports on the Price Support Division of the Farm Service Agency's web site.

It is envisioned that under the NAWG plan payments for some commodities would be made in years that producers of other commodities did not qualify. For example, a producer may receive a payment on his wheat acres while at the same time not receiving a payment on his corn acres, depending on market conditions. More detailed examples are included in Appendix F.

Recommendation to the Committee (#18): NAWG recommends that the next Farm Bill include the counter-cyclical support system as outlined in its testimony.

5.3 Budget Estimates

Working together, the NAWG and FAPRI staff have completed an analysis of the NAWG counter-cyclical plan. The work indicates that an average of $4.273 billion annually will be needed to fund the proposal contained in recommendations 20-21. A more complete summary of the analysis is contained in Appendix E.

Recommendation to the Committee (#19): NAWG recommends that the next Farm Bill include $4.273 billion annually of budget authority for counter-cyclical payments.

5.4 Payment limits

NAWG would oppose any limitation being placed on the amount of counter-cyclical assistance provided to a producer under this plan. Since the NAWG analysis was conducted with no payment limitation in place, there will be no additional costs associated with this recommendation.

5.5 Whole-farm Income payments

NAWG is aware that other organizations and individuals have provided testimony to the Committee regarding support for the creation of a counter-cyclical program based on

"whole-farm income" or other none-commodity specific criteria. An outline for such a payment was presented as part of the majority opinion of the Commission on 21st Century Production Agriculture.

NAWG opposes these efforts. As we learned in 1997 and 1998, forces in the wheat market do not always follow those that impact other commodities. This is due to several factors outside the control of wheat producers such as foreign market demand and the unfair trading practices of state controlled wheat export agencies abroad.

Wheat prices were the first to collapse in 1997 and have remained lower longer than most other commodities.[14] Accordingly, wheat producers fear that a system that based counter-cyclical payments on a basket of commodities will not address the needs of their industry.

Recommendation to the Committee (#20): NAWG recommends that any counter-cyclical payments included in the next Farm Bill be constructed on a commodity-by-commodity basis.

5.6 Budget estimates

A complete budget summary that captures all of the budget estimates listed above (sections 3.0 through 5.5) is included in Appendix B.

[14] Data for 1989-1999 crop years (through January 13, 2001) from the Farm Service Agency's web site.

Year	Wheat Price	Change*
1990	$2.61	-30%
1991	$3.00	15%
1992	$3.24	8%
1993	$3.26	0.6%
1994	$3.45	6%
1995	$4.55	32%
1996	$4.3	-5%
1997	$3.38	-21%
1998	$2.65	-22%
1999	$2.55	-4%

*Change from previous year.

6.0 Means testing

In addition to opposing all payment limitations, as discussed above, NAWG opposes any effort to use means testing to target benefits of farm programs to any class or size of farming operation.

Recommendation to the Committee (#21): NAWG recommends that the next Farm Bill not include any form of means testing.

7.0 Issues that cannot wait for the next Farm Bill

In addition to these elements of the next Farm Bill, NAWG strongly believes that there are several pressing issues that Congress should address this year. These items are essential to the financial wellbeing of wheat producers across the nation and simply cannot wait.

7.1 Freezing fixed payments

NAWG strongly believes that action must be taken to prevent the further erosion of the critical support included in the 1996 FAIR Act. It makes little sense to farmers that despite the continuation of low commodity prices, support payments continue to decrease each year.

The idea of freezing AMTA has enjoyed wide bipartisan support. We encourage you to act on this issue this year and that payments be frozen at the 1999 level. Doing so would not jeopardize "freedom to farm" or other elements of the 1996 FAIR Act and would require $1,595,000,000 of additional budget authority in FY2003.

Recommendation to the Committee (#22): NAWG recommends freezing AMTA payments at the 1999 level for the remainder of the tenure of the 1996 FAIR Act.

7.2 Market loss assistance payments

Wheat producers greatly appreciate the emergency financial assistance authorized by Congress each of the last three years. It has been repeated many times but remains frightfully true that many would have been forced out of business had not this support been approved.

Producers continue to face low commodity prices with little relief in sight. According to baseline projections made by FAPRI, the national average cash price for wheat is expected to remain far below the cost of production for the foreseeable future.[15] Accordingly, NAWG believes that Congress should act immediately to provide additional assistance in the form of a market loss payment at the 1999 PFC rate of $0.64 for wheat.

Recommendation to the Committee (#23): NAWG recommends approval of a market loss assistance payment at no less than the 1999 PFC rate of $0.64 for wheat.

7.3 Tax reform

NAWG strongly believes that Congress should take steps this year to lighten the tax burden of the nation's farmers and ranchers. Common sense tax reform including the establishment of Fish, Farm and Ranch Risk Management (FFARRM) Accounts and reforms to the agricultural capital gains taxes would greatly assist budget pressed producers. While outside the scope of this Committee's jurisdiction and the next Farm

[15] From figures included in FAPRI's 2001 U.S. Baseline Briefing Book. The expected price of wheat is:

2001/02	$2.88
2002/03	$2.91
2003/04	$3.03
2004/05	$3.11
2005/06	$3.17
2006/07	$3.25
2007/08	$3.34
2008/09	$3.39
2009/10	$3.46
2010/11	$3.55

Bill, NAWG calls upon the Committee to continue its efforts to advocate these reforms on our behalf.

Recommendation to the Committee (#24): NAWG recommends Congress approve meaningful farm tax reform this year.

7.4 Presidential trade promotion authority

The wheat industry believes that Congress should grant trade promotion authority to the President that is unencumbered by environmental or labor provisions. Action should be taken as soon as practical to extend this important trade tool.

Recommendation to the Committee (#25): NAWG recommends Congress approve presidential trade promotion authority this year.

7.5 Unilateral trade sanctions

Wheat growers would like to thank the Committee and the other Members of Congress that worked last year to reform U.S. sanction policy. However, more work lies before us as we seek the elimination of licensing requirements, provide access to export credit programs for all countries without a presidential waiver and rescind the travel restrictions and prohibition on commercial financing for Cuba.

Recommendation to the Committee (#26): NAWG recommends Congress take further action to reform U.S. sanction policy.

8.0 Impact on allied industries

NAWG realizes that further analysis will be needed before the full impact of its proposal on allied industries can be realized. Such work is currently under way at FAPRI (as

outlined in section 1.2). However, preliminary findings suggest that any such impact should be limited.

For example, preliminary work has suggested that adoption of the NAWG plan could result in limited increases in planted grain acres and a corresponding decrease in planted soybean acres. However, it is anticipated that neither would have a statistically significant impact on commodity prices.

Similarly, since the NAWG plan retains most of the key elements of the 1996 Act and grain prices are expected to change only slightly, the impact on livestock producers would also be minimal.

9.0 WTO compliance

Designing a proposal that is WTO compliant continues to be a primary concern for NAWG. We strongly believe that the NAWG plan meets all such requirements. This position is based on a number of key elements.

First, the NAWG plan would reduce the amount of spending currently attributed to the amber box by eliminating the ad hoc oilseed payment and reducing outlays associated with commodity marketing loans.

Second, almost half of the increased spending attributed to the NAWG plan, $2.341 billion, is in guaranteed fixed payments that have long been established as falling into the blue box.

Third, the NAWG plan would allocate $4.273 billion in counter-cyclical payments that NAWG believes may be classified as either green or blue box spending. While NAWG is seeking outside assistance from trade experts to make this important determination, we believe that a number of key factors justify this position. These include, 1) payments are based on Market Support Levels that were established by a formula based on total gross

income and program support for each commodity; 2) payments are applied to only eighty-five percent of a producer's established base; and 3) payments are de-coupled from the producer's actual production and received price.

In addition, NAWG understands that there remains some unanswered questions on this third element. However, should further analysis establish that these counter-cyclical payments are indeed classified as amber box spending, an increase of this modest magnitude would not exceed current U.S. amber box commitments.

10.0 NAWG Risk Management Priorities

In addition to the commodity program changes outlined in its testimony, NAWG recommends that the next Farm Bill address a number of risk management issues as well.

NAWG continues to support the reforms made by Congress last year to the federal crop insurance program (Public Law 106-224). Since passage of the reform package, NAWG has been actively engaged with USDA staff to insure its proper implementation. However, more work needs to be done in this area to guarantee that the risk management needs of the nation's wheat producer are met.

10.1 CAT and NAP coverage

NAWG supports the expansion of multi-peril crop insurance to all crops and the elimination of CAT and NAP coverage. Wheat producers believe that by expanding the insurance base in this manner will help insure the overall stability and profitability of the program.

Recommendation to the Committee (#27): NAWG recommends that the next Farm Bill expand MPCI coverage and eliminate the CAT and NAP programs.

10.2 Yield plugs

An important part of the reforms approved last year was a 65 percent yield plug for producers whose production has been compromised by multiple years of disaster. NAWG continues to support this reform but urges the Committee to increase the plug to 85 percent.

Recommendation to the Committee (#28): NAWG recommends that the next Farm Bill increase the APH yield plug to 85 percent.

11.0 NAWG Conservation Priorities

NAWG will be advancing the following proposals as part of the conservation title. NAWG strongly believes that a well-crafted and fully funded conservation title is essential to keeping wheat production part of the American farm experience.

11.1 Conservation Reserve Program

NAWG supports the continuation of the Conservation Reserve Program (CRP) and has continually encouraged full enrollment of the 36.4 million acres authorized by the 1996 FAIR Act. NAWG opposes, however, the expansion of the program to any additional acres beyond the current cap.

Recommendation to the Committee (#29): NAWG recommends that the next Farm Bill maintain the 36.4 million acre cap on CRP enrollment.

11.2 Native grasses

NAWG is aware that current CRP regulations require land that has been previously enrolled in CRP or otherwise left out of production must be replanted with "native grasses" prior to its acceptance into a new CRP contract. In some cases, this has required

producers to destroy existing grass stands and plant differing grass varieties. While the desire to populate the environment with native plants is admirable, forcing the destruction of existing covers in order to replace it with another appears contradictory of the long-term goals of the program of reducing erosion and promoting conservation of fragile or otherwise threatened lands.

While a regulatory matter, efforts to allow for existing grass stands to be ruled sufficient have been met with bureaucratic opposition. Accordingly, NAWG calls upon the Committee to address this problem as part of its work to reform the program as part of the conservation title of the next Farm Bill.

Recommendation to the Committee (#30): NAWG recommends that the next Farm Bill allow existing grass stands, regardless of species, as appropriate CRP land cover.

11.3 Control of noxious weeds

The control of noxious weeds on land enrolled in CRP has reached critical status in many wheat producing areas. NAWG firmly believes that additional funds need to be provided to assist producers in this effort.

Recommendation to the Committee (#31): NAWG recommends that the next Farm Bill provide additional funds to assist farmers battle noxious weeds on land enrolled in CRP.

11.4 Environmental Quality Incentive Program

Wheat producers remain very supportive of the Environmental Quality Incentive Program (EQIP) and the other conservation programs which aim at assisting producers meet the needs of the nation's environmental regulations. Providing support, expertise and financial assistance to producers actively engaged in improving the conservation

practices on their farm is not only a wise investment but has helped many producers make dramatic improvements across the country. NAWG fully supports reauthorization of such programs and suggests the following improvements.

NAWG believes that great flexibility should be built into the EQIP program. Local NRCS staff, state technical committees and producers are often best positioned to determine what conservation practices, plant species and other factors may best be implemented in their area.

Additionally, many crop producers believe that over recent years programs such as EQIP have been gradually shifted to focus almost exclusively on the livestock industry. Funds and other resources must be allocated to insure that the needs of all producers are being met.

Recommendation to the Committee (#32): NAWG recommends that the next Farm Bill improve EQIP and other similar conservation programs to provide greater local flexibility and equality among all agricultural sectors.

11.5 The Conservation Security Act

As part of its work on the conservation title of the next Farm Bill, the Committee will be asked to consider elements of the Conservation Security Act, legislation that would create financial assistance to producers who agree to implement conservation practices on their farm. Over the last two years, NAWG has worked with the legislation's sponsors to ensure that the legislation was crafted in a farm-friendly manner. NAWG is pleased that most of its recommendations have been incorporated into the current versions of the legislation and that no new mandatory requirements have been included.

Furthermore, NAWG believes that the policy of rewarding producers for good conservation practices will encourage better farm management and provide the necessary

incentive for producers to more actively engage in further improvement of the environment.

However, while supportive of the concept from which the legislation is based, NAWG believes that any funds allocated to the implementation of the Conservation Security Act or other similar "green payment" plan should not detract from the funding of existing farm support and conservation programs. Should new funds be allocated for this purpose above and beyond that which is necessary to implement the farm program improvements explained above, NAWG would support the Committee's inclusion of the legislation as part of the conservation title of the next Farm Bill.

Recommendation to the Committee (#33): NAWG recommends that the next Farm Bill pursue the possibility of providing "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 improve other existing programs.

12.0 NAWG Trade Policy Priorities

Agricultural exports are an extremely important element of success for U.S. wheat producers. In fact, we consistently export nearly 50 percent of our total wheat production. We strongly believe that an aggressively funded trade title is imperative to the health and prosperity of the wheat industry. The U.S. must maximize the use of all available trade programs within the World Trade Organization's (WTO) limitations. This will enhance our negotiating leverage and ultimately return the cost of any program to the government by increasing marketing opportunities around the world and reducing producer reliance on government payments. We must work together to ensure a fair and open world market

for our producers. This will require a full set of competitive tools -- *producers want to rely on a market dollar not a tax dollar.*

12.1 Foreign Market Development Program

The wheat industry strongly supports one of our most effective agricultural export programs, the Foreign Market Development (FMD) or Cooperator Program. The Cooperator Program is funded jointly by U.S. agricultural producers and the federal government. Many producers directly support the program through check-off funds collected at the state level, which are then allocated to U.S. trade organizations that promote the export of one or more U.S. agricultural commodities. None of these producer-supported organizations has a business interest in or receives remuneration from specific sales of agricultural commodities.

The Cooperator Program has played an important role in increasing U.S. agricultural exports from $3 billion at its inception in 1955 to a level of $53 billion in fiscal year 2000. It is one of the key building blocks of a sustainable, results-oriented U.S. agricultural export strategy. In order to secure the growth and health of the FMD program, we believe that it should be authorized at no less than $43.25 million. This reflects a funding level consistent with an inflation increase during the last ten years when the program funding remained stagnant at $33.5 million.

Recommendation to the Committee (#34): NAWG recommends that the next Farm Bill fund the FMD program at no less than $43.25 million annually.

12.2 Market Access Program

The wheat industry supports aggressive funding for the Market Access Program (MAP). USDA's Market Access Program is a cost-share program under which farmers and other participants contribute their own resources to be eligible. Since it was originally authorized, funding has been gradually reduced from a high of $200 million to its current level of $90 million – a reduction of more than 50 percent. Clearly, in the face of continued subsidized foreign competition, this needs to be reversed.

Global agricultural trade is still characterized by extensive use of export subsidies by our competition. While programs such as MAP have already been reduced in recent years, our foreign competitors have continued to heavily subsidize and aggressively promote their products in an effort to capture an increasing share of the world market at the expense of U.S. producers. A recent USDA study shows our competitors outspending the U.S. by as much as 20 to 1 on market promotion and export subsidies. Our competitors are spending over $100 million just to promote their products into the United States – more than what the U.S. currently spends under MAP to help promote exports of all American grown and produced commodities world-wide.

For these reasons, we strongly urge that funding for MAP be increased from its current maximum allowed level of $90 million to its previous level of $200 million with a floor of $90 million as part of the next farm bill.

Recommendation to the Committee (#35): NAWG recommends that the next Farm Bill fund MAP to the fullest extent possible.

12.3 Export Enhancement Program

We support the reauthorization and full funding allowable under the WTO of the Export Enhancement Program, to enhance U.S. wheat exports and market development programs, until all export subsidies and anti-competitive practices of export state trading entities have been eliminated. EEP has not been utilized in its current form since 1995 despite continued use of export subsidization and anti-competitive activities by our competitors.

It is vital that EEP be maintained. Since the predatory trade practices of the EU and the Canadian Wheat Board have not come to a halt, we still need EEP in order to remain competitive. And since WTO trade talks are once again in progress, we still need EEP as leverage - to convince other countries to agree to real reforms and that the United States government is serious about addressing and removing trade distortions.

We strongly recommend that the Department de-link the trade policy considerations associated with EEP and reconstitute it as a flexible, commercial program designed to enhance U.S. farm export competitiveness. The U.S. Department of Agriculture should also be obligated to meet its annual funding levels and volume level commitments agreed to in the Uruguay Round of GATT. If these levels are not met by the end of the sixth month of each fiscal year the amount of GATT legal funds that remain unspent on EEP activities must be expended within the fiscal year on market creating and promotion,

Green Box programs. At least one/ fifth of these funds must be spent on market development and export promotion programs for wheat and the remainder must be made available by the Secretary to all agricultural products and commodities for Green Box market expansion activities.

We would oppose any attempt to use unspent EEP funds to make up for short falls in any other program, including the existing market development- cooperator program and the Market Access Program. These programs must be funded at the levels mentioned earlier and all unspent EEP monies be considered new resources to enhance competitiveness in the world market.

Recommendation to the Committee (#36): NAWG recommends that the next Farm Bill reauthorize EEP and expand the program's flexibility.

12.4 Export Credit Guarantee Programs

USDA's export credit guarantee programs were designed to facilitate the sale of U.S. agricultural products. GSM programs have effectively assisted many countries in the purchase of U.S. wheat. The industry supports the continuation of the GSM programs. Additionally, we support revising the export credit program to better meet the needs of private sector buyers. We are interested in expanding the use of the Supplier Credit Program by increasing the length of tenor to one-year.

Recommendation to the Committee (#37): NAWG recommends that the next Farm Bill fund GSM programs to the fullest extent possible.

12.5 Food Assistance Programs

The wheat industry supports the continued use of P.L. 480 (Food for Peace) and Section 416b (Food for Progress) as long as they do not interfere with commercial sales. Food assistance should play a significant role with respect to total U.S. foreign aid.

13 Conclusion

On behalf of the nation's wheat producers, I wish to express our sincere appreciation for this Committee's effort on our behalf. We know that if it were not for your hard work, and that of your staff, that many more of us would no longer be farming.

NAWG strongly believes that the farm program changes it has outlined would address the most pressing needs of the nation's agricultural producers. Wheat producers support these changes and believe that they are equitable – the plan would restore the historical relationships among program crops; financial responsible – the plan would spend only $6.667 billion over the current projected baseline; counter-cyclical – the plan would increase payments when needed and eliminate them when prices recover; and WTO compliant – by placing all additional spending in either the green or blue box or by limiting additional amber box spending to well below the established limits.

It has been an honor for me to appear before you today. As my testimony has indicated, NAWG supports maintaining the market-oriented approach put into place by the 1996 FAIR Act and believes that the foundation of farm support programs it created should remain in place. In addition, we encourage the Committee to add the proper counter-cyclical safety net needed to protect the lives and livelihoods of America's agricultural producers.

Appendix A

Summary of Recommendations

#1 NAWG recommends that the next Farm Bill build upon the success of the 1996 FAIR Act by keeping the basic farm support structure in place and that nothing be done to jeopardize the planting flexibility of "freedom to farm."

#2 NAWG recommends that the next Farm Bill include a guaranteed payment similar to the current transition payment equal to the amount provided for in 1999.

#3 NAWG recommends that the next Farm Bill expand the eligibility for a guaranteed payment similar to the current transition payment to oilseed producers.

#4 NAWG recommends that the next Farm Bill maintain the current historical base for calculating support payments.

#5 NAWG recommends that the next Farm Bill not include an expansion of base farm support programs to previously ineligible crops.

#6 NAWG recommends that the next Farm Bill eliminate the payment limitation on all fixed support payments.

#7 NAWG recommends that the next Farm Bill include $6.278 billion annually of budget authority for fixed payments.

#8 NAWG recommends that the next Farm Bill maintain the marketing loan provision of the 1996 FAIR Act with only minor modifications.

#9 NAWG recommends that the next Farm Bill eliminate the payment limitation on all commodity marketing loan gains and LDPs.

#10 NAWG recommends that the next Farm Bill include the commodity marketing loan caps included in its testimony.

#11 NAWG recommends that the next Farm Bill include the commodity marketing loan floors included in its testimony.

#12 NAWG recommends that the next Farm Bill include $3.700 billion annually of budget authority for commodity marketing loans.

#13 NAWG recommends that the next Farm Bill retain the wheat marketing loan as a non-recourse loan.

#14 NAWG recommends that the next Farm Bill establish the barley marketing loan independently of the corn marketing loan and that it reflect 85 percent of the all barley price.

#15 NAWG recommends that the next Farm Bill establish the grain sorghum marketing loan rate equal to the corn marketing loan rate.

#16 NAWG recommends that the next Farm Bill include provisions that would allow producers to "lock in" their LDP rates up to 60 days prior to reporting harvested production.

#17 NAWG recommends making the payment in lieu of an LDP on grazed-out acres permanent.

#18 NAWG recommends that the next Farm Bill include the counter-cyclical support system outlined in its testimony.

#19 NAWG recommends that the next Farm Bill include $4.273 billion annually of budget authority for counter-cyclical payments.

#20 NAWG recommends that any counter-cyclical payments included in the next Farm Bill be constructed on a commodity-by-commodity.

#21 NAWG recommends that the next Farm Bill not include any form of means testing.

#22 NAWG recommends freezing AMTA payments at the 1999 level for the remainder of the tenure of the 1996 FAIR Act.

#23 NAWG recommends the immediate approval of a market loss payment at no less than the 1999 PFC rate of $0.64 for wheat.

#24 NAWG recommends Congress approve meaningful farm tax reform this year.

#25 NAWG recommends Congress approve presidential trade promotion authority this year.

#26 NAWG recommends Congress take further action to reform U.S. sanctions policy.

#27 NAWG recommends Congress expand multi-peril crop insurance.

#28 NAWG recommends that the next Farm Bill increases the AHP yield plug to 85 percent

#29 NAWG recommends that the next Farm Bill maintain the 34.6 million acre cap on CRP enrollment.

National Association of Wheat Growers
Recommendations for the Next Farm Bill

#30 NAWG recommends that the next Farm Bill allow existing grass stands as appropriate CRP land cover.

#31 NAWG recommends that the next Farm Bill provide additional funds to assist farmers battle noxious weeds on land enrolled in CRP.

#32 NAWG recommends the next Farm Bill improve EQIP and similar conservation programs to provide greater local flexibility and equity among all agricultural sectors.

#33 NAWG recommends the next Farm Bill pursue the possibility of providing "green payments" only if funds are made available above and beyond what is needed to secure the farm safety net and improve other existing programs.

#34 NAWG recommends that the next Farm Bill fund the FMD program at no less than $43.25 million annually.

#35 NAWG recommends that the next Farm Bill fund MAP to the fullest extent possible.

#36 NAWG recommends that the next Farm Bill reauthorize EEP and expand the program's flexibility.

#37 NAWG recommends that the next Farm Bill fund GSM programs to the fullest extent possible.

Appendix B
Summary of Budget Estimates

Recommendation #7 – Guaranteed Fixed Payments

FAPRI Baseline	$3.937 billion	
NAWG Plan	$6.278 billion	constant in all years
Changes	$2.341 billion	

Recommendation #12 – Commodity Marking Loans

FAPRI Baseline	$3.677 billion	
NAWG Plan	$3.700 billion	high (2003 = $6.454) – low (2006 = $1.913)
Changes	$23 million	

Recommendation #17 – Grazed-out Wheat Payments

FAPRI Baseline	$0	
NAWG Plan	$30 million	constant in all years
Changes	$30 million	

Recommendation #20 – Counter-cyclical Payments

FAPRI Baseline	$0	
NAWG Plan	$4.273 billion	high (2005 = $5.244) – low (2010 = $4.367)
Changes	$4.273 billion	

Total Commodity Title Expenditures

FAPRI Baseline	$7.614 billion	
NAWG Plan	$14.281 billion	high (2004 = $16.808) – low (2010 = $12.677)
Changes	$6.667 billion	

Total CCC Outlays (commodity title expenditures plus all other CCC programs)

FAPRI Baseline	$11.044 billion	
NAWG Plan	$17.664 billion	high (2004 = $19.961) – low (2010 = $15.993)
Changes	$6.620 billion	

Appendix C

Summary of Fixed Payment Analysis

Commodity	FAPRI Baseline Payment Rate	NAWG Plan Payment Rate	Total Payments FAPRI Baseline	Total Payments NAWG Plan
Wheat	$0.46	$0.64	$1,057,540,000	$1,471,360,000
Corn	$0.26	$0.36	$1,846,520,000	$2,556,720,000
Sorghum	$0.31	$0.44	$203,050,000	$288,200,000
Barley	$0.20	$0.26	$88,200,000	$114,660,000
Oats	$0.02	$0.03	$5,780,000	$8,670,000
Up. Cotton	$0.056	$0.076	$469,336,000	$636,956,000
Rice	$2.04	$2.84	$348,024,000	$484,504,000
Soybeans	$0.00	$0.25	$0.00	$786,250,000
Sunflowers	$0.00	$0.46	$0.00	$22,218,000

Payment Rates in Dollars per bushel, except Upland Cotton (dollar per pound) and Rice and Sunflowers (dollar per hundredweight)

Appendix D

Summary of Loan Program Analysis

Fiscal Year →	FAPRI BASE	2003	2004	2005	2006	2007	2008	2009	2010
Commodity Marketing Loan Rates									
Wheat	$2.58	$2.85	$2.85	$2.85	$2.85	$2.85	$2.86	$2.86	$2.88
Corn	$1.89	$1.90	$1.90	$1.90	$1.92	$1.92	$1.93	$1.95	$1.97
Grain Sorghum	$1.69	$1.90	$1.90	$1.91	$1.92	$1.92	$1.93	$1.95	$1.97
Barley	$1.74	$1.90	$1.91	$1.93	$1.94	$1.95	$1.96	$1.98	$1.99
Oats	$1.10	$1.12	$1.14	$1.13	$1.14	$1.14	$1.15	$1.16	$1.16
Cotton	$0.52	$0.52	$0.52	$0.52	$0.52	$0.52	$0.52	$0.521	$0.522
Rice	$6.50	$6.50	$6.50	$6.50	$6.50	$6.51	$6.54	$6.56	$6.62
Soybeans	$5.26	$4.92	$4.92	$4.92	$4.92	$4.92	$4.92	$4.92	$4.94
Sunflowers	$9.30	$8.70	$8.70	$8.70	$8.70	$8.71	$8.72	$8.74	$8.78
Changes in Loan Gains/LDPs									
Wheat		477	433	362	284	210	169	137	121
Corn		28	284	336	323	301	273	291	280
Grain Sorghum		30	115	106	93	81	71	63	57
Barley		34	62	71	82	84	82	81	78
Oats		2	4	5	5	4	4	3	3
Cotton		7	25	28	25	22	17	18	23
Rice		4	8	7	7	8	9	16	22
Soybeans		-46	-1071	-967	-860	-776	-663	-568	-511

Loan Rates in Dollars per bushel, except Upland Cotton (dollar per pound) and Rice and Sunflowers (dollar per hundredweight).

Changes presented in millions of dollars.

Appendix E

Summary of Counter-Cyclical Plan Analysis

Fiscal Year →	2003	2004	2005	2006	2007	2008	2009	2010
Market Support Payments by Commodity								
Wheat	$0.64	$0.62	$0.59	$0.54	$0.48	$0.47	$0.43	$0.39
Corn	$0.22	$0.22	$0.17	$0.12	$0.08	$0.04	$0.01	$0.00
Sorghum	$0.37	$0.37	$0.31	$0.27	$0.24	$0.21	$0.16	$0.11
Barley	$0.24	$0.26	$0.24	$0.22	$0.20	$0.18	$0.15	$0.11
Oats	$0.15	$0.15	$0.14	$0.11	$0.10	$0.08	$0.07	$0.04
Upland Cotton	$0.099	$0.101	$0.103	$0.103	$0.099	$0.101	$0.091	$0.097
Rice	$2.39	$2.44	$2.35	$2.33	$2.18	$2.23	$2.16	$2.10
Soybeans	$0.38	$0.35	$0.29	$0.25	$0.15	$0.06	$0.00	$0.00
Sunflowers	$0.55	$0.36	$0.25	$0.14	$0.00	$0.00	$0.00	$0.00

Payments in Dollars per bushel, except Upland Cotton (dollar per pound) and Rice and Sunflowers (dollar per hundredweight).

Totals presented in millions of dollars.

Appendix E (continued)

Breakdown of the Change in Net CCC Outlays under the NAWG Policy

Fiscal Year	2003	2004	2005	2006	2007	2008	2009	2010	Average
Net CCC Outlays				(Billion Dollars)					
Additional PFCs	2.341	2.341	2.341	2.341	2.341	2.341	2.341	2.341	2.341
Additional MSPs	0.000	5.131	5.244	5.219	4.966	4.704	4.558	4.367	4.273
Change in Loan/Other	0.466	-0.181	-0.090	-0.072	-0.093	-0.061	0.022	0.057	0.006
Wheat Outlays									
Additional PFCs	0.408	0.408	0.408	0.408	0.408	0.408	0.408	0.408	0.408
Additional MSPs	0.000	1.316	1.323	1.294	1.211	1.118	1.092	1.032	1.048
Change in Loan/Other	0.407	0.433	0.362	0.284	0.210	0.169	0.137	0.121	0.265
Corn Outlays									
Additional PFCs	0.715	0.715	0.715	0.715	0.715	0.715	0.715	0.715	0.715
Additional MSPs	0.000	1.573	1.618	1.559	1.368	1.294	1.206	1.099	1.214
Change in Loan/Other	0.028	0.284	0.336	0.323	0.301	0.273	0.291	0.280	0.264
Sorghum Outlays									
Additional PFCs	0.077	0.077	0.077	0.077	0.077	0.077	0.077	0.077	0.077
Additional MSPs	0.000	0.156	0.165	0.165	0.153	0.155	0.146	0.135	0.134
Change in Loan/Other	0.030	0.115	0.106	0.093	0.081	0.071	0.063	0.057	0.077
Barley Outlays									
Additional PFCs	0.031	0.031	0.031	0.031	0.031	0.031	0.031	0.031	0.031
Additional MSPs	0.000	0.116	0.121	0.122	0.114	0.108	0.102	0.097	0.098
Change in Loan/Other	0.034	0.062	0.071	0.082	0.084	0.082	0.081	0.078	0.072
Oat Outlays									
Additional PFCs	0.002	0.002	0.002	0.002	0.002	0.002	0.002	0.002	0.002
Additional MSPs	0.000	0.041	0.041	0.043	0.040	0.040	0.038	0.037	0.035
Change in Loan/Other	0.002	0.004	0.005	0.005	0.004	0.004	0.003	0.003	0.004
Soybean Outlays									
Additional PFCs	0.786	0.786	0.786	0.786	0.786	0.786	0.786	0.786	0.786
Additional MSPs	0.000	0.816	0.819	0.864	0.890	0.825	0.791	0.795	0.725
Change in Loan/Other	-0.046	-1.071	-0.967	-0.860	-0.776	-0.663	-0.568	-0.511	-0.683
Minor Oilseed Outlays									
Additional PFCs	0.022	0.022	0.022	0.022	0.022	0.022	0.022	0.022	0.022
Additional MSPs	0.000	0.019	0.019	0.020	0.020	0.018	0.017	0.017	0.016
Change in Loan/Other	-0.000	-0.042	-0.038	-0.032	-0.028	-0.023	-0.019	-0.015	-0.025
Upland Cotton Outlays									
Additional PFCs	0.170	0.170	0.170	0.170	0.170	0.170	0.170	0.170	0.170
Additional MSPs	0.000	0.719	0.750	0.776	0.792	0.784	0.798	0.796	0.677
Change in Loan/Other	0.007	0.025	0.028	0.025	0.022	0.017	0.018	0.023	0.021
Rice Outlays									
Additional PFCs	0.128	0.128	0.128	0.128	0.128	0.128	0.128	0.128	0.128
Additional MSPs	0.000	0.375	0.390	0.376	0.379	0.360	0.368	0.359	0.326
Change in Loan/Other	0.004	0.008	0.007	0.007	0.008	0.009	0.016	0.022	0.010

Appendix E (continued)

Impacts of the NAWG Policy on Crop Net Returns Above Variable Costs

Crop Year	2003	2004	2005	2006	2007	2008	2009	2010	Average
				(Dollars per Acre)					
8-Crop Average									
Stochastic Baseline	129.52	132.42	136.63	140.69	144.49	148.72	153.11	158.25	142.98
Stochastic Scenario	158.60	161.74	165.62	168.40	171.30	175.42	179.10	183.70	170.49
Difference	29.08	29.32	28.99	27.72	26.82	26.70	25.99	25.45	27.51
Wheat									
Stochastic Baseline	83.59	85.91	88.55	91.71	94.97	96.89	99.51	102.83	93.00
Stochastic Scenario	119.07	120.65	121.57	122.29	122.79	123.98	125.18	126.95	122.81
Difference	35.49	34.74	33.02	30.58	27.82	27.08	25.67	24.11	29.81
Corn									
Stochastic Baseline	160.09	164.76	173.05	181.39	187.45	196.39	204.47	215.10	185.34
Stochastic Scenario	189.75	194.43	201.48	207.18	212.48	221.08	227.74	237.67	211.48
Difference	29.65	29.67	28.43	25.79	25.03	24.69	23.27	22.56	26.14
Sorghum									
Stochastic Baseline	67.81	69.78	73.78	76.47	78.33	81.41	84.38	88.28	77.53
Stochastic Scenario	102.25	104.30	107.11	107.53	109.37	111.30	112.59	115.15	108.70
Difference	34.45	34.52	33.33	31.06	31.04	29.89	28.20	26.87	31.17
Barley									
Stochastic Baseline	76.71	78.69	79.22	81.06	82.21	84.48	86.43	89.76	82.32
Stochastic Scenario	109.16	110.83	113.34	113.72	113.92	114.73	115.70	116.85	113.53
Difference	32.45	32.15	34.13	32.65	31.71	30.25	29.26	27.09	31.21
Oats									
Stochastic Baseline	31.10	31.86	32.38	33.81	34.48	35.06	35.62	36.28	33.82
Stochastic Scenario	52.20	52.65	54.71	54.54	55.55	55.63	56.33	57.48	54.89
Difference	21.10	20.79	22.32	20.73	21.08	20.57	20.71	21.20	21.06
Soybeans									
Stochastic Baseline	141.54	144.16	146.84	148.69	151.64	154.62	158.39	160.82	150.84
Stochastic Scenario	152.95	156.29	160.36	162.92	166.31	169.62	173.88	176.98	164.91
Difference	11.41	12.13	13.51	14.23	14.66	14.99	15.48	16.16	14.07
Upland Cotton									
Stochastic Baseline	151.86	152.33	152.66	151.80	153.12	152.53	152.08	153.13	152.44
Stochastic Scenario	214.25	216.93	219.03	219.34	220.17	220.64	220.56	221.45	219.05
Difference	62.39	64.59	66.37	67.54	67.05	68.11	68.48	68.32	66.61
Rice									
Stochastic Baseline	260.26	261.94	263.75	265.55	266.77	266.87	268.15	267.21	265.06
Stochastic Scenario	403.78	410.58	407.73	410.79	406.78	410.82	410.28	408.15	408.61
Difference	143.52	148.64	143.98	145.25	140.00	143.95	142.13	140.95	143.55

Appendix F

Counter-cyclical Examples by Commodity

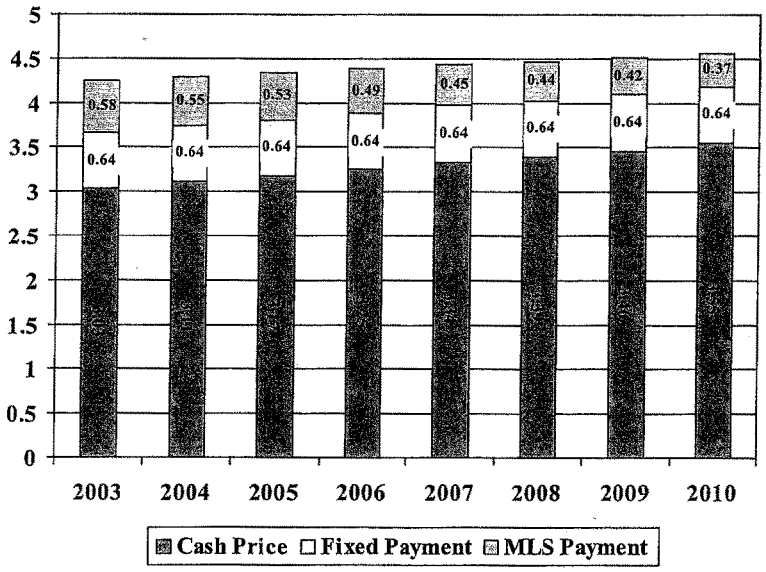
	2003	2010
Wheat		
Market Support Level	$4.25	$4.56
Fixed Payment	$0.64	$0.64
Average Price or Loan (higher)	$3.03	$3.55
Counter-cyclical Payment	$0.58	$0.37
Soybeans		
Market Support Level	$5.55	$5.95
Fixed Payment	$0.25	$0.25
Average Price or Loan (higher)	$4.92	$5.77
Counter-cyclical Payment	$0.38	$0
Corn		
Market Support Level	$2.65	$2.84
Fixed Payment	$0.36	$0.36
Average Price or Loan (higher)	$2.14	$2.54
Counter-cyclical Payment	$0.15	$0
Cotton		
Market Support Level	$0.722	$0.774
Fixed Payment	$0.076	$0.076
Average Price or Loan (higher)	$0.561	$0.614
Counter-cyclical Payment	$0.085	$0.084

Appendix G

Counter-Cyclical Example – Wheat

Support Under NAWG Plan for Wheat

(in Dollars Per Bushel)



Testimony of the U.S. Rice Producers' Group
and the U. S. Rice Producers Association
By
John Denison
Before
The Committee on Agriculture, Nutrition and Forestry
United States Senate

July 17, 2001

INTRODUCTION

Mr. Chairman and members of the Committee, my name is John Denison. I am a rice, soybean and cattle producer from Iowa, Louisiana. I am the Chairman of the Rice Foundation, and the immediate past Chairman of the USA Rice Federation. I am accompanied today by Mr. Nolen Canon, a rice and soybean farmer from Tunica, Mississippi. Mr. Canon also currently serves as Chairman of the US Rice Producers Association.
I am pleased to appear before the Committee today on behalf of the Rice Producers' Group and the U.S. Rice Producers Association. Together, these two organizations represent virtually all of the nation's rice producers. My testimony represents the consensus position of these two organizations with respect to legislation addressing our domestic agricultural commodity programs. This consensus was developed during a series of meetings among our producer representatives held over the past several months.

I am also pleased to inform the Committee that the Rice Millers' Association and the USA Rice Federation have endorsed this testimony.

Mr. Chairman, prior to presenting our initial recommendations for the Committee's consideration in drafting a new farm bill, I would like to thank the Committee for your support for the recent budget resolution, increasing the agriculture budget baseline and providing sufficient budgetary resources to provide additional economic assistance for crop years 2001 and 2002 and beyond, if necessary. I also urge you to act as soon as possible with regard to authorizing the supplemental AMTA payments for the current crop year.

U.S. agriculture in general, and rice producers in particular, are facing continued low prices and declining income. Prices for energy-related products, including fuel, natural gas and fertilizer, have increased substantially, placing rice producers in a further cost-price squeeze. This is occurring while aggregate rice exports remain stagnant and farmers face growing costs due to increased environmental and pesticide use regulations.

Negative cash flow projections have caused bankers to reduce or even refuse credit for spring rice planting. This hesitancy on the part of lenders is not unfounded. Our economic analyses indicate that rice is the only major commodity for which net market returns after variable costs for the 2001 crop will be negative, if government payments are excluded.

In short, if Congress had not provided rice producers with further immediate assistance, consideration of any long-term farm policy would have been in all likelihood unnecessary for many rice farmers who would be forced out of business before the new farm policy can take effect.

Mr. Chairman, it is for these reasons that we need the additional farm assistance provided for crop year 2001. This additional financial assistance is critical to help rice farmers through this difficult economic period. It will also provide Congress sufficient time over the next year to fully consider and debate all aspects of the new farm bill, including price and income supports, and the trade, conservation and research titles that are all important to U.S. rice producers.

BACKGROUND

Rice production and marketing is a multi-billion dollar activity in the United States. Primarily produced on over 3 million acres in six states, rice accounts for $1.4 billion in farm revenues. Rice production declined modestly in the mid-1980's, but grew sharply in the 1990's, from 156.1 million hundredweight in 1990 to an estimated 191.1 million hundredweight in 2000, an increase of more than 22 percent over the decade. Over the last 10 years California and Arkansas, the two largest rice-producing states, have gained acreage, up 38 and 15 percent respectively. Missouri has almost doubled its rice acreage. Over the same period rice acreage has declined substantially in Texas. Acreage in Louisiana and Mississippi has also declined.

U.S. rice production provides a versatile, nutritious food product for people here in the United States and around the world. Rice is used in everything from baby formulas to beer, and in a wide variety of ethnic cuisines enjoyed by many Americans. Rice hulls and other co-products are being used in a number of innovative applications – in building materials and to provide energy. Winter-flooded rice fields provide important habitats for migratory waterfowl and other species.

Rice is a capital intensive and expensive crop to produce because of its requirement for extensive irrigation. Approximately sixty percent of total rice supply is used domestically and the balance is exported.

While the United States is currently the third largest exporter of rice in the world, our share of world export trade has declined continuously over the past twelve years. In 1986 the United States accounted for nearly 30 percent of world exports of rice. This year, the Department of Agriculture projects that U.S. rice will account for only 15 percent of world rice exports. The world's primary exporter of rice is Thailand. Other major exporting countries include Pakistan, India, and Vietnam. The United States competes with these and other countries in the world market. World rice export market share is a critical issue for the U.S. rice industry because we depend on the world market to sell such a large part of our annual production. Unlike the price for U.S. produced wheat and feed grains, the price for milled rice traded on the world market, is determined in large part by our Asian competitors.

While the total export market share of U.S. rice has fallen, the United States has emerged as the world's leading exporter of "rough" (unprocessed) rice. Because the U.S. is the only major rice exporter that does not restrict the export of rice in its raw form, the U.S. has a competitive advantage in the rough rice trade. Other major rice exporters, through government intervention in the export trade, forego rough rice exports in an effort to retain in their countries the value-added economic activity that milled rice exports generate.

RECOMMENDATIONS

Mr. Chairman, we appreciate the Committee's efforts to gain input from the rice industry through these hearings to consider the effectiveness of our farm programs. We also appreciate the opportunity to comment on the impact of the 1996 Farm Bill on rice producers, and to recommend specific changes in our farm programs that will allow our growers to earn a reasonable return on their efforts, contribute to the economic success of their rural communities, and provide critical habitat to hundreds of wildlife species. U.S. rice producers also believe it is important to develop a new farm bill that is consistent with our existing domestic support obligations under the World Trade Organization (WTO). . In addition, we are pleased to provide your committee with the detailed analysis of various issues associated with the counter cyclical payment program proposed jointly by our organizations, as performed by the Agricultural and Food Policy Center at Texas A&M University (AFPC-TAMU), one of the FAPRI consortium of universities.

Since appearing before the House Agriculture Committee in Washington earlier this year, the U.S. Rice Producers' Group and the US Rice Producers Association have continued to work together to refine more specific recommendations with respect to long-term farm policy. Producers from all six major rice producing states carefully reviewed the results of the in-depth analyses performed by AFPC-TAMU and the effect of a number of various policies on rice producers as well as the producers of other major program crops (cotton, corn, wheat, soybeans, and sorghum).

In a meeting three weeks ago, producer representatives from all six of the major rice producing states agreed on the following recommendations:

- **Maintain the planting flexibility provisions in the 1996 FAIR Act.** Prior to the enactment of the 1996 Farm Bill, farmers had to plant their base acreage to a specific crop in order to receive program payments. Therefore, farmers largely planted their base acreage irrespective of what the market was signaling, or what made the most sense agronomically. Congress wisely changed this system in the 1996 Farm Bill to allow producers to receive program benefits largely without regard to which crop producers planted on their base acreage. Maintaining the planting flexibility provisions enacted in the 1996 Farm Bill is strongly supported by U.S. rice producers and should be continued in any new farm legislation. Growers should however, be given the opportunity to reset (update) their base acreage, but only if the CCC budget baseline is adjusted to cover the increase in fixed payments (PFC), marketing loan gains and loan deficiency payments that would result from increased base acreages.

- **Continue the marketing loan and loan deficiency payment (LDP) structure as currently administered under the 1996 FAIR Act.** The marketing loan program for rice was first implemented in 1985. This program has been critically important in helping the U.S. rice industry to maintain its export competitiveness while freeing the government from taking over rice under the loan program. Loan deficiency payments (LDP) allow producers to waive their right to the loan program while receiving a direct payment equal to the difference between the loan rate and the existing market price (when the market price is below the loan rate). Both LDPs and marketing loans provide rice producers with critically important income protection while keeping the U.S. rice industry competitive in international markets.

- **Rice producers strongly support maintaining the option for producers to redeem their loans with generic commodity certificates.** This option has enhanced the marketing flexibility available to producers, empowering them to more effectively market their rice both here and abroad. This current marketing loan system works well, and should be continued.

- **Continue to establish rice loan rates at no less than $6.50 per hundredweight.** The loan program provides much needed liquidity for rice producers and should be maintained at a level not less than $6.50 per hundredweight, but that the Secretary of Agriculture retain authority to increase the loan rate. In addition, if loan rates for the other basic commodities are realigned upward toward the loan rate for soybeans (currently $5.26 per bushel), then the rice loan should be realigned upward. This will discourage distortions in cropping patterns and loan-rate driven over- and under-production of individual commodities. The resulting new loan level should be established as an absolute floor. In addition, the payment limitation for marketing loan gains and loan deficiency payments should be eliminated.

- **Continue to ensure that basic commodity programs are not contingent on mandatory idled acreage.** Until the 1996 Farm Bill, a major component of our domestic farm policy for fifty years had been annual supply controls. However, the 1996 Farm Bill ended this reliance on annual supply controls. As U.S. agriculture in general, and the rice industry in particular, has become more dependent on exports, supply controls became a hindrance to our ability to expand our exports and maintain our reputation as a reliable supplier. Mandatory production controls raise our own cost of production and reduce our export competitiveness, while allowing foreign competitors to increase their share of the global rice market. Therefore, future farm program benefits should not be contingent on any annual supply control requirements.

- **Provide "Decoupled" PFC-type Payments.** The 1996 Farm Bill created a new system for providing direct income support to rice producers. Rather than deficiency payments, which varied according to market prices, the 1996 legislation provided fixed direct payments, which declined each year through the 2002-crop year. We recommend that the Production Flexibility Contract payments for rice in the next farm bill should be fixed at $2.56 per hundredweight (the seven-year average of PFC payments during the 1996 farm bill). Such a payment should give producers an assured minimum level of support, in compliance with the WTO "Green Box" provisions.

  However, many rice producers continue to be concerned regarding the effects that the current Production Flexibility Contract (PFC) payments are having on the rice-farming infrastructure. Because these payments are currently completely decoupled from rice production, some tenant farmers have been faced with situations where landlords make the economic decision to accept the PFC payments, while declining to produce a crop, or even to accept any risk associated with the production of a rice crop.

This is one of several factors that have contributed to the decline in rice acreage in Texas since the enactment of the 1996 Farm Bill, from 300,000 acres planted in 1996 to 240,000 acres planted in 2000. Rice producers believe that any new farm legislation should be carefully constructed to avoid further economic dislocations of this type.

U.S. rice producers have not yet reached a consensus on precisely how to address this issue between landlords and tenants. However, rice producers agree that benefits under our farm programs should accrue primarily to those who have actually produced or shared in the risk of producing the crop.

Rice producers will continue to work toward suggested resolutions to this issue in the months ahead. We will be pleased to work with the Committee on resolutions to these important issues.

- **Provide a more effective income safety net for producers through a countercyclical income support payment in addition to current program mechanisms.** While the program structure of PFC payments coupled with LDPs has served the rice industry well, it also contained some weaknesses. Specifically, this structure has provided inadequate income support in periods of very low prices such as those experienced since 1998. This has necessitated the enactment of emergency farm assistance in each of the last three years, as well as this year.

  In an effort to address this inadequacy on a long-term basis, U.S. rice producers support maintaining a PFC-type fixed payment coupled with LDPs, while supplementing them with a counter-cyclical payment paid to producers. We recommend that a counter cyclical payment program be established with a base period of the Olympic Average of 1994-1998 receipts. The payment trigger should be 100 percent of the base receipts during the base period. If, due to budget constraints, any downward adjustment in the payment is necessary, it is imperative that the adjustment is made by reducing or pro-rating the payment itself, NOT by lowering the trigger level below 100 percent of receipts during the base period.

  The producer representatives agreed to the counter cyclical payment program recommendation based in part on the in-depth analysis of a number of issues performed by AFPC-TAMU in four separate but related reports. Copies of all four reports are attached to my written testimony for your information.

  In brief summary, some of the most important findings of the reports include:

  - Based on simulation analysis, the base period that yielded the greatest counter cyclical support for rice was the Olympic average (national) for the period 1994-98 or 1995-99. This represents a national estimated trigger support level of $525.60 per planted acre. All the other commodities, except wheat, also receive the highest counter cyclical support level when based on the national Olympic average base period 1994-98.

- Considering the several scenarios evaluated, maximum support for rice (reflecting the marketing loan, base AMTA and the counter cyclical payment) is associated with Scenario 2 (contained in Briefing Paper 01-4, Table 2):

  Loan rate $7.54 cwt. (realigned to soybeans at $5.26)
  Base AMTA $2.56 cwt.
  OA (94-98) CCP
  Trigger at $525.60 per acre

- If all commodities are restricted to current loan rate levels, then the maximum support would be associated with Scenario 1 (contained in Briefing Paper 01-4, Table 2):

  Loan rate $6.50 cwt.
  Base AMTA $2.56 cwt.
  OA (94-98) CCP
  Trigger at $525.60 per acre

- If the counter cyclical trigger level is reduced to 95%, then the preferred option for rice changes altogether from a counter-cyclical program to a program under which additional budget resources are dedicated to a supplemental AMTA payment.

We are hopeful that this overview, also prepared by AFPC-TAMU, will direct the Committee to information – applicable to all of the basic commodities – which will be helpful as you consider long-term farm legislation.

Mr. Chairman, the information provided in these reports was gained at the collective expense of the nation's rice industry. While it answers many questions, it raises many more. For example, all of the analyses in the reports were performed based on the conditions and available data relative to the 2001 crop year. Time and financial resources have prevented further analysis with respect to these questions in future crop years.

We believe that such long-term analyses would be of great value to the Committee and the Congress as they consider long-term farm legislation. This is true not just for rice, but also for all of the crops that will be affected by the basic commodity provisions of the legislation. We strongly urge you to take advantage of the very extensive work that AFPC-TAMU has already completed to further analyze the impacts of each of these options other commodities.

- **Regional differences in yields should be considered when calculating the countercyclical payments.** Regions of the country where yields are above the national average, for example, should not be penalized as compared to regions that experience below average yields. Our proposal addresses this issue by basing countercyclical payments on each state's actual production and yields.

- **Eliminate the payment limitations for income support and marketing loan/loan deficiency payments.** The 1996 Farm Bill imposes a payment limitation per person of $40,000 for PFC payments, and of $75,000 for loan deficiency payments and

marketing loan gains combined. Congress has increased these limits on an annual basis over the past three years for program crops, including rice. Unless Congress acts, the $150,000 payment limit for LDPs/marketing loan gains for the 2000 crop will revert back to $75,000 for the 2001 crop year. These arbitrarily set payment limits only serve to limit income assistance and reduce the effectiveness of the existing program. Eliminating these payment limits will allow rice and other program crop producers to more fully utilize existing income and marketing assistance programs, and help to address the cost/price squeeze that all farmers, regardless of the size of their operations, are facing.

- **Compensate producers for current and future conservation/environmental practices that enhance water, soil and air quality and wildlife habitat.** Rice growers currently provide about 775,000 acres of enhanced waterfowl and wildlife habitat at their own expense. We recommend that the Committee follow the policy guidelines listed below when considering the conservation title of the next farm bill:
    - Support for existing programs including the Conservation Reserve Program, Wetlands Reserve Program, Wildlife Habitat Incentive Program, Environmental Quality Incentive Program, conservation technical assistance, etc. and maintaining existing funding for these programs. However, new conservation funding should be targeted towards land that is in production or considered in production.
    - Support for funding and maintenance costs not only for practices already being implemented that enhance the environment, but also additional practices that may be encouraged through higher payments.
    - There should be no payment limitations on conservation program payments.
    - Compensation for conservation practices will in no way be a substitute for existing or future farm safety net programs including production flexibility contract payments, marketing loan gain/loan deficiency payments, counter cyclical program payments, or any other farm income support payment program.
    - All conservation payment programs will be voluntary and incentive-driven.
    - Any measure of the environmental benefit of conservation practices compensated for under a conservation program will be science-based.
    - Conservation programs should clearly enhance the rural economy and maintain property rights.
    - Conservation programs should be WTO consistent and should be designed and implemented to be defined as "Green Box" measures.
    - Conservation programs should be administered primarily at the local level, with primary administrative oversight exercised by the Farm Service Agency, with technical support from the National Resource Conservation Service and State Advisory Committees. Any new conservation program advisory committees should be comprised primarily of agricultural producers.

Mr. Chairman, we have reviewed the provisions of the Conservation Security Act that you and others introduced earlier this year. We appreciate your leadership in highlighting the importance of conservation and the need to help promote the use of voluntary, incentive-driven practices that many farmers and ranchers already have in place. Rice producers already utilize several conservation practices including winter-rice flooding, conservation tillage and no-till practices that provide clear, science-based soil conservation, water quality, air quality and wildlife habitat benefits. We would urge your consideration of including these practices in the three-tiers of any CSA approach considered by the Committee.

Any environmental/conservation payments should be in addition to, and not as a substitute for, other income support provided under the new legislation. Payments should be made available not only to producers who begin to invest in such habitat protection, but also to those who have already implemented important wildlife habitat protection initiatives.

- **Comply with U.S. domestic support commitments under the WTO.** Rice producers support the enactment of a farm bill that is consistent with our current domestic support commitments under the WTO. Such a farm bill could include, for example, domestic support programs that are not subjected to specific reduction commitments under the WTO (so-called "Green Box" programs). In addition, the bill could provide support under programs subject to specific WTO reduction commitments, but nonetheless allowed, on a limited basis, under the WTO (so-called "Amber Box" programs).

  It is our understanding that the United States can "spend" $19.1 billion annually on "Amber Box" programs, and still comply with its WTO domestic support commitments. Based on 1999 spending, ~~A~~approximately $6.2 billion of this amount is currently committed each year to certain commodity price support programs (e.g. dairy, peanuts, and sugar).

  Should such work be necessary, the WTO "Green Box" rules regarding eligibility for decoupled income support are fairly flexible. These rules would appear to permit the operation of a farm program that reflects a balance between payments targeted to producers and the fulfillment of our WTO commitments.

- **Fully support and fund USDA export market promotion and food aid programs.** To help U.S. agriculture compete for export markets in today's world of increased spending from competitors like the European Union and the Cairns Group, and in which U.S. agriculture continues to experience low and record low prices in some sectors, USDA/Foreign Agricultural Service's Foreign Market Development (FMD) program should be funded annually at not less than $43.25 million in the next farm bill.

  The FMD program is an integral part of USDA's arsenal of export programs. To have last year attained an effective/real FMD allocation of the approximately $32 million level Congress began allocating to FMD in the 1986 farm bill, a nominal FMD allocation of $43.25 million would have been needed. Thus, for the upcoming farm bill, FMD should be funded at no less than $43.25 million annually.

In order to reverse the decline in funding over the past decade for a number of our agricultural export programs, U.S. rice producers strongly support increasing the authorized level of funding for MAP from its current level of $90 million per year to $200 million per year. Further, we recommend that the Export Enhancement Program (EEP) be fully funded as allowed under the Uruguay Round agreement, and if the program has unused funds available at the end of the fiscal year, they should be used for related market development and promotion activities or other WTO legal programs.

With regard to food aid, according to the USDA Economic Research Service, at least 15 MMT of food aid a year is needed to meet the minimum requirements in the 60 countries that are least developed and reliant on food imports. The United States, as the most productive country in the world, should commit to provide at least 5 MMT, or one-third of this need, each year. Additional amounts should be made available for emergency needs.

Second, in recent years the administration of US food aid programs has become entangled in a web of lengthy, inconsistent and difficult-to-follow policies, regulations and guidelines. The current administrative structures and inadequate staffing levels at USAID and USDA make it difficult to get programs approved or for PVO's to plan programs that they believe would work best in a particular setting. PVO's incur costs to develop these programs and it is only fair and appropriate that administrative agencies provide an environment that is conducive for the submission and review of program proposals.

Thus, equally important as providing sustained and adequate levels of food aid, is creating an administrative structure that supports the constructive use of food aid. There needs to be transparency and predictability in the process, performance-based guidelines and agreements, and the knowledge that adequate resources will be available to make it worthwhile to dedicate the time and effort necessary to develop a proposal.

CONCLUSION

The nation's rice producers collectively urge the Congress to move rapidly to enact a new farm bill that addresses the fundamental issues of an improved safety net through a combination of a fixed PFC-type payment, extension of the current marketing loan mechanisms, and a counter cyclical income support payment. The possible increase of loan rates to keep the rice loan rate aligned with the other commodity loan rates should also be carefully reviewed.

Equally important, the new farm bill should maintain the 1996 FAIR Act's planting flexibility and refrain from any return to annual supply controls. The bill should also provide for incentive payments for wildlife habitat and other environmental benefits voluntarily provided by rice producers.

It is also important for Congress to develop a new long-term farm bill that targets payments to those who have actually produced, or shared in the risk of producing, the crop, while maintaining consistency with our domestic support obligations under the WTO.

Again, on behalf of the nation's rice producers, I want to thank you and the Members of the Committee for your interest in these important issues, and for the opportunity to testify. Nolen and I would be glad to answer any questions that you may have.

Testimony of Jack Roney on Behalf of the U.S. Sugar Industry on

"The Future of U.S. Sugar Policy"

Committee on Agriculture
United States Senate
Washington, D.C.
July 17, 2001

Mr. Chairman, Senator Lugar, Members of the Committee: Thank you for the opportunity to testify before you today on issues critical to the future of the American sugar industry.

I am Jack Roney, director of economics and policy analysis for the American Sugar Alliance. I am proud today to speak on behalf of American growers, processors, and refiners of sugarbeets and sugarcane – 172,000 farmers, workers, and their families, in 27 states, employed directly and indirectly by the U.S. sugar producing industry.

I would like to describe to you the current plight of American sugar producers, the ways in which we are similar to other major U.S. program crops and the ways in which we are not, the domestic and foreign factors behind the financial and policy crises we are facing, and the legislative remedies that will work best for American sugar producers, consumers, and taxpayers. *(The source of the data in this testimony is the U.S. Department of Agriculture, unless otherwise noted. Endnotes appear on page 24; Figures begin on page 25, Appendices on page 36.)*

A. American Sugar Producers in Crisis

American sugar producers face economic, domestic policy and trade policy crises that profoundly threaten their existence.

1. Producer prices for sugar began falling in 1997 and 1998 and plummeted in 1999 and 2000. American sugar producers, both beet and cane, have been facing sugar prices at or near 22-year lows for most of the past two years. Raw cane and refined beet sugar producers' lost income on the 1996 through 2000

crops, relative to 1995-crop prices, has been ruinous and will likely total more than $2.2 billion. *(See table below and Figures 1-2.)*

Cane and Beet Sugar Producer Lost Income on 1997-2001 Crops, Compared with 1996-Crop Prices

	Raw Cane Producer Lost Income	Beet Sugar Producer Lost Income	Total
		-Million dollars-	
1996/97	32	59	90
1997/98	30	261	291
1998/99	34	150	184
1999/00	333	645	979
2000/01*	116	566	682
Grand Total	**$545**	**$1,681**	**$2,226**

*Projected, based on April 2001 USDA World Agricultural Supply and Demand Estimates report and October – March 2000/01 average prices.
Data Source: USDA

2. Unlike other program-crop farmers who have experienced low prices, American sugar producers have received no direct-payment income support from the government to cushion the financial blow of these historically low prices.

3. Since 1996, 17 beet and cane processing mills have closed or announced their closure *(Figure 3)*. Other mills threaten closure. The nation's largest seller of refined sugar is in bankruptcy. Both this company and the nation's second biggest sugar seller are attempting to sell their beet processing or cane refining operations, but are hard pressed to find buyers or complete sales because of the financial uncertainty. Buyers of last resort have tended to be the growers themselves, desperate to find a way to stay in business. Failure to sell these operations could lead to additional mill closures.

4. Last year, for the first time in nearly two decades, sugar producers forfeited a significant quantity of sugar to the government. Cane and beet sugar 1999-crop forfeitures totaled 949,080 tons, raw value. The 793,000 tons of sugar remaining under government ownership have absorbed a large portion of producers' storage capacity and overhang the domestic market with a price-depressing effect. Wholesale refined sugar prices remain well below forfeiture

levels, which varies by region, and raw cane prices are barely above the forfeiture range *(Figures 4-5)*.

5. The government is no longer able to limit sugar imports sufficiently to support prices and avoid sugar loan forfeitures. Within-quota guaranteed imports are too large and threaten to become larger. Non-quota imports are rapidly increasing.

   - *Within quota*: International trade commitments – the World Trade Organization (WTO) and the North American Free Trade Agreement (NAFTA) -- require the United States to provide a minimum import-access amount that equates to as much as 15 percent of its consumption, whether the U.S. market needs that sugar or not, under its essentially duty-free tariff-rate quota (TRQ) for sugar.

     - The Uruguay Round Agricultural Agreement (URAA) of the WTO commits the United States to importing no less than 1.256 million short tons per year. Actual U.S. needs the past two years have been substantially less than that.

     - The NAFTA granted Mexico access to the U.S. market of up to 276,000 tons per year, roughly 35 times Mexico's traditional access to our market. Worse yet, Mexico is now disputing this access amount, and is requesting virtually unlimited access to our market for their subsidized, surplus sugar.

   - *Outside the quota*: In addition, U.S. borders no longer effectively control the entry into the U.S. market of subsidized foreign sugar outside the TRQ, and these amounts will rise if not addressed:

     - A sugar syrup, called stuffed molasses, concocted solely to circumvent the TRQ, continues to enter through Canada, despite a U.S. Customs Service ruling to reverse that quota circumvention.

     - Above-quota entries from Mexico have occurred. These imports are made possible by NAFTA provisions reducing the so-called second-tier tariff on Mexican sugar, and Mexican sugar only, to zero by 2008, and were made economic by declines in the world dump market price.

   - The volume of non-TRQ entries from both countries threatens to explode. *Barring resolution of these two import problems, no domestic policy solution for U.S. sugar will work.*

B. Background on U.S. and World Sugar Markets, Policies

Before moving on to our policy recommendations, it is important to provide some background on the unique characteristics of the U.S. and world sugar market and policies.

Size and Competitiveness. Sugar is grown and processed in 16 states and 420,000 American jobs, in 42 states, are dependent, directly or indirectly, on the production of sugar and corn sweeteners. The industry generates an estimated $26.2 billion in economic activity annually.[1] A little more than half of domestic sugar production is from sugarbeets, the remainder from sugarcane. More than half our caloric sweetener consumption is in the form of corn sweeteners.

Sugar plays an important role in the overall U.S. agricultural economy. According to USDA data for the 1997/98-99/00 crop years, the value of U.S. sugar production averaged $3.5 billion per year – about half the value of the wheat crop, or roughly equal to the combined values of the rice, sorghum, barley, and oats crops.

In the four states where sugarcane is grown, it tends to be a monoculture, with cane grown on the same land year after year – in Louisiana, for example, for more than two centuries and in Hawaii for more than one century. In some areas, sugarcane has been the only agricultural activity, and sometimes sole business activity, for generations. In the 12 states where sugarbeets are grown, beets play a key role in rotation with other crops. In both cane and beet growing areas, growers must either own processing facilities or contract with processing companies, or their crops have no value.

Sugar is an essential food ingredient and the U.S. sugar producing industry is highly efficient, highly capitalized, and technologically advanced. It provides 281 million Americans most of the sugar they demand, in 45 different product specifications and with "just-in-time" delivery that saves grocers and food manufacturers storage costs.

The United States is the world's fourth largest sugar producer, trailing only Brazil, India, and China. The European Union (EU), taken collectively, rivals Brazil as the world's largest producing region.

The United States is also the world's fourth largest sugar importer. Roughly 15-20% of U.S. sugar demand is fulfilled by essentially duty-free imports from foreign countries. Many of the 41 countries supplying sugar to the United States are developing economies with fragile democracies. These countries depend heavily on sales to the United States, at prevailing U.S. prices, to cover their costs

of production and generate foreign exchange revenues. More than half this imported sugar is produced at a higher cost than U.S. beet and cane sugar.

Despite some of the world's highest government-imposed costs for labor and environmental protections, U.S. sugar producers are among the world's most efficient. According to a study recently released by LMC International, of England, and covering the 5-year period ending in 1998/99, American sugar producers rank 28th lowest in cost of production among 102 producing countries, most of which are developing countries.[2] According to LMC, more than half the world's sugar is produced at a higher cost per pound than in the United States.

U.S. beet producers are the second lowest cost beet sugar producers in the world. U.S. cane sugar producers are 26th lowest cost of 63 cane producing countries, virtually all of which are developing countries with dramatically lower social standards and costs. American corn sweetener producers are the world's lowest cost producers of corn sweetener *(Figure 8).*

LMC acknowledged that the U.S. ranking is all the more impressive for two reasons. First, most sugar-producing countries are developing-country cane producers, with much lower government-imposed labor and environmental protection costs than the United States'. Second, the strong value of the dollar. LMC noted that the dollar has soared about two-thirds in the past 20 years against the currencies of most other cane-producing countries.

Because of their efficiency, American sugar farmers would welcome the opportunity to compete against foreign farmers on a level playing field, free of government subsidies and market intervention. Unfortunately, the extreme distortion of the world sugar market makes any such free trade competition impossible today.

World Dump Market. More than 120 countries produce sugar and the governments of all these countries intervene in their sugar markets and industries in some way. Examples abound. Brazil, the world biggest producer and exporter, built its sugar industry on two decades of fuel alcohol subsidies. Sugar markets in India and China, the second and third biggest producing countries, are controlled by state trading enterprises, as is Australia's, the world's third leading sugar exporter.[3] *(Figures 6 and 7, from LMC studies, highlight some of the trade-distorting practices among major sugar producers.)*

Producers in the EU, taken as a whole the second biggest producer and exporter, benefit from massive production and export subsidy programs. The Europeans are higher cost sugar producers than the United States, but they enjoy price supports that are 40% higher than U.S. levels -- high enough to generate huge surpluses that

are dumped on the world sugar market, for whatever price they will bring, through an elaborate system of export subsidies. Sugar export subsidies, alone, in the EU in some years run over 20 cents per pound, higher than the entire raw cane sugar support level in the United States.

World trade in sugar has always been riddled with unfair trading practices. These distortions have led to a disconnect between the cost of production and prices on the world sugar market, more aptly called a "dump market." Indeed, for the 16-year period of 1983/84 through 1998/99, the most recent period for which cost of production data are available, the world average cost of producing sugar is 16.3 cents, while the world dump market price averaged little more *half* that -- just 9.5 cents per pound raw value[1] *(Figure 9)*.

Furthermore, its dump nature makes sugar the world's most volatile commodity market. In the past two decades, world sugar prices have soared above 60 cents per pound and plummeted below 3 cents per pound. Because it is a relatively thinly traded market, small shifts in supply or demand can cause huge changes in price.

As long as foreign subsidies drive prices on the world market well below the global cost of production, the United States must retain some border control. U.S. sugar policy is a necessary response to the foreign predatory pricing practices that threaten the more efficient American sugar farmers.

Elements of U.S. Sugar Policy. U.S. sugar policy is similar to other commodity programs in some ways, and not in others. Its essential elements are a non-recourse loan program, a loan forfeiture penalty, marketing assessments, and a tariff-rate quota (TRQ).

Like other commodity programs, sugar producers have access to non-recourse loans, which give producers the option of forfeiting their crop to the government to satisfy their loan if market prices fall below loan repayment levels. The U.S. raw sugar loan rate has been unchanged since 1985 at 18 cents per pound; the refined beet sugar loan rate has been frozen at 22.9 cents per pound since 1996.

Unlike other commodity programs, sugar producers:

- Have been saddled since 1996 with a penalty of one-cent per pound on sugar they forfeit, effectively reducing their intended support price by that amount – a range of $50-100 per harvested acre;

- Have been burdened since 1991 with a marketing assessment – a special fee levied on sugar producers, currently at 1.375 percent of the loan rate, initiated

to help reduce the federal budget deficit. After raising $279 million from 1991 to 1999, the marketing assessment was suspended in fiscal 2000 and 2001, because the federal budget is now in surplus, but is set to resume October 1, 2001;

- Forfeited no significant quantities of their crop to the government from 1985 to 1999.

Since 1996, the only tool the government has had to manage U.S. supplies and avoid forfeitures is the import quota system. As events in 2000 proved, this tool is inadequate. Obligations under the Uruguay Round Agreement (URAA) of the World Trade Organization and the North American Free Trade Agreement prevent the U.S. government from reducing the TRQ much below 1.5 million tons, regardless of U.S. needs. The obligation in 2000 to import about 50 percent more sugar than the U.S. market required, plus leakage around the quota, led to market oversupply, depressed prices, and loan forfeitures.

Uniqueness of Sugar Market. Aside from the highly residual and volatile nature of the world sugar price, there are a number of factors that set sugar apart from other program commodities. These unique characteristics must be taken into account when considering domestic and trade policy options for sugar.

1. **Grower/Processor Interdependence**. Grain, oilseed, and most other field-crop farmers harvest a product that can be sold for commercial use or stored. Sugarbeet and sugarcane farmers harvest a product that is highly perishable and of no commercial value until the sugar has been extracted. Farmers cannot, therefore, grow beets or cane unless they either own, or have contracted with, a processing plant. Likewise, processors cannot function economically unless they have an optimal supply of beets or cane. This interdependence leaves the sugar industry far less flexible in responding to changes in the price of sugar or of competing crops.

2. **Multi-Year Investment**. The multimillion-dollar cost of constructing a beet or cane processing plant (approximately $300 million), the need for planting, cultivating, and harvesting machinery that is unique to sugar, and the practice of extracting several harvests from one planting of sugarcane, make beet or cane planting an expensive, multiyear investment. These huge, long-term investments further reduce the sugar industry's ability to make short-term adjustments to sudden economic changes in the marketplace.

3. **High-Value Product**. While the *gross* returns per acre of beets or cane tend to be significantly higher than for other crops, critics often ignore the large investment associated with growing these crops. Compared with growing

wheat, for example, USDA statistics reveal the *total economic cost* of growing cane is nearly seven times higher, and beet is more than five times higher. With the additional cost for processing the beets and cane, sugar is really more of a high-value product than a field crop.

4. **Inability to Hedge.** The 1996 Freedom to Farm Bill made American farmers more vulnerable to market swings and far more dependent on the marketplace. Growers of grains, oilseeds, cotton, and rice can reduce their vulnerability to market swings by hedging or forward contracting on a variety of futures markets for their commodities. There is *no* futures market for beets or cane. Farmers do not market their crop and cannot take delivery of beet or cane sugar. The hedging or forward contracting opportunities exist only for the processors -- the sellers of the sugar derived from the beets and cane. These marketing limitations make beet and cane farmers more vulnerable than other farmers to price swings.

5. **Lack of Concentration.** World grain markets are overwhelmingly dominated by a small number of developed countries, but sugar exports are far more dispersed, and dominated by developing countries. This makes the playing field among major grain exporters comparatively level and trade policy reform relatively less complicated than for sugar.

   The world wheat and corn markets, for example, are heavily dominated by a handful of developed-country exporters – the United States, the European Union, Australia, and Canada are four of the top five exporters of each. The top five account for 96% of global corn exports and 91% of wheat exports.

   The top five sugar exporting countries, on the other hand, account for only two-thirds of global exports and three of these are developing countries. Even the top 19 sugar exporters account for only 85% of the market, and 16 of these are developing countries.

6. **Developing-Country Dominance.** Developing countries account for 73% of world sugar production and 69% of both exports and imports. Developing countries were, however, not required to make any significant reforms in the Uruguay Round, were given an additional four years to make even those modest changes, and are demanding special treatment again in the next trade round.

7. **Widespread Unfair Trade Practices.** Production, processing, sale, and distribution of sugar is distorted by government action in virtually all these markets, and the vast majority of world sugar exports from these markets over the past decades has been at prices well below the cost of producing sugar.

Suggestions by industrial sugar users and some foreign governments that this trade should be opened ignores this pattern of almost universal market distortion. Even the trade laws of the United States were never meant to cope with such widespread unfairness in trade.

C. Lower Producer Prices: No Consumer Benefit

American consumers and food manufacturers have long benefited from a U.S. sugar policy that has assured stable supplies of high quality sugar at low, stable prices.

U.S. retail refined sugar prices are 20 percent below the developed-country average. Sugar here is also about the most affordable in the world. In terms of minutes worked to purchase one pound of sugar, the United States is third lowest in the world, trailing only Switzerland and Singapore, and well below self-proclaimed free-trade paragons such as Australia, Brazil, and Canada[4] *(Figures 10-11).*

Incredibly, U.S. retail sugar prices are virtually identical to what they were in 1990, though general consumer price inflation since that time has exceeded 30 percent.

But U.S. retail sugar prices could be even lower. The wholesale refined sugar price that we producers receive averaged a disastrous nine cents less per pound in 2000 than it did in 1996. The retail refined sugar price that consumers pay, however, did not drop at all. It even crept up a bit, from an average of 41.8 cents per pound in calendar 1996 to 42.4 cents in 2000.

The grocery chains and food manufacturers passed *none* of the lower producer prices for sugar along to consumers – neither in the prices of bags of sugar nor in the prices of sweetened products. Figures for sugar and sweetened products are shown in Figure 12 for 1996 to 2000. The relationship is just as strong even if one goes back to 1990 *(Figure 13).*

The volume of the money transfer from the pockets of sugar producers to the profit margins of the grocers and food manufacturers is staggering. Even more so when one considers that these groups argue to Congress each year that sugar producer prices should be reduced – even further – to benefit consumers.

Examining total U.S. refined sugar consumption and compared with 1995/96 prices: U.S. beet processors and cane sugar refiners lost over $2.4 billion from 1996/97 to 1999/00, and are on track to lose another $1.3 billion this year. *All* the producers' lost revenue has flowed directly to the bottom line profits of grocers

and food manufacturers. Consumers have received none of the benefit of lower producer prices. *(See table below and Figures 14-16.)*

In fact, the retailers have actually continued to raise sugar and sweetened product prices during this period, while calling for lower producer prices to help consumers. Wholesale refined sugar prices during 1997-2001 have averaged nearly 4 cents per pound *less* than in 1996. Meanwhile, grocers have charged an average of almost 2 cents per pound *more* for refined sugar during 1997-2000, and the food manufacturers have boosted the prices they charge for highly sweetened products, such as candy, cereal, ice cream and baked goods, by 4-14 percent.

A recent study by the United States International Trade Commission noted that producer prices for sugar have been dropping while consumer prices for sugar and sweetened products are rising. The ITC wrote: "As a result, the price margins have

Sugar and Product Price Changes Since 1996: Producer and Consumer Losses and Grocer and Food Manufacturer Gains, 1997-2001

	Total Producer Losses from Lower Wholesale Price	Percent of Producer Loss Passed Through to Consumers	Total Consumer Losses from Higher Retail Prices	Grocery and Food Manufacturer Gains from Lower Producer Prices and Higher Retail Sugar and Product Prices**		
	-Million dollars-	%	*-Million dollars-*	***Total***	*Grocers*	*Food Manufacturers*
1996/97	-139	0	-375	+515	+206	+309
1997/98	-575	0	-349	+924	+370	+554
1998/99	-336	0	-367	+703	+281	+422
1999/00	-1296	0	-295	+1591	+637	+955
2000/01*	-1309	0	-264	+1573	+629	+944
Total	**-$3,655**	**0**	**-$1,650**	**$5,306**	**$2,122**	**$3,184**

*Projected, based on April 2001 USDA World Agricultural Supply and Demand Estimates report and October – March 2000/01 average prices.
**Approximately 40 percent of U.S. sugar consumption is direct, the remainder is an ingredient in food products.
Data Source: USDA

been widening each year, creating greater disparity between the price processors receive for the bulk product and the price retailers receive for final, packaged product."[5]

With the combination of lower producer prices for the sugar they buy, and higher consumer prices for the sugar and products they sell, the grocers and food manufacturers are reaping additional revenues, relative to 1996 sugar prices, of

$5.31 billion during 1997-2001. Consumers "benefits" from the lower producer prices have been negative. Since about 40 percent of U.S. sugar sales are direct to consumers, in boxes or bags, the grocery chains' share of this windfall is $2.12 billion. With the bulk of our sugar consumption in product form, the food manufacturers' share amounts to $3.18 billion.

Clearly, the purpose of the opposition to U.S. sugar policy by these sweetener-user corporations is to increase their profits, not to benefit consumers, as the sweetener user corporations contend. The contrast is stark -- $3.7 billion in lost producer revenues during 1997-2001; $5.3 billion in additional user profits from the lower prices they pay producers for sugar and the higher prices they charge consumers for sugar and sweetened products.

Lack of competition among food retailers apparently is the main reason these companies can succeed in not passing along to consumers the lower prices they pay for sugar and other agricultural products. The proclivity, and the ability, of retailers to absorb savings on agricultural product purchases, rather than pass them along to consumers, were described in a recent paper by Professor Neil Harl of Iowa State University. Harl noted the alarming increase in concentration, and reduced competition, among food retailers. He wrote: "In 1992, the five leading food retail chains controlled 19 percent of grocery sales" but that figure is "42 percent in 2000" and "unless mergers are curbed (will) reach 60 percent within three years."[6]

D. Shaping Future Sugar Policy: What Sugar Has in Common with Other Major Commodities

It is important to put the discussion of future U.S. sugar policy in the context of the ways we are similar to other program crops, and the ways we are not.

Like other American farmers, we are:

1. *Efficient by world standards*, with costs of production below the world average.

2. *Ready, willing, and able to compete with foreign countries on a genuine level playing field*, free of government programs that distort the terms of trade.

3. *In favor of free trade*. The U.S. sugar industry has endorsed the goal of complete, multilateral free trade in sugar since the initiation of the Uruguay Round of the GATT, in 1986 – with the understanding that movement toward free trade must be made in a reasonable, equitable manner, that does not unfairly disadvantage efficient American producers in the process.

4. *Concerned that we not lose our market to subsidized foreign producers* while we move toward our common free trade goal.

5. *A key part of the U.S. agricultural economy*, and absolutely crucial to the rural economy of many areas.

6. *Reeling from low prices*. While last year's prices were at a 27-year low for soybeans, a 25-year low for cotton, a 14-year low for wheat and for corn, and an 8-year low for rice,[7] sugar prices were at a 22-year low.

E. Shaping Future Sugar Policy: What Sugar *Does Not* Have in Common with Other Major Commodities

In shaping U.S. sugar policy, there are also a number of critical factors that distinguish us from other program commodities. We are:

1. *Net importers*. Unlike the surplus crops, the United States has always been a deficit producer of sugar.

2. *Fearful of losing our own domestic market to subsidized foreign competition.* Surplus crop producers are mainly fearful of losing their export markets to subsidized foreign producers. For American sugar producers, that concern is much closer to home.

3. *Obligated to remaining a deficit producer*. Though American sugar producers are efficient, and many would like to expand production to reduce unit costs and better cope with low prices, the U.S. government has agreed to international trade rules that force us to import large quantities of sugar. Currently, about 15 percent of our market is committed, under WTO and NAFTA rules, to foreign sugar producers.

4. *Threatened by possible further increases in our import obligations* – through another WTO round or through new bilateral or regional trade agreements currently being negotiated.

5. *Threatened by lack of control of our borders from subsidized foreign sugar,* most specifically, by stuffed molasses – world dump market sugar from Brazil, Colombia, and other countries entering through Canada – or potentially similar cane syrup products from other countries, and by second-tier sugar from Mexico.

6. *Not eligible to receive any of the income support the government, fittingly, has provided to other program crop farmers.* While AMTA, loan deficiency, and other payments totaled a badly needed $74 billion to other farmers during 1996-2000, sugar producers received no income-support payments, and, in fact, paid $178 million in marketing assessments to the Treasury during that period.

7. *Far less able than other farmers to take advantage of the planting flexibility that was a hallmark of the Freedom to Farm Bill.* Sugarbeets and sugarcane are only worth growing if the farmers have either made the huge investment in a processing facility or contracted with, and committed their acreage to, a processing company. In either case, the farmer has made a multiyear commitment. Switching to another crop as prices change would negate his investment, or defy his contract.

   Moreover, sugarcane is not only a monoculture in most areas where it is grown, but is also a multi-year crop. Two to four harvests are generally achieved from one planting.

8. *Unable to absorb additional domestic production or imports*, without even more profound economic harm to the industry. With nearly 800,000 tons of surplus sugar in CCC inventory, the U.S. sugar market is already badly oversupplied.

F. Shaping Future Sugar Policy: Short-Term Actions Needed; Long-Term Options Limited

For the reasons outlined above, the U.S. sugar industry recognizes that the need for immediate administrative and legislative actions is urgent, but our longer term policy options are limited.

Before we can look toward the legislative changes that are necessary in the next Farm Bill, we must address the immediate sugar oversupply situation that continues to depress prices and threatens further loan forfeitures this year, and the trade issues that threaten to exacerbate this year's problems and make long-term solutions impossible. These actions can, and should, be taken concurrently.

G. Sugar Policy Recommendations: Short-Term Actions -- 2001

The U.S. sugar industry strongly urges that Congress or the Administration take the following actions to help American sugar producers out of our deepening economic crisis and create the economic and policy environment in which we can confidently fashion a successful longer term sugar policy.

1. **Close the "Stuffed Molasses" Import Loophole.** Stuffed molasses is a sugar syrup, concocted in Canada, by a British firm, using mostly Brazilian and Colombian sugar, for the sole purpose of circumventing the U.S. sugar import quota. *(Appendix A provides more details.)*

   Approximately 125,000 tons of sugar are leaking into the U.S. market annually in this fashion. The accumulation of these imports was a significant factor in the sugar loan forfeitures of fiscal 2000. This additional sugar diminishes the import share of legitimate U.S. import quotaholding countries in years when the overall import quota is above the WTO minimum, and oversupplies the U.S. market and depresses our price in the years, such as this one and the past two, when imports are at the WTO minimum. The amount of sugar unfairly entering the U.S. market as stuffed molasses, or mimic products, is certain to grow if this loophole is not closed.

   The U.S. sugar industry heartily endorses legislation pending (S. 753), co-sponsored by 22 Senators and introduced by Senators Breaux of Louisiana and Craig of Idaho, which would address this import quota loophole and restore some degree of certainty to the U.S. market.

   While this legislation is not in the Agriculture Committee's jurisdiction, the stuffed molasses loophole has a direct and immediate impact on the Administration's ability to administer sugar policy and maintain a viable domestic industry. We request the Committee's support in resolving this matter.

   Unless the stuffed molasses loophole is closed, no long-term sugar policy that we propose here today could possibly be effective.

2. **Address the Mexico Access Issues.** The NAFTA requires the United States to: import up to 276,000 tons of sugar per year duty-free from Mexico through 2008, whether we need the sugar or not; reduce our second-tier tariff on sugar imports from Mexico to zero by 2008; and have free trade in sugar with Mexico beginning in 2008.

   Mexico is disputing the legitimacy of the NAFTA sugar provisions, and is claiming, through a dispute resolution process it initiated, that Mexico should have virtually unlimited duty-free access to the U.S. sugar market, beginning this year. Furthermore, unlimited quantities of second-tier Mexican sugar could swamp the U.S. market at any time. *(Appendix B provides a brief chronology of NAFTA sugar developments. Also, Appendix C provides the sugar industry's views on the proposed Free Trade Area of the Americas.)*

The U.S. is abiding by its NAFTA sugar commitments. However, the U.S. sugar market is oversupplied, financially depressed, and does not need an additional pound of Mexican sugar. Furthermore, the Mexican sugar surplus that it seeks to unload on the U.S. market is the result of Mexican government subsidies so generous that, since the NAFTA began, production has increased far in excess of Mexican needs.

The U.S. sugar industry fully supports efforts by the Administration to renegotiate sugar access provisions of the NAFTA in a manner that will help restore balance to the sugar markets of both countries.

We support a sugar for fuel ethanol program that would simultaneously address Mexico's problems of sugar oversupply, possible job loss in cane growing areas, and air and water pollution.

Unless the Mexico access problems are resolved, no long-term sugar policy that we propose here today could possibly be effective.

3. **Eliminate the Marketing Assessment.** U.S. sugar producers began paying a marketing assessment of 1 percent of the cane and beet loan rates in 1991, for the express purpose of helping to reduce the federal budget deficit. Payments to other crop producers were reduced in the 1990 Farm Bill for the same purpose, but payments to sugar producers could not be reduced because sugar producers did not, and still do not, receive any. This unwelcome burden on sugar producers thus made U.S. sugar policy not just "no cost," as it had been, by statute, since 1985, but also a revenue raiser.

   Marketing assessments have not been required of the roughly 15 percent of U.S. consumption that is foreign sugar. This provides the imported sugar a marketing advantage, compared with domestic production.

   The amount of the assessment was raised twice, the second time in the 1996 Farm Bill, to 1.375 percent of the sugar loan rates. Sugar producers paid $279 million in marketing assessment fees from 1991 to 1999. With the federal budget then, as it is now, in surplus, the marketing assessment fee was suspended in fiscal 2000 and 2001, but is scheduled to resume, beginning October 1, for fiscal 2002 and 2003, the remaining years of the 1996 Farm Bill.

   American sugar producers find it curious, at best, that we should have to continue to pay this deficit-reduction marketing-assessment fee when the federal budget is now in surplus. This unique fee is clearly no longer necessary, and poses an excruciating burden – approximately $40 million per year – on producers struggling with extremely low prices, many on the brink of

bankruptcy. It is inconceivable to us that, while Congress prepares to provide over a trillion dollars in tax cuts because of budget surpluses, a struggling industry would continue to be assessed to reduce a deficit that no longer exists.

We, therefore, urge that Congress eliminate marketing assessments on sugar producers under the current Farm Bill. Furthermore, we strongly oppose any future assessments that increase our costs and reduce our competitiveness.

4. **Eliminate the Sugar Forfeiture Penalty**. The 1996 Farm Bill included a provision, unique to the sugar program, that forces sugar producers to pay a one-cent per pound penalty, raw value, to the government for each pound of sugar they forfeit. This provision had the effect of reducing the sugar support price by that amount, or about 6 percent – making sugar the only commodity to incur an effective support price reduction in the 1996 Bill. The effective cost to American sugar producers: $180 million per year. In addition, sugar producers last year, during a period of severely low prices and economic stress, were forced to pay the government $18.7 million on the sugar they forfeited.

   We strongly urge that the Congress eliminate the forfeiture penalty for the remaining two years of the current Farm Bill (fiscal years 2002 and 2003), and that no such penalty be included in future legislation.

5. **Provide Sugar a Share of the Budget Baseline**. The U.S. sugar industry would prefer that sugar remained a no-cost policy – as it had been every year from 1985 to 1999. Last year, however, the government's tools to manage a no-cost U.S. sugar policy proved to be inadequate, and sugar sustained a cost. The cost was modest – an estimated $465 million – the value of sugar forfeited by producers and now in government ownership. That cost likely will be reduced, and could be more than offset, by the eventual sale of the government-owned sugar.

   The U.S. is no longer able to avoid forfeitures and ensure a no-cost program, because: international trade commitments prevent it from reducing imports below the WTO and NAFTA minimum; it has not been able to control non-quota imports; and it lacks authority to impose domestic production controls. Unless these supply problems are solved, the U.S. is likely to continue to face some cost for its efforts either to balance the market or to provide income supports.

   As a safeguard, in the event that the U.S. remains unable to solve import and domestic supply problems in a no-cost fashion, the U.S. sugar industry believes sugar should be included in government estimates of future commodity program spending.

Sugar's share cannot be based on past spending because there were no sugar expenditures. Sugar's share of CCC outlays for the major commodities during 1991-99 was non-existent, because sugar was a net revenue raiser for the CCC each of these years. Sugar's share of net outlays in fiscal 2000, the only year in the past 16 of any sugar net outlays, was 1.4 percent. The CCC anticipates net revenues again this year, because of the expected sale of some sugar, and in the next two fiscal years because of the resumption of the marketing assessment fee paid by sugar producers.

The most practical alternative approach would be to examine sugar's share of the value of production of the major program crops. According to USDA statistics, sugar's average share of the value of production of the major program crops (wheat, corn, sorghum, barley, oats, rice, cotton, tobacco, soybeans and peanuts) during the three crop years 1997/98-99/00 was 6.1 percent *(Figure 17).*

The industry recommends that an outlay of this proportion, about 6 percent, be included in planning for future commodity expenditures. We further recommend that, should our import and domestic supply problems be resolved, the unspent portion of the sugar baseline should be devoted to other commodity programs.

H. Sugar Policy Recommendations: Long-Term Actions – Next Farm Bill – Basic Elements

U.S. sugar policy recommendations for the next Farm Bill are shaped essentially by the following factors, which have limited our policy options, but upon which we have industry unanimity:

- The need to restore balance to the U.S. sugar market, with economic stability, returns from the marketplace that approximate costs of production and the opportunity for efficient American sugar producers to remain in business;

- The industry's desire to continue to derive its returns from the marketplace, and not from the government, and to maintain a no-cost, or low-cost, program, in the face of potential U.S. budgetary and WTO program-expenditure limitations;

- The inability of USDA to administer a no-cost program, providing stable market prices and avoiding loan forfeitures, with the TRQ as its only supply-control mechanism.

The industry studied carefully the policy path of joining with the other program crops in the AMTA and marketing loan income-support programs. After careful, realistic analysis we concluded the direct-payment route would not work for sugar.

The policy path we are recommending can be effective only if the United States regains control of its borders, through resolution of the stuffed molasses and Mexican access problems.

The policy that we recommend has four basic elements:

1. Continuation of the non-recourse loan program, with beet and cane sugar loan rates no lower than current levels and rebalanced relative to soybean loan rates, consistent with the rebalancing plan proposed by other farm groups.

2. Retention of the Secretary's authority to limit imports under the tariff rate quota system, consistent with WTO and NAFTA import minimum requirements.

3. Operation of the program at little or, preferably, no cost to the government.

4. An inventory management mechanism, administered by the government, to balance domestic sugar marketings with domestic demand and import requirements and provide stable market prices at a level sufficient to avoid sugar loan forfeitures.

The industry concluded unanimously that inventory management is the only policy path that can restore balance and stability to the U.S. market over the long run, with minimal, if any, budgetary expenditures.

Since the government requires us to reserve such a large share of our market for foreign producers, and because we remain committed to earning our revenues from the marketplace rather from government payments, it is essential that the government resume potential limits on our sugar marketings.

Inventory management measures should be:

- Established to balance the domestic market.

- Implemented only when the quota circumvention problem has been successfully addressed and when the U.S.-Mexico dispute over trade in sweeteners has been resolved to ensure the threat of market imbalance from second-tier imports is eliminated.

- Designed in a manner to retain planting and production flexibility, though sugar marketings may be restrained in some cases. Producers will still have the ability to expand marketings at a rate of growth consistent with U.S. consumption growth (less any foreign access commitments).

- Designed in a manner that does *not* provide producers an incentive to increase marketings to maximize market shares should the control measures be imposed.

- Designed in a manner that only producers who expand marketings in excess of the rate of growth in domestic demand would be required to curtail marketings when the program is in effect.

We propose a program built upon the permanent law marketing allotment program of the 1990 Farm Bill, with modifications to reflect the above goals and better reflect current market realities.

In the 1990 Farm Bill, allotments were triggered only when forecast imports for domestic consumption were less than 1.25 million short tons. The trigger level in these permanent law provisions needs to be updated to reflect current import obligations under international trade agreements.

There were no constraints on sugarbeet or sugarcane planting or on sugar production. However, when allotments were in place, sugar companies' marketings could not exceed their base. Production in excess of marketings could be stored and marketed later, or sold in non-domestic-food uses. These features should remain in place.

Following our testimony in April before the House Agriculture Committee, we provided the Chairman, at his request, legislative language on marketing allotments and the other legislative proposals contained in this testimony. We would be pleased to provide the same language to you, Mr. Chairman, if you wish.

I. Sugar Policy Recommendations: Long-Term Actions – Next Farm Bill – Related Elements

There are a number of related elements that we recommend for future sugar policy legislation:

5. **Loan Rate Rebalancing**. The U.S. raw sugar loan rate has been the same since 1985. General price inflation over the past 15 years has been 60.0%. Adjusted for inflation, the 18-cent loan rate is now worth only 10.8 cents.

Input costs paid by farmers have risen steadily, with the exception of energy and fertilizer costs, which have skyrocketed this past year. In some areas, farmers' and processors' fuel costs are four to six times higher than just one year ago.

U.S. sugar market prices have dipped to 22-year lows in the past two years and the industry is in a financial crisis. But sugar producers have received none of the substantial income provided, appropriately, by the government to other crop producers under financial stress. U.S. sugar policy, in fact, continued to run at a profit to the U.S. Treasury until fiscal 2000, when the government incurred some cost from the first significant sugar loan forfeitures in 16 years.

American sugar producers support the concept of equity among crops. In order to restore some equity, and better provide American producers the opportunity to regain financial stability, we endorse the loan rebalancing initiative recently outlined to this Committee by the American Farm Bureau Federation and supported by other producer groups. The Farm Bureau initiative would achieve a rebalancing of other crop loan rates relative to soybean loan rates, through the upward adjustments of the non-soybean crop loan rates.

Preliminary analysis suggests that, under the formula proposed by the Farm Bureau, the raw cane and refined beet sugar loan rates would increase modestly, by 3.7 percent. This would be the lowest percentage adjustment among the non-soybean program crops, which range from 4.1 to 32.1 percent.

A 3.7-percent adjustment would increase the raw cane loan rate from 18.00 cents per pound to 18.67 cents and the refined beet sugar loan rate from 22.90 cents per pound to 23.75 cents. Though these increases would be modest, they could be critical for the survival of sugar producers on the brink of bankruptcy from the brutally low prices of the past two years.

6. **Make Loans Available on In-Process Sugars and Syrups.** The sugar industry recommends that beet and cane processors should be permitted to put in-process sugars and syrups under loan, as well as crystalline sugar. Syrup is less costly to store than crystalline sugar, and processors' ability to put it under loan would increase their marketing flexibility, better facilitate orderly marketing, increase their use of the loan program, and make the loan program a more effective price support mechanism. *(Appendix D supplies more detail behind this proposal.)*

7. **Clarify Ability to Forfeit Sugar Loans Made in September.** The sugar industry recommends that Congress clarify its intention that all CCC nonrecourse loans made to sugar processors are subject to forfeiture. All CCC

loans must either be paid or forfeited by the end of the fiscal year, yet the ability to forfeit loans made in the month of September currently is thwarted by a regulatory requirement that processors give a 30-day notice of intent to forfeit. Hence, loans made in September cannot be forfeited that month because it is impossible to comply with this 30-day notice requirement before the end of the fiscal year--September 30.

Elimination of the 30-day notice impediment will increase processors' marketing flexibility, better facilitate orderly marketing, increase their use of the loan program, and make the loan program a more effective price support mechanism.

8. **Restore Bankruptcy Protection for Growers.** The sugar industry recommends reinstatement of a provision of the 1985 Farm Bill (P.L. 99-198, Section 903) designed to protect growers in the event of a beet or cane processing company bankruptcy. The need for such protection has become more acute with the severe financial stress of the U.S. sugar industry.

   Under this provision, growers are assured that they will receive at least their minimum share of the forfeiture value of the sugar produced under contract with the processor. If a processing company with any sugar under loan goes bankrupt and is unable to provide growers the full payment the growers would otherwise have received should their sugar have been forfeited, the CCC makes up the difference. If a processing company has not put any sugar under loan, the growers are not protected and the CCC is not liable.

   The only time this provision was exercised was following a beet processor bankruptcy in 1985, and the cost to the CCC was approximately $20 million.

9. **Eliminate 100-Point Surcharge on Sugar-Loan Interest Rates**. Commodity loans had traditionally been made available to farmers and processors at an interest rate equal to the CCC's cost of acquiring the money. The 1996 Farm Bill, in an effort to reduce the federal budget deficit, required that the CCC make loans available at an interest rate 100 points, or one percentage point, higher than the CCC's acquisition cost.

   The higher interest rate is not only a burden on producers, but has limited use of the loan program where commercial rates may prove to be lower. Lower participation reduces the price-support ability of the loan program for all producers. Non-participants in the loan program have no price safety net.

   With the budget now in surplus, the higher interest rate charge is no longer necessary as a revenue raiser.

Because of its extreme financial duress, the sugar industry recommends that the 100-point surcharge on sugar-loan interest rates be eliminated.

10. **Establish a Sugar Storage Facility Loan Program.** The industry recommends the establishment of a sugar storage facility loan program to provide financing for sugarcane and sugar beet processors to build or upgrade storage and handling facilities for raw and refined sugars. Such a program will promote the orderly marketing of sugar supplies, strengthen the sugar processing industry, and enhance the marketing opportunities available to farmers and processors.

    We recommend that such a program be administered by the Commodity Credit Corporation and provide loans for a minimum term of 7 years.

11. **Other Concerns.** The U.S. sugar industry makes the following related recommendations:

    - *Sugar Consumption.* The Farm Bill should defend the consumption of sugar, and the USDA should not endorse food consumption guidelines that are not based on generally recognized science.

    - *Research.* The government (USDA) should support improvements to the efficiency of the U.S. sugar industry through continued funding of research into improved sugarbeet and sugarcane production techniques.

    - *Biotech.* The government (USDA) should take all reasonable measures to educate the general public regarding the benefits, and lack of risks, associated with advances in biotechnology and genetically enhanced seeds.

J. Summary and Conclusion

To summarize, Mr. Chairman: Recognizing the severity of our economic distress, the uniqueness of sugar markets, and the need for long-term balance and stability, the sugar industry has made the following recommendations, for the benefit of American sugar producers, consumers, and taxpayers.

Short-term recommendations, 2001:

1. Close the "stuffed molasses" import-quota loophole.
2. Solve Mexico import access issues.
3. Eliminate the sugar "marketing assessment" fee.
4. Eliminate the sugar loan forfeiture penalty.

5. Provide sugar a share of the budget baseline.

Long-term recommendations, the next Farm Bill, basic elements:

1. Continue the non-recourse loan program.
2. Retain the Secretary's authority to limit imports under the tariff rate quota system.
3. Operate the program at little or, preferably, no cost to the government.
4. Resume a government-administered inventory management mechanism, similar to that contained in the 1990 Farm Bill, and implemented once our import-quota circumvention and Mexican import-access problems are solved.

Long-term recommendations, the next Farm Bill, related elements:

5. Rebalance loan rates.
6. Make loans available on in-process sugars and syrups.
7. Clarify processors' ability to forfeit sugar loans made in September.
8. Restore processor bankruptcy protection for growers.
9. Eliminate the 100-point surcharge on sugar-loan interest rates.
10. Establish a sugar storage facility loan program.

The sugar industry is working diligently with the Congress and the Administration to solve the immediate threats – stuffed molasses and Mexico – to U.S. sugar policy and to address the current surplus sugar situation. We are eager to work with Congress and the Administration on the basic changes to U.S. sugar policy that will restore long-term stability and economic viability to the American sugar producers, with ample benefit for our consumers and at little or no cost to American taxpayers.

We thank you again for convening this timely hearing and providing us the opportunity to testify.

Endnotes

1/ LMC International Ltd., "*The Importance of the Sugar and Corn Sweetener Industry to the U.S. Economy*," Oxford, England, August 1994

2/ LMC International Ltd., "*The LMC Survey of Sugar and Production Costs: The 2000 Report*," Oxford, England, December 2000

3/ LMC International Ltd., "*Sugar Marketing Entities Around the World: A Profile of the Competitive Nature of World Trade*," Oxford, England, November 1996

4/ LMC International Ltd., " *Survey of World Retail Sugar Prices, 1999 Prices,* " Oxford, England, February 2000

5/ United States International Trade Commission, *"Industry & Trade Summary: Sugar,"* USITC Publication 3405, Washington, D.C., March 2001

6/ Neil E. Harl, Professor of Economics, Iowa State University, *"The Structural Transformation of the Agricultural Sector,"* presented at the conference, "Fixing the Farm Bill," Washington, D.C. March 27, 2001

7/ Robert Paarlberg, Professor of Political Science, Wellesley College, *"The Political Climate for the Farm Bill Debate,"* presented at the conference, "Fixing the Farm Bill," Washington, D.C. March 27, 2001

Figure 1

Cane and Beet Producer Lost Income on 1997-2001 Crops, Compared with 1996-Crop Prices

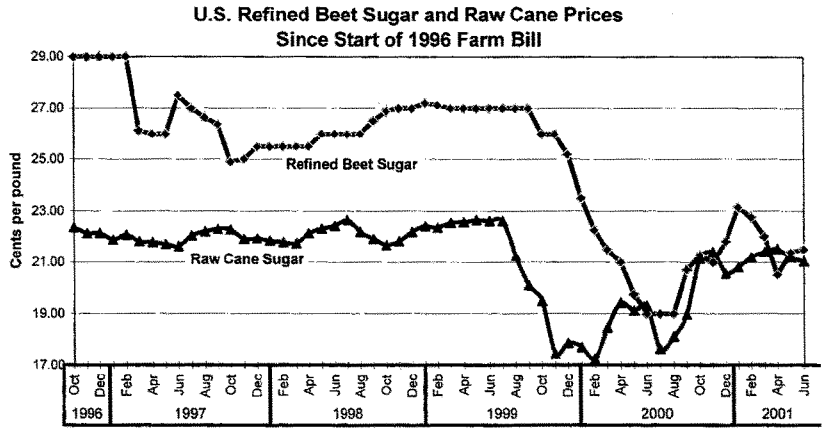
Raw Cane		FY1996 Average Price			Actual Average Price			Producer Loss
Fiscal Year	**Crop Size** *-Million tons, raw value-*	*-¢/pound-*	*-$/ton-*	**Total Value** *-Million dollars-*	*-¢/pound-*	*-$/ton-*	**Total Value** *-Million dollars-*	(compared w/1996 price) *-Million dollars-*
1995/96	3.454	22.50	450.00	1,554	22.50	450.00	1,554	--
1996/97	3.191	22.50	450.00	1,436	22.00	440.00	1,404	32
1997/98	3.631	22.50	450.00	1,634	22.09	441.80	1,604	30
1998/99	3.951	22.50	450.00	1,778	22.07	441.40	1,744	34
1999/00	4.065	22.50	450.00	1,829	18.40	368.00	1,496	333
2000/01*	4.070	22.50	450.00	1,832	21.08	421.60	1,716	116
Total								**$545**

Refined Beet		FY1996 Average Price			Actual Average Price			Producer Loss
Fiscal Year	**Crop Size** *-Million tons, raw value-*	*-¢/pound-*	*-$/ton-*	**Total Value** *-Million dollars-*	*-¢/pound-*	*-$/ton-*	**Total Value** *-Million dollars-*	(compared w/1996 price) *-Million dollars-*
1995/96	3.660	28.84	576.80	2,111	28.84	576.80	2,111	--
1996/97	3.750	28.84	576.80	2,163	28.06	561.20	2,105	59
1997/98	4.102	28.84	576.80	2,366	25.66	513.20	2,105	261
1998/99	4.134	28.84	576.80	2,384	27.02	540.40	2,234	150
1999/00	4.650	28.84	576.80	2,682	21.90	438.00	2,037	645
2000/01*	4.131	28.84	576.80	2,383	21.99	439.80	1,817	566
Total								**$1,681**

	Raw Cane Producer Lost Income	**Beet Sugar Producer Lost Income** *-Million dollars-*	**Total**
1996/97	32	59	90
1997/98	30	261	291
1998/99	34	150	184
1999/00	333	645	979
2000/01*	116	566	682
Grand Total	**$545**	**$1,681**	**$2,226**

*Projected, based on April 2001 USDA World Agricultural Supply and Demand Estimates report and October – March 2000/01 average prices.
Data Source: USDA

Figure 2



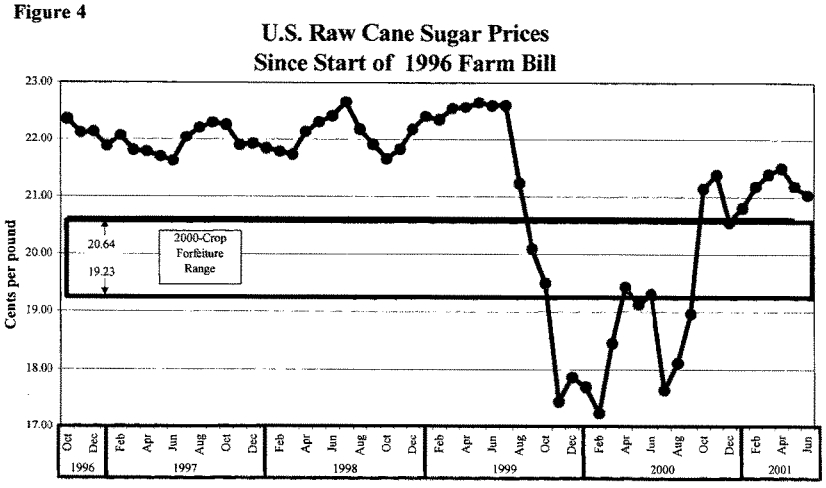
ource: USDA. Wholesale refined beet sugar, Midwest markets; Raw cane sugar, nearby #14 contract, delivered New York. Monthly average prices October 1996 - June 2001.

Figure 3

17 PERMANENT SUGAR MILL CLOSURES SINCE 1996

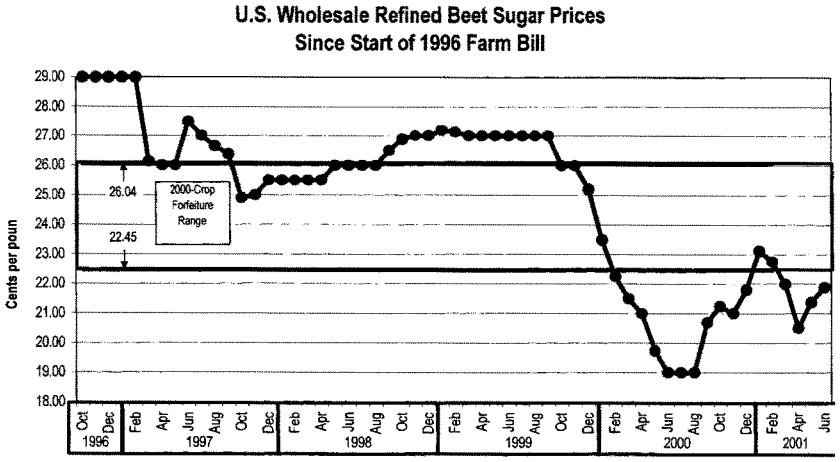
Beet Closures	Cane Closures	
Spreckels Sugar, Manteca California, 1996	Ka'u Agribusiness Hawaii, 1996	Amfac Sugar, Lihue Hawaii, 2000
Holly Sugar, Hamilton City California, 1996	Waialua Sugar Hawaii, 1996	Hawaiian Commercial & Sugar, Paia Hawaii, 2000
Western Sugar, Mitchell Nebraska, 1996	McBryde Sugar Hawaii, 1996	Evan Hall Sugar Cooperative Louisiana, 2001
Great Lakes Sugar, Fremont Ohio, 1996	Breaux Bridge Sugar Louisiana, 1998	
Holly Sugar, Hereford Texas, 1998	Pioneer Mill Company Hawaii, 1999	
Holly Sugar, Tracy California, 2000	Talisman Sugar Company Florida, 1999	
Holly Sugar, Woodland California, 2000	Amfac Sugar, Kekaha Hawaii, 2000	

Figure 4



Source: USDA. Raw cane sugar, nearby #14 contract, delivered New York. Monthly average prices October 1996 - June 2001.

Figure 5



Source: USDA. Wholesale refined beet sugar, Midwest markets. Monthly average prices October 1996 - June 2001.

Figure 6

Comparative Table: Summary of Policy Measures in Selected Countries, December 2000

	Production Controls[1]			← Domestic Price Support				→	Marketing Arrangements			Grower/Processor Relationships
	Land Quotas	Production Quotas	HFCS Quotas	Import Tariff	Non-tariff Barriers[2]	Fixed/Minimum Sugar Prices	Regional Subsidies	Export Subsidies	Domestic Market Sharing/ Sales Quotas	Single Channel Marketing Domestic	Export	Fixed/Minimum Crop Prices
Argentina				✓								
Australia	✓						✓[3]		✓	✓[4]	✓	
Brazil				✓			✓[5]					✓
China				✓	✓							✓
Cuba				✓	✓	✓			✓	✓	✓	✓
EU			✓	✓		✓		✓	✓			✓
India				✓		✓[6]			✓			✓
Mexico				✓			✓[7]		✓[8]			
Philippines				✓					✓			
Poland				✓		✓		✓	✓			[9]
Russia				✓	✓							[10]
Thailand				✓	✓	✓	✓[11]		✓			
Turkey				✓		[12]						✓
US				✓		✓[13]						✓[14]

Notes:
1. These controls refer to absolute limits on *total* cane, beet or sugar production, rather than controls on the volume of sugar that can be sold in domestic or preferentially priced markets (see Marketing Arrangements).
2. These include measures such as the retention of single-channel import agencies, the requirement for import licences and import quotas.
3. Although not strictly speaking a *regional* subsidy, the Australian Federal government granted an industry assistance package to cane growers worth around A$83 million over the next two years, in the face of damage to the cane crop and low world sugar prices.
4. In Queensland, Queensland Sugar Limited is the sole seller of *raw* sugar in the domestic market. Refined sugar is marketed independently by individual refiners.
5. Cane growers in the North/Northeast receive a direct subsidy to compensate them for higher costs.
6. For the 30% of the (levy) sugar that is sold through the Public Distribution System, the government establishes a fixed price. For the remaining 70% of sugar, the price is determined by market forces, but the government is able to exert considerable influence over these prices.
7. Although this is not exactly a regional subsidy, the Mexican government, via FINASA, offered the domestic sugar industry a significant discount on debt in exchange for early re-payment, commonly referred to as *quitas;* this offer was taken up by a number of major milling groups.
8. Producers agree to sell an agreed proportion of their output on the domestic and export markets.
9. There is no national sugarbeet price; the price is negotiated privately between growers and processors.
10. Most sugarbeets are processed on a payment-in-kind basis, under which beet producers deliver beets for processing and receive as payment white sugar equal to about 70% of their beet deliveries. The exact share varies from factory to factory and from season to season.
11. When world sugar prices were very low, the government paid cane payment supplements to cane growers.
12. Although the government continues to announce ex-factory prices for sugar, because Turkseker is no longer the sole seller of sugar, these represent more of a guide than a mandatory price.
13. Applies only when the tariff-rate quota is greater than 1.5 million short tons and loans are non-recourse. Applies only to sugar under loan.
14. Applies only to sugar under loan when loans are non-recourse (i.e., when the tariff-rate quota is greater than 1.5 million short tons). Applies only to beet or cane used to produce sugar under loan.

Figure 7

Market Regulation Mechanisms: Summary

Country	Domestic Market Sharing/ Quotas	Single Channel Marketing			Licensing System		Summary
		Domestic	Export	Import	Export	Import	
Argentina							Independent marketing of sugar.
Australia[1]	✓	✓	✓				Government marketing Board – **QSC** – handles 95% of raw sugar sales in Queensland.
Brazil	✓				✓		Quotas & export licences designed solely to ensure alcohol production met.
Canada							2 companies dominate the market but are open to competition from imports.
China[2]				✓		✓	State-owned trading agency – **Ceroil Foods** – handles 100% of imports.
Colombia	✓		✓				Industry authority for export – **CIAMSA.** Mills export pro-rata share of production.
Cuba		✓	✓	✓	✓	✓	State-owned marketing company – **Cubazucar** – handles 100% of sugar sales.
Dom. Rep.						✓	3 groups control the sugar industry.
EU	✓				✓	✓	Marketing quota system in place to remove surplus sugar from the domestic market.
Fiji		✓	✓	✓			Quasi-government marketing body – **Fiji Sugar Marketing Company** – handles 100% of sugar sales.
Guatemala	✓	✓	✓				2 industry authorities market 100% of sales – **DAZGUA** (domestic sales) & **ASAZGUA** (exports).
India			✓		✓	✓	Government controls releases of sugar onto market. Industry authority for exports – **ISIEC.**
Indonesia		✓		✓			State-owned trading agency – **BULOG** – handles 100% of imports & almost 100% of domestic sales.
Japan							Independent marketing of sugar. Regulation by quasi-government agency – **SPSA** – on marketing of sugarbeet/cane.
Korea					✓	✓	3 companies dominate the sugar sector with sole permission to make imports/exports.
Malaysia	✓				✓	✓	Much of industry is controlled by Kuok Group. Only mills & refineries are permitted to import.
Mauritius		✓	✓	✓			Industry authority – **MSS** – handles 100% of sales.
Mexico					✓		Government-owned marketing body – **Azucar SA** – abolished & sector deregulated.
New Zealand							1 company dominates the domestic market but it is open to competition from imports.
Philippines	✓					✓	Quedan system establishes marketing quotas to ensure that US quota & domestic needs met.
Russia							4 companies dominate the imports of sugar. Independent domestic marketing.
South Africa	✓	✓	✓	✓			Industry authority – **SASA** – handles 100% of export sales & domestic market-sharing agreement.
Swaziland	✓	✓	✓	✓			Industry authority – **SSA** – handles 100% of sales (raw & white).
Thailand	✓						Month-by-month sales are controlled by the **TCSC.** 4 licensed companies handle exports.
Ukraine					✓	✓	Government agency – **Ukrsukr** – controls imports & issues import licences.
USA							No marketing alliances are permitted. Restricted competition from imports through **TRQ**.

Notes: 1. Applies to raw sugar only.
2. Government-owned Ceroil Foods handles all toll refining, i.e., imports of raw sugar/re-export of refined sugar.

from *Sugar Marketing Entities Around the World: A Profile of the Competitive Nature of World Trade*, LMC International Ltd, November 1996

Figure 8

U.S. Cost of Production Rank Among World Sweetener Producers, 1994/95 – 98/99

	U.S. Rank	Number of Producing Countries/Regions
Beet Sugar	2	40
Cane Sugar	26	63
All Sugar	**28**	**102**
Corn Sweeteners	1	19
All Sweeteners	**21**	**112**

Source: "The LMC Worldwide Survey of Sugar and HFCS Production Costs: The 2000 Report," LMC International Ltd., Oxford, England, December 2000.

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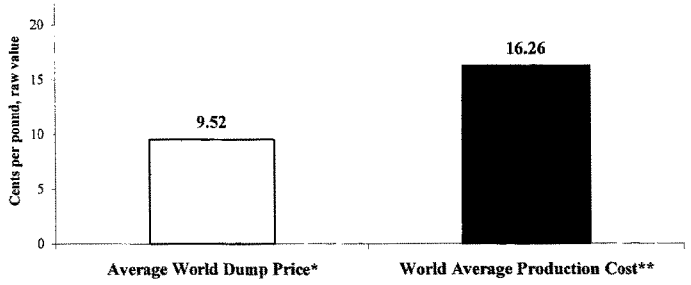
Figure 9

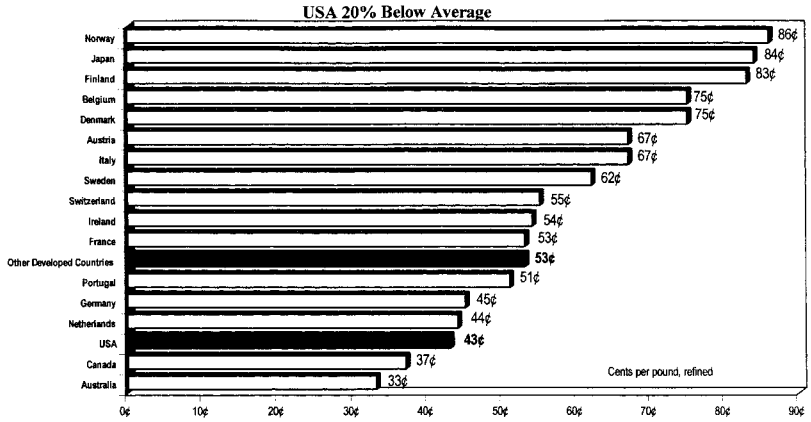
World Sugar Dump Market Price: Barely More Than Half the World Average Cost Of Producing Sugar
(16-Year Average, 1983/84 - 98/99)



*New York contract #11, f.o.b. Caribbean ports. Source: USDA.
**Beet and cane sugar weighted average, raw value. Source: "The LMC Worldwide Survey of Sugar and HFCS Production Costs: The 2000 Report," LMC International, Ltd., Oxford, England, December 2000.

Figure 10

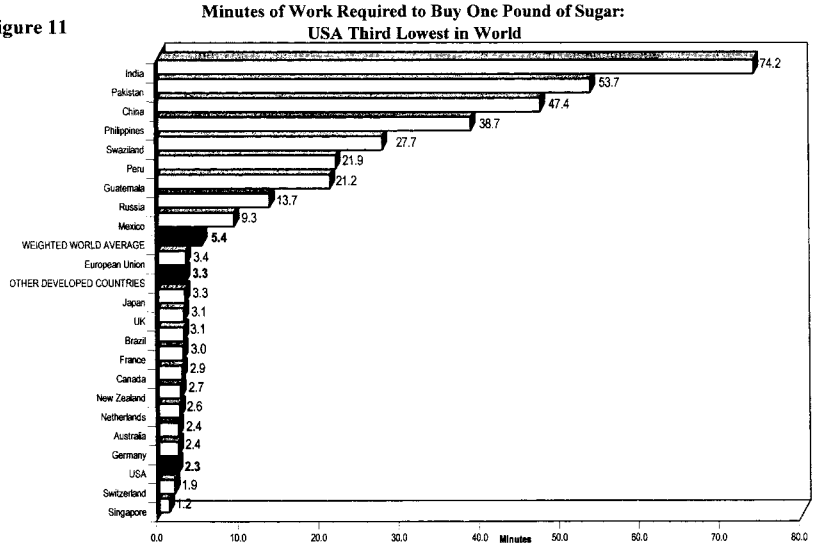
Developed Countries' Retail Sugar Prices: USA 20% Below Average



Source: LMC International Ltd., Oxford, England, February 2000; 1999 prices. "Other Developed Countries" represents the weighted average of 22 foreign developed countries.

Figure 11

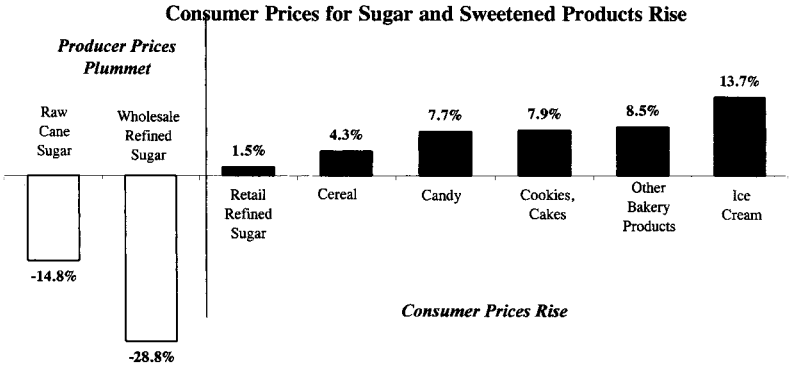
Minutes of Work Required to Buy One Pound of Sugar: USA Third Lowest in World



Source: LMC International Ltd., Oxford, England, February 2000. Study of 49 countries, accounting for 78% of global sugar consumption; 1999 prices.
Based on 1997 World Bank per capita GNP data. "OTHER DEVELOPED COUNTRIES" represents the weighted average of 20 foreign developed countries.

Figure 12

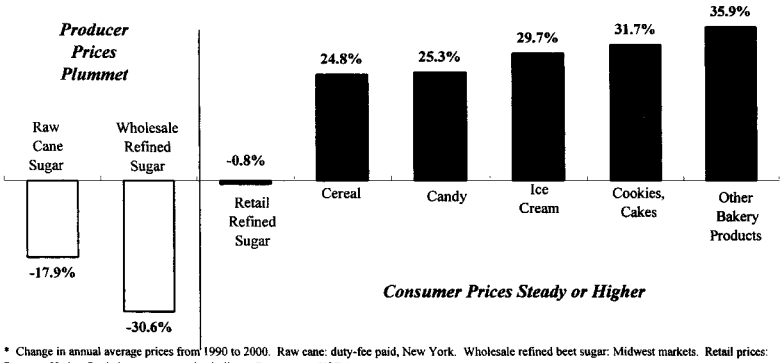
From 1996 to 2000:
Producer Prices for Sugar Plummet,
Consumer Prices for Sugar and Sweetened Products Rise



Annual average prices, 1996 compared with 2000. Raw cane: Duty-fee paid, New York. Wholesale refined beet: Midwest markets. Retail prices: BLS indices. Data source: USDA.

Figure 13

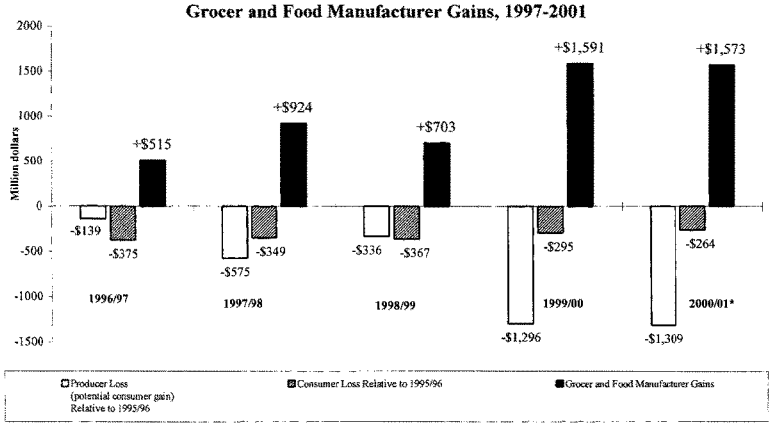
From 1990 to 2000:
Producer Prices for Sugar Plummet,
Consumer Prices for Sugar & Products Steady or Higher*



* Change in annual average prices from 1990 to 2000. Raw cane: duty-fee paid, New York. Wholesale refined beet sugar: Midwest markets. Retail prices: Bureau of Labor Statistics consumer price indices. Data source: USDA.

Figure 14

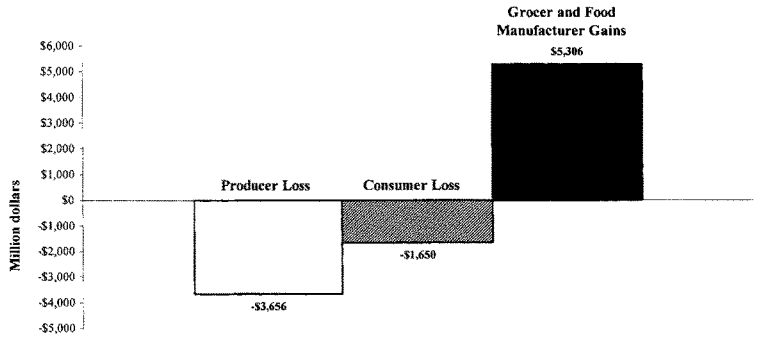
Sugar and Product Price Changes Since 1996: Producer and Consumer Losses and Grocer and Food Manufacturer Gains, 1997-2001



*Projected, based on April 2001 USDA World Agricultural Supply and Demand Estimates report and October – March 2000/01 average prices.
Data Source: USDA

Figure 15

Sugar and Product Price Changes Since 1996: Producer and Consumer Losses and Grocer and Food Manufacturer Gains, 1997-2001



*Projected, based on April 2001 USDA World Agricultural Supply and Demand Estimates report and October – March 2000/01 average prices.
Data Source: USDA

Figure 16

Sugar and Product Price Changes Since 1996: Producer and Consumer Losses and Grocer and Food Manufacturer Gains, 1997-2001

		Producer Losses			Consumer Losses			
		Wholesale Refined Sugar Price		Producer Loss (potential consumer gain) Relative to 1995/96	Paid by Consumers, Retail Sugar Price		Consumer Loss Relative to 1995/96	Grocer and Food Manufacturer Gains
Fiscal Year	Refined Sugar Consumption	Actual	Change from 1995/96	Total	Actual	Change from 1995/96	Total	
	-Million short tons-	-¢/pound-	-¢/pound-	-Million dollars-	-¢/pound-	-¢/pound-	-Million dollars-	-Million dollars-
1995/96	8.828	28.84	--	--	41.15	--	--	--
1996/97	8.938	28.06	-0.78	-139	43.25	+2.10	-375	+515
1997/98	9.039	25.66	-3.18	-575	43.08	+1.93	-349	+924
1998/99	9.226	27.02	-1.82	-336	43.14	+1.99	-367	+703
1999/00	9.339	21.90	-6.94	-1296	42.73	+1.58	-295	+1591
2000/01*	9.556	21.99	-6.85	-1309	42.53	+1.38	-264	+1573
Total	--	--	--	**-$3,656**	--	--	**-$1,650**	**$5,306**

	Total Producer Losses from Lower Wholesale Price	Percent of Producer Loss Passed Through to Consumers	Total Consumer Losses from Higher Retail Prices	Grocery and Food Manufacturer Gains from Lower Producer Prices and Higher Retail Sugar and Product Prices**		
	-Million dollars-	%	-Million dollars-	*Total*	*Grocers*	*Food Manufacturers*
1996/97	-139	0	-375	+515	+206	+309
1997/98	-575	0	-349	+924	+370	+554
1998/99	-336	0	-367	+703	+281	+422
1999/00	-1296	0	-295	+1591	+637	+955
2000/01*	-1309	0	-264	+1573	+629	+944
Total	**-$3,655**	**0**	**-$1,650**	**$5,306**	**$2,122**	**$3,184**

*Projected, based on April 2001 USDA World Agricultural Supply and Demand Estimates report and October – March 2000/01 average prices.
**Approximately 40 percent of U.S. sugar consumption is direct, the remainder is an ingredient in food products.
Data Source: USDA

Figure 17

Crop Shares of Total Value of Production and Government Expenditures; Government-Payment Shares of Crop Returns

	1997/98-1999/00 Avg. Value of Production		CCC Outlays in FY 2000		FY 2000 Government payments as a % of each crop's total returns
	Million dollars	*% of Total*	*Million dollars*	*% of Total*	
Corn for Grain	$19,741	34.8%	$9,696	38.2%	26.4%
Sorghum	$1,095	1.9%	$942	3.7%	- -
Barley	$700	1.2%	$393	1.5%	- -
Oats	$214	0.4%	$63	0.2%	- -
Wheat	$6,990	12.3%	$5,417	21.4%	38.4%
Rice	$1,567	2.8%	$1,729	6.8%	56.4%
Cotton	$4,644	8.2%	$4,206	16.6%	44.8%*
Tobacco	$2,749	4.9%	$301	1.2%	- -
Soybeans	$14,439	25.5%	$2,425	9.6%	18.1%
Peanuts	$1,040	1.8%	$42	0.2%	- -
Sugar**	$3,480	6.1%	$141	0.6%	- -
Total	**$56,659**	**100.0%**	**$25,355**	**100.0%**	- -

* FY 1999

** Crop value adjusted from ERS published figure of $2.088 billion, which represents 60% (grower share) of the actual value of sugar production.

Data sources: USDA's Economic Research Service and Farm Service Agency

Appendices

Appendix A

The "Stuffed Molasses" Sugar Import Loophole

The pace of imports of sugar syrups commonly referred to as *stuffed molasses* under HTS subheading 1702.90.40 has risen dramatically in just the last several years. According to Customs Service data, published by the U.S. Department of Agriculture in its January 2001 "Sugar and Sweetener Situation & Outlook" report, in calendar year 1995, only 1,702 metric tons of *stuffed molasses* was imported into the United States. (One metric ton of syrup yields .55 short tons raw value of sugar.) Syrup imports rose to 14,517 metric tons in 1996; 68,838 in 1997; 166,240 in 1998; 233,748 in 1999; and 174,135 tons through November 2000.

On a fiscal year basis, applying the 55% formula to convert from metric tons of syrup to short tons of raw sugar equivalent, USDA data shows the amount of sugar entering the U.S. market though the *stuffed molasses* loophole has exploded:

- FY 95/96 = 8,056 short tons raw sugar
- FY 96/97 = 21,079
- FY 97/98 = 83,261
- FY 98/99 = 114,695
- FY 99/00 = 118,104
- FY 00/01 = 125,000 (estimated by USDA)

Background

In the mid-1990s, London-based ED&F Man, the world's largest sugar trader with agriculture commodity operations in 60 countries, set up a subsidiary in Ontario, Canada to blend low-priced dump-market sugar from Brazil and other countries with molasses and water. The mixture is carefully concocted to exploit the HTS loophole so the syrup can evade legitimate U.S. import duties. The syrup, commonly known as *stuffed molasses*, is exported into Michigan to Heartland By-Products, Inc. (also set up as a subsidiary of ED&F Man), where liquid sugar is removed from the mixture and the remaining molasses is returned to Canada to start the stuffing process again. The sugar derived from the reverse-processing of *stuffed molasses* after it enters the United States is then sold at low prices, undercutting American sugar producers and legitimate exporting countries that ship under the U.S. sugar import TRQ.

In 1995, Heartland sought to have the Customs Service office in New York City rule that *stuffed molasses* is classified under subheading 1702.90.40, and the request was granted. In 1998, U.S. sugar producers petitioned the Customs

Service to investigate the quota-circumvention scheme. After 20 months of consideration, Customs revoked the Heartland letter in 1999 and classified *stuffed molasses* in a subheading subject to the tariff-rate quotas. According to the Customs Service, "it is clear" that Heartland did not provide the New York office with "essential information" when it requested the 1995 ruling. Heartland appealed this decision to the courts, and received a favorable ruling from the U.S. Court of International Trade on the classification issue. The U.S. Government and the U.S. sugar industry have appealed the CIT's ruling, and the matter is now under review by the U.S. Court of Appeals for the Federal Circuit. Oral arguments were heard in February 2001, and a ruling is expected soon.

A favorable decision by the Court of Appeals could effectively remedy the *stuffed molasses* TRQ circumvention by Heartland, but this is only the tip of the iceberg. Other commodities traders are poised to mimic ED&F Man in the sugar TRQ circumvention business, and the recipes for new products to exploit loopholes in the tariff schedule are limited only by the creativity of these border operators. Enactment of the Beaux/Craig bill (S. 753, introduced April 6, 2001) will specifically address the circumvention by the so-called *stuffed molasses* product, but more importantly it also will clarify the Customs Service's authority to act quickly to apply the sugar import quotas to other circumvention products in the future found to be imported for the purpose of commercial extraction of sugar for human consumption.

Implications for WTO and NAFTA

Including a circumventing good in the sugar tariff-rate quotas could conceivably lead to a claim that the United States is not observing its WTO obligation not to impose a duty on that good above a specified rate. The claim would be for compensation (typically a tariff reduction) based on the value of trade affected. If the Customs Service administers the bill properly, new attempts to circumvent the sugar tariff-rate quotas will be stopped quickly, before any significant trade can develop. Therefore, even if a claim for compensation were warranted, it would be extremely small, and could be addressed under existing WTO rules and U.S. law.

The foreign suppliers to the U.S. market, such as Brazil and Caribbean Basin nations, are strongly opposed to circumvention of the sugar tariff-rate quotas because circumvention forces USDA and the Office of the U.S. Trade Representative to reduce the quotas to protect the sugar program. In a letter to a member of the U.S. Senate in 1999, USTR Ambassador Charlene Barshefsky correctly identified *stuffed molasses* as an artifice to deceive when she stated, "From a commercial perspective, these imports appear to be simply a vehicle to bring raw sugar into the U.S. market free from the tariff applicable to sugar imported outside of the sugar tariff rate quota." The result of this TRQ

circumvention is that sugar supplying countries ship less sugar to the United States at preferential domestic U.S. prices.

The *stuffed molasses* imported from Canada does not originate in Canada for purposes of NAFTA preferential treatment or under U.S. customs law. The sugar component apparently has come principally from Brazil, Colombia, and Australia.

If Canada does complain about plugging the *stuffed molasses* loophole, it will only be abetting ED&F Man's efforts to undermine an important U.S. Government program, the sugar price support program. The result will be unstable sugar prices in the United States, leading to more beet and cane farm failures, more sugar processing factory closures, and forfeitures of USDA sugar loans at a significant cost to the U.S. Treasury. American consumers will not benefit, as recent history shows that industrial sugar users do not pass along the savings when their wholesale cost of sugar declines.

Appendix B

U.S.-Mexico Sugar Trade Issues

When NAFTA Was Negotiated, 1992-93:

- Mexico had been a deficit sugar producer for five years of six, 1988/89-93/94
- Mexican imports and consumption of corn sweeteners were minimal
- Mexico had a minimal share of the U.S. import quota -- about 7,000 metric tons
- U.S. and Mexican governments assured the U.S. Congress that Mexico would remain a deficit sugar producer

Original NAFTA Sugar Provisions:

- Opened Mexican market to U.S. high fructose corn syrup (HFCS)
- Encouraged Mexico to substitute HFCS for sugar by allowing Mexico to export all displaced sugar to U.S. market: three-fold increase to 25,000 tons in 1994-2000; all surplus production in 2001-2007 (surplus production = sugar production minus sugar consumption); second-tier (over-quota) tariff drops from 16 cents per pound of raw sugar in 1994 to zero in 2008; common market beginning in 2008
- American sugar producers vehemently opposed

NAFTA Sugar Side Letter:

- Negotiated by U.S. and Mexico prior to U.S. vote, November 1993
- Limited 2001-07 access to up to 250,000 tons of surplus production -- roughly 35 times traditional Mexican access; changed surplus producer definition to sugar production minus sugar *and* HFCS consumption; *no* change in second-tier tariff phaseout
- Won NAFTA passage in Congress

Developments Since NAFTA Inception, January 1994:

- Mexican government has provided subsidies amounting to over $1.6 billion since NAFTA entered into force for the purchase of facilities, the financing of these purchases, sugar storage, and virtually all other aspects of sugar production
- Mexican sugar production exploded – 1.22-million-ton, or 33%, increase *post-NAFTA* in 1994/95-99/00 average over 1988/89-93/94 *pre-NAFTA* average; pre-NAFTA 455,000-tons/year average deficit transformed to 631,000-ton average surplus

- Mexico imposed high antidumping duties, which were found to be inconsistent with WTO rules, on U.S. HFCS. These duties effectively limited imports of U.S. HFCS to an average of 158,000 tons/year, but Mexican consumption of corn sweeteners has also exploded, to about 500,000 tons/year – most of it domestically produced
- Mexico renounced the sugar side letter and attacked its validity in formal NAFTA dispute settlement
- U.S. government agrees to renegotiate side letter, but Mexican proposals will not produce fair trade
- In the presence of both Mexican and worldwide sugar market distortions, U.S. sugar policy is the only way to ensure fair trade in sugar.
- American producers suggest sugar ethanol program to relieve Mexican problems of sugar surplus, potential rural job losses from sugar mill closures, and air and water pollution

Appendix C

U.S. Sugar Industry Position on the FTAA

U.S. Sugar Industry's Free Trade Position

U.S. sugar producers are efficient by world standards with costs of production below the world average, despite the highest environmental and labor standards in the world. Because of our competitiveness, we have endorsed the goal of genuine, multilateral free trade in sugar since the onset of the Uruguay Round of the GATT in 1986. Ultimately, we want to see free trade in sugar include all countries and all government programs. But that will require some doing. Genuine liberalization of trade in sugar must address all market distortions and circumvention, not just import barriers.

Market Distortions

More than 120 countries produce sugar, and in all these countries the government intervenes in the sugar marketplace. The worst of these distortions involves a combination of import protection and production and export subsidies. This combination results in huge over-production, which is dumped on the world market, thus injuring the producers of other countries unless their governments, in turn, protect their markets. The world market for sugar is so distorted by these aggressive practices of over-production that over the past two decades the "world price" has averaged barely half the world average cost of producing sugar, according to independent studies.

U.S. sugar policy is designed primarily to ensure that the U.S. market is not distorted by these aggressive over-production policies. If these subsidies and other market distortions were removed, then the U.S. sugar industry would support negotiations that led to reciprocal reductions in import barriers for sugar. But without this crucial step, such reductions would only encourage government subsidies to destroy efficient producers.

Circumvention

In a world market so undermined by market distortions in national markets, the incentive to evade existing WTO disciplines on sugar trade is enormous. As a result, some countries can become "blending platforms," which import third-country dump-market sugar for manufacture of sweetened products that are then exported. Bilateral and regional agreements can make this problem worse,

because "blending platforms" within a free area can export duty-free within the free area, undermining WTO agreements on market access for sugar. Or, new agreements can act on the problem, by including provisions that address this form of circumvention.

Sugar is *Not* Included in Most Bilateral and Regional Agreements

Because of the uniquely distorted nature of the world dump market for sugar and because of a wide range of border control issues, sugar has overwhelmingly been excluded from bilateral and regional free trade agreements. The Food and Agriculture Organization of the United Nations noted last year:

"There are 124 regional trade agreements worldwide at this time, most of which substantially exclude sugar." Some examples:

- Sugar is excluded from the Mercosur agreement among major producers Argentina and Brazil, with Uruguay and Paraguay.
- Though Mexico reportedly has more bilateral and regional trade agreements than any other country, it has excluded sugar from virtually every one, including its recent agreement with the European Union. The EU is the world's second largest exporter of sugar, thanks to massive production and export subsidies.
- Sugar is excluded from the U.S.-Canada portion of the North American Free Trade Agreement (NAFTA), which defers to WTO disciplines instead.

Sugar is included in the U.S.-Mexico portion of the NAFTA, but the sweetener provisions are embroiled in controversy. Mexico is blocking imports of U.S.-made corn sweeteners that compete with sugar in Mexico, and Mexico insists on accelerating the NAFTA schedule of its sugar access to the U.S.

With sugar excluded from so many free trade agreements, including agreements in this very hemisphere, the challenge of including sugar in the FTAA is, at best, daunting.

The U.S. Is Already a Major Sugar Importer; Market Is Saturated

The United States has committed, under WTO and NAFTA rules, to import, at a minimum, a volume of sugar amounting to about 15 percent of U.S. consumption, duty free. The U.S. must import this sugar whether the domestic market requires it or not, making the U.S. the world's fourth largest importer of sugar. Twenty two

countries in this hemisphere already benefit from essentially duty-free access to the U.S. market, representing 65 percent of U.S. imports.

In addition, we have experienced import leakage, of blended product from Canada and above-quota sugar from Mexico. These imports, coupled with unusually large U.S. production, inundated the U.S. sugar market the past two years and depressed the domestic sugar price to a 22-year low in 2000. The industry is badly oversupplied and in a severe financial crisis, with beet and cane mills closing, and the country's largest refined sugar seller in bankruptcy. The U.S. market has no room for additional foreign sugar.

In the FTAA: Negotiate Real Open Trade or Reserve Sugar for WTO Disciplines

Given the highly distorted nature of the world dump market for sugar and the inability so far of most regional trade agreements to address market distortions, the U.S. sugar industry believes that negotiations on sugar provisions in the FTAA would be so contentious they would delay the wider package. The U.S. sugar industry, therefore, recommends that, within the framework of the FTAA, sugar be reserved for much needed, and more far reaching, disciplines in the multilateral, WTO context.

Appendix D

Proposal for USDA Commodity Loans for In-Process Sugars and Syrups

Implementation of a Commodity Credit Corporation non-recourse loan for intermediate-stage processed sugars and syrups would provide an important mechanism to enhance the operation of the sugar price support loan program. USDA-CCC loans are an important source of financing that enables processors to make the significant up-front payments to sugar producers for their crops. Substantial additional financing is required for these grower payments and for the very seasonal cost of processing operations whereby beets are converted into refined sugar and cane to raw sugar.

In today's depressed farm economy, reliable sources of agricultural financing are becoming more and more difficult to secure, and availability of a CCC loan for in-process syrups could be the difference in some operations as to whether processors can survive the current downturn. A loan rate could be established that recognizes the value of in-process sugar in relation to the raw cane loan rate and the refined beet sugar loan rate. An in-process loan rate at 80 percent of the refined rate is suggested. It is recommended that the proposed CCC non-recourse "thick juice" loan terms include a requirement for any forfeiting processor to convert the in-process syrup to refined sugar within 60 days of the date of forfeiture, or by September 30th, whichever is sooner. Further, under such forfeiture circumstances, the loan terms should provide that once the conversion to refined sugar has occurred, the CCC shall provide that processor the net difference in loan proceeds (for example, 100% – 80% = 20%) to account for the input costs (i.e., value) of syrup versus refined sugar.

Prior to 1960, sugar factories were designed with "balanced" beet and sugar end capacities, allowing sugar from beets sliced to be directly processed on the sugar end. However, with beet quality and processability so highly influenced by a combination of weather-related factors and agronomic practices which could vary significantly each year, the desired balance was rarely consistently realized, causing less-than-optimal processing efficiencies. That, coupled with a pursuit of the economic benefits associated with higher throughput, equipment utilization, and sugar storage to satisfy marketing cycles, directed the sugar industry to a concept that was first done on a full scale in 1960, and is almost universally applied today--thick juice storage. Thick juice, the purified and concentrated syrup produced through the beet end of a sugarbeet processing factory, is the base syrup from which granulated sugar is crystallized on the sugar end. Factories have taken advantage of thick juice storage to allow increased beet slicing capacity

without increasing the size of sugar ends by storing the additional thick juice generated by the higher daily slice.

Additionally, with the advent of molasses desugarization through a chromatographic separation process, sugarbeet molasses is stored as an in-process syrup inventory. Separator feed molasses (60-65% sugar on solids) is the exhausted mother liquor resulting from the conventional crystallization process. It is considered a very stable material. At its typical 80-82° brix, it is essentially protected against any microbiological activity. A ton of separator feed molasses contains approximately 6.5 to 7.5 hundredweight of extractable granulated sugar. This separator feed molasses is processed through the separator into additional thick juice. The cost of converting separator feed molasses to thick juice is approximately $2.50 per refined hundredweight.

Thick juice (90-91% sugar on solids), in its stored form, is a high purity, pH adjusted, cooled sugar syrup concentrated to 68-69E brix, which contains approximately 10 to 11 hundredweight of extractable granulated sugar per ton of juice. It is filtered to remove spores and organisms not killed by heat, and also any particles that might act as nuclei for crystallization during storage. When the pH-adjusted juice is kept as close to saturation as possible, most micro-organisms, such as yeasts and molds, will normally not develop or grow. The cost of converting thick juice into granulated refined sugar is approximately $1.50 per refined hundredweight.

Sugarbeet molasses separator feed and/or thick juice is stored in four to six million gallon steel tanks, each representing 250,000-350,000 hundredweight of granulated sugar equivalent. These tanks and associated systems are cleaned and sterilized before use, and all syrup quality parameters are regularly measured and monitored, both prior to and during storage. At a peak level in February, most syrup storage tanks are full. By the end of the crop year on September 30th, virtually all syrups from the previous campaign have been processed into granulated refined sugar.

Given the above, which are all part of standard operating and quality control procedures, in-process syrup storage has, for 40 years, proven to be a viable and economically-efficient method for successfully storing sugar in quantity for up to one year, without significant loss or deterioration. This also allows it to be processed with no more, and often less, difficulty than fresh juice before storage.

The concept of sugar stored in an in-process state through molasses separator feed and thick juice is not unlike the storing of raw cane sugar which is also an in-process form that is subsequently further processed into final refined consumable sugar.

STATEMENT OF
ART JAEGER
ASSISTANT DIRECTOR, CONSUMER FEDERATION OF AMERICA
ON BEHALF OF THE
COALITION FOR SUGAR REFORM

Senate Committee on Agriculture, Nutrition, and Forestry
July 17, 2001

Mr. Chairman, my name is Art Jaeger. I'm pleased to be here today on behalf of the Consumer Federation of America and the Coalition for Sugar Reform. CFA is a non-profit association of approximately 285 pro-consumer organizations, most of them national, state and local advocacy organizations and consumer-owned nonprofit cooperatives, such as credit unions and housing co-ops. CFA was founded in 1968 to advance the consumer interest through advocacy and education.

CFA is a member of the Coalition for Sugar Reform. This coalition includes trade associations that represent food companies, grocery manufacturers and others who use sugar, as well as the companies that refine cane sugar. The coalition's members also include taxpayer advocacy groups, consumer organizations like CFA and environmental groups.

I would like to explain why our coalition is opposed to the sugar program – not to sugar producers, but to the sugar program. I make this distinction because the sugar program is not only harming the interests of our coalition, but it is not serving growers well either. I do not claim that growers would solve these problems they same way we would. Indeed, I will explain why we must strongly oppose some of their suggestions. Nevertheless, sometimes common problems create common opportunities for cooperation.

The sugar program is not like most other farm programs. It does not have to be so different, but it is. Instead of direct, transparent assistance to farmers, the sugar program distorts prices through import quotas and a price guarantee that is twice world levels.

When Congress wrote the last farm bill, advocates of the sugar program argued that the program was run at no net cost to taxpayers. They argued that it worked, and that it benefited producers.

The committee needs to understand that much has changed since 1996. Domestic production rose almost 25% in the subsequent three years and will still be 15% higher than 1996 this year despite lower prices. By contrast, imports have fallen 40%. Imports are not the problem. The problem is that our high sugar price supports have led to a surplus of sugar.

Unlike 1996, the sugar market is not balanced, it is unbalanced. In 1996, the government owned no sugar. By contrast, the government acquired over 1 million tons of sugar last year. USDA entered the market during the spring to purchase sugar in the hope of shoring up prices – a hope that turned out to be vain. Then USDA acquired much more surplus sugar through forfeitures under the price support program. The federal government is spending over $1 million a month to store this sugar.

At the same time it was acquiring sugar, USDA paid growers – using some of the same sugar – to plow under their crops. More recently, USDA has said it will use up to 100,000 tons of taxpayer-owned sugar to subsidize ethanol plants. This sugar will be sold at a fraction of the price USDA could receive if it simply sold the same sugar into the open market, as it is allowed to do by law.

None of this had happened in 1996. Not only had there been no recent large-scale forfeitures of sugar, there was no great likelihood of forfeitures in the future. Again, the situation is different today. Not only have there been forfeitures, there may well be more – fewer this year than last, perhaps, but still at a substantial cost to taxpayers. Reported prices for refined beet sugar are less than forfeiture-equivalent levels today, so later in the year it is quite possible that taxpayers will again be given the gift of sugar they do not want to own.

That will come at a cost, and this is another way the world has changed. In 1996, the sugar program did not result in a net outlay of taxpayer dollars, at least directly (although it did and does make federal nutrition programs more costly and less effective). But in 2000, taxpayers spent $465 million to buy sugar. Both CBO and USDA project levels of surplus that will lead to additional taxpayer costs down the road. USDA's long-term baseline projects sugar stocks rising to as much as three times normal levels, with taxpayers owning the biggest part of the surplus.

Finally, the sugar program's effect on employment today is more evident than was the case in 1996. The problems of the cane refining industry are stark. Of the refineries that were operating when the current program began in the early 1980s, about half have closed, taking over 3,000 good manufacturing jobs with them. The refining industry has been devastated in the past year by the collapse of refining margins, so that the largest refiner is now in bankruptcy.

Recently, Chicago's candy industry has been threatened by plant closings that are the direct result, among other factors, of the spread between U.S. and world sugar prices. American candy manufacturers must pay double what their competitors pay for sugar. Increasingly, they find it difficult to remain competitive in this kind of environment. They are being subjected to what is, in effect, a tax from which their competitors are exempt.

Mayor Richard Daley of Chicago has spoken eloquently about this problem. He has been joined by both the business and labor communities in Chicago. Prominent Chicago-area members of Congress such as Danny Davis and Bobby Rush have likewise denounced the sugar program.

As long as the sugar program distorts trade, problems like these will grow. It may be Chicago today, but it will be other cities and communities tomorrow.

These are only some of the ways in which 2001 is different from 1996. But it is extremely important that the committee recognize these differences. Even if you thought the current sugar program was workable in 1996 – and of course, we did not – you should come to a different conclusion today.

The processors and growers who support the current program have proposed changes. We respect them and we respect their views. But we disagree with them profoundly.

Their proposal is to increase the sugar price support both directly and indirectly. The direct increase would be achieved through a "rebalancing" of the sugar loan rate. The indirect increase would be achieved by getting rid of the forfeiture penalty. This penalty, now assessed on processors who forfeit sugar, operates to reduce government costs and to reduce – by one cent per pound – the price at which a rational processor would forfeit sugar. Abolishing it would have the opposite effect, and would be tantamount to raising the support price by one cent.

Let's remember the problem: too much domestic sugar production, up more than 15% under the current price support. How can we imagine that the solution to that problem is a higher price support that will induce still more production? Even after the past year of lower-than-normal U.S. prices, harvested sugar cane acres for 2001 are forecast to rise 5%, or 24,000 acres. What do we think will happen if price supports are even higher?

The growers and processors propose marketing allotments as a solution. But such a policy is no solution at all. Congress wisely repealed allotments in 1996, along with production controls for almost all other commodities. If allotments achieved their stated purpose, they would make the problems of Chicago candy workers even worse by widening the spread between U.S. and world prices. As we move toward an open sweetener market with Mexico under the North American Free Trade Agreement – an open market that will occur within the likely lifetime of the farm bill you are writing now – marketing allotments will simply lock U.S. producers into a declining share of their own market. That is not a wise decision for Congress to make.

I have dwelled on those factors that have changed since 1996. They do not exhaust the list of problems with today's sugar program. Consider only a few others:

The sugar program hurts the environment. In Florida alone, almost half a million acres just south of Lake Okeechobee are used for sugarcane production. The 2 million tons of raw sugar produced there – one-quarter of all U.S. sugar production – greatly contributed to the degradation of the Everglades. Congress has begun a multi-billion-dollar, 20-year Everglades cleanup effort. But as long as the sugar program encourages more sugar cane production in Florida, our environmental efforts will be less effective than they could be.

The sugar program raises consumer and user costs. We can argue endlessly about consumer prices, but the fact is that objective studies of the sugar program show that it costs consumers and users from hundreds of millions to almost $2 billion each year. The General Accounting Office and the International Trade Commission are not on the payroll of sugar users.

The sugar program frustrates our international trade policies. The clearest example is the ongoing harm to corn refiners and producers from the sweetener disputes with Mexico. Our negotiators' desire to placate the domestic sugar industry has frustrated their efforts to get better access for HFCS into the Mexican market. The sugar program has been cited by our hemispheric trade partners, particularly Brazil, as an obstacle to the Free Trade Area of the Americas. And the sugar program complicates our negotiators' job of expanding market access and ending non-tariff trade barriers in the WTO for U.S. export commodities like beef, pork, corn, wheat and soybeans.

This farm bill should reform the sugar program. It should not tinker around the edges but make genuine change.

Reform can take a variety of forms. We believe certain principles should govern our sugar policies. We also believe these principles should be used to evaluate any legislation considered by the committee. All the principles have one overriding theme: We should give greater sway to market forces than current policy allows.

First, policies should allow the market to operate in such a manner that supplies are adequate and balanced. This means that shorting the market through production controls should be off the table, and market signals should be transmitted to all producing regions so that an imbalance of beet sugar relative to cane sugar can be avoided. In turn, market balance will allow a return to viability for the cane refining industry.

Second, our market needs to become more open to world supplies. In recent years, as I have already pointed out, we have gone in the other direction, cutting imports by 40%. Reversing this trend is vital to accommodating our present and future trade obligations, and to encouraging expanded market access worldwide for our competitive export commodities, whether pork, soybeans, corn or beef.

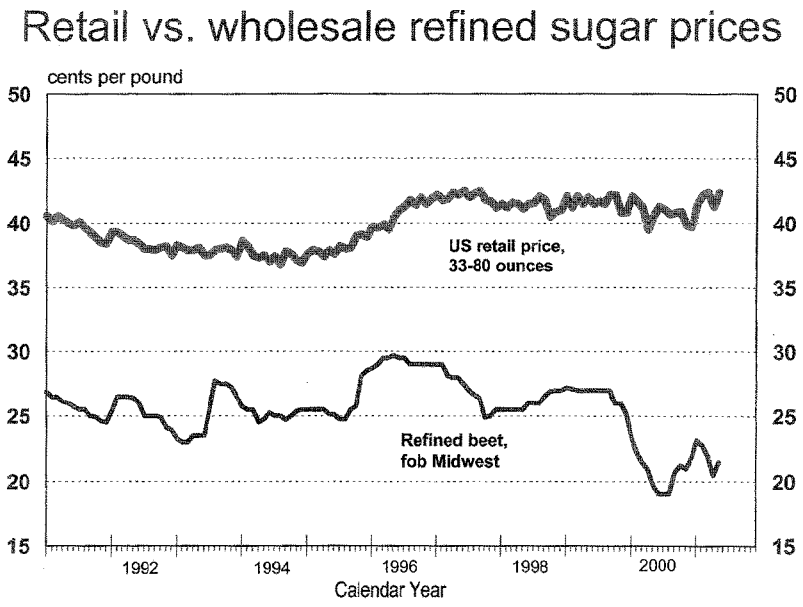
Third, our policies should not provide incentives for overproduction. The current support system has clearly encouraged more domestic production than the market needed. We must change that. The operation and role of the support price, the loan program, the tariff rate quota and the forfeiture penalty all need to be analyzed in this context.

Fourth, market prices must be better able to fluctuate with supply and demand. Too often in recent years, price movements have been the result of abrupt and arbitrary government policy changes, excess supplies induced by government programs, the abrupt removal of those supplies from market channels, and similar factors. Whatever policies Congress may choose to address the difficulties of some producers, those policies should permit the price mechanism to operate with greater market-responsiveness than is the case today.

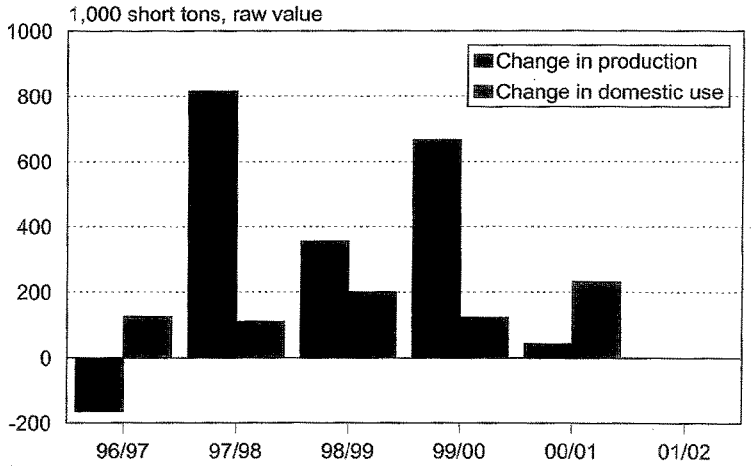
We strongly support H.R. 2081, which 53 bipartisan Members of Congress have introduced, as a genuine reform of sugar policy. That bill does not exhaust the possibilities for crafting genuine reform, which could take a variety of shapes, but the legislation has garnered the support of Members from a range of regions and ideologies and has the backing of our coalition.

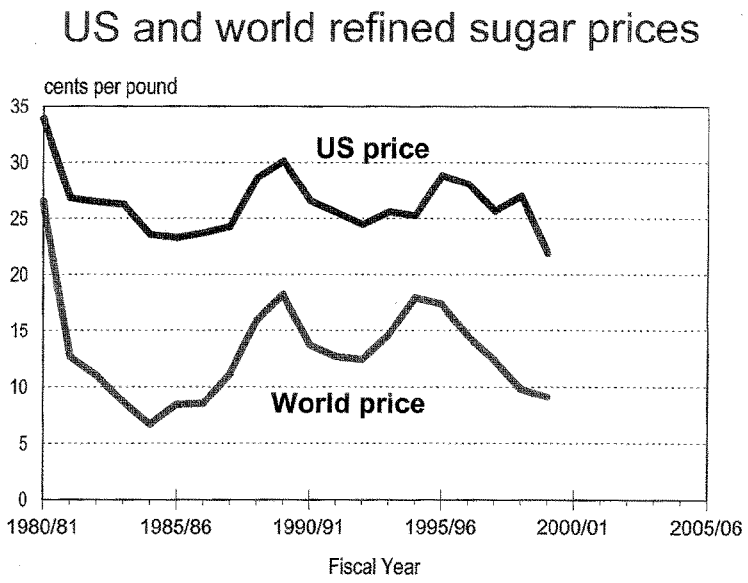
Whatever decisions this committee ultimately makes, I ask you to remember three things. First, things have changed since 1996, and not for the better. Second, the current sugar program is no longer helping the people it is designed to help and it is hurting many other people from all walks of life. Third, real reform must bring more market orientation to this outdated, counterproductive, unsustainable program.

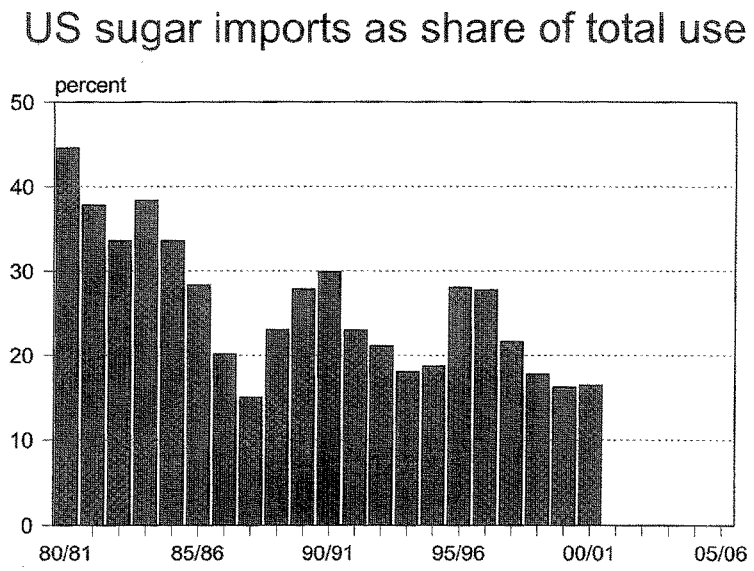
Thank you, Mr. Chairman.


Retail vs. wholesale refined sugar prices
cents per pound
50
45
40
35
30
25
20
15
US retail price,
33-80 ounces
Refined beet,
fob Midwest
1992
1994
1996
1998
2000
Calendar Year

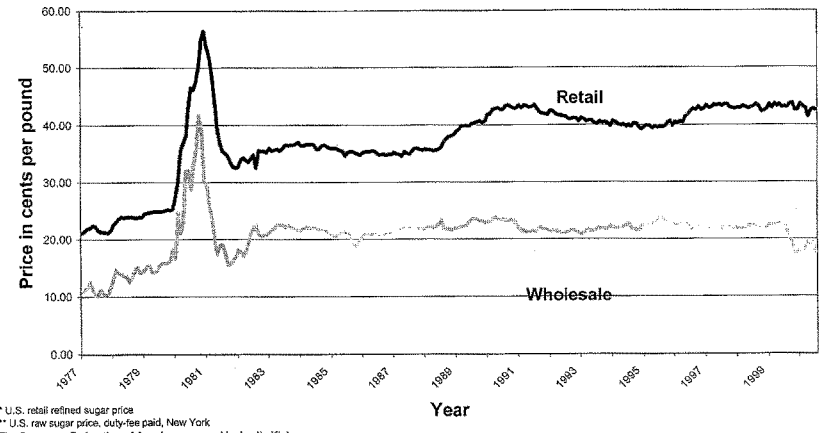
Sugar production outpaced demand growth since 1996 Farm Bill




US and world refined sugar prices
cents per pound
35
30
25
20
15
10
5
0
US price
World price
1980/81
1985/86
1990/91
1995/96
2000/01
2005/06
Fiscal Year


US sugar imports as share of total use
percent
50
40
30
20
10
0
80/81
85/86
90/91
95/96
00/01
05/06

Retail* vs. Wholesale** Sugar Prices



* U.S. retail refined sugar price
** U.S. raw sugar price, duty-fee paid, New York
The Consumer Federation of America, prepared by Leslie Klein
Source: USDA-ERS

STATEMENT

MR. ARMOND MORRIS
CHAIRMAN
GEORGIA PEANUT COMMISSION

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

JULY 17, 2001

Mr. Chairman, members of the Committee, I am Armond Morris, Chairman of the Georgia Peanut Commission, from Ocilla, Georgia. Today I am representing a coalition of state peanut organizations from across the country; the Georgia Peanut Commission, the Georgia Peanut Producers Association, the Florida Peanut Producers Association, the Panhandle Peanut Grower Association, the Western Peanut Growers Association and the Alabama Peanut Producers Association. These organizations represent approximately two-thirds of the peanuts produced in the United States.

Thank you for allowing us to testify before your Committee on our plan for the future of the peanut program. In 1993 and 1994, the passage of the NAFTA and the GATT trade agreements, respectively, changed the way peanut growers have conducted business. Minimum access for other peanut exporting countries caused reductions in our poundage quotas. The export market for U.S. growers is virtually non-existent. Export and domestic marketing promotion monies are the right strategy for the peanut industry but have little chance for success with our current pricing structure.

This is just the beginning of the problem. As tariffs decline under the NAFTA and with the very real prospect of a Free Trade Area of the Americas agreement by 2005, we will see a continued increase in access to our markets by foreign produced peanuts. The current peanut program's effectiveness will continue its current downward spiral. This spiral must be stopped.

Evidence of this downward trend occurred in the last few appropriation cycles. Peanut growers came to the Congress for help to offset peanut program costs for our "no net cost" program. If the no net cost program remains in its current form, growers will have to come back to the Congress for help. The losses will increase year after year due to increased imports. This die has been cast. Our coalition of the largest peanut growing areas of the country, producing the majority of U.S. peanuts, wants to break this trend. To save the peanut industry in the United States, we have to develop a peanut program that responds to the marketplace. The Congress made sweeping changes to farm programs in 1996 but the peanut program remained structurally intact.

Now it is time to transform our program to meet the variables of the future. Are these trade agreements to be reversed? Will the Congress reject the Free Trade Area of the Americas initiative? I think not.

We believe we have a plan that keeps American producers competitive in America and the world marketplace. Let us compete. Let us reverse a trend that does not allow our sons and daughters to come back to the farm, that breeds depression among growers and prevents any form of long-term business planning. Our proposal is a plan for the future.

TRANSITION PAYMENTS

The first part of our plan is to establish transition payments based on the historic quota. The quota would be suspended just as bases were in the last farm bill. Payments would be made to the quota holder for the life of the farm bill, not less than five years, at a level of 14 cents per pound per year. Peanut quotas have been capitalized into farm values and in many cases producers carry debt based on the purchase of these quotas. These quota holder payments need to be made exclusive of payment limits. The 14 cent annual payment is an approximate average peanut lease rate in the State of Georgia, the largest peanut producing state.

For our cost estimate, we use the 2001 quota level of 1,280,000 tons (1,180,000 tons of quota + 100,000 tons of temporary seed quota) of farmer stock peanuts. This resulted in a projected annual Government cost of approximately $358,400,000 per year. Since these payments would be decoupled from production, they would not be subject to any WTO constraints. For purposes of this transition payment, the quota should be held at the 2001 level for the life of the bill.

MARKETING LOAN PROPOSAL

The second component of our plan is to establish a Marketing Loan Program for peanuts, the same structure developed by this Committee for other commodities. After grower meetings in counties across the country, we suggest a $500 loan rate. We feel based on a Texas A & M study that this is a reasonable level in comparison to other commodity program prices. (See Attachment 1) This level of support provides growers a safety net while allowing growers to compete in the market with foreign imported peanuts.

Payments, resulting from the marketing loan, should not be subject to payment limitations. Farmers have had to get larger to survive. Still, these farms are family farms that need some form of safety net on all of the commodities they produce. The current payment limit structure inhibits farmers from obtaining adequate financing at local banks in many cases. If the elimination of payment limits cannot be accomplished in this farm bill, we propose that the payments would be in the form of generic certificates that allow the grower marketing options to manage the payment limits.

Because we are significantly reducing our support rate, we request the Committee consider an annual escalator based on increases or decreases in the cost of production that would be applied to the marketing loan rate. This would to be tied to the consumer price index with a maximum increase or decrease of 2% per year of the total loan rate.

We have included a chart with the potential Government exposure using data from the University of Georgia and the U.S. Department of Agriculture. In developing these cost estimates, production figures from each peanut producing state have been based on that state's maximum annual production during the period 1978 to 2000. (See Attachment 2) The total U.S. production based on these figures amounts to 2,700,000 tons which reflects a 50% increase in production over the current production level. The peanut production of many states today is significantly below the maximum it attained in the past that has been used in our cost estimates. The estimated cost of our proposed marketing loan program should be approximately $350, 000,000 per year. The repayment price would be based on the World Market Price using

Rotterdam as a reference point. This does not reflect any increase in the marketing loan rate over the life of the legislation.

We understand that in making this transition to a more market-oriented program, there are some questions that will not be answered until the new program is in place. For that reason we are also suggesting a safeguard against excessive government costs.

Currently, we are charged with $347 million for our level of support under the Uruguay round of the GATT. We suggest if Loan Deficiency Payments exceed $350 million, the Secretary of Agriculture is given the authority to limit loan eligibility based on prior production history. This would involve structuring an inactive base, proven recent production history, that only becomes active in the event the Secretary determines that it is necessary for the U.S. to stay within its GATT commitments.

Mr. Chairman, as peanut leaders, this has been a difficult road in determining the best program proposal for the future of the peanut industry. We believe we are on the right track in developing a program that works for growers.

We recognize the investments in quota over the years and have sought a remedy to protect those investors. Our highest priority is the future of the industry. We will gain back the consumption lost to imports and at the same time will be more competitive in the export market. This program will put more money back into our rural communities as our growers prosper.

Again, I appreciate you allowing us to present our testimony this morning. We are glad to answer any questions from you or the committee members.

TESTIMONY OF AMERICAN PEANUT SHELLERS ASSOCIATION

FOR

SENATE AGRICULTURE, NUTRITION AND FORESTRY COMMITTEE

WASHINGTON, D.C.

JULY 17, 2001

My name is Evans Plowden. I represent the American Peanut Shellers Association. Members of our association handle approximately 90% of the peanuts grown in the United States. We appreciate the opportunity to present our views on peanut legislation to the committee. We obviously have a vital interest in this legislation.

The United States is by far the largest market for edible peanuts in the world. In fact, edible uses for peanuts in the rest of the world combined, approximately equals that of the U.S. This market is not only the largest in volume, but the price is almost double that in the rest of the world. Consequently, the U.S. market **IS** the market for edible peanuts.

Over the last several decades the U.S. market for edible peanuts was protected from significant imports. That is no longer true today. Additionally, products containing peanuts may be imported into the United States without restriction. The consequences of direct kernel and peanut butter imports together with imports of products containing peanuts has eroded the volumes for U.S. growers and shellers. The prospects for the future seem to be much the same. NAFTA now allows unlimited imports of peanut butter made from Mexican peanuts and will soon allow virtually unlimited imports of

kernels from Mexico. As you know, there are other trade agreements on the horizon.

There is no real disagreement over these circumstances. Everyone agrees that the price of peanuts in the market place must decline so as to become competitive with peanuts from other origins. Unless that is done the United States industry will lose the export market in the short term and the loss of the domestic market will continue.

The price of U.S. peanuts is higher than the world market, not only because of price supports but also because of a highly complex, set of legal and regulatory procedures administered by entities that have developed over the decades which are no longer useful. These regulations are often counter productive and add to the cost of the finished product. I am not speaking here of food safety or environmental regulations but rather outdated procedures which were instituted in the past to address issues that either no longer exist or because of technological advancement can be addressed in better ways. An example is that because of these outdated regulations in the U.S., we still must keep peanuts identified and preserved on small wagons until dried before purchasing, rather than using modern technology of continuous flow dryers. The peanut industry, from a

regulatory standpoint is still operating in the fifties and sixties. We have to compete with people who are operating in the 21st Century. It would be an absolute tragedy to make dramatic reforms of the basics of the peanut program and then leave in place a bureaucratic structure that is no longer useful but rather counter productive. It prohibits efficiency and adds costs to the benefit of no one.

We urge you to be aware that the reforms needed in response to trade agreements include not only price competitiveness but also eliminating unneeded and costly procedures and structures.

It is our view that the marketing loan concept proposed by a large segment of the peanut and growing community is the best approach to preserve the peanut industry in the United States. However, there is some danger that, during the adjustment from the current supply management program to a marketing loan program, overproduction might occur.

Production of peanuts under this new program is an issue. We would expect an increased market for domestically produced peanuts, both due to a potential increase in demand and due to U.S. peanuts retaking that portion of the market having been lost to imports, but production could outpace that increased demand. We have discussed this concern with the proponents of the marketing loan program and

we believe they are appropriately addressing it so that production will not get out of hand.

In closing let me say again that after much thought, we believe that the marketing loan concept is the best way to allow all of us to successfully compete in the biggest and best market in the world.

Thank you Mr. Chairman. I will be glad to try to answer any questions you or members of the Committee may have.

TESTIMONY OF THE
NATIONAL PEANUT GROWERS GROUP
before the
Senate Agriculture Committee
July 17, 2001
Washington, D. C.

Thank you, Mr. Chairman, for this opportunity to discuss options for a new Farm Bill. Peanut producers want and need your support.

My name is Wilbur Gamble, I am a farmer from Dawson, Georgia.

I am here today representing the National Peanut Growers Group and my purpose is to help sustain thousands of active farm families in peanut production. Our organization is the only national peanut producer organization and represents all of the nation's peanut producing families. We are governed by a farmer-selected steering committee made up of representatives from grower-elected association boards all across the peanut growing regions.

The NPGG is made up of the following organizations: Alabama Peanut Producers Association, Georgia Agricultural Commodity Commission For Peanuts, GFA Peanut Association, Georgia Peanut Producers Association, Texas Peanut Growers Association, Southwestern Peanut Growers' Association, Oklahoma Peanut Growers Association, Virginia Peanut Growers Association, Inc., North Carolina Peanut Growers Association, Peanut Growers Cooperative Marketing Association, New Mexico Peanut Growers Association, South Carolina Peanut Board and Florida Peanut Producers Association.

Mr. Chairman, the Peanut Program is absolutely necessary to peanut producers. U. S. producers are dependent on the Program and in turn, so are the hundreds of rural communities that are supported by peanut growing families and support industries associated with peanut production and marketing. Additionally consumers and manufacturers are dependent upon a program that provides a safe and economical supply of peanuts.

The peanut farmer is a family producer and a solid citizen in his community. However, that small family producer must work an entire year to produce a crop that, because of its perishable nature, must be sold almost immediately at harvest. We are told that about 80% of U. S. peanuts are sold to only two processing companies. One of these companies is owned by the nation's largest agri-business processor. These shelling companies in turn sell to various product manufacturers. Again, this portion of the peanut industry is dominated by "very" big business. Six multinational billion dollar corporations purchase 75% to 80% of the domestically used peanuts.

What marketing ability does a small family farmer have in this situation? The clear answer is very little, without the Peanut Program. We are deeply dependent on, and appreciative to this Committee for the Peanut Program.

There are strong consumer benefits to the Peanut Program also. Consumers benefit greatly from the Peanut Program because, to receive program benefits, peanut producers must produce a consistent supply and comply with one of the strictest quality programs in agriculture. This steady supply has held prices in check and avoided the "boom and bust" that has plagued other commodities. The result has been that peanut butter is one of the least expensive protein sources in the U. S. diet and peanuts are the least expensive nut for a snack food.

Mr. Chairman, just as the recent trade agreements have not been kind to peanut producers, neither has the current farm program. As compared with the program before the current law, peanut producers have lost 10% of the peanut support price, resulting in a loss in income of millions of dollars to peanut producers. Growers also lost the escalator provision in this current program, thus the peanut support price, and thus farm income from peanuts has been frozen since 1996.

And Mr. Chairman, there has been essentially no benefit to the housewife from these losses to producers. Consumer peanut and peanut butter prices have risen since 1996.

The current situation, Mr. Chairman, adds to the economic difficulty facing peanut farmers today. Every farm input has increased since 1996. I know you are fully aware of the dramatic increase in fuel costs that farmers faced last year and the outlook is only for more increases in fuel costs. This factor alone will force many producers off their farms this year.

Mr. Chairman, we have two recommendations for this Committee, short term and long term.

Short term, if a new farm policy cannot be developed quickly, then peanut producers must again receive market loss payments as has been made available the last two years. Again, Mr. Chairman, we are deeply appreciative to you and this Committee for helping make those payments available to peanut producers. It is only in this manner that the economic losses faced by peanut farmers from current policy can be offset.

In the long term, Mr. Chairman, despite the value of the Peanut Program, peanut producers realize the political realities in Washington involving budgets, trade agreements and anti-program proponents. The National Peanut Growers Group has voted on various options for consideration as a new Farm Bill begins, and present to you today a description of the option we feel is best for the taxpayer, consumer, processor, manufacturer and most importantly the farmer.

This is a serious matter for producers, Mr. Chairman. Today, we are facing oversupply stemming from record high peanut imports, and record high peanut butter imports. GATT and NAFTA were not kind to peanut producers as it is projected we will lose to imports more than 10% of our domestic market over the next several years. We make these recommendations with this increased competition in mind.

Marketing Competitiveness Option

In reviewing the options to make producers competitive with imports and at the same time offering the consumer a product with no domestic price disadvantage, the Step-Two Concept/Market Competitiveness Option (similar to cotton) is viewed as the most viable option by the National Peanut Growers Group.

Under the Market Competitiveness /Step-Two Option, producers are offered a price support level that will allow them to keep up with cost of production. Additionally, the processor will be afforded a peanut that is priced competitively to imports. This will also answer consumer advocacy organizations that wrongly contend that U. S. peanuts artificially drive up retail prices, although we believe that this is not the case. Finally, we believe the cost associated with this option will be below the current WTO support levels attributed to peanuts.

Since the world edible market is primarily in the U. S., it is important that we work to keep domestic peanuts into our home market as well as the world market. The Market Competitiveness/Step-Two Option was offered by the Commission on 21st Century Production Agriculture as an option, that while similar to the Cotton Program, it would stimulate the purchase of U. S. peanuts domestically at a competitive price. Under the current Program, quota or domestic peanuts are generally priced at a level that is above world price due to U. S. production costs, regulations and various other reasons. This option would allow the domestic poundages to be bought at a price competitive with other origins.

The quality of U. S. produced peanuts continues to be generally superior to imported peanuts. A domestic competitiveness option for peanuts would be helpful to processors and would ensure that U. S. consumers continue to have high quality peanuts available. The processor would be buying based upon quality and delivery.

The introduction of a domestic Market Competitiveness/Step-Two Option creates a viable domestic support rate, when adjusted for cost of production it also means a more viable producer. Secondly, the peanuts could then be bought by the processor at a determined competitive price rate. Differences between the support rate and adjusted price would be a program cost that is estimated to be lower than WTO attributed spending for peanuts. The price could be determined by using an average import U. S. price, North American Import price and a converted Rotterdam market price. We realize that developing a world price mechanism is important, but is also difficult considering that there are limited price discovery markets for peanuts.

Under this concept the producer would not receive a direct government payment and thus should not be affected by payment limits or annual Appropriation battles. Marketing options for any production above domestic consumption levels then could be enhanced by an increased loan level for additional or export production. Current additional peanut producers would have increased access to quota.

One mechanism for delivery of the domestic support rate would be through established CCC draft mechanisms, utilizing the area marketing associations. The processor would then repay the CCC for delivered domestic peanuts at an established price level. This would eliminate any government dollars from moving into processor hands.

As was mentioned earlier, estimated Program cost should be less than the current $347 million attributed to U. S. Peanut Program support. Which is the only industry proposal that meets the House announced program expenditure levels. As an example, if the cost adjusted domestic price support rate for the producer was $0.34 per pound or $680 per farmers stock ton and the determined world price was $.25 per pound or $500 per ton (average converted price including C.I.F.) the competitiveness costs would be $.09 per pound or $180 per ton. Therefore, there would be a government cost of $216 million ($180 per ton times 1.2 million tons of domestic consumption).

The competitiveness provision is also a cost containment provision. By limiting domestic support to domestic average consumption, the cost of this option is limited.

In addition to providing the producer a cost of production adjusted support rate, the processor is buying on quality and delivery. Therefore, there would be no price incentive to purchase foreign peanuts, and reduce the need for tariffs that are currently being reduced under trade agreements. At the same time this would not be considered trade distorting, because there is only leveling of the market and not undercutting the market.

Although the NPGG did not specifically address what are currently referred to as additional peanuts, there are ways to assist in marketing peanuts for the export market. Peanuts produced primarily for the export market could then be supported at a higher rate using an optional marketing loan concept. If an export loan level was in place, the producer could have the choice to produce for the world export market or utilize the Association loan pools. The export market would be made more attractive by an improved loan rate, without relying solely on a purchaser contract. Costs are estimated to be minimal because the market would dictate production for the export market. Additionally, the support rate expense would be offset by returns from alternative oil and meal markets that is closely priced to the export support rate and export loan sales.

Other items that were deemed important for producer survival were cost management, and maintaining high product quality. We feel the best cost containment tool is the use of a supply management mechanism. This is not to control the amount of peanuts grown, but to control the amount eligible for domestic support. There would be no planting restrictions. However, only an amount of peanuts equal to domestic consumption would be eligible for the domestic support rate with the Competitive Option. The only measure of official support for a supply management program was the U. S. referendum on program continuation for the current program. In this USDA vote, 94.8% of all producers support a supply management program. Additionally, about 85% of producers oppose the marketing loan concept according to responses to a recent peanut grower magazine poll.

Furthermore, if buyers are going to make purchasing decisions based on quality, the NPGG feels they must maintain the current grading system. The Federal/State Inspection Service is a pivotal part of delivering quality peanuts to the processor.

As was mentioned earlier, peanut farmers have lost a great deal of income since 1995. In part due to the cuts in price in the budget driven 1996 Farm Bill, but also partly because of a frozen loan rate. Therefore, a price support adjustment is needed. The NPGG supports a farmer stock price support adjusted for inflation. Additionally, we support a cost of production adjustment provision that would be adjusted annually at a rate of not less than two percent using the Consumer Price Index.

It is also important there be an adequate supply of peanuts for the domestic market. Therefore, we recommend that peanuts grown for export would be allowed to move into the domestic market if a shortage occurred.

The Market Competitiveness/Step-Two option brings about a condition enabling the producer to stay viable and to keep up with cost of production. At the same time there is maintenance of the base structure of the Peanut Program with more flexibility and competitiveness. With no direct payment there is no payment limit problems or AMTA cost. The processor will be able to buy the domestic peanut at a level competitive with imports, thus eliminating the price incentive for foreign peanuts. This option also creates minimal government outlays with positive returns for the producer, processor, manufacturer and consumer.

Mr. Chairman we developed these recommendations with cost considerations in mind. while we support the elimination of the no-net cost provision, we have taken a step towards being competitive, all this with the taxpayer, consumer, processor, manufacturer and farmer in mind.

Mr. Chairman, on behalf of the National Peanut Growers Group we thank you for this opportunity.

DOCUMENTS SUBMITTED FOR THE RECORD

JULY 17, 2001

AMTA & Marketing Loan Program for U.S. Peanuts

Dr. Ed Smith
Dr. Abner Womack

AFPC
AGRICULTURAL & FOOD POLICY CENTER

Feb. 15, 2001

Title: **AMTA & Marketing Loan Program for U.S. Peanuts**

Subject: **Replace the current quota support program for peanuts with a marketing** loan program set at $450/ton. Examine the implications of an AMTA program similar to corresponding levels of payments for feed grains, wheat, cotton and rice.

Education Request:
Southwestern Peanut Growers Association
Texas Peanut Producers Board

Analytical Considerations -- parameters to consider in making the transition.

Two levels of assessment are required before a complete statement can be made about the likely consequences of shifting from a quota protected program to a more flexible marketing loan set at $450/ton across the board. The first level is a simple comparison of protection implied by the FAIR Act for major commodities. Using this level as a reference point inferences can be made about a possible cross over program that offers peanut producers a similar level of protection.

This is usually done by comparing government support with the corresponding variable cost of production per acre. In general, this is accomplished at a national level. However regional comparisons will likely be necessary as a national based formula will likely trigger shifts in production patterns due to the regional nature of the current quota system.

But as an initial starting point national averages, will be used to develop a framework that demonstrates current levels of support or protection and corresponding implications for peanuts.

The second level of analysis necessary to finalize this assessment will not be attempted in this study. This level requires the use of analytical models that have the capability of estimating regional supply responses in conjunction with other regionally

competitive crops. Also these models are designed to establish a demand system that interfaces both domestic and international markets. This latter component is essential in that a free market price will exist and must be projected in order to analyze the risk associated with the program in terms of producer and government cost.

If a marketing loan is the path taken by the peanut industry than it will be necessary to project the free market price. If the free market price floats below the marketing loan then LDP payments by the government are implied suggesting a level of treasury exposure. Ultimately, these estimates will be necessary before legislation can be decided.

Stage one investigation – A comparison of implied government support under the current FAIR Act and corresponding implications for the peanut industry.

Information in table 1 is designed to reflect relative government support levels for feed grains, wheat, soybeans, cotton and rice. In each case imputed trend yields and national variable cost of production are used as a reference point for estimating government protection under the marketing loan.

Trend yield for each commodity per acre multiplied times marketing loan represents a base levels of government supported revenue. The next step is to determine what percent of variable cost this covers. In this case government revenue is divided by variable cost and in general the ratio is expected to be greater than 1. The higher the ratio the higher is the implied level of government revenue support. Consider these variables measured at the national level in Table 1.

Table 1. Implied level of Government Revenue Support by Commodity. The ratio of government revenue support to variable cost per acre. (Based on national averages)

	Trend Yield		Loan Rate		Gov. Support (YLD*Loan Rate)		Variable Cost Per acre		Ratio (Gov. Support) / (Var. Cost)		Avg. Ratio Gov. Support / Var. Cost
	98	99	98	99	98	99	98	99	98	99	98-99
	bu	bu	$	$	$	$	$	$			
Corn	129.6	131.5	1.89	1.89	245	249	158	157	1.56	1.59	1.57
Sorghum	66.7	67.0	1.74	1.74	116	117	78	83	1.48	1.40	1.44
Soybeans	38.5	39.0	5.26	5.26	202	205	81	78	2.49	2.62	2.56
Oats	59.5	60.2	1.11	1.13	66	68	56	54	1.17	1.27	1.22
Barley	60.6	61.5	1.56	1.59	94	98	89	90	1.06	1.09	1.08
Wheat	52.5	53.0	2.58	2.58	135	137	60	57	2.27	2.39	2.33
Upland Cotton	638.0	639.0	0.52	0.52	331	332	265	382	1.25	1.19	1.22
Rice	58.5 cwt	58.8 cwt	6.30 cwt	6.30 cwt	381	382	378	362	1.00	1.00	1.00
Peanuts	2564.6 lbs	2588.7 lbs					348	343			

Table 1 is a reflection of implied government support for per acre at the national level through the use of a marketing loan. Consider corn as the example. The trend yield in 1998 is 129.6 bu per acre. The marketing loan is $1.89/bu implying a total revenue support of $245 per acre in 1998. The variable cost, which does include hired labor, is estimated at $158 per acre. This means that the government is supporting revenue of

$245 per acre at a variable expense of $158 per acre giving a ratio of 1.56. In other words, if trend yields are achieved the marketing loan program for corn provides $1.56 for each dollar of variable cost.

Similarly ratios can be computed for each of the supported commodity. This provides an interesting contrast. Soybeans reflect the highest ratio of revenue support at 2.56 and rice the lowest at 1.0.

The next step requires transferring these ratios back to the peanut industry. Suppose we compare or contrast what the implied marketing loan would be if similar revenue to cost ratios were used for peanuts. In the case of corn this becomes a simple formula. The question to be answered is what peanut loan level can be derived from a similar revenue to cost ratio for corn. To answer this question one would use the following formula. Trend yield times peanut loan, divided by peanut variable cost of production equals the corn revenue to cost ratio.

$$\left[\frac{(2564 \text{ trend yield})\ (\text{peanut loan})}{(347.65 \text{ var cost})}\right] = 1.57 \text{ Corn Ratio}$$

$$\text{Peanut loan} = \frac{(1.57)\ (347.65)}{2564}$$

$$= \$.21/\text{lb or } \$420/\text{ton}$$

So if corn is used as a comparison the marketing loan would be $420 per ton for peanuts.

In a similar fashion a peanut loan rate can be computed relative to each supported crop. These figures are reflected in Table 2.

Table 2. Inputed marketing loan rates for peanuts relative to other supported crops

	Cents/lb	$/ton
Corn	21	420
Sorghum	20	400
Oats	17	340
Barley	15	300
Soybeans	35	700
Wheat	32	640
Upland cotton	17	340
Rice	14	280

Obviously a wide range exists between commodities. If peanuts were paid equivalent to rice the marketing loan implied would be $280/ton. On the other hand if wheat is chosen as a reference the implied marketing loan would be $640/ton.

These estimates reflect a starting point in any decision associated with moving the industry to a market oriented program with base government support across all planted acres under complete planting flexibility. Apparently the $450/ton selected as a starting point fits in this distribution. Is this a fair number? The answer depends on where /what region peanuts are grown with implied support across other commodities and corresponding payments that would be given up by quota holders.

Quota Holders and Compensation

The next stage focuses on quota holders and some implied compensation for the loss of their quota. Obviously regions that gain are areas that can now plant without restrictions, but this leaves the quota holder with a net loss. How to think about a fair compensation:

Consider the situation for the quota holder in 2000/2001:

- Quota tonnage is 1,280,000 tons
- Loan rate is .305/lb or $610/ton
- Loss of $160/ton on quota if move to $450 ton marketing loan
- $160/ton * 1,280,000 tons = $204.8mil
- Implies $0.08/lbs. loss for quota holders

If there is an AMTA type payment then an $0.08/lb payment for quota peanuts brings the quota holder back to $610/ton which is the original position before implementing the marketing loan of $450/ton.

Conclusion:

This comparison is written as a starting point for the debate and lays out a framework that can be used to help justify the transition from the current quota based system to the one currently operating for wheat, feed grain, cotton, rice, and oilseed producers. Obviously some crops fair better than others on a bases where valuable cost per acre is a reference point. Many other factors could be influential. Those include yield variability, production cost, and competitive return for other crops grown in the same region.

For any AMTA and marketing loan program there is an implied level of production for which the market will clear. This second stage will be necessary before

this analysis is complete. However the debate is dependent on a starting point. This first stage of analysis suggests that comparisons can be made by region to examine a breakeven, relative to where and what quota holders can expect. Their supported returns via a marketing loan and AMTA can be derived. A completion of this information can lead to a bracketed set of support that can be further examined to determine an overall balance of supply and demand. This latter point will not be easily derived without analytical models that can accurately describe the over all U.S. supply, demand and corresponding prices. Supports set two low, will starve out peanut acreage-set too high, can have exactly the opposite effect.

CropYear	Seast AL	FL	GA	SC	Total	Swest OK	TX
						1,000 acres	
1978	211.0	63.0	530.0	15.5	819.5	123.0	307.0
1979	211.0	64.0	530.0	15.0	820.0	123.0	315.0
1980	209.0	65.0	530.0	15.0	819.0	123.0	290.0
1981	224.0	69.0	570.0	15.0	878.0	95.0	244.0
1982	179.0	59.0	475.0	12.0	725.0	88.0	240.0
1983	182.0	69.0	567.0	13.0	831.0	93.0	230.0
1984	221.0	85.0	643.0	15.0	964.0	93.0	232.0
1985	201.0	80.0	595.0	12.0	888.0	87.0	252.0
1986	220.0	94.0	675.0	12.0	1001.0	92.0	225.0
1987	221.0	91.0	635.0	13.0	960.0	100.0	254.0
1988	237.0	98.0	690.0	13.0	1038.0	99.0	260.0
1989	240.0	95.0	690.0	13.0	1038.0	99.0	265.0
1990	258.0	108.0	782.0	14.0	1162.0	107.0	295.0
1991	278.0	126.0	900.0	14.5	1318.5	110.0	330.0
1992	237.0	85.0	675.0	13.5	1010.5	100.0	308.0
1993	240.0	98.0	702.0	14.5	1054.5	105.0	305.0
1994	223.0	92.0	652.0	13.0	980.0	102.0	295.0
1995	213.0	89.0	595.0	11.5	908.5	100.0	275.0
1996	192.0	90.0	535.0	11.0	828.0	85.0	270.0
1997	194.0	92.0	520.0	11.0	817.0	79.0	320.0
1998	198.0	96.0	535.0	12.0	841.0	80.0	370.0
1999	207.0	102.0	546.0	11.5	866.5	83.0	360.0
2000	200.0	90.0	510.0	12.0	812.0	85.0	375.0

	1,000 acres
Total acre=max prodn	2,045
Max acreage =	2120.2

NM	Total	VACA VA	NC	Total	US
9.5	439.5	104.0	170.0	274.0	1540.8
9.2	447.2	103.0	168.0	271.0	1545.9
8.9	421.9	104.0	169.0	273.0	1521.4
10.0	349.0	105.0	175.0	280.0	1514.0
10.4	338.4	96.0	152.0	248.0	1311.4
11.0	334.0	96.0	150.0	246.0	1411.0
14.6	339.6	98.0	157.0	255.0	1558.6
12.4	351.4	96.0	155.0	251.0	1490.4
12.7	329.7	89.0	145.0	234.0	1564.7
12.4	366.4	91.0	150.0	241.0	1567.4
13.4	372.4	92.0	155.0	247.0	1657.4
18.2	382.2	92.0	153.0	245.0	1665.2
20.0	422.0	97.0	165.0	262.0	1846.0
22.7	462.7	96.0	162.0	258.0	2039.2
21.1	429.1	94.0	153.0	247.0	1686.6
22.0	432.0	95.0	152.0	247.0	1733.5
21.0	418.0	92.0	151.0	243.0	1641.0
20.0	395.0	90.0	144.0	234.0	1537.5
16.5	371.5	77.0	125.0	202.0	1401.5
18.0	417.0	76.0	124.0	200.0	1434.0
20.0	470.0	76.0	125.0	201.0	1521.0
22.0	465.0	77.0	126.0	203.0	1534.5
22.0	482.0	76.0	125.0	201.0	1495.0

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