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THE ADMINISTRATION PERSPECTIVE WITH REGARD TO THE NEW FEDERAL FARM BILL

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

SEPTEMBER 26, 2001

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THE ADMINISTRATION PERSPECTIVE WITH REGARD TO THE NEW FEDERAL FARM BILL

WEDNESDAY, SEPTEMBER 26, 2001

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

The committee met, pursuant to notice, at 9:03 a.m., in room SD–106, Dirksen Senate Office Building, Hon. Tom Harkin, [Chairman of the Committee], presiding.

Present or Submitting a Statement: Senators Harkin, Leahy, Conrad, Baucus, Lincoln, Miller, Nelson (of Nebraska), Dayton, Wellstone, Lugar, Helms, Roberts, Fitzgerald, Thomas, Hutchinson, and Crapo.

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

The CHAIRMAN. The U.S. Senate Committee on Agriculture, Nutrition, and Forestry will come to order.

This morning, we are having a hearing on the administration's views on food and agricultural policy, and this morning I am pleased to welcome Secretary Veneman, accompanied by Under Secretary Penn and Dr. Keith Collins, to our committee for this hearing.

We look forward to this morning's testimony and discussion of the report the administration released last week, and I have to tell you in my 27 years now on the House and Senate Agriculture Committees I have read a lot of reports. We used to have the annual book that came out on agriculture. Of all of them, this is perhaps the most comprehensive and forward-looking that I have seen in all these years.

I recommend it highly to any member of the committee who has not read it. I read it on the train going up to New York last week and back, and perused it a little bit last night. I recommend it highly. It is a great report, and I commend you for that, Madam Secretary.

Just yesterday, the distinguished ranking member, Senator Lugar, and I issued a set of joint policy objectives for the Farm bill. So I believe the stage is set for a good hearing and an airing of views.

Farm families and rural communities across America have not shared in our Nation's prosperity. We need new directions in Federal agriculture, food and rural policies. I welcome this report, Secretary Veneman, because it clearly indicates a willingness to exam-

ine critical issues in rural America and in our food and agriculture system, and to explore new ideas and policy proposals. To be sure, there are details to be filled in, and I look forward to working with you and your team on these specific policies.

In your written testimony, which I went over last evening, I was pleased to read your part in there when you talked about a comprehensive review of ag policy is urgently needed. I couldn't agree more.

Farm income protection is, of course, a fundamental part of the Farm bill. We need a better system to provide adequate income protection without requiring annual emergency legislation. However, protecting agricultural producers against income losses is not enough by itself. The Farm bill must also help farmers and rural communities create and realize opportunities for the future.

If the legislation fails to lay a foundation for new opportunities, rural America will be no better off 5 or 10 years from now. Farmers will be just as dependent on Government checks and rural communities will still be falling behind.

The new Farm bill should help farmers earn better returns and a larger share of the consumer dollar in the market. Value-added processing ventures, new biotechnology products, innovative marketing channels, and increased exports all can help. If independent farms are to survive, though, we must ensure that agricultural markets are open, competitive and fair.

America's farmers, ranchers and landowners have a strong stewardship ethic, but margins are tight and they too often lack the financial resources to conserve natural resources as they want to do. The new Farm bill should extend and strengthen USDA's current conservation programs, and it should create a new system of incentive payments for maintaining or adopting new conservation practices on land that is in production. The bipartisan legislation that I have offered will, I hope, improve producers' incomes and help them conserve soil, water and wildlife.

We have barely scratched the surface of the potential for producing farm-based renewable energy and raw materials, including ethanol, biodiesel, biomass, and even wind power. Anything we can make from a barrel of oil we can produce from farm commodities. I am proposing a special title to promote renewable energy in the Farm bill. It has never been done, but the time is right. Quite frankly, I believe this area could represent the largest potential market for income growth for farmers and ranchers, along with products made from agricultural crops, such as soy-based building materials and things like that.

We also need to strengthen the foundation and infrastructure of our Nation's food and agricultural sector. That includes support for research, protecting the safety and security of our food supply, safeguarding plant and animal health. We must meet our responsibility to help fight hunger and malnutrition at home and in developing countries, especially among children.

We will not have truly healthy rural communities unless both farms and small towns do well. Rural America is too often at a disadvantage when it comes to basics like enough good water, electric power, telecommunications, loans for businesses, and equity capital for investment. A critical part of the Farm bill, I believe, is helping

to revitalize rural economies, generate more good jobs and improve the quality of life in rural communities.

Last, let me just say, Madam Secretary, that the events of 2 weeks and a day ago also compel us to examine the Farm bill in the light of the safety of our food and animal and plant-based food products in this country, to take a strong examination of our whole system, from producer to the store, to make sure that our people have the utmost and the highest confidence in the safety of our food in this country.

To that end, I will examine with you any advice or suggestions you might have for changes that need to be made, but I also believe that this is going to have to be something that we are going to have to focus on in this Farm bill. I welcome any suggestions and advice that you might have for us along this pathway. Again, I welcome you to the committee and I look forward to your testimony.

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

With that, I would recognize my 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 congratulate you on "Food and Agriculture Policy" and I am going to quote from this extensively. For those who want to know where we are heading, page 46, Chapter III, is an area that is very significant as we consider farm legislation.

The publication of the United States Department of Agriculture book on Food and Agriculture Policy is a signal event. I congratulate Secretary Ann Veneman for this timely intervention into preparation for the next Farm bill, and I join Chairman Harkin in welcoming her and her colleagues to the committee today.

Chapter III of the new USDA book merits special attention. The chapter begins by pointing out, and I quote, "the farm sector is diverse beyond the imagination of those who farmed the New Deal legislation. On average, farm family incomes no longer lag, but rather surpass those of other U.S. households. Most farms are run by people whose principal occupation is not farming...domestic demand alone is no longer sufficient to absorb what American farmers can produce." These are all direct quotes.

On the next page Chapter III continues, and I quote, "Many of the program approaches since the 1930's proved not to work well or not at all, produced unexpected and unwanted consequences, became far costlier than expected, and have been continually modified over time in a long succession of farm laws. Some major, and still highly relevant, lessons learned include," first, and I quote, "History has shown that supporting prices is self-defeating."

That is a remarkable statement on the face of it. "History has shown that supporting prices is self-defeating. Government attempts to hold prices above those determined by commercial markets have simply made matters worse time after time. Artificially higher prices encouraged even more unneeded output from the most efficient producers at the same time they discouraged utiliza-

tion pushing surpluses higher and prices lower." This is all a direct quotation from page 47.

"Supply controls proved unworkable too...the remaining land was farmed more intensively, and supply was rarely cut enough to boost prices to politically satisfactory levels. The programs were costly to taxpayers and consumers and the unused resources were a drag on overall economic performance...limiting our acreage was a signal to our competitors in other countries to expand theirs, and we lost market share that is always difficult to recapture..."

Continuing the quotation, "Stockholding and reserve plans distort markets enormously...because such stock eventually must be returned to the market, they limit the recovery of prices in the future. Moreover, time after time, stocks have proven costly to maintain, distorted normal marketing patterns, ceded advantage to competitors, and proved tempting targets for political tampering..."

I continue the quotes: "Program benefits invariably prove to be disparate, providing unintended (and unwanted) consequences. The rapidly changing farm sector structure produced a wide array of farm sizes and efficiencies. Many farms were low cost and the programs were of enormous benefit, enabling them to expand their operations. Others did not receive enough benefits to remain viable and thus were absorbed along the way."

The book credits the FAIR Act of 1996 with removing much of the decades-old program structure, providing unparalleled farm decisionmaking and becoming the least distorting of markets and resource use. USDA states that the FAIR Act's "direct payments to share some unintended effects with price support programs, namely the artificial inflation of farmland prices. The effect has been exacerbated by the size of payments in recent years, some $28 billion in the last 4 years above the amount provided in the 1996 law."

The book goes on to point out that only 40 percent—40 percent—of farms receive these payments because they are largely directed to specific commodities. In fact, 47 percent of the payments—47 percent—went to large commercial farms which contributed nearly half of the commodity production and had household incomes of $135,000. A color chart illustrates this on the next page.

Another interesting discussion surrounds the fact that 42 percent of farmers rented land in 1999, and commodity payments capitalized in higher land values often led to higher rents.

Secretary Veneman, the farm legislative process is in motion, and the book of principles makes an important contribution, but I ask you and your associates to do more. Please begin to comment specifically on the wisdom of farm bill ideas which are now being formulated or debated in the House and the Senate. Please enlist the assistance of OMB to identify how much money is now available in a war economy with dire predictions that prospective surpluses are vanishing or gone. The need for that timely intervention by the Bush administration and USDA is apparent. I look forward to your testimony.

Thank you, Mr. Chairman.

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

The CHAIRMAN. Thank you, Senator Lugar.

I will now turn to, in order of appearance, Senator Conrad.

Senator CONRAD. I would be happy to yield to Senator Leahy.

The CHAIRMAN. Senator Leahy.

STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM VERMONT

Senator LEAHY. Mr. Chairman, I appreciate the courtesy very much. This is an extremely important hearing.

Secretary Veneman, I have had a chance to go through your report. It is excellent, which is nothing less than what we have grown to expect from you in both administration and previously when you were here.

Also, incidentally, I want to thank you for the briefing you gave yesterday to a number up here on the question of agriculture's role in anti-terrorist activities. Looking around this committee, I know we have some who are on the Judiciary Committee here. We were over with Attorney General Ashcroft, or I would have been there. Actually, we were here in this room with Attorney General Ashcroft, or I would have been there, but I have been briefed about what you raised.

Your report highlights some of the inequities of the current Farm bill which is directed toward specific commodity producers. The benefits reach only about 40 percent of our farms. There are concerns a lot of us have raised over the years about large benefits going to a small number of very large producers, and you refer to that in here.

It implies that farmers throughout the Northeast and Mid-Atlantic States receive relatively few benefits in the current Farm bill. In fact, throughout the Northeast and Mid-Atlantic, we produce about 7 percent of this Nation's agricultural products. Most people don't realize it is that large, but we receive about 1 percent of Federal farm programs under the current laws. We produce 7 percent and get about 1 percent of the benefits.

I am very pleased that the report highlights the value of promoting conservation. That actually benefits farmers, but it benefits everybody else in the country, and I hope this will mean that we are going to have adequate funding for voluntary agricultural conservation programs on private lands. Every one of our 50 States has a backlog now and an overwhelming need.

Your emphasis on nutrition and food assistance is so important, and on the need for more WIC funding. The WIC program is one of the finest social programs, health programs, nutritional programs, whatever you want to call it, this country has ever had. We are the wealthiest, most powerful Nation on Earth. We spend hundreds of millions, and probably even billions of dollars storing excess food. Yet, we have to understand there are a lot of poor pregnant women who get adequate nutrition during their pregnancy and adequate nutrition for them and the child after the child is born.

With this really tiny investment, the child is going to be able to learn better, he is going to grow better. The health of both the mother and the child are going to be better. It is a win-win situation for the taxpayers, for society, and for the mother and the child.

We have had rising unemployment, so national participation has risen substantially. We have to look at that because we can't have

hundreds of thousands of eligible women and children go unserved next year. WIC has always gotten strong bipartisan support up here, and I hope, Madam Secretary, we can work together on that.

I am concerned, as I have stated before, about the increasing concentration among agricultural processors, especially Suiza Foods in my area. A recent University of Connecticut study showed that much of the increase in consumer milk prices in New England is attributable to concentration at the processor or store level.

Last, to go back to the terrorism thing, don't hesitate to tell us what USDA needs. We have had several meetings of the joint bipartisan leadership, and at one of those meetings it was raised the fact that we are talking about Justice and the military and everybody else has an interest in terrorism. The point was raised, what about agriculture? Everybody stopped for a moment and realized, of course, there are some very real needs there. Don't hesitate to raise it. You are going to find strong bipartisan support here.

Again, and I will yield with this, Mr. Chairman, with thanks to both Senator Conrad and to you, I for one am very, very pleased that the Secretary is where she is.

Thank you.

The CHAIRMAN. Thank you, Senator Leahy.

The order of appearance I have is Senator Conrad, Senator Nelson, Senator Hutchinson, Senator Miller, Senator Baucus, Senator Thomas. We will go in that order, then.

Senator WELLSTONE. Tom, you have order of appearance. Is that order of when we came in?

The CHAIRMAN. Yes.

Senator WELLSTONE. You didn't see me come in, then.

[Laughter.]

Senator WELLSTONE. I will talk to you if you want to do it that way.

The CHAIRMAN. Senator Conrad.

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

Senator CONRAD. Thank you, Mr. Chairman.

Thank you, Madam Secretary, for being here and for putting together this basic document that reviews farm policy. As I went through the book, there are a couple of things that aren't there that are important to understand about what our farmers are currently facing, and let me just share those with you and with the committee.

As I look at what is happening in a State like mine, one of the most agricultural in the Nation, and I see the cost of everything that farmers buy going up, and in some cases up dramatically, especially those that are energy-related, and look at the prices that farmers receive and see those prices almost on a straight line down in real terms since the passage of the last Farm bill, it is no wonder that there is such an air of hopelessness in farm country.

In the time I have served North Dakota, I have never seen just a sense of hopelessness out there. I just had a group of farmers come on a fly in to Washington, and in the meeting that we had one leader after another said, what do we say to our young people,

what do we say that gives them any hope, because we ourselves have lost hope.

I had a leader of one of the major farm organizations in my State, one of the most efficient, productive farmers—won every farm award—sit next to me on a plane several months ago. He said, Senator, I don't want this broadly known, but I tell you if I don't have a good year this year, I am done. I can tell you people in my State would be absolutely shocked if they knew the identity of that person. This is as good a farm operator as you will find, I would speculate, anywhere in the country.

We are in a circumstance in which our major competitors, the Europeans, have a totally different approach to farm policy. They have made a judgment they want people out across the land. They don't want everybody to go to town, and they have put their money on the line to support a policy like that. It is expensive, it is very expensive, but it creates a circumstance in which there is an unlevel playing field for our producers.

This is the most recent data from the OECD comparing support for U.S. farmers by our Government to what European farmers receive from their governments. This is per-acre support, the 1996-to–1999 average. The blue bar there is the United States; that is an average of $38 an acre. The European support level is $313 an acre. Anybody could make it on $313 an acre of support, but you can see the extraordinary disadvantage our farmers face.

Some would say, well, we want a free market. There is no free market in world agriculture. Every one of these governments support their producers, and they do it for a reason. The Europeans have been hungry twice and they don't intend to be hungry again, and they are willing to put the money out to make certain that happens. In addition, they have made a determination that they want people out across the land and they are spending to make it happen.

Let me just go to the next chart, and I am going to go through this quickly. It is not just in terms of support for individual producers, but in terms of export assistance for the most recent year that we have full figures, 1998, this pie chart shows world agricultural export support. The Europeans are the blue part of the pie. 83.5 percent of all world agricultural export subsidy is accounted for by the Europeans. Our share is that little red sliver, less than 3 percent. They are out-gunning us here 30 to 1.

It is no wonder, to me, that we are in severe difficulty as we move to write a new farm bill. In essence, we have abandoned our producers in a fundamental way, in comparison to what our major competitors are doing.

Finally, I would leave this chart with my colleagues for their consideration. This shows the percentage of farm income contributed by Government payments by State, and we just selected States at random, the States that are represented by members on this committee. I guess that is a random way of picking them.

We didn't put Vermont on there, Pat.

It is very revealing here: Wisconsin, 174 percent of net farm income is Government payments; Montana, North Dakota, Kansas, Illinois, Michigan, all more than 100 percent; Indiana more than 100 percent; Nebraska, right on the line, 99 percent, and on down

to South Dakota, at 56 percent. Nationwide, 40 percent of net farm income is coming from Government payments, but in these States it is far more dramatic.

When we write new farm policy, we have to be not only cognizant of what you have provided in this really excellent book, and I applaud you for it, but we have also got to be aware of what is going on with respect to our major competitors. If we want to negotiate a more level playing field, the only way I have seen anybody be successful in negotiation is that they have leverage, and this next Farm bill has to be seen in that context.

It has to be a plan that gives leverage to our negotiators to negotiate a more level playing field. It won't happen without leverage, and right now we have none. I believe this Farm bill has to be one that puts us in a position to negotiate successfully a more level playing field.

With that, I thank the chairman and I thank my colleagues.

[The prepared chart submitted by Senator Conrad can be found in the appendix on page 66.]

The CHAIRMAN. Thank you, Senator Conrad.

Again, I will go down the list: Senator Nelson, Senator Hutchinson, Senator Miller, Senator Wellstone, Senator Baucus, Senator Thomas, Senator Crapo, Senator Dayton. I have the clock set for 5 minutes, but I haven't enforced it really hard.

Now, we will go to Senator Nelson.

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

Senator NELSON. Thank you, Mr. Chairman, and thank you for convening this hearing.

I am happy to welcome back to the Senate Ag Committee you, Madam Secretary, and your colleagues. You have already heard from several of the members, so I will try to keep my comments brief.

The Food and Agriculture Policy report which you issued was timely and full of useful information, and I certainly don't agree with all the conclusions, but they provide fodder, as you might imagine, for discussion of farm policy. That they are a useful tool in providing us with ideas and certainly insight into the priorities of your administration.

I want to commend you, in particular, though, for the food safety and rural communities discussion because that is an important part of farm policy, although we don't often think of it as being part of agriculture policy, but it certainly is. In fact, most Americans have no idea that food safety is part of the USDA's mission. As a matter of fact, there are some folks who would like to have it elsewhere, and some are very happy where it is.

We all know how critical food safety and safe food is, and the perception that our food is safe. They are a part of the economic well-being that agriculture can enjoy. If consumers here and abroad question the safety of the food supply, it is disastrous for our entire agricultural sector. The level of subsidy in Europe is already disastrous to international trade as it relates to American agriculture. If you add any question about food safety, you only

make matters that much worse, and I was pleased to see the prominence that you gave it, as well.

Rural communities in a State like Nebraska or many of the States that are represented in this committee are a very important part of the fabric of life in a State. I have said that in Nebraska, if we end up with only Omaha and Lincoln, it won't be Nebraska anymore, if we lose the rural areas. That is why it is so extremely important to work.

There are a couple of things that I am concerned about, and that is how we hang on to family based agriculture and the effects of concentration in agriculture. Those are two issues that I hear most about from Nebraskans, and I didn't see any reference to that in the report, that agricultural production is comprised in Nebraska of 55,000 farm families, or that these families, in addition to growing more than enough food for everyone in the country, are responsible for preserving and enhancing the environment and supporting their communities.

I didn't see any indication, and this is probably an oversight, that the administration supports family farming. I would hope that we could think about this not simply in pure economic terms, but in terms of social policy, as well as policy that is aimed at rural States.

What I would like to do is have you think about this: In terms of what happened 2 weeks ago, can the USDA be a vital voice in the administration for the removal of sanctions that involve food in the war that we are about to engage in with certain countries that have joined together with us for common purposes where there already may be sanctions, certainly food sanctions?

The trade barriers are a matter of great concern, and I guess I would like to know if the U.S. Department of Agriculture is going to work with our trade Ambassador to equalize the impact of trade barriers against agriculture. When we talk about free markets in agriculture and it relates to these areas of significant support, it translates into U.S. agriculture unilaterally disarming. We have to think about it in terms of reducing the barriers in other parts of the land.

Then with regard to farmer-owned reserves, I agree with you as to the economic impact, but if we are going to move to food and fuel as part of an agricultural policy, then the farmer-owned reserve may be an energy reserve as much as it is a food reserve, if we are going to be focusing on biofuels.

A lot of things for you to consider. I don't expect you to respond to all of those, but I hope that you will focus on those as you move forward. Thank you very much. I appreciate you being here.

The CHAIRMAN. Thank you, Senator Nelson.

Senator Hutchinson.

STATEMENT OF HON. TIM HUTCHINSON, A U.S. SENATOR FROM ARKANSAS

Senator HUTCHINSON. Thank you, Mr. Chairman, and thank you, Madam Secretary, for your appearance here today. I also want to join my colleagues in thanking you for the excellent briefing yesterday on what the Department is doing and where we stand on the

possibility of agri-terrorism. I appreciated that very much. It was very, very helpful.

I also just want to weigh in, as I have in the past, Mr. Chairman, with what the House has done and what the Secretary has done, that it is important, it is urgent that our committee move ahead expeditiously in the writing of the Farm bill and that that be done as deliberatively, but as quickly as possible because as we look at a Nation that is in an economic slowdown, if not recession, if you look at farm country, it is a recession or a depression in many parts.

Madam Secretary, you have come to Arkansas before. I want to invite you back. The Mississippi Delta country of Arkansas is in depression today and it is an agriculturally based economy. I am glad Senator Conrad provided the chart. He passed it out. I couldn't see where Arkansas was on there, but I see it now. We are right down there with South Dakota, way over to the right.

Because I may not have an opportunity to ask all my questions, I want to raise two issues that dramatically impact my State right now. One is the catfish farming issue, in which we have a very serious problem with imports of Vietnamese basa which are coming in. If it were any other product, it would be called dumping on the American market. It has gone dramatically up to about a quarter of the market now coming in from Vietnam, a different kind of fish that is being sold in American restaurants and being sold on the American market as if it were American farm-grown catfish.

Part of this is a labeling issue and we are working with the FDA. I understand that that is a separate issue, but I have been told that as many as 25 percent of producers could be forced into bankruptcy by next year if something isn't done to assist them.

Catfish farming has been one of the bright spots in the last decade in the Delta because it provides some diversification and some hope. Yet, these are the farmers today that, because of these dramatic increases in imports, are facing bankruptcy.

Back in 1992, there was a purchase program through the Agricultural Marketing Service for domestic farm-raised catfish for distribution in Federal feeding programs. It was in some ways a comparable situation and there was, in 1992, action taken to provide some relief on that, and I would like you to consider that.

Another issue that I would raise is an issue that our rice farmers are facing, and the failure, I believe, of the Department in meeting its rice food aid programming commitments. I have written you concerning that. I have also written the President about that.

We have our largest rice harvest in years, but the plan to purchase 261,400 metric tons of rice for food programs—we are falling woefully short of that this year. We are at about 161,000, 62 percent of the planned tonnage, as we come to the end of the fiscal year, which exacerbates this situation of having a very plentiful harvest at a time that the Department has not met the commitments that it had made in the food program. At the appropriate time, I would like you to respond to that.

I do thank you for the report and its recommendations regarding a farm bill and I hope that we can address, as we talk about this war on terrorism—and that is a very real war, but we also simultaneously, and related to it, face a war in our economy and trying

to stimulate this economy. Certainly, a big part of that is what is happening in agriculture today. I look forward to working with you as we write a new farm bill and as we address these very pressing issues with our farmers.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Hutchinson.

Senator Miller.

STATEMENT OF HON. ZELL MILLER, A U.S. SENATOR FROM GEORGIA

Senator MILLER. Thank you, Mr. Chairman.

Madam Secretary, I thank you for testifying before this committee, and also for the briefing yesterday. I also want to add a thank you again for speaking at the Southeastern Agriculture Symposium in Athens, Georgia, in August. Largely because of your presence, the Symposium was a great success, and that the lessons learned there will help us as we develop a new farm bill.

You and the entire administration are working diligently to get this Nation back on its feet. We all appreciate that hard work. As our Nation rebuilds and regroups, the security of our Nation has become the priority of all Americans, as well it should, and increased support for agriculture should be considered a very important part of this plan.

We all know that an army travels on its stomach and you must feed an army to fight a war. We have heard all those things, and we all know that America's family farmers produce the safest and most efficient food supply found in this world. I see no better argument for the continued support for our Nation's farmers.

Madam Secretary, the agriculture crisis we have faced over the past 3 years remains. Even with the continued assistance Congress has provided in the past, the farmers of my State continue to struggle more and more every year. I have heard from many of my constituents in recent months and they foresee, after their crops are sold and equipment is put up for the winter, that this year will turn out to be even worse.

Farmers across this country are exhausting the resources that they have worked for years to build, and without a new farm policy that allocates additional assistance, the family farms in my State will disappear.

Our first priority of farm policy should be to provide an adequate safety net for our farmers when natural or economic disasters strike. Over the past 3 years, our farmers have experienced both crises. This sector provides a stable food supply and the economic engine for many rural communities.

A lesson we can learn from history is that when our economy begins to waver, our agriculture industry often provides the backbone of support that carries us through difficult times, and I hope that this administration will take this objective into serious consideration.

In the policy statement which you issued last week, a strong emphasis was made on increased need for conservation support. The farmers of my State have utilized current conservation programs well, but they have a continued need for improvement in programs such as CRP and EQIP.

I agree with you that more can be done in regard to conservation, and I look forward to working with the administration and with this committee to create conservation policies that adapt to farming operations in States such as Georgia.

I mentioned earlier that our farmers produce the safest and most efficient food supply to be found in the world. It is a food supply that every American should have access to. As a former Governor, I understand the importance of school and elderly nutrition programs, and agree with you that improvements in these programs should be pursued. There are many other aspects such as rural development, trade expansion, research and energy needs that we must improve upon as we consider a new farm bill.

I look forward to working with you and this committee to craft a new agriculture policy that secures the economies of rural America and places our Nation's family farmers on a positive road into the 21st century.

Thank you, Madam Secretary.

The CHAIRMAN. Thank you, Senator Miller.

Senator Wellstone.

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

Senator WELLSTONE. Thank you, Mr. Chairman. I know that we want to move forward, so I am going to move fairly quickly here.

Thank you for being here, Madam Secretary.

I want to first of all say to the Senator from Georgia that I quite agree with his remarks, and I especially think that food security certainly can be connected to national security. We always talk about oil, but I can't think of a more precious commodity than food, and we need to view agriculture within that framework.

The second thing I want to say is that Senator Dayton and I had hearings back home, and I am sure many colleagues did as well; huge turnouts. This was in August and people were there. It was mainly, Madam Secretary, because they really do have their backs to the wall and they desperately want to see a change in farm policy. People more than anything else are focused on the price crisis and they want to get a decent price. I mean, they want to be able to get a decent price so they can support their families. It is that simple.

My passion is for the family farm part of agriculture and I really think that we need to see really significant changes from the farm policy that we have had, especially when it comes to making sure that family farmers get a decent price.

I am really interested in something I wish the House had done. There is a lot of consensus in the countryside, and among a good many of us on both sides of the aisle—and you allude to this; I mean, your criticism of some of the subsidy in inverse relationship to need is right on the mark.

We have to put more competition back into the food industry. I mean my battle cry is to put free enterprise back in the free enterprise system. I have been kidding my colleagues on the other side that I am becoming the conservative on the committee.

In particular, we need to have a section of whatever final farm bill that is passed that deals with concentration; we absolutely do.

There is a direct connection here between the whole issue of whether there is competition and whether family farmers are going to have a shot at getting a decent price. I mean, if you are at an auction and there are two buyers, you don't get a very good price.

I can't see moving forward, Mr. Chairman, without really focusing on the problem of concentration. I will tell you, you will find farmers and people who live in rural America on all sides of the political equation who agree with that. I would really like to see that focus.

We talk a lot about rural economic development in relation to agriculture and value-added products. I just want one more time to say, especially given the situation we now find ourselves in on September 11 and afterwards, that on the energy front and on the energy independence front, an awful lot of people in rural America feel like they have part of the answer, and part of it is biomass electricity and clean fuels and biodiesel and ethanol and wind. I want to just say that that can very much be a part of our future and I don't think can be disassociated from a farm bill.

Finally, I want to say to you, Mr. Chairman, your work—and I know the Secretary has focused on this as well and I was very pleased to see it. Above and beyond some of the really good programs like CRP, with the full backing of Pheasants Forever and Ducks Unlimited, all of which has been win-win, this notion of environmental credits is extremely important. We ought not to give up on that. It is the right thing to do. It brings more support from people who don't live in rural communities for a good farm bill. It is something the administration can take the lead on. Senator Harkin has taken the lead on it and I just want to express my strong support for this as well.

Then, finally, I want to ask you to do something that is gutsy because we don't focus on this as much as a committee. Senator Leahy started on it when he talked about WIC. WIC is important and WIC has bipartisan support, but with all due respect, we are in hard economic times. We need for the USDA to be an advocate for the food stamp program.

Let's just get real about it. You talk about citizen children. What the Secretary is talking about, colleagues, are all the children of legal immigrants, since we cutoff their benefits, who are not receiving any help. That is wrong.

I ask for the Food and Nutrition Service to do a study. They came back and they told us that over 50 percent of the people are not receiving it. We have seen like a 30-percent decline, Mr. Chairman, in food stamp participation, and the reason has not to do with people no longer need it or are no longer eligible. We don't have outreach out in our counties anymore. We are not telling the working poor that they are eligible.

Colleagues, this is the major nutrition safety net for children in our country. This is an extremely important program for working poor people. Working poor people are getting killed in these hard economic times.

You are in a position, Madam Secretary, to take the lead. This committee is in the position to take the lead, and I want to argue that in whatever economic stimulus package we have, and we will have to have one, we have to face up to the fact that all kinds of

people who are eligible aren't receiving it. All kinds of children are no longer getting the help that they need.

Frankly, it is an economic stimulus. It is an economic stimulus because people right away purchase, and then when they have some help to help them purchase food they have some other money they can spend in other ways in the economy. Don't, Senators on both sides of the aisle, leave food nutrition programs and the food stamp program over here. We need your strong leadership.

We have to be honest about some of the cuts we made in that program that we shouldn't have made. We have to be honest about people who are eligible who are not receiving it, and we have to make sure that we fully support this extremely important safety net program, lifeline support program for working poor people and for children in our country. We are not doing it now. Now is the time to do it.

The CHAIRMAN. Thank you, Senator Wellstone. I would just add as a postscript, I know in my State and several other States, as the food stamp participation has gone down, the demand on food banks has gone up, an interesting juxtaposition.

Senator WELLSTONE. A dramatic increase.

The CHAIRMAN. Senator Baucus.

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

Senator BAUCUS. I thank the Chairman. I appreciate him holding this hearing.

Thank you, Madam Secretary, for attending today. You have a problem. With all the testimony I have heard thus far, a lot of, not complaints, but deep, deep concerns about what is going on in the country. I don't envy your position, and I know you take these comments in the spirit that they are meant, namely this is a huge problem in large parts of our country.

I really have two points I want to make. One is with respect to the commodities I am a bit familiar with, that is those in Montana. Off the top I will tell you, if you don't already know, Montana per-capita income is at the bottom of the barrel. In 1946, Montana ranked 10th in per-capita income. Ten years ago, we were 38th. Today, we are 49th in wage per-capita income, and in total per-capita income we are about 47th. We are down at the bottom. It is because of the changing nature of the economy, globalization. There are a lot of factors, but it is a fact.

Our largest industry is agriculture. That is our largest industry, and if our per-capita income is going down so much, clearly agriculture income is also going down dramatically.

I know you are from California and those are the crops that you are most familiar with. I have to tell you, when it comes to wheat, when it comes to barley and some livestock, that is not California at all. There is no comparison, none whatsoever. We so much rely upon a decent income from wheat or from barley, basically. We have some specialty crops, but it is basically wheat and barley and cattle and sheep, which is declining, as you know, and hogs.

Over the years, let me just tell you what I have learned and what the problems really come down to and what the solutions are in this. You have been Secretary now about a year. You have done

a great job, but I just want you to hear from me, somebody who has been on this committee many years, representing my State for many years, what I have seen for many years.

I associate myself with the remarks of the Senator from North Dakota, Senator Conrad. He is right on target. A lot of this is unfair foreign competition, and it is the dramatic subsidies that other countries have, particularly export subsidies that are trade-distorting, and they are particularly European compared with other countries. We know a bit about the Canadian Wheat Board. That, too, is trade-distorting, but the European subsidies are just over the top.

He said, and it is true, that based upon deep, bitter experience in working out trade agreements with other countries on various items, we are not going to get very far with the Europeans until we have leverage. No country, in my deep experience, altruistically, out of the goodness of its heart, will lower a trade barrier. They just don't. Why should they? They don't unless they are persuaded to. You need leverage.

Senator Conrad has some ideas about what that leverage should be. They are good ideas, but if you truly want to do something for producers, you are going to have to find the leverage and your associates are going to have to find the leverage so that in the next year or two or three we get meaningful reduction in trade-distorting overseas subsidies. You are going to have to find it. We will work with you to try to find it, but we are going to have to have it if we are going to be successful.

As you know, in the meantime our smaller towns are dying on the vine, losing population, in eastern Montana, western South Dakota. I can only speak for our part of the country, but I am sure that is true in other rural parts of the country as well.

The second major problem here—I mentioned trade—the second is concentration of economic power. Producers are left the dregs. It is those further up the food chain, all the way up to the grocery stores, et cetera—that is where the money is. We all know that.

As Senator Wellstone and others on this committee have said today, more and more and more people in agriculture know that is part of the problem. I hear it everywhere. A few years ago, you would just hear it from a few. Now, you hear it just constantly. Farmers know that one of the reasons their profits are getting squeezed is because there is too much concentration of economic power higher up which takes their money away from them and fills the pockets of those higher up. They know that, and there is a near revolution brewing because so many people know that to be the case. I strongly urge you to get on it right now, not give it lip service.

We have known for years what the problems are, and for years, to be honest, we really haven't done a lot about it. It cuts across all administrations. It is not Republican or Democrat; it is all administrations. If you address those two concerns, that would go a long way.

Third, the passage of a farm bill that truly has a safety net so that those farmers who are working hard and doing a reasonably good job just don't fall between the cracks. We are not trying to

save all farmers; we are just saying those who are working hard and doing a pretty good job who fall between the cracks.

Mr. Chairman, just one more quick point. Thank you.

You have a harder charge right now, too, because of the crisis that is going on. You have to work harder to get the attention of OMB and the administration to do these things, a lot harder. That is why at the top I said you have a tough job. We want to help you.

One very important, but very small second point. I have to mention this, Mr. Chairman, because it is very, very important.

When I was back home not too long ago, I was at Fort Peck Indian Reservation and have had diabetes hearings across the State. As you know, diabetes incidence in our country has gone up significantly in all States across the Nation.

On Fort Peck Indian Reservation, kids there are on the reservation working for the newspaper went on strike; they boycotted because of the school lunch program, because of the content of the food in the school lunch program, which encourages diabetes. It doesn't minimize it or prevent it, but encourages it. They have been trying like the dickens to try to do anything to raise the profile of USDA's failure thus far to address the composition of the food in the school lunch program. I would just urge you very strongly to take a big step to help reduce diabetes in this country by addressing the quality of food in the school lunch program.

The CHAIRMAN. Thank you, Senator Baucus.

Senator Crapo.

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

Senator CRAPO. Thank you very much, Mr. Chairman. I, too, will try to be brief in my remarks. I see the need for that.

I want to again thank the Secretary for coming up here today, and just say that I believe you have already heard from those who have spoken today some of the critical concerns. The events of the last couple of weeks have highlighted the critical importance of our focus on food safety and food security. We appreciated your briefing yesterday.

I just want to highlight a few points that frankly I was extremely pleased to see well covered in your statement and in the excellent materials that you have provided to us. I agree with and with Senator Conrad on the focus that you have made on international trade. As has already been said by Senator Baucus, the fact is that one of the most significant problems we face in American agriculture today is the unfair trade, the trade barriers, the tariffs, the subsidies, and so forth, that we face in international competition in the most important, expanding area of markets for our farmers. I appreciate your focus on that.

I believe many of us from the ag sector, as we have dealt with trade relationships, including trade agreements like NAFTA, and so forth, over the last few years, are very interested in seeing how the administration will respond to the challenge that we are faced with from the unfair trade circumstances that we see in the world, particularly focused on agriculture.

As you know, there is a WTO ag caucus, bipartisan, House and Senate, here in the Congress that is very much focused on assuring

that we work closely with the administration on trade issues. We want to work closely with you. I frankly believe that the issue of trade promotion authority is closely tied to how those who focus on ag issues feel the administration is doing with regard to protecting our interests in international trade.

Second, I was very pleased to see your focus on the need for a safety net for our farmers and the recognition that you gave to the fact that price supports and supply controls are not the way that we should seek to pursue a safety net policy. I look forward to working with you in putting together that basic safety net.

As you probably know, I too am one of those who is working very closely on conservation issues, and I was pleased to see your comments last week on that as well. It is very critical that we recognize that as we craft a farm bill and we look at our national food and fiber policies that we also recognize that, in my opinion, the Farm bill has been probably one of the most significant pro-environmental pieces of legislation. Our national farm policy is probably one of the most significant environmental pieces of legislation that we deal with in this Congress. We need to recognize that that is one of the important aspects of and objectives of our work now on the farm bill.

Again, just to quickly wrap up here, I also appreciated your focus on what you called ag infrastructure. It is critical that we recognize the role of stabilizing and strengthening the agriculture infrastructure in this Nation, and I am talking there about things such as research, information, inspection, monitoring, testing, promotion of our products, those things that help protect our farmers against emerging threats and help to promote their products in the world climate.

Last, I just want to thank you also for your strong focus on rural communities. I have found it very interesting to see your analysis of the source of farm income and the diversity of farm income in our rural communities. I believe that one of the focuses that we must have in this committee is on how we can help develop a national food and fiber policy that will best address the growing need of strengthening our rural communities.

It seems to me that in America right now, in a very real sense, we are seeing two different economies emerge. If you will, I would call it the urban economy which seems to be a lot more stable and stronger, notwithstanding some of the recent events, and on a more stable course than the rural economy that we see. It is almost like two different economies in the United States. We have to recognize that what we do here in this committee and what we do as we work with you on farm policy can be critically important to those rural communities.

Again, I thank you for coming here today, and I look forward to working with you on these and other issues and I look forward to your testimony.

The CHAIRMAN. Thank you, Senator Crapo, for being succinct. You came in under the 5-minutes. I appreciate that very much.

Senator CRAPO. I hope I get some points for that along the way.

The CHAIRMAN. You will get a lot of points for that.

Senator Dayton.

STATEMENT OF HON. MARK DAYTON, A U.S. SENATOR FROM MINNESOTA

Senator DAYTON. Thank you, Mr. Chairman, and I want to thank you, along with Senator Wellstone, Mr. Chairman, for giving us the opportunity to hold field hearings of this committee in Minnesota. As Senator Wellstone said, they were extremely well-attended. We had over 200 at one and about 150 at another, and the input was very, very valuable. Thank you for that.

Madam Secretary and the members of your administration, I want to thank you for being here as well. Much has already been said that I am not going to repeat it if I can help myself, but Senator Conrad's chart here, it seems to me, really captures the essence of the challenge that we face in moving our farm economy forward. It is also, to my mind, a very effective measure of the success or lack thereof in our future agriculture policy.

It seems to me that if we can get net farm income up or keep it at the present level and bring the percent of that which is provided by Government payments down, that, to me—and if you agree or disagree, I would be interested in your comments—ought to be a very good index of whether or not our programs are successful, and the need for market prices to reach levels where farmers can make profits in the marketplace rather than depend on Government subsidies.

I hope we can have the kind of candid dialog in this hearing and hereafter that I believe is called for, because we give lip service to that, but I don't know that that is really the conviction held by everyone in your administration, nor is it held by everyone in the agriculture industry. Clearly, there are some people whose economic interest benefits from having lower prices. Some farm producers, livestock producers and dairy producers benefit from lower grain prices.

Certainly, farther up the processing and distribution lines, as others have said, starting with a lower price base for raw commodities is going to mean greater margins for profit. Some believe that we have to keep our market prices lower in order to increase our competitiveness with export sales.

We can't gloss over our difference here and get to the really bottom line of American agriculture. Are we going to make it profitable in the marketplace? Is that a goal of farm policy? If it is not, for whatever reason, let's admit that it is not, and therefore that we need some form of Government subsidies or we need to go through a wrenching out in the industry or in the whole sector of some producers.

It seems to me the inability to come to terms, to hard grips with that is something we have been able to gloss over because we have $20 billion now going into prop up the economy, resulting in this kind of distortion. If we take this money out, as we try to avoid doing and may have to do just because of the cost, what are the effects going to be? Are we going to ameliorate those effects or are we simply going to say to farmers, as Freedom to Farm intended 6 years ago, you are on your own out there and if you can't make it with the fluctuating market prices, then you are simply going to go out of business? That, to me, is the question we all try to avoid.

That is the elephant in the closet or whatever that we are going to have to let out and face up to.

The Farmers Union just recently produced figures on what they estimated the cost of production was for a bushel of corn, soybeans and some of the other basic commodities. I would be interested, and you probably can't respond today, Madam Secretary, whether in your estimation those numbers are accurate, reasonably so, generalized across the country, or not.

If they are accurate and they are far above the market prices of those commodities today, then I would be interested to know whether, in your view and the administration's view, those are appropriate target prices we are setting as a clear public objective to get the market prices of these commodities above that cost of production point so farmers can make a profit in the marketplace or whether, in the balance, that is not our policy, that is not our objective, in which case then we could talk about alternatives we posit.

If we don't get to the crux of that issue as a driving factor in creating this farm bill, Mr. Chairman, then we don't know what our goal is and we are not going to be in a position to know whether or not we have accomplished it.

Finally, I just want to say, Mr. Chairman, I commend you for your focus on conservation. Your new initiatives in that area, in addition to the CRP and the wildlife reserve and some of the other programs, really heralds a new day where we can try to encourage farmers to adopt more conserving practices, while at the same time still producing our Nation's foodstuffs.

I thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Dayton.

Senator Lincoln.

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

Senator LINCOLN. Mr. Chairman, thank you. Thank you for holding this hearing today. I also want to thank our Secretary, Secretary Veneman, as well as Dr. Collins and Dr. Penn, for appearing before us today.

The work of America's farmers continues, and so does the work of this committee toward a better and more effective agriculture policy in this Nation. The Secretary's appearance and the presentation of the administration's views on agriculture today show us that despite the very, very serious matters that they are dealing with and that we are all dealing with, they have not forgotten the needs of rural America, and we appreciate that.

We have all heard suggestions over the past several days that development of a new farm bill should be delayed until next year, or put off. Concerns about the Federal budget are even greater now than they were in August, and I feel very confident that Senator Conrad has mentioned some of that already. If not, he will later.

Yet, while we focus our attention on our national defense and the fight against terrorism, we must also keep an eye on the daily needs of our citizens in this country. In many cases, as it is in the case of agriculture policy, these daily needs actually relate in a very direct way to our Nation's basic ability to respond in times of crisis.

The soundness of our Nation's economy relies in large part on the health of rural America, and as we all know, our rural economy is in serious trouble. This makes our work toward a new farm bill that much more urgent, in my opinion. Many in Congress are talking about an economic stimulus package. For Arkansas, a boost to the farm sector would be one of the most effective forms of economic stimulus we could see. This is true, of course, for many parts of rural America, certainly for each of the States that is represented here on the Agriculture Committee.

Over the past several months, the Agriculture Committee has debated the different forms of support that the next Farm bill should include. Sometimes, the debate has taken somewhat of a divisive tone. I know that in some of the recent articles we saw this summer I, for one, was very disappointed to see how some people have chosen to really sensationalize some of the programs that are there.

To the extent that they included some of us who are farmers in those articles, it was concerning to me, especially, again, the way that it was sensationalized. I find myself as one of nine grandchildren of a grandfather who left a trust, and yet I was categorized as one of the big farmers on the committee, very inaccurately. I found that I was responsible for the entire farm, as opposed to just the one small part that is my part, being one of nine grandchildren, which is only about a quarter of the entire farm.

It is very important for us to be realistic and to be honest about what we are talking about and being able to produce the safest and most abundant and affordable food supply in the world. My family is engaged in farm programs because, after all, they are farmers. It is important for us in this Nation to be able to provide the kind of safety net that agricultural producers need to be competitive in a world marketplace.

I raise this issue to point out how some people wish to carry out the Farm bill debate. Rather than bringing the different segments of the agricultural community together to find a comprehensive solution that can work for all parts of our very diverse rural economy, some people seem to think that the best approach is to drive a wedge between the members of the farm coalition. That is devastating.

I use the word "coalition" for a reason. All of us in this room are part of this farm coalition. We are all from farm States that depend very heavily on the strength of the farm economy. We all farm very different crops, in very different manners, but we don't have the time to waste on divisive approaches to the Farm bill debate. Our farmers need a farm bill, and they need it very, very soon.

I am pleased that my colleague from Arkansas has already mentioned some of the things that we hope to be focusing on, as well: the unbelievable problems that we are seeing in our catfish industry, where they are facing the misleading labeling of the Vietnamese basa fish, and certainly the needs of our rice farmers for greater shipments of rice in the food aid program.

When I visited with farmers throughout Arkansas during August, I found farmers who had been in business since the 1940's and they were getting the same price for their rice that they got in the 1940's. They cannot survive that way. They have a good

crop. There are ways that we can be helpful to them, and I hope that we can use those food aid programs to do just that.

The House has almost finished their debate and is close to putting a bill on the House floor for consideration, and the time is really drawing near when the Senate needs to do the same.

Again, I applaud the Senator for the charts that are provided. They are always excellent and I always use them.

I hope that we will recognize that we are at a critical juncture of whether or not we make the choices on behalf of the American people, of whether or not we want to provide the kind of safety net that is going to allow us the kind of domestic production in agriculture that we need not only in good times, but also in times of crisis.

I hope that we will all come together in this committee, as well as in the farm community, to ensure that what we come up with is something that will allow us to be able to do that, and that is to keep our farmers active, to keep them competitive in an international marketplace, and provide them the tools, conservation and otherwise, that they need in order to do the best job that they can and continue to produce for us the safest and most abundant and affordable food supply, as they have over the years.

I thank you, Madam Secretary, for coming today to help us get a strong start to a very strong farm bill here in the U.S. Senate. I hope that we can work with you in this process to provide something on behalf of production agriculture.

Thank you.

The CHAIRMAN. Thank you, Senator Lincoln.

Senator Thomas, I apologize. I thought you had gone.

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

Senator THOMAS. Not at all. I did leave for a minute, but I thought maybe the Secretary would get a chance pretty soon.

Thank you for being with us and for meeting with us last week. I appreciate.

There have been a lot of changes in agriculture, no question about it. The focus has been on the program crops. You point out that now only 30 percent of the farms are really in there; 20 percent of the value comes from program crops. We need to be broader. We need to talk about conservation. My friend from Arkansas talks about catfish and rice. In Wyoming, we would have to talk about something else, probably sheep and sugar. It is a broad thing. Concentration is very important, and fair trade, and those are the things I hope we can, in addition, talk about.

Thank you for being here, and I hope you get a chance to talk.

The CHAIRMAN. You get the prize for being the shortest of all. It wasn't even 30 seconds, hardly. Thank you.

Madam Secretary, you have been very kind and very patient. As I was just saying to Senator Lugar, it is important for Senators to be able to have at least 5 minutes to speak about their own particular interest and about their States.

I noticed you taking notes, and I was taking some, too, Madam Secretary, because we have a lot of expertise here. We have a lot of people around this dais who have been involved in agriculture

for a long time. We all represent different sectors of the Nation, different types of crops, different kinds of production. It is important to hear these Senators. I appreciate your patience and your attention to the comments that they have made, and I know you will take them to heart.

Again, we welcome you here and please proceed with your testimony.

STATEMENT OF HON. ANN M. VENEMAN, SECRETARY, UNITED STATES DEPARTMENT OF AGRICULTURE, WASHINGTON, DC;

ACCOMPANIED BY J.B. PENN, UNDER SECRETARY, FARM AND FOREIGN AGRICULTURE SERVICE, UNITED STATES DEPARTMENT OF AGRICULTURE

Secretary VENEMAN. Thank you very much, Mr. Chairman. I am pleased to be here this morning with the committee, and I appreciate the attendance of so many of the committee here today.

I want to thank you, Mr. Chairman, and Senator Lugar as well, and all the members for this invitation to discuss our views on the future of food and agriculture policy. I want to make this short statement and then I will be pleased to respond to your questions, and would ask that our longer statement be included for the record.

The CHAIRMAN. Without objection.

Secretary VENEMAN. The past 2 weeks have been very difficult and an extremely sad time for all Americans. The acts of terror were cowardly acts on innocent human lives and will certainly have a long-lasting impact on every one of us.

Americans are strong and unyielding in our defense of freedom, our culture, our way of life, and our people. While our hearts go out to the victims and their families and we mourn those who lost their lives, we salute the courage of those who saved lives and admire the countless volunteers, firefighters and police who have been working around the clock in the search and rescue efforts.

In the wake of this tragedy, our Nation is stronger and more unified than ever. As the President said last week in his address to Congress, we will not tire, we will not falter, and we will not fail.

At USDA, we have been assisting, where possible. Five of our Forest Service incident management teams have supported the search and rescue operations. These teams are providing equipment, supplies, tents and food to thousands of workers and volunteers. In addition, our Food and Nutrition Service is working with impacted communities to assure food assistance is available to those in need. Other USDA staff are helping in various ways, and I want to assure you that all of our personnel continue to operate our programs. We are back to business, not as usual. We are being extra vigilant in all that we do. As the President said, all of this was brought on us in a single day and night fell on a different world.

I would like to begin my remarks by commending the committee for starting a wide-ranging discussion on the future of our food and agriculture system. Likewise, as has been mentioned here today, the House has been moving on a farm bill as well.

Since the beginning of the year, the occurrence of several major events has convinced me of the urgency of a comprehensive review

of all of today's agriculture, all of the policies, all of the programs, and other supporting public infrastructure.

The foot and mouth disease outbreak in the United Kingdom and on the European continent was a major threat to our livestock sector. Fortunately, we have maintained our 72-year record of keeping the U.S. foot and mouth disease-free. As a result, this year we have significantly increased our resources, our personnel, our dog teams, our inspections to protect U.S. agriculture.

Also, the spread of BSE in Europe and the recent find in Japan has enormous implications for beef and feed markets. Our policies to regulate feeding practices and actively test for BSE have protected our consumers and ranchers and farmers. We continue to review these programs and the science to ensure that strong firewalls are in place.

The emergence of ag biotechnology and its widespread adoption in this country is posing new challenges throughout the food system and the global trading complex. Ag biotech holds tremendous promise, as illustrated by the StarLink incident. However, it is important that we continue to assure a coordinated and rigorous science-based approach to this emerging technology.

Our food system continues to stand the test of these events and they serve to reemphasize just how valuable our public infrastructure of specialists, institutions and facilities are to our farmers and ranchers and to the ag economy as a whole. Our policies, regulations and supporting institutions must keep pace with new technology, the shifting business environment, and our industry structure. These and other reasons led us to decide to take a longer view of the needs of the entire food and ag system.

Throughout my career, I have participated in many strategic planning exercises and policy analysis, which is why our first step in preparing for the future policy discussion has been to develop a profile of the industry today, where it is heading, and to identify the major drivers of change.

Last week, as has been mentioned today, we released a report entitled "Food and Agriculture Policy: Taking Stock for the New Century," and most of you have seen the report. This review and the suggested principles hopefully will guide the tenure of our administration as it serves as the basis for strategic planning, for decisionmaking within USDA, for our budget proposals, and for our input into the Farm bill process.

We did not attempt to prepare detailed proposals for the Farm bill. We decided that we could best contribute to the deliberations by taking this approach rather than developing detailed proposals. There is an abundance of highly creative thinking that can develop alternative approaches to the various issues that would be consistent with the principles we have put forward. We look forward to working with the Congress as specific proposals are discussed.

Now, I want to briefly outline the report. In our report, we begin by noting that fast-paced changes are occurring and how these have fundamentally reshaped the market environment for our farm sector. We then examine a wide range of critical issues that impact our food and agriculture system.

We recognize the rapidly changing food and agriculture system. We put forward an understanding that trade expansion is critical

to the future of agriculture. We examine farm sector structure in today's global environment. We recognize that more than ever, enhanced infrastructure is necessary to protect the very core of agriculture and the products that our farmers and ranchers produce.

We recognize the different role that the conservation and environment are playing in today's production agriculture. We talk about how to strengthen rural communities and how to ensure strong nutrition and food assistance programs. Finally, we talk about the importance of integrated programs as we move the Department into a 21st century workplace for delivering the services to the customer base that we serve.

Let me briefly touch on some of the key findings of our stock-taking exercise on the evolving food and agriculture system before turning to our principles.

Today, American farmers operate in a global, technologically advanced, rapidly diversifying, highly competitive business environment that is driven by increasingly sophisticated consumers. We have shifted from the commodity-based, surplus-oriented production focus of the last century to one now defined by products, services, markets and consumers.

Increasingly, our consumers insist on defining what is produced, how it is produced, how the production takes place and with what effects. American consumers are only part of the contemporary picture, though. As I have said before, more than 96 percent of the world's population lives outside the United States. Exports already account for some 25 percent of total farm sales and represent the largest potential growth market for the future.

Access to these markets requires overcoming barriers created not only by high tariffs, but also by different cultures, languages, and preferences for food in a diverse, technologically driven farm sector that faces the new realities of consumer-driven agriculture at home and abroad.

Today, about 150,000 American farmers produce most of our food and fiber. These commercial operations make up just one segment of U.S. agriculture. USDA counts another 2 million-plus farmers who meet the criterion of a farmer; that is, at least $1,000 of agriculture products sales annually, many of whom have other occupations but who enjoy rural lifestyles.

A vast diversity of businesses and households emerges out of this multitude—niche farms, hobby farms, hunting preserves, dude ranches, you-pick operations, farms that sell directly to consumers through farmers' markets, bed-and-breakfasts, and many more.

Our report analyzes the current realities of our market and our farm structure in more detail, and also identifies the small number of very powerful forces that are propelling the fast-paced changes occurring in every single component of the food system.

Let me be very clear. We must help our farmers expand into new markets if we are going to succeed in the ever-changing environment. Otherwise, they will be left behind. We need tools like trade promotion authority to open new markets and reduce tariffs.

Globalization has increased competitive pressure from closer integration of business all around the world. Better, faster, more reliable communications and transportation systems facilitate business' abilities to produce, source and sell in the locations that give

them the best advantage, even if it means operating in multiple locations around the world.

A broad range of new technologies—precision agriculture, e-commerce, biotechnology, and food system technologies such as new packaging materials—continue to expand our markets by creating completely new demands for ag products. These are powerful forces and they will continue to drive our food and agriculture system. Another change that has been constant in the evolution of the U.S. farm and food sector is rapidly evolving consumer demands driven by globalization and new technology will increase the pace of change in the new century.

Mr. Chairman, how we approach these issues will set the course for American agriculture of the future, and I would like to discuss our central principles.

Trade policy leads off the critical importance of global markets. Trade policy must focus on gaining access to foreign markets through tariff reduction and the elimination of trade-distorting subsidies, and be supported by domestic policy that meets our existing international obligations and provides ample latitude to pursue ambitious goals for trade negotiations.

Domestic farm policy must not inadvertently reduce competitiveness at the same time that trade policy seeks expanded export market opportunities for our farmers. Farm policy and programs must be tailored to reflect wide differences among farms with respect to production costs, marketing approaches, management capabilities and household goals.

Farm policy, including providing a safety net, must promote more sustainable prosperity for farmers through market orientation without engendering long-term dependence on Government support. This does not rule out helping farmers and ranchers when unexpected events beyond their control occur and cause output or income to plummet.

The infrastructure that supports market growth and efficiency, which includes everything from border inspection services to research endeavors, must be renewed and reoriented to fit today's realities, with input and cooperation from every link in the food chain.

Conservation policy must both sustain environmental gains, but also accommodate new and emerging environmental concerns. The need for sources of renewable energy and the potential for reducing greenhouse gas emissions are emerging environmental issues. In addition, reducing nutrient runoff from livestock production, addressing conflicts over scarce water supplies, and protecting open space have gained momentum as issues to be addressed.

Conservation policies should adapt to emerging environmental and community needs, and incorporate the latest science. Conservation policies should be market-oriented in order to ensure the maximum environmental benefits for each dollar spent. This requires a portfolio of instruments, including land retirement, but also stewardship incentives on working farmland.

Now that the economies of seven out of eight rural counties are dominated by non-farm activities, commodity-based policies do not address the complexities of rural life and rural business. Rural America is diverse, and tailored policies must create conditions

that will attract private investment, encourage education of the rural labor force, and promote non-farm uses of the natural resource base, including through development of renewable energy sources and carbon sequestration to reduce greenhouse gas emissions.

Commitment to ensuring the access of all Americans to a healthy and nutritious food supply must continue, with particular attention to improvements in delivery of food assistance to low-income families who still face food insecurity.

Recognition of emerging diet quality issues is of paramount importance, and it was mentioned this morning, as the Nation's concern shifts from under-consumption and under-nutrition to provision of the proper varieties and quantities of foods and nutrients to promote health and well-being.

Public sector management, and that of the U.S. Department of Agriculture in particular, must overcome the tendency of traditional agency hierarchies that inhibit the coordination and collaboration necessary for effective delivery of food and farm programs and citizens' access to public services.

There are, no doubt, many policy options and program designs consistent with these principles for the new century. Selection of the best among them will require continued attention to the realities of the farm and food sector, and a dedication to fair and effective operation of the Federal Government.

Mr. Chairman, as we enter a new century, this is the most opportune time for leaders in agriculture to take the long view, to step back and determine as best we can the future requirements of this industry, and to put in place the plans and investments that will be necessary to enable our food system to serve us well in the decades ahead as it has in the past.

I appreciate the opportunity to discuss our vision and to share our guiding principles that we have developed. We look forward to working with you in the future and I will be pleased to answer your questions.

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

The CHAIRMAN. Madam Secretary, thank you very much for your statement, and your prepared statement will be made part of the record in its entirety.

We will just have 5-minute rounds for some questions, and again we will go in order of appearance, as we did before, except that I would try to go from one side to the other in the question period.

Madam Secretary, I am sure it comes as no surprise to you that I want to focus a little bit on conservation in my opening question. I am really pleased at your statement about focus on a new stewardship on working lands. Certainly, the land set-asides that we have had in the past, the CRP and WRP and others, have indeed provided a lot of benefits to a lot of areas. We have new industries in my home State that are taking advantage of that in terms of hunting, wild fowl production, wildlife habitat, things like that. It has been very beneficial.

However, I do agree with you that we need to have a new focus on how to support farmers and ranchers in conservation practices, and how to be good stewards on the working land. In this way, I

see that we can indeed support our farmers and ranchers, to give them income support that they need in a way that is non-trade-distorting, gives a benefit not only to them, but also to all of society, and preserves our valuable resources for future generations.

Now, in your report, you mentioned the importance of creating programs that are non-trade-distorting. This is reflected throughout your entire policy report. You support the conservation incentive program for working lands.

However, in describing a potential approach for implementing the program, you talked about using a bidding system. I am talking about now page 86, on which you talk about designing a market-based stewardship program. This report indicates that bidding would lead to rates reflecting costs of implementing practices, and that is referred to as a WTO requirement for green box.

Well, I am not certain. As I read the Uruguay Round, the cost limitation is not a requirement for green box treatment for direct payments of the type not contemplated at the time of negotiation or ones that provide decoupled income support, even if they are connected to conservation. Therefore, the cost limitation mentioned in this report for green box treatment is not the only way a conservation incentive program may qualify as WTO green box.

In other words, what I am saying is a bidding system may be one way, and that is correct that it would be WTO-compliant. If you look at the language of the Uruguay Round, there may be other ways of doing that. It could be a contractual system, for example, rather than just a bidding system.

Is that consistent with your interpretation?

Secretary VENEMAN. Yes, It is. Obviously, it is very complicated as you begin to look at a variety of these things. What we tried to do on this page that you referred to in looking at a market-based stewardship program is give some idea of just one concept that might be piloted as a part of a new program that would really look at costs and benefits, and give some value to a new environmental concept.

It is certainly one of the tools that we discuss in the tool box of possible environmental programs, many of which we already are using. You are correct. There are different ways to look at green box consistency, and while this is correct, there are also other ways to look at green box consistency as well.

The CHAIRMAN. I am glad to hear that, and I look forward to working with you on ways to do that.

I just have one more question. They didn't run the clock, but I just have one more question before I move on.

It would be helpful to me and other members of the committee to know what the administration's position would be on some of the following existing conservation programs: the EQIP program which has been very successful and which I also think needs expanding. There has been some talk about moving that from the Natural Resources Conservation Service to the Farm Service Agency.

I am wondering if you have developed a position on that yet; if so, if you could tell us whether you would approve of that type of a move or whether you are still examining it? Have you developed a position on that as of this time?

Secretary VENEMAN. Well, the EQIP program has proven to be one of the very effective tools that we have in that conservation tool box of existing programs. I frankly haven't had any discussion of moving the program. I guess some have, but we certainly haven't taken any kind of position in our book or in any other way on that issue.

The CHAIRMAN. You don't have a position right now on where that should be located?

Secretary VENEMAN. No. I mean, it has been operated in NRCS and it has a lot of components of technical components, and that is certainly where one of their core competencies is.

The CHAIRMAN. I appreciate that. Just one last thing: limiting USDA technical services, as you just mentioned, primarily to producers who participate in Federal land retirement or cost-share programs. If we did that, if we just limited these technical services to producers who participate in Federal land retirement or cost-share programs, according to the National Association of Conservation Districts, it could cause up to 90 percent of the Nation's ag producers to lose most or all of the conservation technical assistance they currently receive.

Again, I am just wondering if you have a position on that and whether or not we should limit it or should we keep it broad, as it is today?

Secretary VENEMAN. I am not familiar with anything that would indicate that we have wanted to limit technical assistance.

The CHAIRMAN. I appreciate that.

Secretary VENEMAN. That as we move forward and we talk about the environmental issues that farmers are facing today, it is a broader range of issues—water quality and quantity, issues of livestock waste.

That one of the things that is recognized throughout agriculture and agriculture groups, as well as in many environmental groups, is there are a lot of issues where we do need both technical assistance and programs to help address some of these issues and help farmers be successful; as you say, have programs that allow farmers to be successful as farmers, not just taking land out of production.

The CHAIRMAN. I appreciate that. It ought to be broadly based, too, and I appreciate hearing that.

Senator Lugar.

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

Secretary Veneman, I am informed that on Monday House Agriculture Committee staff members briefed commodity groups in this city on their continuing assumption that $73.5 billion above baseline would be available for programs supporting the Farm bill over the next 10 years of time. The plan they suggested was they thought that the House would act immediately, maybe next week, leaving to us the reality work of taking a look at what money, in fact, is here.

Now, the assumption of $73.5 billion over 10 years sees agriculture in America in perpetual crisis for a decade. It sees $7 billion, on average, every year over and above all that we are doing now. It suggests surpluses in those 10 years, or at least in some of them, I presume, from which this money might come, or it will

come from Social Security, Medicare, education programs, or other offsets.

It is time really, Madam Secretary, for the administration to give a pretty clear idea of what the money situation is if there is to be a debate next week in which an assumption is being made that $73.5 billion is about to go for agricultural subsidies, or at least $45 billion according to estimates, at least, from House authorities.

Second, I would just say, Madam Secretary, that the suggestion is being made that it is appropriate to discuss this next week, even in the face of debates we are having about the internal security of the country; specifically, powers for the FBI to detain suspects, for example, large civil rights issues; questions everyday of moneys that may be required additional to the $40 billion that we appropriated for the war and for the rebuilding of New York City and the Pentagon, in addition to the moneys we appropriated last week simply to keep our airlines going, without any idea whether that will be adequate, given the very sharp decline.

The sense of reality about this, Madam Secretary, is this country has enormous economic problems that have not been fathomed one iota in terms of the estimates coming from anybody thus far. Now, let us say theoretically that it turns out the administration says not to worry, that there is $73 billion clearly there, $7 billion for agricultural emergencies. Then it seems to me it would be very useful to take a look at the chairman's idea of how should these be distributed.

Your report says the distribution now means that moneys go to large commercial farms. It means they grow and small farms decline. Yet, around this table today we have heard about the plight of the small family farm. Of course, it is difficult. The programs we now have almost guarantee it will be difficult. They guarantee concentration of ownership, not of farmers, but everybody else, for that matter. They guarantee distortion of markets that you have illustrated to a fare thee well.

Therefore, to proceed down the trail with more of this, on top of more, seems to me inadvisable. The Department needs to speak up, or someone in the administration needs to do so promptly if there is to be any consistency with the report that you have.

Now, if we are to distribute money, perhaps it should be through conservation payments. They might go to small farmers, as well as to large ones. It may be that the risk management we adopted last year in crop insurance has some viability with regard to all types of people in farming, not just the 40 percent who now get the commodity payments. Sixty percent do not, so all of the rest of the rhetoric is useless with regard to a majority of farmers, however you define them.

These are serious problems, Madam Secretary. We are all kidding ourselves if we do not see that at least a schedule seems to be on track to debate a farm bill, inconceivable as this might be, on the House floor next week in the middle of a war. We had better wise up.

Finally, this idea that somehow an army marches on its stomach, that food security means that this is vital—let's come off of it. The fact is 90 percent of our conservation payments now go to retire land. We have gone to desperate means to curtail supplies in this

country. To imply somehow we need a farm bill in order to feed our troops and to feed our Nation is ridiculous, and I hear that subject being raised again and again.

The facts of life are we have it coming out of our ears. As you have pointed out, if we can't trade it, if we can't export it, we are going to have low prices perpetually, given these policies, while we lament low prices.

Madam Secretary, I am sorry to go into an oration, but nevertheless you can tell I feel strongly about these things, and you should too. This is why I hope you will testify promptly on each of these issues.

I thank you.

Secretary VENEMAN. Thank you, Senator. Let me first go back to the purpose of the book really was to bring a larger and broader debate about farm policy, about the fact that it is not a single sector.

Somebody brought up, what is the definition of a family farmer? Well, one of the reasons that we talked about the differences in the farm sector in this book is to really show that there isn't a single kind of farmer in today's environment. There are people of all sizes, at all parts of the spectrum, and most of them are family farmers, but families structured differently. Part of this is looking at the huge diversity of farms that we have.

You talked about conservation payments being a way to reach more of the farmers. As you know, one of the things this report points out is that only 30 percent of the land is owned by about 150,000 people that are producing about 70 percent of the production. Conservation programs do reach probably a broader range of people that are in the agriculture sector.

I agree with you that risk management tools are important, as well, whether it is crop insurance types of programs, or we haven't talked today about things like the farm accounts, the risk management accounts, where we would use the Tax Code as well to give farmers some assurance of being able to get through the difficult times. That also has to be part of the Farm bill debate.

As far as the timing is concerned, I understand very well your concerns because, again, as this report points out, there is a very diverse farm sector that is changing. The food and fiber sector is changing all the time because of technology and globalization and a variety of other factors.

People who say that agriculture isn't high-tech are wrong. I mean, this is a high-tech industry that is being driven by new forces, like other sectors of the economy, and it is going to take time to take a deliberative approach as to how we really should address all of the factors that impact our food and fiber sector and our farm sector today.

I might add that this Farm bill does not expire until just over a year from now. The budget at this time is uncertain. I can't speak to you about the budget. I have been talking with Mr. Daniels. It is important to work out at this point. I can't talk to you about where the budget is going to go with regard to anything because of the uncertainty of what has happened in the last 2 weeks.

I might add that I commend the Congress, both the Senate and the House, for acting quickly before the August recess to give farm-

ers some needed help. We have been able to get that help out to farmers, most of it already before the end of the fiscal year, and so we have had some assistance this year.

Again, the purpose of what we have tried to do here is, like you would in a strategic plan, to frame the debate around what does the farm sector today look like and what are the factors that are driving it. We hope that we have been helpful in doing that.

I would also commend both you and Senator Harkin for the principles that you put forward yesterday. Those are quite consistent with the principles that the administration has put forward, and we certainly look forward to working with you to advance programs that would be consistent with the principles that we have all put forward.

The CHAIRMAN. Senator Conrad.

Senator CONRAD. Mr. Chairman, thank you, and thank you again, Madam Secretary. Let me come at this a different way because Senator Lugar feels strongly on one side and I feel just as strongly on the other side. This economy is in trouble. It is not just the broader economy; the farm economy is in desperate trouble.

I am going to a meeting in 10 minutes with the leaders of the House and Senate Budget and Finance Committees for a review of our current financial position. One of the questions that is going to be asked at that meeting is what is the administration's position with respect to the money that is in the budget to write a new farm bill.

As Senator Lugar correctly described, there is $73.5 billion that is in the budget resolution to help write a new farm bill. The administration in its mid-session review said that that money would have to be offset, that that money would have to be made available by cuts in other places in the budget.

The question I would ask you is what is the administration's position? Can the money that is in the budget to write a new farm bill be used or not? This goes beyond an academic question. In 10 minutes, the leaders of the House and the Senate Budget and Finance Committees are going to be grappling with that question, among others, as we attempt to determine our current financial circumstance.

Let me just say that I just held a hearing in my State and one of the major farm group leaders, when I asked him if this money were not available what does it mean, said, Senator, if this money is not available to help write a new farm bill, there will be a race to the auctioneer, a race to the auctioneer. I know that is true. I don't think that serves any economic purpose at all.

I heard in your response to Senator Lugar that you are not prepared to answer the question. When will you be prepared to answer?

Secretary VENEMAN. Well, again, the budget situation is an uncertain one, as we all know, and I certainly appreciate the position that you are in and the Members of Congress are in. Again, this is an issue that you will be working with OMB on.

No one could have predicted what was going to happen 2 weeks ago. No one can prepare for that from the standpoint of many parts of our lives, but at this point I can't speak for the administration

on what is going to happen on particular aspects of the budget, and would ask that you work with OMB in that regard.

I know that there are farmers in this country who are struggling. At the same time, it is important to point out that this year it is projected that net cash farm income will be at an all-time high, at a total of $61 billion. Farm real estate values have increased 21 percent since 1996.

It is important when we talk about the farm sector that we recognize that some of the economic considerations have changed; that some of the prices, particularly on livestock, have been getting better.

Senator CONRAD. My time is rapidly leaving and I have to go to this other meeting. I would just say to you I hope the message from this administration is things aren't fine in farm country because that just defies the reality that I see everyday as I go around my State.

I mean, if the farm community in my State were to hear the message that everything is fine and getting better, they would go through the roof, Republicans, Democrats, independents, because that is not the reality of their lives. I have never seen in my life of public service a sense of hopelessness as deep as what I see in farm country.

Let me go back to the fundamental question. You are the Secretary of Agriculture. If you can't tell us whether or not the administration supports the use of the money that is in the budget to write a new farm bill, I don't know where we get that answer. I would say to you I hope you go back and talk to the White House and talk to whoever else needs to be talked to and deliver us an answer quickly. We have to know as we construct a budget plan for this country what the administration's position is.

It is a lot of money, $73.5 billion. It is in the budget. Does the administration support the use of the money that is in the budget to write a new farm bill or not? It is a simple question. We need an answer.

Secretary VENEMAN. I understand, Senator. I do want to just say that I understand, and I don't mean to imply in any way that rural communities don't need assistance. As we state in our principles book, it is important to recognize that rural communities need assistance not just in terms of farm programs, but to strengthen rural communities, whether it is education or it is water systems or electrical systems or Internet access and broadband.

That we need to be looking at the way we support rural America as a holistic approach, as I have said many times during this debate, and that we in no way mean to undermine—as you were somehow saying that we don't understand the plight of people living in rural America and our farmers. We think it is very important.

As I have been out in farm country all around the country—I have been not to North Dakota, but I have been to South Dakota. I have been to Iowa, I have been to Nebraska, I have been to Indiana, I have been to Arkansas. I have been to a lot of places and when we talk to farmers about the need to strengthen rural communities, the need for more research, the need to make sure our infrastructure is strong with good pest and disease and food safety

and research programs to support that, there is so much support for making sure that we have good systems in place so that they can do the business that they do. That is, again, why we talk about more than just the farm program part that you are talking about. We need to really support the whole sector in a holistic way.

Senator CONRAD. I would just say to you that all of that is true. It is also true that the money is a central issue. You can't do any of these good things without money. You can't have leverage for trade negotiations, in my judgment, without money. The money is in the budget and the question is does the administration support the use of the money that is in the budget or not. That is the critical question.

Madam Secretary, thank you very much for your appearance today and I look forward to the answer to that question.

The CHAIRMAN. Thank you, Senator Conrad.

Senator Thomas.

Senator THOMAS. Thank you.

Let me followup a little bit, Madam Secretary. It is my understanding that this year basically through disaster payments and the last several years we will have spent more on agriculture than the $7 billion that he is talking about. In order to then accomplish what you have in mind, and I share your view, how would you change that?

The money has been going out in disaster payments. How would you change that basis, assuming we have $7 billion to spend? I know that is a broad question, but generally how would you change that, rather than disaster payments?

Secretary VENEMAN. Well, again, I agree with you that it has been a difficult kind of means by which to give assistance to farmers to do it on an ad hoc disaster basis. We all agree that that is a difficult way to respond every year, year after year.

That is, again, why what we tried to put forward was a broad look at agriculture, one that would not only have an economic safety net for farmers that is market-oriented, one that is strong in terms of trade policy and opening up new markets, because that is where the markets of the future really are; a strong infrastructure, as I have talked about, supporting pest and disease and food safety programs; programs that enhance our research abilities; conservation and environment programs, additional ways to support farmers in that regard; and rural development programs that are really responsive to the needs of today's rural communities. As we look at, again, the whole approach to the farm policy in the future, it is important to look at all aspects of it.

Senator THOMAS. My new conservative Senator from Minnesota indicated that there were fewer people in the food stamp program. Is that a fact, or do you know offhand?

Secretary VENEMAN. I believe that is true. Let me just make a few comments about the feeding programs because it is important.

In the food stamp program, we have a new Under Secretary, Eric Bost, who ran the food stamp program in Texas and has very strong feelings about what will make the food stamp program more effective and he is working on ideas now to increase the effectiveness of our food stamp program, in particular, and our delivery systems in that regard. We are working hard to try to determine how

we can consistently improve delivery systems and make sure that our programs are available for those in need.

Also, as I pointed out earlier, when you have times of disaster as we do right now, we have ways that we can accelerate the delivery of our feeding programs, and we are in the process of doing that right now to victims and families and people who are unemployed who are now in need. Our feeding programs are extremely important in that regard. That is an important component of what we are talking about here as well.

Senator THOMAS. Of course, if the numbers have gone down because people are less needy, that is great, if that is the case.

One of the things obviously that we are looking for is trade strengthening and fair trade. We met yesterday with the Trade Representative on sugar, as a matter of fact, but I guess my point is when you are negotiating trade agreements, what is the role of the Department of Agriculture?

Secretary VENEMAN. Well, we have had a strong partnership role with USTR, and Ambassador Zelleck and I worked together in the previous administration and we have a strong working relationship now. He and I at the beginning of this month went together to Punta del Este, Uruguay, to attend the Cairns Group meeting, the meeting of agricultural trade-exporting countries who are very interested in beginning a new round and getting significant reform.

We have traditionally in the U.S. had positions that are quite similar to those of the Cairns Group, things like eliminating export subsidies that have been talked about here today, and, additionally, reducing trade-distorting domestic support. That as we go forward, we are planning a very active role in trade and we will continue to work very closely with the USTR to advance the issue of agriculture.

I might add that the President feels very strongly about agriculture and trade. He never talks about trade without talking about agriculture, nor does he talk about agriculture very often without taking about trade. I can tell you that in my working with Ambassador Zelleck, he clearly understands the importance of trade and agriculture, and how important trade will be to agriculture in the future.

Senator THOMAS. My time has expired, but it just seems like we still have a lot of trade barriers, and with the kind of leverage that it would seem we would have, with the deficit we have on exports, people coming to this place, that we would have a little more muscle in terms of like, for instance, the tariffs on beef in Japan. We don't seem to be able to move those things, and yet we all tend to agree that if we are going to have more production and continue to have agriculture do as well, we have to have some new markets.

Yet, we seem to continue to allow those impediments to continue. I know it is a tough one, but——

Secretary VENEMAN. Well, let me just make a comment on that. When you talk about tariffs on beef in Japan, clearly the Japan beef market was improved substantially when we got the beef and citrus agreement, it was back in 1986 or somewhere in the mid-1980's.

The fact of the matter is you are right. Agriculture tariffs worldwide average about 62 percent. In this country, they are about 12

percent, and that is why it is so important to get additional trade agreements so that we can reduce those tariffs, so that we can get greater access to those markets abroad.

Japan is our No. 1 export market for food and we certainly appreciate their business. Again, there are certain areas—rice is one—where we would like to get additional access because there is a market there.

Senator THOMAS. One of the frustrations, as you know, is we keep hearing we need more agreements, and yet we get agreements and we don't see any real, substantive change in terms of agricultural obstacles.

Secretary VENEMAN. Well, one of the things that is important to understand about trade agreements—I mean, you like at NAFTA. Our exports to Mexico have doubled since we implemented NAFTA in 1994. Our agricultural exports to Mexico have doubled. Canada and Mexico are now our No. 2 and three ag markets.

There are those who talk about the difficulty of entering into new trade agreements. The fact of the matter is countries all over the world are moving forward with trade agreements. There are over 130 bilateral and regional trade agreements in the world today and we party to only two of those.

What does that mean? It means that when other countries negotiate a trade agreement and give that country preferential access through lower tariffs, we lose market share. We have seen that already as Canada has negotiated an agreement with Chile and has taken away some of our markets for wheat and potatoes, as just two examples, and other products as well because they now have lower tariffs going into Chile than we do. We have talked for 10 years about negotiating a free trade agreement with Chile.

One of the important things to recognize today about trade is that if we are not a player at the table, we will be left behind, and that is one of the reasons this administration and the President have felt so strong about getting trade promotion authority passed as quickly as possible.

Senator THOMAS. We have to be sure we implement those—for instance, molasses, stuffed molasses, things like that—and take away a little of the enthusiasm about it, as does the Mexican letter on sugar.

Thank you.

Secretary VENEMAN. I understand that, and we are working very hard on some of the trade irritants as well.

The CHAIRMAN. Thank you, Senator Thomas.

Senator Nelson.

Senator NELSON. Thank you, Mr. Chairman.

It might not seem like it, but this is still a friendly audience, Madam Secretary. We want to work with you and your staff to deal with many of these issues—in fact, all of the issues that have been raised. The fact that so many feel so very strongly at the dais here is a good indication of how significant the problems are and how important it is that we work together to find solutions.

I would like to continue in this area of trade. That while there is a lot of interest in NAFTA, it was misspelled. We didn't have the second "f" in it, where it is fair. We focus here on free trade, and it should have had a second "f" in it for "fair."

Quite frankly, there is concern about whether it is stuffed molasses and you have to go to court. Fortunately, the court of appeals has now ruled in conjunction with the Canadian agreement. Honestly, when you look at the barriers that are out there and the unfair trade practices of our trading partners, you get very concerned.

As a matter of fact, on page 40 of the book you indicate that our producers and the industries they support can see the value of U.S. agricultural exports grow 19 percent if we had the removal and the elimination of the barriers.

What I would like to ask is what can we do specifically. It is important that you join together with Ambassador Zelleck. That is an excellent opportunity and I hope that you will continue to do it and raise the level of consciousness of the importance of agriculture as part of trade policy. I am pleased that the President speaks in the same sentence about agriculture as well as other trade areas.

What I would like to hear is what are our specific plans, and "specific" is important here, to deal with the trade distortions caused by the barriers in the world. Either our trade partners in other parts of the world bring their barriers down or we have to bring our support up. You can't have this continuing unlevel playing field working against our producers and have trade be any part of the answer. The more we trade, the worse it gets in the sense that we can't send products to Europe because of the barriers. Yet, products from Europe seem to find their way into our markets very easily.

I am not against trade. I have taken 12 trade missions in my prior professional life as a Governor, so I believe very strongly in trade. Somehow it just doesn't work out for agriculture, and it is because of the barriers. What we need to do and what I would like to hear from you is find out what the specific proposals are to either bring those barriers down, raise our support levels up to be competitive, or some combination, because it isn't going to work if we are only talking about it.

Secretary VENEMAN. Probably the best way to remove barriers is through trade negotiations. Some of the biggest barriers that we have, of course, are high tariffs.

Senator NELSON. You see, that didn't even work with the Canadians in conjunction with sugar because they found a way to make into molasses to get it down here and get around the barrier.

Secretary VENEMAN. I understand, but we do have dispute settlement mechanisms. We have been able to take that one to court. I mean, there are trade irritants, but one of the important things about the WTO system is that it gives us a way to address some of these issues. We have dispute settlement mechanisms within the North American Free Trade Agreement. That it is——

Senator NELSON. It takes time, and I understand. I don't mean to cut you off, but I am wondering if there isn't a way—and I have spoken to Ambassador Zelleck about this, and that is to have the equivalent of a referee that can make more immediate decisions that then get appealed so that you can start the process, because my sugar beet farmers are delighted with the result in the court of appeals, but in the meantime they have suffered losses because of the adverse trade practice of our trading partner.

Secretary VENEMAN. I understand the frustration. We all are very frustrated by some of these trade irritants that take some time to resolve and are difficult to resolve. The fact of the matter is the system does work. I agree with you, it does take a tremendous amount of time.

I know when you are talking about barriers, you are talking about some of the trade irritants.

Senator NELSON. Tariffs; well, irritants and tariffs, yes. Tariffs are irritating, too.

Secretary VENEMAN. Obviously, some of the biggest issues we have to face are high tariffs. Again, as I said in response to the previous question, 62 percent average food and ag tariffs around the world; we have twelve.

Our proposal for agriculture in the WTO right now really would talk about bringing those tariffs around the world down to more equivalent levels. We have to get those tariffs down so we can get greater access to markets. Again, I am very concerned that if we don't enter into a new WTO round and try to do this globally that we will continue to see free trade agreements negotiated all around us—Europe has almost 20 ongoing right now—and that those countries will enter into free trade agreements, getting preferential tariff access, and we will be left behind.

That needs to be a big concern to our farmers and ranchers who depend so much on the export market. We export about 25 percent of what we produce and our exports continue to go up. They are about 53.5 this year; they are projected to be $57 billion next year. Obviously, the global market is extremely important. We produce much in excess of what we can eat in this country. We can't consume much more, so we have to open up markets and continue to give our farmers the opportunity to trade abroad.

We are clearly on the same page and I understand your frustration with getting some of these irritants resolved more quickly. Certainly, we are working closely with USTR to do everything we can to assist in that.

Senator NELSON. I hope the sugar farmers are able to recover some of their damages because of these irritants and trade barriers that are used against us.

Thank you.

The CHAIRMAN. Thank you, Senator Nelson.

Senator Crapo.

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

Madam Secretary, I am going to begin by asking you a very highly Idaho-specific question which I don't even expect you to know the answer to, but I just can't resist this opportunity because you will be able to go get me the answer and it is very critical that we get an answer to this.

As you may know, Idaho is facing a drought right now, and one of the very significant impacts of that is that we have had a very significant reduction of the grazing and haying opportunities. The Department of Agriculture has given permission for the CRP lands to be utilized for grazing and haying.

We have recently, as a delegation, requested that this emergency grazing permission be continued until December 31, 2001, and have not yet received an answer. We need an answer fast, so if you

have an answer right now, I would love to hear it. If not, I would like to ask you if you could get us an answer as quickly as possible.

Secretary VENEMAN. Senator, I have been told that as of this morning we have approved that for an additional 30 days.

Senator CRAPO. That is great news, but that doesn't get us to December 31. I will take that news back and continue to work with you to see if we can't get this expanded to the end of the year, and I do significantly appreciate that.

Let me now with the rest of my time just continue. There are a lot of questions I would love to ask you, but since we have been talking trade in the last couple of rounds I would like to give you my perspective on it because it is very similar to that which you have been hearing.

You yourself have pointed out today a couple of times the disparity in just tariffs. Senator Conrad pointed out the disparity in subsidies. Just using the tariff example—62-percent average tariff on our products and a 12-percent average tariff that we charge on products coming into our Nation—it is an incredible disparity.

As I indicated to you before, there is a WTO ag caucus or coalition here in the Congress between Republicans and Democrats and House Members and Senators, and I have been to enough of those meetings to tell you that there is a pretty strong consensus among that group that we have to reach parity on these kinds of issues.

Let me just, as I discuss that, move on to Seattle. I was at Seattle for the WTO round that was attempted to be started there. A lot of people said they thought that what happened in Seattle was a disaster. Of course, a lot of the rioting and those kinds of things were unfortunate, and it was unfortunate that we weren't able to get a good start to a new round of WTO talks there.

I actually left Seattle pleased in one sense, thinking it was the first time that I had seen the United States say no to a bad deal. I thought that it was finally time for the United States to tell the rest of the nations that we would no longer agree to a trade agreement that continued these disparities.

In my opinion, for years the United States trade negotiating policy has been that agriculture was basically a trading chip. There seems to be give-and-take in many other areas. In terms of the negotiations, there is give-and take, and we seem to take in manufacturing and in information technology and other industries, but use as what we would give our ag policy. Other nations that seem to be more focused on their ag interests would want to take in the ag areas and give in information technology and manufacturing and the like.

I don't know if that is exactly what happened, but the ultimate outcome was—you mentioned there are over 100 trade agreements and the U.S. is party to only two. The agreements that we are a party to basically put into place this, and that is one of the reasons you are seeing resistance here to trade promotion authority and further trade agreements.

It is not that there is a disagreement with your point that we need to be at the table in this global environment. We do need to be at the table. The point that a lot of us are very concerned with is that we need to be at the table with tough negotiators who are not going to trade away agriculture again.

One of the things that a lot of us are looking at—and hopefully you won't take any of this here as a personal attack because we are talking about a history of trade negotiating under many different administrations, and we are hoping to see this administration do what The last administration began to show us it was ready to do, and that is stand tough and negotiate strongly for agriculture.

I have said a lot of times no deal is better than another bad deal. We can all agree that we want a good deal, and we can debate over whether what we have had in the past are good deals or bad deals. The reality is that today we still have trade agreements in place that allow other nations to have their high tariffs and their high subsidies, and cement the United States into its low tariffs and low subsidies which continue to disadvantage our producers.

I just wanted to give you my perspective on that and to tell you that from what I have seen so far it appears that the administration, both in terms of the Department of Agriculture and our U.S. Trade Representative, do understand this and have committed that agriculture will be our highest priority in this next round of WTO negotiations.

I would just like to ask you if you would comment on that.

Secretary VENEMAN. Certainly. I applaud the WTO caucus and the fact that it has been working on the trade issues because it is important that we have an understanding in the Congress of how important trade is to our economy and to agriculture in particular. I have had the opportunity to visit with the WTO caucus.

In talking about Seattle, one of the things that we are prepared to do and preparing for at this point in time is the launching of a new round post the Seattle failure. We think it is very important to launch a new round, not to have another failure, that we need to advance WTO discussions so that we can reach further trade-opening opportunities for our farmers and ranchers based upon what was agreed to in the Uruguay Round.

It is significant what we were able to accomplish in the Uruguay Round because agriculture has been really left out of trade agreements previously. We were able to get some global disciplines on export subsidies. We were for the first time able to get some global disciplines on internal supports.

Now, there are still big disparities, particularly between the U.S. and the EU and the U.S. and Japan. The proposal that the U.S. has put forward for this proposed round is one that would try to bring the support of other countries down more, because rather than tie it to a historical base period, it would tie it to the value of production, so that it would bring down the support of other countries more quickly than our own support. We think that is an important difference, but it does buildupon what was agreed to in the Uruguay Round. Obviously, the more you put support into a green box, it doesn't count against your caps, and so forth, and that is another important issue to remember as we debate new farm programs and new farm bills.

The other thing is that we got significant changes in the tariffs, in that all of the quotas, and so forth, were turned into their tariff equivalents with a process called tariffication. There was market-opening of a certain access, and then the beginning of bringing

those tariffs down. We don't have those bans to deal with anymore and those are tariffs from which we can now negotiate, which is another important accomplishment.

Finally, the thing that we accomplished that is so significant in the Uruguay Round is the sanitary and phytosanitary agreement that gave us the ability to really have a dispute settlement mechanism for things like some of the trade disputes that we so often have, whether it is the beef hormone dispute or it is a variety of other things.

It basically requires that any kind of regulation be based on sound science, and we have taken several of those cases; we have been involved in several in the WTO and we have won most of them. It is important that the Uruguay Round achieved rules requiring science-based approaches to these issues and giving us a dispute settlement mechanism with which to deal with them.

The CHAIRMAN. Thank you very much. You see, Senator Crapo, it paid to stay around this long.

Senator CRAPO. That is right. That was great. I got 30 days, at least.

The CHAIRMAN. That is right.

Senator Dayton.

Senator DAYTON. Thank you, Mr. Chairman.

Madam Secretary, if I could refer to a couple of pages of your statement here, on page 11 of your testimony today you say, "History has shown that supporting prices is self-defeating. Government attempts to hold prices above those determined by commercial markets have made matters worse time after time." Then on page 11 you go on to say, "Supply controls proved costly to taxpayers and consumers, and the unused resources were a drag on overall economic performance."

Then going on to page 12 you state, "The Federal Agricultural Improvement and Reform Act of 1996 proved to be historic by removing most of the decades-old program structure, provided unparalleled farmer decisionmaking flexibility through decoupled payment benefits, and set a new example throughout the world for providing domestic farm sector support. While that approach still is arguably the least market and resource use-distorting approach available, its decoupled payments do share some unintended effects with price support programs, namely the artificial inflation of farmland prices. The effect clearly has been exacerbated by the size of supplemental payments in recent years, some $28 billion in the last 4 years above the amount provided in the 1996 law."

If I take those sections, then, and boil them down, it seems that you are against price supports, against supply controls, and against the size of the supplemental payments. If we remove all three of those props, we are back to essentially the original Freedom to Farm concept, which leaves us with market prices well below the cost of production, as traditionally defined—and again I would repeat my request to know what those numbers are in your calculation—with the premise, then, that increased exports are a solution to these low prices. They, in turn, require in the construct that I am aware of also fairly low domestic market prices in order that our commodities be competitive on the worldwide market.

I guess I don't see the way out of this box under your proposal for most American farmers, and I wonder if you can show me where the way out is, or the way to prices that you believe are appropriate, and are those prices domestically ones where most American farmers can make a profit and not need the subsidies.

Secretary VENEMAN. Well, first of all, I would just like to say that the testimony is based upon what was in the principles book. We are not against anything. We are just trying to point out some of the economic consequences of some of the programs, and we want to make sure that some of the benefits of various programs are recognized as well. We are really trying to give an all-encompassing look at the sector.

Now, having said that, certainly when we talk about things like supply controls, those have made us less competitive. We clearly live in a global economy. We need to be part of that global economy because we are very efficient producers. If you have supply controls, you tend to be less competitive and you only give away the production and market share to other places.

Senator DAYTON. We removed price controls under Freedom to Farm and the farmers generally liked that. Then we have a greater level of production because there aren't price controls. Under the basic law of supply and demand the prices go down, and then we either revert, as we did under FAIR, to these additional payments to keep farmers afloat or we pull them back and the farmers collapse.

Again, where does that leave us?

Secretary VENEMAN. Those are some of the difficult issues, and obviously we have not made a proposal for an economic safety net for farmers. We have said that there are a variety of ways to do that, but whatever way it is done, it should be done in a way that is market-oriented that does not impact our trade agreements.

Senator DAYTON. What does that mean in the real world? What does that mean?

Secretary VENEMAN. Well, again, I don't have a proposal for you today. There are a number of proposals that have floated in various years, and again I don't have that kind of proposal. I talked to some extent about some of the tax proposals that may be available. We have talked about farm accounts giving people the ability to have that kind of means by which to control their income in ways that will give them the ability to have some kind of safety net that they set aside for themselves. I mean, that is one kind of example.

Let me go back for a minute to the cost of production issue because the cost of production is a very difficult one in today's environment. When you look at the different sizes of farms, the different kinds of operations, the different technologies that are used today, it is very difficult to put a single cost of production on a specific commodity because of the differences in the way that farmers across the spectrum farm.

When we talk about cost of production, we can talk about average costs of production, and so forth, but the variables are really quite great. I mean, you look at the productive capacity on an acre of land in one State and compare it for the same commodity in another State or another area and it can be double.

Senator DAYTON. A fair point, a fair point.

Secretary VENEMAN. It is very difficult to talk about cost of production per unit in today's environment.

Senator DAYTON. A fair point, so let me rephrase it because I see Dr. Penn nodding his head in agreement with what you are saying.

Secretary VENEMAN. Oh, good.

Mr. PENN. I always agree.

Senator DAYTON. We have an honest difference of opinion.

Secretary VENEMAN. I always like it when my economists agree with me.

Senator DAYTON. Right. You can be reassured; he was nodding his head, and sincerely so.

Maybe you could respond today or I could ask in writing in the next couple of days, but what do you believe the appropriate market prices are for basic agricultural commodities—corn, wheat, soybeans, sugar, milk, hogs, beef cattle?

If we are trying to construct an economy that balances out farm income on the one hand and competitiveness on the other, that balances out export viability versus imports, what prices or what range of prices for these commodities do you believe, does USDA believe, are the right ones?

If we know where we want to go or what we want to try to accomplish, then it seems to me we can try to devise policies that can get us there. If we disagree on that, as Senator Lugar and Senator Conrad do, then we can have that debate. Right now, we all throw out these homilies about this, that and the other. Meanwhile, we have a total decoupling or disconnect between our rhetoric and what is happening out there in the real world.

Secretary VENEMAN. Well, I don't have prices for you.

Senator DAYTON. No. I am asking USDA to formulate them.

Secretary VENEMAN. We have talked about the importance of the marketplace and the market deciding the prices, and that is important. The other thing that you have to recognize in today's environment——

Senator DAYTON. Madam Secretary, my time is up. I want an answer to my question. I want an answer from USDA. This is what everybody tiptoes around. My family was in the retail business and they knew what prices they had to have in various areas—shoes, socks, the like—if they were going to stay in business, and then how to achieve those prices versus the volume. That is the basic law of economics—supply and demand.

We are so far removed from that as a result of the 1996 trade bill and all these additional payments which we agree we can't sustain. We have to get back to figuring out what our objective is for prices in the marketplace and then whether we are going to make up the difference or whether we are going to tell farmers this is what you are going to get, and if you can't achieve the efficiencies with that price to stay in business, then you are going to have to go out of business.

Farmers out there really want somebody to talk the truth to them because the realities are talking the truth to them and all they get from us is either a bail-out or avoidance of the problem.

I am sorry I have to leave, but I would repeat the request. What are your target prices? What, on balance, do you think the right prices are that we should be striving to achieve, balancing all these

forces? If we don't know that, it seems to me we can talk about this stuff for the next 7 years and we will all try to avoid the responsibility for what is going to occur out there anyway.

Thank you. Sorry, I have to leave. I have a press call.

The CHAIRMAN. Thank you, Senator Dayton.

We have a vote on final passage of the military construction bill right now. Senator Lugar just went to vote and then when he comes back, he will chair the hearing and then I will come back, because we do want to take up the nominees. We have a couple of nominees that I know the Secretary wants to get through and we want to get through, also. We will continue the hearing process.

Senator Lincoln.

Senator LINCOLN. Thank you, Mr. Chairman.

Madam Secretary, just a few points that have already been made. You have said on several occasions that the net farm income is at an all-time high. I would just also point out that the net costs are at an all-time high, as well, the input costs of what it takes to farm, especially for those of us in a region of the country where you have pretty capital-intensive crops.

When you look at the energy situation and you look at chemical application and you look at all the other things that we are faced with in our region, those input costs are also at an all-time high. That is critical to remember, and I hope that you will as you move forward in those thoughts because I have heard you make that statement. I have taken it to heart, but I just want to make sure that we look at the other part of that equation.

To Senator Lugar, with all due respect, in terms of the corporate farming, it is so important for us to remember that if we eliminate the farm program, we are going to have nothing but corporate farms. We have family farms who have now in many ways tried to compete. They have tried to keep their head above water, and yet they just end up renting their land to a larger neighbor who is incorporated who can be more effective in their costs and mitigating their costs out. That is very important for us all to remember.

I appreciate also the points that you have made about the importance of open markets globally. They are essential. Exports are a crucial source of income for our farmers in Arkansas and across the Nation, and I certainly believe that any comprehensive approach Congress takes to farm policy must identify the opening of foreign markets as a very high priority. We did that in Freedom to Farm. Unfortunately, we haven't seen the markets materialize as we need.

I am also concerned, however, that policymakers sometimes focus so narrowly on the importance of foreign markets that they lose sight of the need for sound domestic farm policy. Our farmers truly do need a foundation of support that is bedrock strong. Otherwise, the unfair trading practices of our competitors become all the more effective against us. Senator Conrad has very eloquently explained many times how the relatively low level of support found in U.S. farm policy leaves our farmers extremely vulnerable to our overseas competitors who typically enjoy a much higher level of support, and we have seen that.

As a member of the Senate Finance Committee, I have already stated my general support for trade promotion authority. You have

brought it up a couple of times today. However, a strategy based on opening foreign markets and lowering trade barriers worldwide is a very slow and long-term approach. It is a very necessary approach, without a doubt, but it cannot be done in a vacuum.

We have to really first ensure that our farmers have that bedrock support of a sound farm bill, with a reliable safety net, before we can expect a trade strategy to be very successful. We cannot strip our farmers of the support that they need from a strong farm bill and then simply wait for our trading partners to reply in kind. That, again, Senator Conrad has made that point over and over. That would be catastrophically counterproductive.

Somewhat of where we went with Freedom to Farm was waiting and anticipating to see those markets materialize, and there is a great deal of fear about such a catastrophic event happening. I know when I was home in Arkansas, many of my agricultural producers approached me about trade promotion authority with a great deal of doubt at this point, having been supportive prior to that—doubt about the success of current trade agreements and how they appear to have kept many of our farmers out of the market. Even those that one would ordinarily expect to be supportive of an expansive trade policy, it has kept them somewhat from offering their support on TPA.

I guess really one question would be, as the administration has asked our farmers to support the trade expansion of TPA, what assurances does USDA give our farmers that you will actively be seeking and actively supporting passage of a strong farm bill with an adequate safety net for them?

Secretary VENEMAN. Thank you. You made a statement that we were talking about eliminating farm programs. We are not talking about eliminating farm programs. We are talking about really being broader in our approach to looking at what helps both farmers and rural communities, and that is an important distinction that I didn't want to let go.

We are talking about a variety of things that help farmers and rural communities, whether it is rural development programs and looking at how they can be better structured to serve the rural communities that we have today, looking at conservation-type programs and the assistance that farmers are asking for in terms of having assistance to be the best stewards of the land that they possibly can be, because we know there are so many new challenges today.

These programs actually reach a broader number of farmers than do some of the current commodity programs, and part of what we are trying to do is say let's take a broader look here and not be only focused on just farm programs. I don't want it to look like we are trying to get rid of something. We are trying to be broader in the approach.

I would also note that as you look at what we did in our principles book, we pointed out the very strong diversity in farms that we have today. One of the things that are seeing is more and more farms and farmers that are producing to niche markets, that are producing to new kinds of marketing arrangements where they are forming cooperatives or other business arrangements to sell specific kinds of products, value-added products, value-added processing.

We see a lot more of this happening, and we have used a lot of our programs to assist in that regard and we need to look at what works and what can be used to enhance the value that the farmer gets out of the consumer dollar, whether it is in new and alternative uses for agricultural products. All of our programs need to be, again, broad-based as we look at this.

I appreciate your support, in concept, for the trade promotion authority. When you ask how do we get farmers to understand the importance of trade promotion authority, one of the main arguments is, first of all, trade promotion authority does nothing more than allow the country to enter into new trade agreements. The trade agreements aren't yet negotiated, but if we are not a player at the table, how do we get the kinds of advances that we need—the reductions in tariffs, the market openings—that will allow our farmers to have better access?

That is one of the strongest arguments in terms of talking to your farmers back home about why we need this authority and why we need to be at the table, in addition to the arguments that I talked about earlier about being left behind and losing out market share, as other countries have negotiated free trade agreements and gotten the benefit of lower tariffs.

There are some very strong arguments to be made to our farmers and ranchers about why trade agreements and trade openings are so important to their future, and we can all play a very active role in helping people in the countryside understand that.

Senator LINCOLN. Well, I don't disagree. You are exactly right that we have to be at the table, but in the mind's eye of the producers that are out there, particularly some of those in my State have somewhat of a lack of confidence in who is going to be standing up for them in those agreements.

When we look at the problems we are having with trade in poultry down in South Africa, when we look at the softwood lumber problems that we have had out of Arkansas from Canada, when we see the catfish issue which has been tremendous for us—we sat and watched while our neighbors in Louisiana lost their entire market for crawfish in less than 3 years to China. We are seeing the same thing happen to us in the catfish industry, and yet we can't get the immediacy of the administration to work with us on this issue. I mean, we are losing catfish aquaculture farms hand over fist.

The problem is not one of convincing people that we need someone at the table, but more importantly that we are going to have not only the bedrock support in farm policy, but also we are going to stand up for agriculture at those tables when we get there. I just think that that is really critical.

I would just say in terms of the broad sense of those programs, they are important, without a doubt, the cooperatives and the other ways that we can diversify, but they do take time and they take a great deal of technical assistance. I hope that we don't just put all of our eggs in one basket, but look at how we can really work through that.

The last thing I would just like to touch on is the low prices that are hurting virtually every commodity.

The CHAIRMAN. Senator, I might just say we have only got 2 minutes left in the vote.

Senator LINCOLN. All right.

Rice, just so I can put that on the top of your list, is unfortunately no exception, without a doubt. We know that there were seven Senators, along with myself, who wrote a letter to the President about the increased food aid program. We have yet to get a response.

I know that General Powell has mentioned other ways that we can work through the disasters and the diplomacy. Food aid might be one of those. I certainly would like to encourage a response to our letter and to that issue of increased food aid.

Thank you, Madam Secretary.

The CHAIRMAN. Thank you.

Secretary Veneman, Senator Lugar and Senator Fitzgerald were coming right back. They had some followup questions, as do I. We will just take a short recess here and when they return, we will resume our hearing.

[Recess.]

Senator LUGAR.

[presiding.] Chairman Harkin has asked me to call the hearing to order. He will be back shortly from voting on the floor.

I want to mention that Senator Roberts was unavoidably detained for a national security briefing, and I ask unanimous consent that his statement be placed in the record.

[The prepared statement of Senator Roberts can be found in the appendix on page 89.]

Senator LUGAR. Likewise, Senator Helms, who was unavoidably detained, has asked that his statement be made a part of the record and, without objection, that will occur.

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

Senator LUGAR. Madam Secretary, let me just continue with the questioning as we wait for other members to return, and we thank you for your patience and your longevity in this process.

Mention has been made during the hearing about farm income. You have indicated that it may be that we will have a record farm income of $61 billion this year, and you have heard a challenge to that from one member who said, well, don't be saying that in farm country because people are angry.

The two situations are not necessarily contradictory. There are many persons in various States and various counties who are having very difficult times, but at the same time it is important in some perspective that the payments that we authorized in the Senate and the House during August that were paid to farmers in my State, and likewise the crop insurance that we have—for example, on my farm we are able to insure 80 percent of the average income for the last 5 years. That is quite a bit of safety net.

Now, all farmers may not have availed themselves of that, or of the 70 percent or various other levels, but that is available, and so are futures markets. That requires a certain degree of sophistication and education, but this is one way that farmers make money.

The problem, as you have pointed out, is that 170,000, more or less, farms are commercial farms. They are making money, to the

extent that agriculture gets a return at all. Maybe 2 million others are involved in other sorts of difficulty.

Now, it has been suggested this morning particularly by Senator Conrad, as he has in other of our hearings, that the EU is a formidable situation, and it is and the subsidies are enormous. But I would question whether our response ought to be to raise our subsidies by $50 or $60 billion a year to match that. Your testimony is that the subsidies that we are doing now may be distorting.

Now, the facts of life are that the EU is attempting to expand. The end of the $50 billion for France and Germany comes with the answer of "Poland," and as Poland accesses to the EU the whole picture changes dramatically. I visited with the German agricultural minister just last month and he pointed out that in his country and in France, the entire situation alters simply because there has to be a flow of money. Others who are newly accessed to the EU are deeply worried about that, too—Spain, Portugal and others. That is going to happen because of the realities of Europe.

What we need to do, as you have pointed out, is to try to get tariffication, to try to get the end of non-tariff barriers. The phytosanitary issues are very, very important, particularly biotechnology, and these are of great meaning to farmers in terms of getting demand up and getting exports and sales.

Finally, I would just comment again that Americans as a whole need to have an interest in this Farm bill. We have been discussing it today from the standpoint of production agriculture, the 2 million farms, but the fact is that we will have a broad base for our bill if we do some things to protect the soil and water of this country in perpetuity.

As farmers, we are stewards for a short period of time, but it is fundamental that we have clean water around our farms and it is fundamental that we upgrade our top soil. These are things for which the public is prepared to spend some money in terms of the interests of all of us.

Likewise, the nutrition programs. The work that Senator Harkin's staff and my staff have been doing together is going to enhance those very substantially, whether it be WIC, food stamps, or eligibility of Americans who are in need. That is of great interest to millions of Americans who are outside of production agriculture.

It is tremendously interesting the credit ideas we have for young farmers because they have been hurt by our current policies. If rents go up, it is tougher for them to rent land or to get into the game at all, and so as a result we have to do something for the entry level if we want to be competitive, if we are not simply blowing smoke about competition in America with young people who want to do this.

These are areas of the Farm bill that we have really not gotten into today. We are talking about the money. Is $73.5 billion out there? Now, the answer is, no, it is not, and it probably was never there. If you parse carefully President Bush's State of the Union message, he said there is $5 trillion in surplus. About $1 trillion is out there for contingencies; among the contingencies: Medicare reform, prescription drugs for the elderly, Social Security reform.

And, oh, by the way, if agriculture needs some more money, that is probably where you have to look for it.

Right now, there is not $5 billion in surpluses. The last estimate in August was $3 billion, and my guess is even as we speak that is melting away. The $1 billion is gone. If we are going to do Social Security or Medicare, it is going to be at the expense of something else, unless this country gets real prosperous in a hurry and, as opposed to having zero GNP, gets to 3 or 4 again, which we all pray will occur.

Now, for us to be debating $73.5 billion next week in this context is irresponsible, in my judgment. Having said that about three different ways, I say it again because somehow it isn't getting through. There are people that are still having meetings in Washington and a suggestion by a spokesperson for one group who shall remain nameless that said as soon as the House passes that bill, we will be over on the Senate like a ton of bricks.

Well, welcome to the party, because we are not going to be moved by a sudden urge of persons who suddenly catch religion on a bill that, in my judgment, has a lot of work still to do simply to pick up the pieces and to work out the fiscal responsibility of it.

Madam Secretary, I thank you again for your indulgence in allowing me to make these remarks in my time.

I look forward to recognize now Senator Fitzgerald, of Illinois.

Senator FITZGERALD. Well, thank you, Senator Lugar.

Welcome, Madam Secretary. Your report is very good that you put together. It would have been even more helpful if you could have proposed how we solve this big conundrum and draft a farm policy that really works and doesn't cause distortions.

I want to ask a couple of things. I am sure you have seen all the media reports about large Fortune 500 corporations or NBA stars who have been receiving farm subsidies from Joe Taxpayer. I wondered if there is anything we might be able to do in the Farm bill to address that situation.

Secretary VENEMAN. Well, that obviously what we do at USDA is carry out the law, as it is currently on the books, and that is what we have done. People who own land obviously get some of the benefits of the programs if they have some of the base acres, as laid out in the law.

That one of the things that some of those articles also indicate is a point that we make in that book, and that is that today there is not just this uniform farmer in the countryside, that there is a wide diversity in the types of farms, and that probably farm policy can't be really looked at as a one-size-fits-all solution.

One of the reasons in our book that we talk about a broader base of programs and we talk about a more holistic approach, that we recognize the importance of rural development programs, of conservation programs, of pest, disease, food safety and research programs, and what we call infrastructure, is all of these things help farmers in rural America. They probably help to some extent a broader base because many farmers and much of the production is ineligible for the subsidy programs that we spent a lot of time talking about today, only about 20 percent.

It is important as we move forward to really again look at this more holistic approach that we are talking about, and that cer-

tainly the principles that the chairman and Senator Lugar put out yesterday also recognize that there is a broader approach to be looked at in terms of the discussion of how we move ahead in farm policy.

Senator FITZGERALD. Your report points out the conundrum that we have that some farmers at the lower end who are inefficient and very small, we can probably never pay them enough to help them earn a good income. If we are paying the same support across the board, then if we were trying to help the inefficient, small farmer earn a good living, we would be over-compensating the real large, efficient producers so that they would be stimulated to over-produce even more.

Do you think we should consider moving toward a bifurcated program in some way? Some could actually read your report as suggesting we shouldn't be making eligible the small, inefficient producers. I don't think that is what you intend, but some could read the report that way. Do you think we should bifurcate our treatment?

Secretary VENEMAN. Again, when you talk about bifurcating, it talks about just farm programs, and what we are trying to do in our report, and what the chairman and Senator Lugar's principles talk about is the diversity of the farm sector today and the diversity of programs that help various parts of that diverse farm sector.

Support programs that help program commodities is one aspect. Certainly, trade is something that helps everyone. Pest and disease prevention and research programs and food safety programs help the whole spectrum of the food chain. Rural development programs help rural communities which support our agriculture, and yet our rural communities also support many of our farmers.

There are really only about 150,000 farmers that get the bulk of their income, or maybe 175,000 or so that get the bulk of their income from farming. Much of the farm household income today is supported from other off-farm jobs in rural communities. The strength of rural communities is extremely important.

That it is also important to look at the number of programs that we have that help farmers get more value out of the marketplace. Those are important programs, value-added types of things and opportunities that we have through some of our rural development programs, for example, where we assist farmers.

We have certainly utilized a lot of those programs for ethanol production, which I know is an interest of yours. Again, that points to the importance of looking for new and alternative uses for agriculture. The important role that agriculture can play, for example, in being a renewable source of energy is an important part of the conversation that we need to have, whether it is ethanol or biodiesel or biomass for energy production, or wind power that we can use in conjunction with ag lands. All of these are issues that we need to discuss in a broader debate about policy today.

Senator FITZGERALD. We are really on a treadmill on our overall farm policy because what farmers would like most, I suppose, is just good prices for their crops. All of our programs, no doubt, keep us producing a lot and then over-production further depresses the prices, and if we could find some way off that treadmill, we would be a whole lot better off.

I wanted to turn to another subject. Your report states that, "Our domestic and export policy must support our existing international obligations." With regard to U.S. sugar policy, can you explain our commitments under NAFTA and what effect this might have on our high-fructose corn sweetener dispute that we are now having with Mexico?

Secretary VENEMAN. Well, I believe the high-fructose corn syrup dispute is in the process of dispute settlement at this point. There is a long history of this whole sugar issue. Obviously, during NAFTA, one of the things that was decided was that they would try to have greater access for sugar.

There is a dispute about what is allowable in terms of coming in from Mexico. That is still being debated, the validity of a side letter, and so forth, and then there is the issue of corn sweetener going into Mexico. All of these are very contentious. Ambassador Zelleck, as well as people from our staff, have been working very hard to try to sort out some of the issues pertaining to sugar.

We had a discussion earlier on about the stuffed molasses. That comes into the equation of the North American sugar market and what is going on with that as well, but it is very complicated at this point. We are in the process of trying to negotiate some agreements with regard to all of this, but at this point it still is not resolved.

Senator FITZGERALD. Does the administration have a position on the overall sugar program?

Secretary VENEMAN. Well, no, we haven't taken a specific position, although we have set forward principles that talk about market orientation of programs. The sugar program, is one that needs to be examined primarily because we have taken sugar over the last—well, last year, before I was here, we actually took sugar into inventory. We had to do set-asides on sugar. I would certainly say that that is a program that needs to be examined and one that needs to be made more workable so that we don't run into those difficulties.

Senator FITZGERALD. How about dairy? Forgive me if someone has asked this question. Does the administration favor or oppose the dairy compact, which I guess is going to be an issue still that we will have to confront this year? We have had that battle before you were Secretary and we may be having that battle for many years to come, but do you have a position on that? Do you support the continuance? I am opposed to dairy compacts, but I would be interested to find out the administration position.

Secretary VENEMAN. The administration has not taken a position on dairy compacts. I mean, obviously, again we have principles laid out that talk about market orientation, and I would simply say that dairy compacts ought to be examined in that light.

I will say again, and I said it the last time I appeared before this committee at my confirmation hearing when we talked more about dairy policy—as I said at that time, and I continue to believe, dairy is one of the most difficult issues that we have to deal with in agriculture. It is very regional. We produce dairy in almost every State.

Virtually everybody has a different idea about how we ought to deal with dairy and dairy policy. I have said many times that I would love to see the processing industry come together with the

producers and come up with a dairy policy that everybody can agree to. Now, whether or not that will ever happen is yet to be seen. I haven't seen a lot of movement in that regard. Again, dairy is a very difficult issue, but I can only say that we would like to look at all of our farm programs, be they the commodity programs or dairy or sugar, and move in a more market-oriented direction.

Senator FITZGERALD. I would encourage you to take a firm position on that. President Bush came out against the dairy compacts explicitly in 1999 when he was campaigning in Vermont, and this is going to be one issue where we would be best served by the administration taking a firm stance.

The Senate is very closely divided historically on this issue and your weighing in would be appropriate because I do think that with the precedent we have with the New England Dairy Compact, either our whole country is going to go toward these compacts or we are going to go away from these interstate compacts.

With that, I want to thank you for being here. Just one final question on a real practical matter. Maybe two years ago I and Congressman LaHood, from Peoria, Illinois, passed a bill called the Freedom to E-File bill which would require the USDA to develop a system for farmers to access and file their USDA paperwork over the Internet.

I was just wondering if you might be able to update the committee on your implementation of the legislation, and I am hoping you will be able to meet the June 2002 deadline for implementation. In our research we found that farmers were highly computer-literate and many farmers would love to have the opportunity to file their paperwork over the Internet, and in the long run it could really save both the farmers and the Government some money.

Secretary VENEMAN. Senator, I appreciate you asking me that question because it gives me the opportunity to talk about the last chapter of our principles book which I haven't had the opportunity to talk about today, and that is a chapter that really says we want to be able to integrate our programs and make sure they are efficiently administered, and that would be part of it.

Obviously, one of the things that we can do is better get our data bases into a computerized environment that is connected. We have an initiative for a common computing environment that would put our NRCS programs, our Farm Service Agency and our Risk Management Agency programs together in common data bases. We think that is extremely important, and part of that is to bring the whole concept of e-filing and allowing our customers to do business with us over the Internet, as so many businesses are doing today.

In addition, we have a project ongoing to look at how we integrate our maps for the agencies as well. We have maps in the Farm Service Agency, we have NRCS maps, we have RMA maps of farms, and those should be consistent and integrated so that they can be accessed easily by both farmers for making farm decisions, as well as for program administrators. We feel very strongly about program administration and how we can take steps to make programs more effectively administered in our Department.

Senator FITZGERALD. Thank you.

The CHAIRMAN. Thank you, Senator Fitzgerald. I might just say that the whole issue of the compact really is not even in our juris-

diction. That comes under the Judiciary Committee, so it is not really ours to deal with. It is up to the Judiciary Committee. No committee has ever dealt with it. It just came on the Senate floor several years ago.

Senator FITZGERALD. It is normally a rider on an appropriations bill, isn't it?

The CHAIRMAN. Yes.

Senator FITZGERALD. Yes.

The CHAIRMAN. t has never been dealt with on the committee level, but this is not the proper jurisdiction for the compact itself. As you know, the Northeast Compact expires at the end of this month. Again, it is not our jurisdiction to do one thing or another about it. That is the Judiciary Committee. If they want to do something, they will have to do something about it.

Now, overall dairy policy as it relates to the Farm bill, yes, then we can set up certain structures. If we want, and we can deal with various kinds of structures in the Farm bill. As the Secretary said, this is so diverse, I don't know. I mean, dairy policy is going to be something to grapple with, I can tell you that.

Madam Secretary, you have been very kind and very patient. I just have two rather specific types of questions in closing and then we want to get on to the nominees.

As a clarification on conservation, I want to ask this question specifically to get a clarification to make sure that I clearly understand this. Pertaining to the question I asked earlier about green box, a conservation incentive payment program where the payment is not directly based on costs may qualify as green box under the WTO.

Do you agree with that?

Secretary VENEMAN. Yes.

The CHAIRMAN. I appreciate that. I just wanted to get that clear.

Secretary VENEMAN. I know that you are looking at some specific programs, and we stand ready to work to look at any of these programs with you and try to determine how they would fit with our WTO commitments or any other program that is designed. We appreciate the fact that the committee is looking at where these programs would fit within our existing trade obligations because we do feel that that is an important part of this discussion.

The CHAIRMAN. As we are looking at it, at least in terms of what I have been promoting anyway in terms of conservation and working lands, it may not be directly associated with the exact costs. It may have some other things in there that for which we may want to give incentives. For example, and I just wanted to clarify that that still may qualify as green box. I appreciate that.

Second, there have been various questions asked about the House bill. If the House does indeed take up its bill next week, we need to know the Administration's position. If you are not prepared to state that today, will you, representing the Administration, be prepared to state the Administration's position on the House bill prior to the House consideration of the bill?

Secretary VENEMAN. Senator, my understanding is that if the House bill is taken up, there will be the standard statement of administration policy, or SAP, as it is normally referred to, which is normally issued by OMB.

The CHAIRMAN. That will be prior to the House taking up the bill?

Secretary VENEMAN. My understanding is that that would be the case.

The CHAIRMAN. I appreciate that.

Last, just a little bit of soapbox if I might, and I know Senator Wellstone wants to ask one last question. On the trade promotion authority, I have in the past supported all of the so-called fast tracks and things like that, but quite frankly I am having some reservations in terms of this.

As I have looked into what is called fast track, or now trade promotion authority, I just want to comment on something you might have said, that we need this to have a seat at the table in negotiations. It is my understanding of the laws that are now existing that any Administration under the constitutional framework of our Government has the power to negotiate any treaty with any country. They do not need our prior approval. They don't need us to give them any kind of authority.

This Administration can go and negotiate any treaty that they want, trade or otherwise. The only constitutional mandate is that the Senate advises and consents. That means that any treaty struck by any administration must come to the Senate for its approval. That means that we, representing our constituents and the country, then can take a look at it and can voice and perhaps even vote the concerns of our constituents.

Fast track, or trade promotion authority, is the Senate saying we are giving up that constitutional prerogative of ours; we are giving that up. We are saying to the Administration you can negotiate, but then when it comes here we cannot change it, we cannot amend it. All we can do is vote up or down on it, so we have given up the advisement part of the advise and consent. We can consent or not consent, but we can't advise. We do have a seat at the table, we do have a seat at the table, and the administration can proceed on that basis.

However, I am beginning to think that as we continue down this road, that we as a Senate need to ensure that we keep that "advise" part of the "advise and consent," and that we be partners in these kinds of negotiations.

I would just repeat again, regarding trade, what Senator Roberts said, and he said it here at a committee hearing back in July or June when he made the statement that maybe we have listened to the siren song of trade long enough.

As I have watched this over the years it has always been an accepted fact or accepted belief that if we cut down our production, other countries will promote their production; they will increase their production. That is true.

It is also true that if we increase our production, they increase their production. I have the data going back 20-some years to show that no matter what we do, Brazil is going to produce more, China is going to produce more, and Argentina is going to produce more. It makes no difference, and there is plenty of data to show that. Countries are going to do what they think is in their own best interest, regardless of what we do.

Last year, When I was in China traveling around agricultural areas, seeing mile after mile after mile of corn and beans and sorghum—I remember when Freedom to Farm was passed China was going to be one of our big markets for our grain. Last year, China exported corn. They not only fed a billion people, and they are pretty well fed, but they exported corn. They may have exported oilseeds and some soybeans, too. I am not certain about that.

Then I look at the land over there and there is all this land and here are these farmers out there farming it. Guess what their input costs are? Almost nothing. The land is all owned by the government. They don't have to buy land. A lot of the machinery is owned by the government, a lot of the marketing is done by the government, and they just work the land.

I don't like that system at all, but you have to face reality. That is what it is, and to put my corn farmer in Iowa who has to buy land, pay interest rates, pay high prices for equipment, and the input costs that Senator Lincoln talked about—to compete against that kind of a system, you are asking my farmer to compete against the Chinese government. It can't happen.

Trade, yes, I am all for trade. We have to promote trade and do as much as we can on trade, and we ought to be getting into more value-added trade, not just the bulk commodities. We have to be thinking about what can we do to get into that value-added market. That is where we are good. We are good at that and we can do it better than anybody else in the world in terms of taking commodities and making them into something very valuable, something desirable. Whether it is how we cut it, chop it, dice it, or how we package and process it, we can do it better than anyone else. Those are the kinds of markets we ought to be looking at abroad, not just the bulk commodities.

I would also say that as we look ahead, biotechnology is coming and I have been very supportive of it. What that means is that in a lot of these areas of the world which we thought would be our markets in the future because they can't grow anything, they are now going to be able to grow more of their grains, feed and food grains, on arid lands. Biotechnology is doing it; it is going to increase their production. I don't know that they are going to be that big of a market for us. They will be in terms of some of the biotechnology, but in terms of bulk commodities I am not so certain.

Again, where do I come back? I come back where we do agree, and that is we have to have a broader look at how we are going to support farmers in rural America. Much broader than what we have done in the past. That is where we agree. There may be some little things on which we may disagree, but in that contextual framework we do agree.

Two other things. Again, because of our system, we have to think about how are we going to enable younger farmers, younger people, to get into agriculture in this country. The average age of farmers now—I don't know—it is 50-something; at least out in my area it is. That is probably true nationwide.

It is almost impossible for a young person to get into agriculture, unless you inherit it. There is no other way, or you just work for someone. To own land, to actually invest in it, buildup equity over

a lifetime and have your own land and your own farm, is just literally impossible to do unless you inherit it.

There has got to be some way that we can structure this for young people who are smart, who have been to our ag schools—they know how to produce, they know how to be good conservationists—to be able to buy land and buildup their equity over the years. That is one of the most perplexing things that we have facing us right now, how we break that down and how we provide for that kind of support for young and beginning farmers?

Last, the question I keep asking all the time, and it kind of gets back to what you said in your book here, in your report last week: should we as a Nation continue to support every bushel, bale and pound that is produced in this country? If we should, I want to know the arguments for it.

Should we continue to support every bushel, bale and pound produced? If so, give me the arguments. I would like to see them. If not, then perhaps we need a different approach as to how we are going to support agriculture.

That is my soapbox and if you have some response—I know Senator Wellstone had a question, but if you have a response, we would be glad to hear it.

Secretary VENEMAN. Well, you said a lot, so I will try to be brief. Let me start with the whole issue of trade promotion authority and why it is important, and particularly about the advise and consent.

First of all, this is a trade agreement and they have been treated a little bit differently than treaties, because treaties are only approved by the Senate and trade agreements are approved by both Houses.

Trade promotion authority, or traditionally fast track, what it has done is given the negotiators—we talk about trade negotiating authority. It is actually giving the negotiators the ability to negotiate agreements and bring them back and be, as you say, voted on up or down.

Now, a couple of things in that regard. One is that it is anticipated with trade promotion authority that this would done with a tremendous amount of advice from the Congress. We have traditionally had a lot of advice from the Congress in negotiating trade agreements. I know that this administration feels very strongly about the importance of getting advice from Congress as we go forward with negotiating trade agreements. I know that Ambassador Zelleck feels strongly in that regard, too, and that in granting trade promotion authority we would expect to work very closely with the Congress as we proceeded with negotiations.

What it does is it gives us the ability to have credibility with our trading partners that if we negotiate something, it is going to stick. It is either going to go away completely or it is going to stick, and that is the critical issue, is the ability to have the credibility with our trading partners.

I talked a little bit earlier about the fact that I went to Uruguay earlier this month and went to the Cairns Group. I mean, we meet with people from other countries all the time about trade issues and they are all asking, are you going to get trade promotion authority? They are looking at that as something that will give us the

ability to take a leadership role in the negotiations, which we should.

I would certainly pledge to you on behalf of the administration that any trade agreements that we work on will be done with a lot of consultation with the Congress, both the House and the Senate.

Let me talk for a minute about the value-added trade issue because I couldn't agree with you more, but it is happening. There is a chart on page 40 of our book that shows, since 1990, how the share of value-added trade has increased. About 60 percent of our trade now is in high-value—meats, processed products, fruits and vegetables. That is the trend, and it continues.

When you export pork from Iowa, you are also getting benefit, though, from the bulk because you are exporting pork and corn or soybeans. It is important that we recognize that when we export high-value, we not only get the benefit of that export, but we get benefit to agriculture for what is going into that higher-value product. I just wanted to point out that that is a trend. I agree with you on that, but that is extremely important that we focus on the higher-value products, not forgetting our bulk, of course.

On China, just a word. That it is important to understand China is a big customer, particularly for oilseeds this year. We have seen tremendous increases in their oilseed imports, and we have negotiated a very good agriculture access agreement as part of the China WTO accession—I mean we, the U.S. Government; it was done before we were here. One of the next steps was taken last week in terms of getting China into the WTO, and hopefully that will happen soon because we have a good access agreement for many agricultural commodities for China and the WTO.

Just one word about younger people in agriculture. I agree with you that it is difficult today for some younger people to get into agriculture in terms of farming and owning land. One of the interesting things that I find when I talk to deans of agriculture schools if how many young people are now going into agriculture.

It is fascinating because one of the things they cite is the high-tech nature of agriculture, the biotechnology, the new products, the nutrition aspect, the intersection of those, and the fact that agriculture is offering so much promise now for young people in terms of a career and there is a lot of excitement about food and agriculture as a career.

Maybe it is hard, as you say, to get money to get land, but there are so many exciting career opportunities that people are finding in the food and agriculture system today that is something we ought to recognize, that young people are coming back to the ag schools in new and different ways, ways to integrate technology and business into the function of the production and the food system. That is important as well.

Finally, that I just want to say that another piece of all of that and getting young people involved as well is the importance of things like research we have talked about today, and the whole infrastructure issue and the importance of how that supports all of our food system here, whether it is pest and disease prevention, food safety, and all the research that supports that.

As we go forward, I do hope we can continue to talk about this broader approach and how all of these things will help, and do help

agriculture, and need to be updated and integrated into the system we have today.

The CHAIRMAN. Thank you, Madam Secretary. I know Senator Wellstone had one last question.

Senator WELLSTONE. Thank you, Mr. Chairman, and I understand that Senator Lugar asked the question earlier about what kind of money we have to work with, so I won't go over that ground.

My apologies. I mentioned to Senator Harkin earlier that at the same time the HELP Committee had a hearing on September 11 and some of the post-traumatic stress syndrome needs and support of children in the mental health area, which is an area I work in. I apologize that I had to step out.

I will just do this very briefly because you have been here a long time. There is a quote from your report that captures my imagination and goes back to my earlier comments about competition: "While the structural change in agriculture clearly is advantageous for some, it also prompts concerns about competition, market access and the use of market power by some participants, to the disadvantage of others. Moreover, reduced competition could limit society's gain from structural change by stifling innovation or tilting the market results in favor of those that have the greatest market power."

This is on page 21 of the report. It is an excellent summary, and as any number of us have said, we really think that in the countryside there is quite a bit of unity about the need to deal with the problem of concentration. This is the part of the Farm bill that I certainly want to work on, so I wanted to ask you kind of how the administration is going to respond to the problem of concentration, reduced competition, the market power of large agribusinesses, and what your priorities are going to be in this area.

Secretary VENEMAN. Well, one of the things that we talk about in this book is, again, the issue of getting bigger is happening in certain parts of the whole food system, whether it is some of the farms that are getting bigger or more concentration in terms of the processing or even the retailing side, as was mentioned earlier in the hearing.

Let me just say that we have Packers and Stockyards that is very involved in concentration issues, as well as we work closely with the Justice Department to see whether or not there are competitive issues with regard to mergers and acquisitions and that kind of thing. The Department plays a very active role in that regard.

At the same time, we need to recognize that there are programs that give farmers some choices. We talk a lot about the importance of giving farmers opportunities in the value-added area, whether it is the ability to come together in a cooperative structure or other business with the help of some of the programs that we have.

We have seen a lot of success in this area. We have the Dakota Past Growers up in North Dakota that has become the third largest pasta producer. There is a beef cooperative in 30-something States that has been very active. We have seen a number of business entities be formed to really give the producers the opportunity

to get value out of the food system in ways that they feel helpless to do otherwise.

That we develop new products through biotechnology, giving producers the opportunity to find value products that they can produce and get more value, all of these are opportunities, that give people the ability to take a road other than maybe the larger players, and that is one of the things that we can help and a assist in doing.

Senator WELLSTONE. To be honest about it, when you mention Packers and Stockyards, I don't really think that family farmers in Minnesota or around the country believe that they have gotten much help from Packers and Stockyards or that much help from the Justice Department.

I understand the kind of niches, but what I want to know is whether or not you are willing to take this on. We have all these mergers and acquisitions on both the input side and the output side. I mean you have oligopolies, at best. I could recite the figures, but you know them. The farm-retail spread grows wider and wider, and what I am saying is I don't think there is a future for family farmers unless there is some real competition.

Do you all have some plans to put some competition back into the food industry? Do you have some plans to challenge some of these acquisitions and mergers in terms of their impact not just on consumers, but on our independent producers? To say that we are active right now, to be honest I just think that that right now in the countryside has no credibility at all because people don't believe that.

Secretary VENEMAN. Well, again, one of the things we need to promote is more value-added opportunities for farmers. We have programs that do that. We may want to look at additional opportunities to develop things that will allow farmers to participate in those kinds of arrangements and get more value out of the food system.

Senator WELLSTONE. Will you challenge some of these acquisitions and mergers that lead to more and more concentration? Are you willing to look at their impact on producers and have Packers and Stockyards be more active?

Secretary VENEMAN. Again, the Packers and Stockyards Administration has been active. We have been active with the Justice Department over the years, or at least the Department has. Again, it is a question of evidence. I mean, these are very legalistic kinds of investigations, and certainly we have cooperated in the investigations in trying to produce evidence in the various investigations into these mergers.

Again, it falls within what the law requires today and we work very closely with Justice. I believe Justice has an ag person over there. In addition, we have had people at the Justice Department, making sure that they understand the structure of the agriculture industry, to make sure that the proper things are taken into account, and we will continue to do that.

Senator WELLSTONE. I will finish on this. Madam Secretary, I would love to later on—I don't want to take any more time—talk to you about the food stamp program. I touched on that in my opening comments, and you could play such a positive role.

You talked about we are operating within this framework. Are there some changes in law that we need to make that would enable you to do a better job?

By the way, I am being scrupulously bipartisan here. I don't think we have done much in past administrations on this question, because the mergers and acquisitions go on with a vengeance. If there are changes that we need to make that could give you more authority to do the job you need to do to give our independent producers a chance to compete, that is really my question.

Secretary VENEMAN. Well, again, we have not put forward specific proposals in our book. We will certainly look at that issue to determine whether or not we need additional authority, and if people here have ideas for authorities that might be granted, we would be happy to analyze them and work with you.

Senator WELLSTONE. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Wellstone.

Well, Madam Secretary, you have been very kind and generous with your time and your expertise today. We do appreciate it. Again, I congratulate you on a fine publication on the policy book that you put out last week. We look forward to working with you as we develop our legislation here and we will wait to see what the House has to do, I guess.

Secretary VENEMAN. Thank you, Mr. Chairman, and I just want to also thank you for your timely consideration of our nominees, whom I now know you will take up two of them.

The CHAIRMAN. We are going to bring up two more right now. Senator Lugar and I have agreed that we have asked to discharge the committee. We are going to try to bring them up under unanimous consent this afternoon and get them through before we go home today.

Secretary VENEMAN. Thank you very much. We really appreciate that. We are counting on these people to start work soon.

The CHAIRMAN. Exactly. Well, thank you, Madam Secretary.

Secretary VENEMAN. Thank you.

The CHAIRMAN. Thank you, Dr. Penn, Dr. Collins.

[Whereupon, at 12:45 p.m., the committee was adjourned.]

APPENDIX

SEPTEMBER 26, 2001

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FOR IMMEDIATE RELEASE
September 26, 2001

Contact: Tricia Enright/ Seth Boffeli

STATEMENT OF U.S. SENATOR TOM HARKIN, CHAIRMAN HEARING ON THE ADMINISTRATION'S VIEWS ON FOOD AND AGRICULTURAL POLICY

"This morning I am pleased to welcome Secretary Veneman, accompanied by Under Secretary Penn and Dr. Keith Collins to our Committee for a hearing on the Administration's views on food and agricultural policy. We look forward to hearing this morning's testimony and discussion of the report from the Administration released last week. Just yesterday, the distinguished ranking member, Senator Lugar, and I issued a set of joint policy objectives for the farm bill. So I believe the stage is set for a good hearing and airing of views.

"Farm families and rural communities across America have not shared in our nation's prosperity. We need new directions in federal agriculture, food and rural policies. I welcome Secretary Veneman's report because it clearly indicates a willingness to examine critical issues in rural America and in our food and agriculture system – and to explore new ideas and policy proposals. To be sure, there are details to be filled in, and I look forward to working with the Secretary and her team on specific policies.

"Farm income protection is of course a fundamental part of the farm bill. We need a better system to provide adequate income protection without requiring annual emergency legislation. However, protecting agricultural producers against income losses is not enough by itself. The farm bill must also help farmers and rural communities create and realize opportunities for the future. If the legislation fails to lay a foundation for new opportunities, rural America will be no better off five or 10 years from now. Farmers will be just as dependent on commodity program payments and rural communities will still be falling behind."

"The new farm bill should help farmers earn better returns and a larger share of the consumer dollar in the market. Value-added processing ventures, new biotechnology products, innovative marketing channels and increased exports all can help. If independent farms are to survive, though, we must ensure that agricultural markets are open, competitive and fair.

"America's farmers, ranchers and landowners have a strong stewardship ethic, but margins are tight and they too often lack the financial resources to conserve natural resources as they want to do. The new farm bill should extend and strengthen USDA's current conservation programs, and it should create a new system of incentive payments for maintaining or adopting new conservation practices on land in production. The bipartisan legislation I have authored will both improve producers' incomes and help them conserve soil, water and wildlife.

"We have barely scratched the surface of the potential for producing farm-based renewable energy and raw materials, including ethanol, biodiesel, biomass and even wind power. Anything we can make from a barrel of oil we can produce from farm commodities. I am proposing a special title to promote renewable energy in the farm bill. That has never been done, but the time is right.

"We also need to strengthen the foundation and infrastructure of our nation's food and agriculture sector. That includes support for research, protecting the safety and security of our food supply and safeguarding plant and animal health. And we must meet our responsibility to help fight hunger and malnutrition at home and in developing countries, especially among children.

"We will not have truly healthy rural communities unless both farms and small towns do well. Rural America is too often at a disadvantage when it comes to basics like enough good water, electric power, telecommunications, loans for businesses and equity capital for investment. A critical part of the farm bill is helping to revitalize rural economies, generate more good jobs and improve the quality of life in rural communities."

Dick Lugar Statement

U.S. Senator for Indiana

Contact: Andy Fisher 202-224-2079 or Nick Weber 202-224-8370 Date: 9/26/01

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Lugar calls for Bush Administration 'intervention' in congressional farm bill debate

U.S. Sen. Dick Lugar made the following statement at the U.S. Senate Agriculture, Nutrition and Forestry Committee hearing today with USDA Secretary Ann Veneman:

The publication of the United States Department of Agriculture book on Food and Agriculture Policy is a signal event. I congratulate Secretary Ann Veneman for this timely intervention into preparation for the next farm bill and I join Chairman Harkin in welcoming her to our Committee hearing today.

Chapter III of the new USDA book merits special attention. The chapter begins by pointing out that "the farm sector is diverse beyond the imagination of those who framed the New Deal legislation. On average, farm family incomes no longer lag, but rather surpass those of other U.S. households. Most farms are run by people whose principal occupation is not farming. . .Domestic demand alone is no longer sufficient to absorb what American farmers can produce."

On the next page, Chapter III continues: "Many of the program approaches since the 1930's proved not to work well or not at all, produced unexpected and unwanted consequences, became far costlier than expected, and have been continually modified over time in a long succession of farm laws. Some major, and still highly relevant, lessons learned include:

> "History has shown that supporting prices is self-defeating. Government attempts to hold prices above those determined by commercial markets have simply made matters worse time after time. Artificially higher prices encouraged even more unneeded output from the most efficient producers at the same time they discouraged utilization pushing surpluses higher and prices lower. . .
>
> "Supply controls proved unworkable too. . .the remaining land was farmed more intensively, and supply was rarely cut enough to boost prices to politically satisfactory levels. The programs were costly to taxpayers and consumers and the unused resources were a drag on overall economic performance...limiting our acreage was a signal to our competitors in other countries to expand theirs, and we lost market share that is always difficult to recapture. . .
>
> "Stockholding and reserve plans distort markets enormously. . .because such stocks eventually must be returned to the market, they limit the recovery of prices in the future. Moreover, time after time, stocks have proven costly to maintain, distorted normal marketing patterns, ceded advantage to competitors, and proved tempting targets for political tampering. . .

> "Program benefits invariably prove to be disparate, providing unintended (and unwanted) consequences. The rapidly changing farm sector structure produced a wide array of farm sizes and efficiencies. Many farms were low cost and the programs were of enormous benefit, enabling them to expand their operations. Others did not receive enough benefits to remain viable and thus were absorbed along the way."

The book credits the FAIR Act of 1996 with removing much of the decades old program structure, providing unparalleled farmer decision making and becoming the least distorting of markets and resource use. But USDA states that the FAIR Act's "direct payments do share some unintended effects with price support programs, namely, the artificial inflation of farmland prices. The effect has been exacerbated by the size of payments in recent years, some $28 billion in the last 4 years above the amount provided in the 1996 law."

The book goes on to point out that only 40 percent -- 40 percent -- of farms receive these payments because they are largely directed to specific commodities. In fact, 47 percent -- 47 percent -- of payments went to large commercial farms which contributed nearly half of the commodity production and had average household income of $135,000.

Another interesting discussion surrounds the fact that 42 percent of farmers rented land in 1999, and commodity payments capitalized in higher land values often led to higher rents.

Secretary Veneman, the farm legislative process is in motion. The book of principles makes an important contribution. But I ask you and your associates to do much more. Please begin to comment, specifically, on the wisdom of farm bill ideas which are now being formulated or debated in the House and Senate. Please enlist the assistance of OMB to identify how much money is now available in a war economy with dire predictions that prospective surpluses are vanishing or gone. The need for that timely intervention by the Bush Administration is apparent. I look forward to your testimony.

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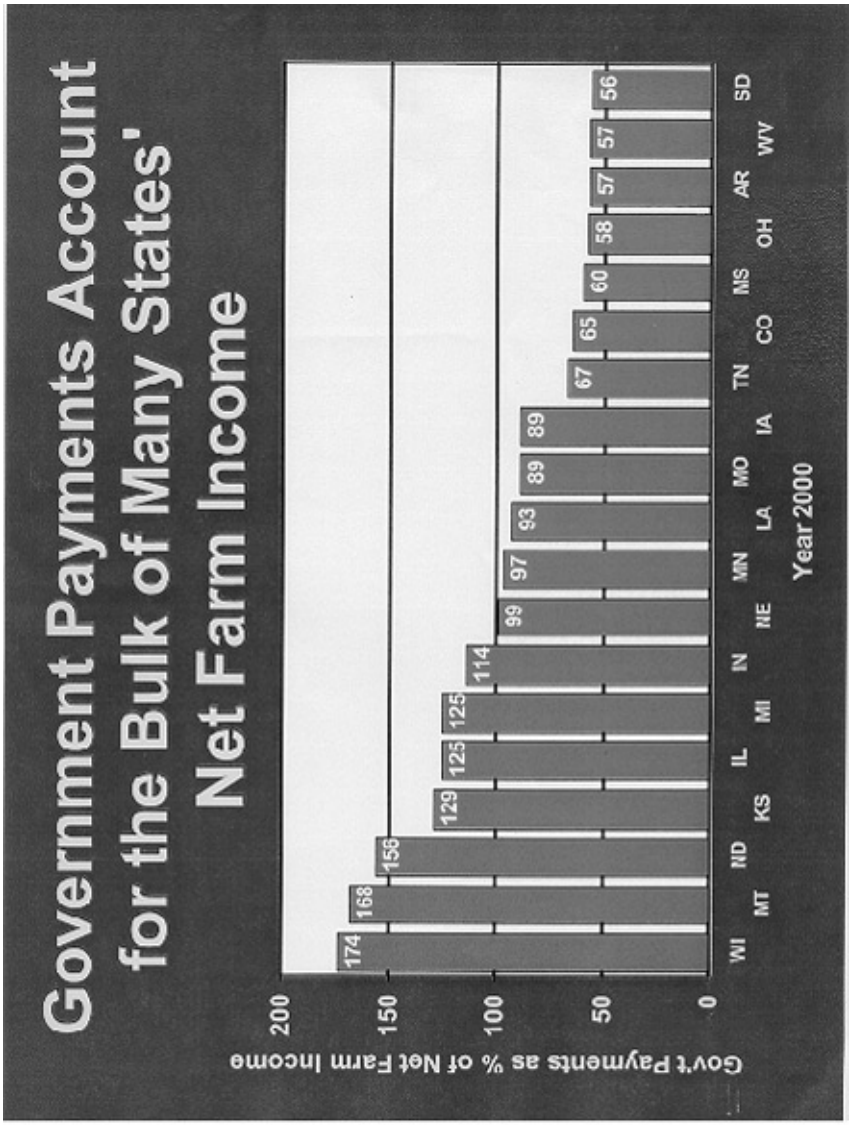
Government Payments Account
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Statement of
Ann M. Veneman
Secretary of Agriculture
Before the
Senate Committee on Agriculture, Nutrition and Forestry
September 26, 2001

I am very pleased to be here with the Senate Agriculture Committee this morning. Thanks to Chairman Harkin, Senator Lugar, and the members for the invitation to discuss the Administration's views on future food and agriculture policy. I will make a short statement, and then will be pleased to respond to your questions. I would ask that my longer statement be submitted for the record.

The focus of my statement today is to share with you our views on the agriculture sector of the future and to suggest some guiding principles we have developed from a recent stocktaking exercise.

This is a most opportune time to be reviewing the status of our industry and examining the current policies. The events of the past two weeks clearly have reminded us of the need to re-examine many of the things we long have taken for granted. The vital role of our food and agriculture system should be near the top of the list. Thus, I suggest that this current review of our farm policy—the passage of new farm legislation—now should be viewed more broadly and in a different context than we would have just a short time ago.

Since the beginning of the year, the occurrence of several major events has thoroughly convinced me of the urgency of a comprehensive review of today's agriculture—all of the policies, programs, and other supporting public infrastructure. The Foot and Mouth Disease (or FMD) outbreak in the United Kingdom and on the European continent was a major threat to our

livestock and grain industries. We immediately stepped up our border control. We reviewed and strengthened the already tight protections that USDA had in place. And, we sent dozens of veterinarians to Europe to help contain the disease and also to learn as much as we can about it. Fortunately, we have maintained our 72-year record of keeping the United States free of FMD.

The spread of BSE in Europe and the recent find in Japan has enormous implications for beef and feed markets. Our policies to regulate feeding practices and actively test for BSE have protected our consumers, farmers, and ranchers.

The emergence of agricultural biotechnology and its rapid and widespread adoption in this country is posing significant new challenges throughout our food system and the global trading complex. Agricultural biotechnology holds tremendous promise. However, the StarLink incident clearly illustrated the importance of continuing to assure a coordinated and rigorous science-based approach to this emerging technology.

To date, our food system has stood the test of significant challenges. And, they serve to reemphasize just how valuable our public infrastructure of specialists, institutions, and facilities are to our agricultural economy. Our policies, regulations, and supporting institutions must keep pace with new technology, the shifting business environment, and our industry structure.

TRANSFORMATION TO A CONSUMER DRIVEN AGRICULTURE

Agriculture is being influenced by many of the same forces that are shaping the American economy of the 21st century: globalization of markets and culture; advances in information, biological, and other technologies; and fundamental changes in our family structure and workforce. The combination of these forces has now produced a decided shift from the commodity-based, surplus-oriented, production focus of the last century to one now defined by products, services, markets, and consumers. Increasingly, our consumers insist on defining what

is produced, how food production takes place, and with what effects. The food system now is clearly consumer-driven.

Several examples show how consumers are driving changes in our food system:

- Changing lifestyles and greater demands for convenience mean that forty-five percent of total food spending is now away from home.
- Food marketing is changing as warehouse club stores and specialty stores are gaining popularity. The supermarket share of grocery food sales fell from 78 to 70 percent in five years between 1992 and 1997.
- With more than 96 percent of the world's population living outside the United States, exports already account for some 25 percent of total farm sales and represent the largest potential growth market for the future. Access to these markets not only requires overcoming barriers created by high tariffs but also different cultures, languages, and preferences for food.
- Changes in exports mirror the fundamental importance of consumer demand with growth in trade of high-value products. Both U.S. and global exports of commodities continue to grow, but exports of high-value products (meats, poultry, fruits and vegetables, and processed products) are growing even more rapidly and now account for two-thirds of total export sales, compared with only half in 1990.
- The food industry is more closely coordinated the supply chain to swiftly translate consumer signals into products. By establishing direct ties to growers through contracts, food retailers better ensure that product qualities are tailored to consumer requirements. While some producers are concerned that the increased contracting has limited price information and made repercussions for farm structure, farmers in turn benefit by having

an assured buyer and receiving premium prices for products with desired characteristics. In 2000, two-thirds of hogs were sold under contracts, in contrast to only 1 percent in 1970.

- To maintain the high level of consumer confidence in the safety of our food, diverse interests are working together. State Quality Assurance Plans, voluntary agreements that provide guidelines for safe food production and sound environmental practices, have been adopted in California and other states for commodities including eggs, produce, and dairy.
- Food safety policy that brings together Government, industry, and the research community has also worked. The Hazard Analysis and Critical Control Point pathogen-reduction system (HACCP) has been fully implemented, and we see the prevalence of Salmonella on raw meat and poultry products continue to decline. Sustained reductions in some food borne illness also can be seen in recent data from the Centers for Disease Control and Prevention.

Agricultural Diversity

At the same time the market environment is changing, we are increasingly aware of the enormous changes that are occurring in our farm sector. A concentration of resources into fewer and larger farms occurred throughout the 20th century. While production doubled over the last 50 years, farm numbers dropped by more than two-thirds. Today, about 150,000 American farmers produce most of our food and fiber. While among the world's most competitive farms, these commercial operations make up just one segment of U.S. agriculture. USDA counts another two million plus farmers who meet the criterion of potential sales of at least $1,000 of

agricultural products annually, including many people with non-farm occupations but who enjoy rural lifestyles.

A vast diversity of businesses and households emerges out of this multitude: niche farms, hobby farms, hunting preserves, dude ranches, you-pick operations, farms that sell directly to consumers through farmer's markets, bed and breakfasts, and more.

Farmers produce scores of different commodities every year and countless varieties of products, even though bulk commodities—such as cotton, corn, wheat, and other food and feed grains that are the focus of government programs—symbolize agriculture for many. These program crops, grown on almost every farm in the 1930s, are produced today on only 30 percent of all farms and account for just 20 percent of the total value of agricultural sales.

In the 1930s, when price and income support programs first were developed, there was little need to distinguish among farms, farmers, or farm households. In fact, farms and households (and farming communities, in many cases) were closely intertwined as a way of life and were considered inseparable. Today, fewer farmers are full time, choosing to merge farm and nonfarm employment opportunities. While income from farming, as measured by net cash farm income, was $55.7 billion in 1999, off-farm sources contributed $124 billion.

The widespread importance of off-farm income illustrates that for the majority of farm households, the vitality of the general economy is far more important to their well being than the level of commodity prices. This is reflected in the reversal of the long-term trend of declining farm numbers to the 1990s and modest increases since 1996. The long-time prosperity in the general economy accounts for this, particularly boosting small farm numbers that primarily serve as rural residences.

Forces Driving Change

Today, a number of very powerful forces are propelling the fast-paced changes occurring in every single component of the food system. Globalization—the growing competitive pressure from closer integration of business all around the world—along with a broad range of new technologies, from information advances to biotechnology, are converging to further alter the farm and food system as we know it. Understanding the nature of these "drivers" helps define the needs for the agriculture and food system of the future.

Global Markets. Political boundaries no longer constrain the conduct of good business, and this includes agribusiness. Better, faster, more reliable communications and transportation systems facilitate businesses' abilities to produce, source, and sell in the locations that give them best advantage, even if that means operating in multiple locations around the world. This globalization of markets pressures firms to be more competitive and to "shorten the supply chain" (reducing the number of business transactions and their associated costs) in order to meet rapidly changing consumer demand.

Businesses in the food system around the world compete against each other to provide high-quality products at the best price. Globalization makes it imperative for companies to diversify their sources of raw materials and buy from the farmer, wholesaler, or food processing company that provides the best product for the lowest price at any given time. We can no longer think of our agriculture as being confined to what takes place within our borders. It is part of a larger, worldwide interconnected system.

Technological Innovation. New technology not only has facilitated the growth of global markets by reducing the constraint of geography, but also spurred remarkable adaptation of the U.S. food and agricultural system to new global conditions and demands. Agricultural

technology traditionally focused on tools and techniques to lower farm costs and increase yields. Today, new biological and information technologies actually expand markets for farmers and assure better communication between producers and consumers, further increasing market opportunities.

The extent that technology already has transformed most aspects of the food and agriculture system shows the enormous promise for developing new markets, increasing our competitiveness, ensuring the safety of our food, and solving environmental problems. A few examples show why we see agriculture is future filled with exciting new opportunities for our farmers and food system.

- "Precision agriculture" promises both greater production efficiency and coordination of input application with environmental considerations. A growing number of farms currently use sensors, automated responses to monitored variables, robotic machinery, and other high-tech means to optimize both production efficiency and environmental quality.
- Production and processing technologies are opening entirely new markets for the farm sector. In addition to the traditional nutrition market, farmers soon will have opportunities in energy, industrial, and pharmacological markets around the globe. Biologically based technologies are particularly promising as the source of new products for farmers.
- Moreover, agriculture already is the source of clean-burning fuel and industrial ethanol, a variety of specialty chemicals derived from plants, soy-based inks and diesel fuel, industrial adhesives, biopolymers, and films. Scientists now say that soybean oil could replace a significant share of petroleum-based resin used in manufacturing auto parts.

- Research can provide solutions to food safety by reducing the threat of foodborne disease before an animal even becomes food. Scientists are working on feed additives to eliminate pathogens like *Salmonella* and *E. coli 0157: H7* from hogs' and cows' intestinal tracts before slaughter.
- Packaging technology is revolutionizing ways in which foods can be marketed. An example is the development of "breathable" bags that preserve washed and mixed, ready-to-eat salad greens, baby carrots and sliced apples that gave rise to an entirely new value-added-segment of the food industry with over a billion dollars in sales.

NEW REALITIES FOR THE FOOD SYSTEM

All of the things I have just described clearly characterize a far different farm and food system operating in a far more complex business environment than in the past. The situation today also is far different than when many of our policies, programs, regulations, and other aspects of the public infrastructure were put in place.

Thus an opportune time to consider whether the public policies, institutions, and investments that have served the sector so well in the past century are still the most relevant and effective. Reflection on our experiences and the profound changes in the farm and food system can suggest the basis for principles to guide review and development of new policy approaches, revamped institutions, and redirected investments.

Mr. Chairman, how we approach these issues will set the course for American agriculture for the next decade and beyond, and I would like to discuss our assessment of several important areas. Trade leads the list, given the enormous importance of global markets to all parts of our food system.

TRADE EXPANSION IS CRITICAL

Trade is critically important to the long-term economic health and prosperity of our food and agricultural sector. We have far more capacity than needed to meet domestic food market requirements. To avoid excess capacity throughout our system -- including farmland, transportation, processing, financing, and other ancillary services -- we must aggressively expand our sales to customers abroad. Clearly, without the salutary effects of an expanding export market, farm prices and net cash incomes would be significantly lower today.

More than 96 percent of the world's population lives outside the United States. Most growth in food demand will be in developing and middle income countries, where both population and income are growing relatively rapidly. The International Food Policy Research Institute (IFPRI) suggests that by 2020, 85 percent of the increase in global demand for cereals and meat will occur in developing countries and that the demand for meat in the developing world could double.

Greater access to foreign markets requires aggressive trade policy to lower tariffs and eliminate trade-distorting subsidies. Failure to provide strong leadership in global trade liberalization will result in our producers and exporters being left behind. Other nations are aggressively pursuing preferential agreements, many right in this hemisphere that could preclude us from markets where we have important cost advantages.

Let me be very clear. We must help our farmers expand into new markets if they are going to succeed in this ever-changing environment. Otherwise, they will be left behind. We need the tools – like TPA – to open new markets and reduce tariffs.

We must also ensure that domestic farm support and international trade policies are consistent and mutually reinforcing. It makes no sense to have trade policies and programs

promoting farm exports at the same time domestic support programs inadvertently reduce competitiveness. Our domestic and export policy not only must support our existing international obligations but at the same time give us ample latitude in pursuing ambitious goals in ongoing and future negotiations.

FARM SECTOR POLICY

With regard to farm sector policy, it is useful at the outset to reaffirm that this Administration continues to view the farm sector as both critically important and unique. We believe our society agrees and embraces the concept of an economic safety net for our producers, to help cushion occasional adverse financial circumstances that are clearly beyond their control. The task then becomes one of defining such a safety net that is both appropriate for our diverse producers and suitable for the times.

More than seven decades of farm policy have provided a rich, full experience upon which to draw as we contemplate appropriate 21st Century policies for our industry. Our experience with policies and programs during this time has proved very instructive, helping us to avoid the mistakes of the past. History also shows that growth in farm income has been due largely to rapid improvements in productivity resulting from a strong research base and better opportunities to market products including export markets. Farm household income has benefited enormously from off-farm employment opportunities.

Many of the program approaches since the 1930s did not meet their objectives, produced unexpected and unwanted consequences, became far costlier than expected, and have been continually modified in our long succession of farm laws. Some major, and still highly relevant, lessons learned include:

- History has shown that supporting prices is self-defeating. Government attempts to hold prices above those determined by commercial markets have made matters worse time after time. Artificially higher prices encouraged even more unneeded output from the most efficient producers at the same time they discouraged utilization, consequently pushing surpluses higher and prices lower. Costs to taxpayers grew until the point was reached where something more had to be done. All too often, that turned out to be finding ways to restrict output.
- Supply controls proved costly to taxpayers and consumers and the unused resources were a drag on overall economic performance. But, perhaps most important, limiting our acreage was a signal to our competitors in other countries to expand theirs, and we lost market share that is always difficult to recapture.
- Government Stockholding and reserve plans distort markets. While isolating stocks from the market when supplies are abundant is attractive for its short-term stimulus, such stocks eventually must be returned to the market, and they limit the recovery of prices. Moreover, time after time, stocks have proved costly to maintain, distorted normal marketing patterns, ceded advantage to competitors, and proved tempting targets for political tampering.
- Program benefits often produced unintended (and unwanted) consequences. The rapidly changing farm sector structure produced a wide array of farm sizes and efficiencies. Many farms were low cost and the programs were of enormous benefit, enabling them to expand their operations. Others did not receive sufficient benefits to remain viable and thus were absorbed along the way.

The clarity of these lessons provided several emphatic turning points in national policy. The 1985 farm law proved to be one such point when, after long debate on fundamental philosophy, a more market-oriented approach was adopted. That market orientation was extended in the 1990 farm law, reducing government intrusion and expense in farmer decision-making and in the operation of the markets.

The Federal Agriculture Improvement and Reform (FAIR) Act of 1996 proved to be historic by removing most of the decades-old program structure, provided unparalleled farmer decision-making flexibility through "decoupled" benefits, and set a new example throughout the world for providing domestic farm sector support. While that approach still is arguably the least market--and resource use--distorting approach available, its direct decoupled payments do share some unintended effects with price support programs, namely the artificial inflation of farmland prices. The effect clearly has been exacerbated by the size of supplemental payments in recent years, some $28 billion in the last four years above the amount provided in the 1996 law.

Another unintended consequence of current programs stems from the increasing disconnect between land ownership and farm operation. While program benefits were intended to help farm operators, most support eventually accrues to landowners, in the short run through rising rental rates and in the longer term through capitalization into land values. For many farm operators, renting land is a key strategy to expand the size of the business and capture the size economies, as evidenced by 42 percent of farmers renting land in 1999. Operators farming mostly rented acreage may receive little benefit from the programs.

The 1996 FAIR Act also continued the marketing loan program, another evolution of the old price support idea, but importantly modified to avoid government stockholding which proved so burdensome in times past. Marketing loan payments effectively provide a large counter

cyclical component to farm income, but distort markets by limiting the production response to falling market prices. The program guarantees a price for traditional program commodities (food grains, feed grains, and cotton) and oilseeds. As market prices have fallen below this guaranteed price, total marketing loan benefits have risen from less than $200 million for the 1997 crop year to $8 billion for the 1999 and $7.3 billion to date for the 2000 crops. Since 1996, counter cyclical marketing loan benefits have totaled about $20 billion.

While the current policy made large strides towards greater market orientation, a careful evaluation in the context of today's diverse farm structure and increasingly consumer-driven marketplace still reveals severe misalignment among policy goals, policy mechanisms, and outcome. New approaches could support and help sustain prosperity for farmers, agriculture and rural communities without engendering long-term dependence on direct government support.

Above all, effective farm policies for the new century must build upon the lessons learned from over seven decades of rich experience with the farm programs. Even the most carefully designed government intervention often distorts markets and resource allocation, produces unintended consequences and spreads benefits unevenly. We cannot afford to keep relearning the lessons of the past.

Effective agricultural policies must recognize the wide diversity in the farm sector itself, in terms of size, location, financial status, crop and livestock products produced, managerial abilities, income sources, and goals and aspirations. The problems faced by various groups are widely different and require solutions tailored to effectively address particular needs.

Our policies should provide a market-oriented economic safety net for farmers. The national recognition that the farm sector is both unique and essential is long standing and widely held. The result is a parallel commitment to policies that support open markets and those that

prevent excessive downturns in the farm sector. Thus, these programs must conform to basic public policy principles including effectiveness, transparency, equity, consistency, comprehensiveness and trade competitiveness. Current policies now take several forms including counter cyclical loans, crop and revenue insurance and direct payments, but could be constructed with other programs (such as tax-deferred income accounts) that fully comply with such principles.

ENHANCING THE INFRASTRUCTURE

Mr. Chairman, the next topic that I will discuss has received little attention thus far in the ongoing policy discussions, but is one that I will argue is of enormous and growing importance. And, that topic is what we are calling our "agriculture infrastructure," the fundamental public sector underpinning for our industry.

U.S. agriculture successfully delivers abundant, affordable, safe and nutritious food to markets worldwide. Nothing has been more important to this success than an extensive physical and institutional infrastructure—in effect, the backbone of the food and agricultural system. The agricultural infrastructure includes research, information, inspection, monitoring, testing, promotion—all of the basic services, facilities, equipment, and institutions needed for the economic growth and efficient functioning of the food and fiber markets. It means services to protect farmers and ranchers from the threats of crop and animal pests and consumers from foodborne diseases, the research and cooperative extension system that undergirds production, marketing and regulatory functions, food product inspection, nutrition information, and natural resource conservation. It means all other functions of USDA agencies, as well as farm service centers, data, information technologies and intellectual property management.

We need to evaluate this broad infrastructure with a long term view as to what is required for a healthy and prosperous farm and food sector and trading system and, very importantly, to ensure that it continues to engender widespread consumer confidence and support. This may entail refocusing institutions and their missions, modernizing and better coordinating infrastructure and perhaps expanding investment in parts of the system.

It is difficult to overstate the importance of science as the basis for our decisions. Regardless of good intentions, no program, no mandate, no request, or emergency action can be carried out unless the appropriate research base, scientists, laboratories, methods, data and information, institutions, and technologies are available. New science is needed to ensure that required regulations in food safety, animal and plant health, environment and other areas, are sound and cost-effective.

Enhancing our pest and disease prevention for plants and animals from whatever source is a growing priority. Science, technology, and intergovernmental cooperation are key to keeping crop and animal pests and diseases out of the United States, and to managing the pest and disease challenges we face inside our borders. For, example, we worked with the EPA to develop a new protocol for environmental inspectors visiting farms for any reason.

Similarly we must build on current success in providing safe food for all Americans. Emerging pathogens mean that our food safety systems must be continually assessed and updated in order to maintain consumer confidence in our food supply. Improved animal production systems, better pathogen control during processing and distribution, and increased education on food safety issues and on food handling and preparation practices for consumers and food retailers all help to strengthen the food safety system.

CONSERVATION AND ENVIRONMENT

Now, Mr. Chairman, I turn to conservation, another area that is receiving increased attention both in the farm sector and throughout rural America. Our conservation policy has evolved from an early focus of keeping productive topsoil in place. Reducing soil erosion was an overriding concern, and became a primary accomplishment. We now realize that the off-farm effects of farming include a wide variety of environmental impacts. Thus, conservation policy has evolved to incorporate broader measures of water and air quality, as well as protection of wildlife habitat and wetlands. Moreover, emerging issues gaining public attention include nutrient runoff from livestock production, water conservation, energy production, and reduced greenhouse gas emissions.

As the scope of environmental concerns has expanded, a wider range of conservation policy instruments is needed to address them. Traditional land retirement (the Conservation Reserve Program) has dominated Federal spending on conservation since 1985; 92 cents of every dollar spent on direct conservation payments to farmers pays for rental and easement payments for idling environmentally sensitive cropland and cost sharing for management practices that enhance the environmental benefits from retired lands. However, considerable conservation activities are carried out on vast stretches of working lands due to voluntary actions and to comply with conservation compliance and other regulatory requirements.

We should continue to improve our approaches and tools, ensuring that farmers have access to conservation programs that fit their needs. Technical assistance, incentives for improved practices on working farm and forestlands, compensation for environmental achievements long-term and permanent easements, and continued dedication of certain farmland and private forestlands to environmental use will provide a coordinated and flexible multi-

faceted approach to achieve agri-environmental goals.

RURAL COMMUNITIES

Another topic that I believe deserves a fresh look and requires new approaches is our rural communities. Farming no longer anchors most rural economies as it did in the early 20th century. Seven out of eight rural counties are now dominated by varying concentrations of manufacturing, services, and other non-farming activities, and current commodity-based farm policies do not address the complexities of rural economies and populations. Jobs and incomes are declining in many areas dependent on natural resource-based industries, while other places, often associated with the provision of rural amenities, are thriving.

We must recognize that rural development policy is not synonymous with agricultural policy. Traditional commodity support and farming-oriented development programs play an increasingly limited role in the improved well-being of rural Americans. Instead, in something of a reversal, the nonfarm economy now anchors much of agriculture, and rural policy for the 21st century must recognize the increased importance of nonfarm jobs and income as the drivers of rural economic activity.

Creating an environment that will attract and sustain private investment, job growth, and income generation activities in rural America, including regional development initiatives and creative pilot programs, is an overriding goal.

Our rural policies should emphasize the need for greater education and technical skills. In the past, many rural areas hosted industries that required a reliable pool of low-skilled, low-cost workers. Employers are now more attracted to concentrations of well-educated and skilled workers. Education and worker training are essential in helping rural communities cultivate high-performance, knowledge-based companies, while human capital and earnings potential are

improved by strengthening classroom instructional quality and facilitating school-to-work transitions.

Policies that find alternative methods to increase rural income from the natural resource base, such as energy production, are also important. Dedicated crops and agricultural residues can be used to produce fuels, such as ethanol and biodiesel, and biomass to power turbines to produce electricity. Rural areas are well suited for the development of renewable wind and solar energy due to the open spaces.

NUTRITION AND FOOD ASSISTANCE

Next, I will touch on a major accomplishment of our food and agriculture policy, ensuring that all Americans have access to a healthy and nutritious food supply, regardless of income. This policy has encompassed a wide array of food assistance and nutrition programs that have humanitarian, investment, and agricultural support goals. Core efforts include the Food Stamp Program, child nutrition programs, the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), and commodity distribution programs. Today, these nutrition assistance programs serve one in every six Americans at some point during the year. In addition to ensuring access to adequate food, the programs promote healthy diets for all Americans.

We should continue our commitment to a national nutrition safety net. A well-nourished population is healthier, more productive, and better able to learn. No child or needy family should be left behind for want of food. The national nutrition safety net, including WIC, should be supported and targeted to those most in need.

While the problems of hunger and food insecurity remain significant, important new problems are emerging related to diet quality—the proper variety and quantities of foods and nutrients in an individual's diet to promote their health and well being. American consumers must become more aware of the link between diets, health, and physical activity, and motivated to make appropriate changes. To this end, we believe that any proposal to reauthorize the Food Stamp program must address these issues, as well as foster the transition to work and self-sufficiency, simplify the program rules to reduce administrative complexity and improve program effectiveness and accountability.

IMPORTANCE OF INTEGRATED PROGRAMS

Finally, Mr. Chairman, I turn to an area that is especially relevant to those of us at USDA, and that is delivering services to our widely diverse constituency using the most effective means now at our disposal.

Changing circumstances strongly suggest the need for reflection on the program delivery needs of the future. The issues facing the modern food and farm system today are so multifaceted and complex that they cannot be solved by any one program or approach. Protecting against plant and animal pests and diseases, or eliminating emerging foodborne pathogens, or overcoming the barriers to producing bioenergy efficiently, or ensuring nutritious food for low income households, or encouraging cost-effective carbon sequestration on farms and in forests – all of these require a cooperative approach among agencies.

A number of approaches can be taken to substantially improve service, even without major, additional restructuring. These include: one-stop shopping for delivery of services; sharing data, information, and computing environments across agencies and programs; and new flexibility for increased coordination and sharing of resources, both human and financial.

Advances in information technology should allow agencies, at very low cost, to share key data so that customers can be spared the burden of providing the same information to multiple Federal offices.

In providing services, we will encourage a coordinated view of functions and services, including instituting a range of practices, including "one-stop- shopping" for USDA services, common electronic work environments, consistent data across agencies, data sharing, and increased resource flexibility among agencies, that encourage a "corporate" rather than a fragmented view toward program implementation.

Coordination extends beyond the Department and we will pursue partnership opportunities. Continued and increased cooperation and partnership opportunities need to be sought with program beneficiaries; Congress; consumers; industry; NGOs; state and local governments; universities; and others.

CONCLUDING REMARKS

Mr. Chairman, our entry into a new century presents leaders in agriculture a unique opportunity to discharge our responsibility. We now have an opportunity to take the long view—to step back and determine as best as we can the future requirements of our food system and to put in place the plans and investments that will be necessary to enable it to serve us as well in the decades ahead as it has in the past.

Thank you for the opportunity to discuss our vision and to share the guiding principles we have developed. Our report, *Food and Agriculture Policy: Taking Stock for the New Century* is available on the USDA website (www.usda.gov). We look forward to the opportunity to work with you in the future, and I will be pleased to respond to any questions.

Statement of Senator Jesse Helms
Senate Agriculture Committee
September 26, 2001

Mr. HELMS. Madam Secretary, I'm delighted to see you again this morning. I certainly admire your progress at the Department of Agriculture, and this morning gives us the great opportunity to tell you in person, and for the record, that you're a first-class lady who is doing a fine job under obviously difficult circumstances.

All of us are mindful of the heavy lifting that lies ahead for this Committee in the coming weeks and months as we take up the Farm Bill. Mr. Chairman, having held your gavel during work on a Farm Bill of some fifteen years ago, I must confess that I do not envy your and Senator Lugar's task. It's a difficult job, but we will work together – as we always do – to craft a bill that is fair to all farmers.

Madam Secretary, we don't need to get down to details this morning, but I do want you to know that I am one of the Senators who intends to improve the vastly important work of the Department of Agriculture. It is obviously vital to our national security that we keep an affordable, safe and abundant food supply for this country.

It has been such a difficult time for the farmer – particularly the family farmer – and I join with you in making certain that USDA is doing its best to help the farm community in every possible way.

You know as well as I do that the Southeast has unique needs when it comes

to agriculture, and I intend to work with you to make certain those needs are addressed in a fair and equitable manner to farmers all across the country.

I look forward to hearing from you about how to best accomplish these goals, and I appreciate your being here this morning to appear before the Committee.

Pat Roberts

Mr. Chairman, thank you for holding this hearing today and thank you Madam Secretary for taking time to testify during what I know has been a very busy and trying time for you and all the members of the President's cabinet since September 11.

I thank you for what you are doing to continue to ensure the safety of the U.S. food supply during this time, and I also thank you for the periodic updates you have been giving us on USDA's activities to continue to protect U.S. agriculture from outside threats.

Mr. Chairman, I do not intend to make a long statement as I know the Secretary has a busy schedule and I want members to have time to ask her questions.

I would simply like to state that I believe the proposal put forward by the Administration forms a strong basis and outline, or road map, from which we can put a Farm Bill

together. While the proposal may be short on specifics, and I may not agree with everything in it, it does give us a very good understanding of many of the questions we need to be asking as we begin the process of writing the Farm Bill.

Mr. Chairman, I think the report is also important because it confirms what I, you, and many others have been saying for months now – a Farm Bill is about more than just commodity programs. Trade, rural development, and conservation all have roles to play as well.

If you will forgive me, I'd like to stand on my soap box for a moment. And, I have been as strong of a champion as I could possibly be throughout the years for our farmers and ranchers and their farm and commodity organizations. But, I'm not sure they have completely grasped the

concept that we are going to have to address and spend money on programs other than the commodity title of this Farm Bill.

Mr. Chairman, I also want to put forward a word of caution. I know there has been a strong push by some to get a Farm Bill completed this year. Many farm groups wrote the House Agriculture Committee earlier this week asking for just that – mainly because they are afraid they will lose some of the payments that are predicted to be paid out if the House Bill becomes law.

I'm not here to perjure those efforts or the House bill. There are many things in that bill that I like as well. However, I want to be sure that every member of this Committee and the farm and agribusiness community understands that we are at war.

The United States, world, and our economies have changed. The next few months will be very unpredictable, and could have a tremendous effect on both our domestic and international agricltural markets. And, I would simply recommend that perhaps we should take a step back and try to see how all this plays out before we try to quickly pass a Farm Bill.

With the unpredictability we could be seeing in all the markets, we could accelerate a Farm Bill through here that all of us would regret in 6 to 12 months.

Mr. Chairman, I'd also add that in light of recent events we need to sit down with Secretary Veneman and see if there are any additional tools she needs us to give her in the Farm Bill to deal with agro and bioterrorism issues, control, and research. It may well be a new title

that has not previously been a serious need for this Committee to address but which we cannot avoid this time around.

Mr. Chairman, I will cease and desist. Again, thank you to you and the Secretary for today's hearing. I look forward to working with you on this Farm Bill, but I do believe prudence might say that we try to see how events work out over the next few months before we jump in feet first and push legislation through the Congress.

DOCUMENTS SUBMITTED FOR THE RECORD

SEPTEMBER 26, 2001

Statement of Senator Thad Cochran

Mr. Chairman, thank you for holding this hearing to review Federal farm policy. This is a matter of serious concern to agriculture producers in my state and I am pleased that this Committee is taking an active role in reviewing this subject during this time of low commodity prices. Secretary Veneman, I thank you for being here and I am pleased that the Department of Agriculture is showing a willingness to support producers of major commodities, while at the same time acknowledging a need for expansion of conservation measures.

Agriculture producers are very concerned about the outlook for agriculture and what future farm programs will resemble. Producers have long known the hardship that comes with working the land. As you may know, current market conditions have placed an enormous strain on producers.

Since passage of the Freedom to Farm Act, there have been opportunities and challenges for agriculture. Producers have enjoyed the planting flexibility component of this legislation. However, agriculture producers are now looking to the future and are anxiously awaiting the next farm bill. Uncertainties for the next crop year are bringing about concerns for farmers and the agricultural credit industry. This year's budget resolution provides $7.35 billion for FY'02. I would hope that the Administration would work with Congress to ensure that these funds will be available to farmers in light of current and projected depressed economic conditions for production agriculture.

Earlier this year, the Commission on 21st Century Production Agriculture proposed that Congress maintain planting flexibility with a marketing loan program, continue the fixed decoupled payments, and add a counter-cyclical safety net. I am hopeful that this Committee will keep the views of the Commission in mind as we continue to review Federal farm policy. I look forward to hearing testimony from the witnesses.

Opening Statement
Senator Debbie Stabenow
Committee on Agriculture
September 26, 2001

Chairman Harkin and Senator Lugar, thank you for your leadership in these difficult times. It is important that we continue to focus on domestic priorities, such as the Farm Bill. Our farmers are depending on us; families who rely on the myriad of USDA nutrition programs are depending on us; and the many countless other facets of our economy that intersect with agriculture are all watching to see what will happen to the Farm Bill this year. I am ready to return to work and address the needs of so many who rely on the passage of the Farm Bill.

I would like to take a moment to welcome Secretary Veneman. I look forward to hearing the administration perspective on the Farm Bill. Additionally, I would like to welcome Edward McPherson, nominee for Chief Financial Officer at USDA, and Elsa Murano, nominee for Under Secretary for Food Safety. I have reviewed your qualifications and it is clear that both of you will be an asset at USDA. Ms. Murano, I believe there is a special urgency to have you confirmed. Unfortunately, in these new times of high alert, the safety of our food supply must also be safeguarded and I know you will play a key role in coordinating the government's efforts.

On August 13, during the recess, I chaired field hearings of this committee in Frankenmuth and in Grand Rapids, Michigan. The field hearings were the first held in our state since 1915 and I promised not to wait until the next century to come back with another field hearing. I heard from a broad range of witnesses. The breadth of the witness list alone speaks to the diversity of Michigan agriculture. I did hear some common themes among the witnesses, however:

- There is a great need for a stronger safety net, especially for counter cyclical support. We need to address ways that specialty crops can be included in this support network, as well.

- Conservation programs are highly valued but insufficiently funded. Additionally, many important crops, especially my state's specialty crops, are excluded from participation. Initiatives to develop conservation programs for working lands were also praised.

- Nutrition programs authorized through the Farm Bill are incredibly important and play a large role in helping many Michigan families in many ways. Food Stamps, WIC, and CSFP are all proven programs that are effective. We must remember these are an important part of the Farm Bill and give sufficient attention to recommendations made by groups to improve and strengthen these programs.

- The variety of specialty crops grown in my state emphasized the importance of treating each crop differently, not lumping blueberries in with potatoes simply because they will not fit into any other category. It is important that all specialty crops be consulted individually during this process as we consider ways to incorporate them into more USDA programs.

- Research plays a vital role in the success of our nation's agricultural economy. More must be done to support agricultural research. Additionally, the value of the nationwide Extension Service cannot be underestimated and this network is woefully under-funded.

- Finally, our farmers will not survive unless they have access to the global market. Trade considerations are a critical part of this debate.

Another pressing issue that I would like to ask you to address immediately is the drought we have suffered in Michigan for the past several months. Our Governor submitted a letter to you on September 7, urging USDA to grant federal disaster status for our state. The conditions in Michigan are so bad that there is only one county in the entire state that does not qualify for some sort of assistance.

From the middle of June through the middle of August, less than ¾ of an inch of rain fell in most areas in Michigan and

my farmers have suffered severe crop losses. To compound the problem, most areas experienced temperatures above 100 degrees Fahrenheit. Many crops have been affected ranging from corn to pumpkins, peaches, squash, peppers, cherries and potatoes.

I know that the administration has had to focus on many pressing issues during the last two weeks, but urge you to direct your attention to my state's request for a disaster declaration so that farmers can have quick access to low interest loans.

Finally, I would like to discuss the status of WIC funding. I have learned that we could soon be facing an emergency situation. I want to take this opportunity to congratulate you on the Nutrition and Food Assistance chapter of your paper on the Farm Bill. In particular, I commend you for revisiting the question of the most effective and stable funding structure for WIC.

We face a particular crisis in the WIC program right now that is a perfect example of the issues raised by the discretionary funding structure. Due to rising unemployment that has occurred in recent months, national participation in WIC has risen substantially. As of August, WIC participation has already exceeded what the Administration projected for participation for next year (FY 2002). Last month, about 7.45 million low-income pregnant women and children received WIC benefits.

In Michigan participation grew by nearly 4,200 from April to July, and by another 1,500 just last month. WIC is directly tied to the economy and unemployment: if unemployment rises sharply in the next few months as is now projected, even more low income women and children will be eligible for and in need of WIC benefits. According to some experts, unless adequate funding is provided in the agriculture appropriations bill, up to 250,000 women and children would go unserved next year under the House level, and some 100 - 150,000 will also be turned away under even the Senate bill.

With our weak economy and the very real threat of a recession, nothing would make less sense and be less appropriate than removing or leaving unserved large number of eligible pregnant women and children from the WIC program – one of our nation's most effective programs. I am hopeful that you can work with Congress in the next few weeks in a bipartisan fashion to address this funding crisis quickly.

Again, I would like to thank Secretary Veneman for testifying and I also thank Mr. McPhereson and Mr. Murano for appearing before the committee today.

QUESTIONS AND ANSWERS

SEPTEMBER 26, 2001

WRITTEN QUESTIONS FOR SECRETARY VENEMAN
SUBMITTED BY SENATOR LUGAR

COMMODITY PROGRAMS

1. As you know, our farm programs are intended to help farm operators. Yet, we hear from agricultural economists that farm program benefits are capitalized into land prices and cash rents the latter of which directly raise the operating costs for farmers who rent farmland. Your testimony today and the Agriculture Department's recently released farm bill principles book state that *42 percent of farm operators rented land in 1999*. This is a sizable portion of our farm operators.

Are operators, who rent farmland, being helped by current farm programs?

2. Your testimony suggests that we should provide a market-oriented economic safety net for farmers based on public policy principles including effectiveness, transparency, equity, consistency, comprehensiveness and trade competitiveness.

Do current farm programs comply with these principles?

Does the farm safety net program authorized in the House Agriculture Committee's reported farm bill comply?

Can you give us examples of safety net programs which would comply with your suggested principles that would be in the Senate Agriculture Committee's jurisdiction?

CONSERVATION

1. Madam Secretary, your report states that out of every dollar USDA spends on direct conservation payments to farmers, 92 cents is spent on land retirement programs. Most of that, of course, would come from the Conservation Reserve Program. As we move forward on reauthorizing the Farm Bill, what is your recommendation for the amount of acreage we should allow into the CRP?

2. Agriculture today is facing increasing regulatory scrutiny on a wide range of environmental issues - your report specifically mentions animal feeding operations, total maximum daily loads, and endangered species. At the same time, USDA conservation programs are vastly oversubscribed. Your report is very supportive of conservation measures in a general sense, but given the high demand for conservation programs, technical assistance, and the potential for increased regulation, can you give us some specific recommendations - both monetary and programmatic - for addressing the issue?

3. Your report suggests the we consider applying conservation compliance to crop insurance to

help ensure that those programs don't provide an incentive to bring marginal land into production. Could you explain to the Committee the thinking that went into this recommendation?

FOOD AID

1. The Department's ag policy concept document mentioned a number of criticisms of U.S. food aid but did not offer any specific reform proposals. The Department's food aid review delved deeper into the subject and mentioned a number of reforms which would be proposed as part of the President's 2003 budget request. We are currently engaged in working on a new farm bill, and even if we are not finished with the legislation by the time the budget request is submitted, it may be difficult to consider the Administration's proposals in our work on the farm bill at that stage of the process. Are there any concrete proposals which the Administration can or will offer as we engage in the process of considering reforms to food aid programs?

2. We have heard witnesses before the Committee reference problems of commercial displacement of agricultural sales due to food aid donations, especially with regard to the practice of monetizing commodities in overseas markets to raise cash. There were also references to this issue in the Administration's food aid review. Can you offer concrete examples of this problem?

3. Please update the Committee on the latest developments in trying to convince other donor nations to participate in the international school lunch program begun as a pilot initiative during the last Administration and currently contemplated as a multi-year program by its proponents.

TRADE

1. As you know, Chairman Harkin and I wrote to you requesting your analysis of the House farm bill proposal with regard to our existing WTO domestic support commitments. Does this bill comply?

2. What are the latest prospects for launching a comprehensive trade round? Have you heard any feedback on this subject from the agriculture meeting taking place in Geneva this week? Will the Ministerial occur in Doha as planned later this fall?

SUGAR AND PRODUCTION CONTROLS

1. The Administration has identified farm policies that did not work well in the past. You state: "History has shown that supporting prices is self -defeating." "Supply controls proved unworkable too." And: "Program benefits invariably prove to be disparate, providing unintended (and unwanted) consequences." It seems to me that any legislation that would re-introduce production controls (for example, for sugar) or that would broadly increase price support levels, or that would make the concentration of farm program benefits even worse by increasing payment limitations would not be consistent with your Administration's principles. Do you agree?

RESEARCH

1. The USDA document recommends an increase in competitive agricultural research grant funding. The report states that our failure to fully exploit opportunities through competitive grants - used widely throughout the rest of the science community - jeopardizes our continuing ability to bring the best and newest science to meet agriculture's challenges and advance its future. I heartily agree. How do we accomplish this goal?

2. Elsewhere the report recognizes the unique role of the public sector in agricultural research and the larger role of the private sector in funding this research. The report recommends that limited public sector research funding needs to be devoted to fundamental scientific discovery and questions that the private sector has no incentive to pursue, but that could lead to the betterment of society. How can we ensure that this change in the focus of public research of takes place?

RURAL DEVELOPMENT

1. USDA has a proven track record in the development of infrastructure in rural areas, including electricity and telecommunications systems and water and sewer systems. What continuing role do you see for USDA in these areas? What do you see as the top priority for USDA in this area?

2. Most rural communities lack the professional expertise and financial resources to solely fund and generate comprehensive economic development strategies. Many rural leaders are not cognizant of the federal programs intended to assist their communities, and if so, they are not trained at completing the application process. Do you see a way in which representatives of various state and federal agencies could meet with community representatives one-on-one to discuss all funding and technical assistance options at one time?

3. As urban America becomes more reliant on broadband technology for commerce and communications, will the digital divide be felt more acutely in rural areas? Should there be a shift in emphasis in USDA Rural Development programs away from the traditional utility programs to a more concentrated effort to bridge the digital divide?

PEST AND DISEASE GOALS

1. Your report recognizes the importance of USDA's infrastructure in responding to pest and disease threats. Are additional safeguards needed to enhance pest and disease prevention for plants and animals?

NUTRITION ASSISTANCE

I have read your policy statement on the nutrition assistance programs and share your objectives for re-authorization of the Food Stamp Program:

simplifying program rules,

enhancing work support,
serving unmet needs,
creating a balanced set of outcome-based performance measures, and
maintaining accountability

Our challenge in pursuing these objectives, of course, is to navigate appropriately among the trade-offs that are inherent with policy choices.

1. Measurable progress toward these objectives, I believe, will require a commitment of some resources beyond the status quo. Do you agree?

2. There is general concern, as you noted, that the current quality control system, with its emphasis on benefit payment errors, encourages burdensome reporting requirements for recipients in general and families with earnings, in particular. Can you offer us any specific ideas on how to address this problem in a way that, concurrently, meets our need to be accountable for federal dollars and serves working families effectively?

3. I read with interest your description of poor eating habits among all Americans and the challenge of changing those behaviors in light of a multi-billion dollar advertising industry. It is clear that the resources available to the nation's nutrition assistance programs are not enough to effectively compete with the advertising world. A) What is the appropriate role for the USDA and its nutrition assistance programs to take in the effort to improve food choices? B) Do you have specific recommendations on how to implement this role more effectively?

4. You propose that consideration be given to more stable funding for the WIC Program. This implies treating WIC as a mandatory rather than discretionary spending program. Such action would guarantee our ability to meet the needs of all eligible women, infants and young children. I find this an intriguing idea. Would you care to comment further?

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