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REGIONAL FARM BILL FIELD HEARING: REDMOND, OREGON

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

ONE HUNDRED NINTH CONGRESS

SECOND SESSION

AUGUST 15, 2006

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REGIONAL FARM BILL FIELD HEARING: REDMOND, OREGON

AUGUST 15, 2006

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY,
Redmond, OR

The committee met, pursuant to notice, at 9 AM at the Deschutes Fair and Expo Center, Hon. Saxby Chambliss, chairman of the committee, presiding.

Present. Senators Chambliss and Smith.

OPENING STATEMENT OF HON. SAXBY CHAMBLISS, A U.S. SENATOR FROM GEORGIA, CHAIRMAN, COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

The CHAIRMAN. The hearing of the Senate Committee on Agriculture, Nutrition and Forestry will come to order.

Let me welcome all of you here today, particularly to our witnesses who are going to be testifying and providing us information. We do especially welcome you, and I can't tell you how pleased I am to be in Oregon. I have been out here a couple of times, visiting my good friend Senator Smith. But this has given me an opportunity to come out a day or so early and do a little agricultural experiment on some green grass and whatnot that we've seen around Oregon for the last couple of days. And what a beautiful part of the world.

This is our fifth Farm Bill hearing. We've had hearings in Georgia, Missouri, Pennsylvania and Iowa, and we will hold two more hearings this week in Nebraska and Montana, followed by a final field hearing in Texas on September the 8th.

With the 2002 Farm Bill expiring next year, the committee will be heavily involved in drafting a new law that will reflect the needs of farmers across the country.

We have a number of factors that will influence the next Farm Bill, and one of those is the input we are receiving from our witnesses in these regional field hearings.

Agriculture in the United States is very diverse. Different areas of the country view our farm programs in their own distinct way. Today we hope to gain a better understanding of the unique nature of the agriculture industry in the western part of the United States.

The witnesses on the three panels today will provide us with a unique perspective and appropriately reflects the diversity of the crops raised in this region.

We have appreciated the information received and the testimony delivered in our hearings so far and look forward to hearing from our witnesses today. The statements we hear today will play an integral role in helping the committee construct farm policy for the future. It will assist us in providing a safety net that works for farmers and ranchers while taking into account the likely impact of the budget deficit and international trade negotiations.

For those of you who are not witnesses but are interested in submitting comments to the committee related to the Farm Bill, the committee's website has guidelines for providing written statements for the record and a web form for informal comments. Comments received will also be considered during the reauthorization process.

I appreciate Senator Gordon Smith hosting us here today and the hard work of his D.C. and his Oregon State staff. Matt Hill, Jason Billencort, and Susan Fitch have been particularly helpful to my staff over the last several weeks in putting this hearing together.

I understand that Jason could not be with us here today, and on behalf of the Senate Agriculture Committee, we send our condolences to him and has family during this very difficult time.

I commend all of you for your hard work on behalf of all Americans and I look forward to hearing your testimony.

And now before I turn it over to Senator Gordon Smith, let me just say that the greatest thing about serving in public office is having the opportunity to be associated with people that you grow to have such admiration for and respect for. And Senator Smith and I have become very fast friends during my short time in the U.S. Senate. We sort of knew each other during my House days, but we immediately became very close personal friends.

His wife Sharon is such a delightful lady. And he married way over his head. He freely admits that. That's one good thing about him.

But Gordon Smith is just one of those class individuals that makes serving in the U.S. Senate a pleasure for somebody like me. And I can't over-emphasize to you folks in Oregon what an important role he plays in the U.S. Senate. He's not a member of the Ag Committee, but he regularly gives me advice about what we need to be doing in agriculture. And I respect him for it, because I know his background in agriculture. And it's just a real pleasure to have the privilege to serve with him.

Ron Wyden and I serve on the Intelligence Committee together, and Ron is a terrific individual. And I've grown to have great respect for him. And I'm sorry Ron couldn't be with us today, but I know he has some staff representing him here today. So, with that, I want to turn to Senator Smith for any comments that he wishes to make in the form of opening statement, and to recognize anybody here today.

STATEMENT OF HON. GORDON SMITH, A U.S. SENATOR FROM OREGON

Senator SMITH. Thank you very much, Mr. Chairman. We are honored to have you in the state of Oregon.

As I have done my research, I believe this is the first time in the history of our state that the Senate Agriculture Committee has

come here to have a hearing on a Farm Bill. And so we are all a little part of history today. But Senator Chambliss and I share several things in common. And first among them is a warm friendship. Second is that he married over himself as well. Juliane is his better, as Sharon is mine. And we are very thankful that you are here, and I am anxious for you to get a better sense of the unique agricultural community we have here in the state of Oregon.

Oregon's agricultural story is one that began over 200 years ago. You might think, well, no, that's Lewis & Clark, they didn't do much ag here. Actually, it began with a British ship in 1796 that came up the Columbia River. It was a ship owned by the Hudson Bay Company. And they began farming at Fort Vancouver, which was at the time part of the Oregon territory. They planted wheat, potatoes, and I was relieved to see peas.

Soon after Oregon officially became part of the United States territory, and lured by lush, fertile valleys, throngs of wagon trains rolled from the East into the setting sun here in Oregon. Plows dug into the rich fertile soil of the Willamette Valley where glacial floods deposited blankets of nutrients thousands of years prior.

By 1850 all of the best agricultural lands that they were obvious were claimed, but this did not stop the Oregon Trail from bringing thousands more, who spread throughout the state, looking for water and pasture. The same determination that brought them across the great plains and over the Rockies gave them the drive to make farming and ranching a common practice, even in tough territory.

That spirit is why agriculture remains a leading Oregon industry here in Oregon, and why it's so fitting to have one of these hearings here in this great state. Our state's agriculture is second only to California in crop diversity. Over 250 different crops are grown in Oregon. Oregon agriculture output reached a record $4.1 billion in 2004. One in 12 Oregonians is employed in agriculture.

Oregon is also vital to the success of agriculture across the Northwest and Midwest because its geographic advantages are so apparent. The Columbia River is the United States' largest wheat export system, with 40 percent of all wheat exports shipped through Oregon's ports. This reminds us of the importance of trade to Oregon agriculture. No one wants the United States to be a net food importing country. It is a national security as well as an agricultural security issue. Already we are rapidly seeing our import numbers approaching our export numbers, and this is of real concern to me. The U.S. agricultural trade surplus continues to fall. Between 2004 and 2005 it fell by nearly $4 billion.

Farming is not unlike logging or fishing. If government regulation and unfair competition make life difficult, we will lose the next generation of farmers. Oregon farmers can compete any against any country's farmers, but not against other governments or the cheap labor, high tariffs and minimal regulations of some countries.

Since most of Oregon agriculture is not subsidized, we must be more creative about competing in the world. And that's the importance of marketing, conservation and research. We must continue to strengthen these programs to remain competitive in the world.

I also want to make mention of the nutrition title of the Farm Bill. Oregon has suffered very high rates, amazingly, in the category of hunger. This was a statistic by the U.S. Department of Agriculture which really surprised many of us in Oregon, when we live in a land of such abundance, both quality and quantity. And for that reason, I formed the Senate hunger caucus, and was joined by many colleagues, to try to help find better ways to get our good food to people in need.

So, I want to thank Chairman Chambliss for his work in preserving funding for food stamps. We sometimes don't understand or remember how critical the Food Stamp Program is to so many Oregon commodities, and certainly how important it is to the poor. So I look forward to working with the Chairman and the entire Senate to promote additional programs that help the less fortunate, as well as the farmer.

We have assembled here a diverse representation of the Pacific Northwest agriculture, and we welcome very much your thoughts, your contribution today, and the Senate will be the better for it. More importantly, the 2007 Farm Bill will be better still because of the input that you make here today. We will remember your testimony. We will try and reflect it into our policy. And ultimately make—do our part in government to help you be competitive. I have always taken enormous pride not just in the diversity of our agriculture but frankly in its abundance and its quality.

I have been to many agricultural shows. I have seen Northwest products cut against those of other regions, excepting Georgia, and we always come out on top. Senator Chambliss is an unabashed fan of Oregon Penoir, and I don't drink a drop, but he more than makes up for everything I don't drink. So, he knows something of the quality of Oregon agriculture.

Senator, thank you for your coming this long way over the Oregon Trail a lot faster than they used to come here, but thank you for including Oregon in the Agriculture Committee's consideration.

Senator Chambliss and I office next to each other in the Russell Building. And when he was elected to the U.S. Senate, the quality of our effort and our work went up measurably. That will be evident to you when you hear his words and see his wisdom today. So we are thankful that you are here and thank you all for participating.

The CHAIRMAN. Senator Smith, thank you very much for those generous words and, again, for being here today. You're right, I have a great affinity, as I mentioned to Jim a little earlier, for Oregon Pinot Noir, and I try to do my best to keep the economy of the agriculture community in Oregon moving ahead. And I appreciate, I'm not sure who's responsible for that table back there, but I've already told my staff that I want one of each when we leave here to take on the plane with us. We've already got some wheat and a great cookie there. I'm enjoying Sharon's jerky up here. So, we're going to eat during the whole hearing. We're not going to let you all interrupt our appetite.

One thing you don't find back there that we grow a lot of, and we always have at our ag hearings, are good Georgia peanuts. So I want to make sure that all of these peanuts get eaten while we are here, so you all feel free to come up here and we will be happy

to share these with you. Our first panel today consists of, Barry, I hope to get this right, Bushue from Salem, Oregon, representing the Oregon Farm Bureau Federation; Sherman Reese of Pendleton, Oregon, representing the National Association of Wheat Growers; Ray Souza of Turlock, California, representing the Mel-Delin Dairy, and Sharon Livingston of Salem, Oregon, representing Oregon's Cattlemen—the Oregon Cattlemen's Association.

Again, welcome to each of you. Thank you for coming and sharing some thoughts with us today. We look forward to your comments.

I would ask that you keep your opening statements brief. We'll be happy to submit your full written statement for the record. And, Barry, we are going to start with you, and we will go right down this way. Again, thanks for being here and for your comments.

STATEMENT OF BARRY BUSHUE, OREGON FARM BUREAU FEDERATION, SALEM, OREGON

Mr. BUSHUE. Mr. Chairman and Senator Smith, I wanted to thank you for the opportunity to testify here today, especially here in Oregon.

My name is Barry Bushue and I am honored to serve as President of the Oregon Farm Bureau Federation. We have the largest agricultural organization in the state. And our interests are wide and diverse.

In light of the suspension of the World Trade Organization talks, Oregon Farm Bureau supports an extension of the framework of the current Farm Bill. Despite an ambitious offer by the United States to reduce spending on trade distorting domestic supports, no progress was made to increase market access for American food and fiber products.

Extending this current farm program with some changes to take into account recent trade rulings and new opportunities, will help ensure U.S. farmers have the support they need to survive in today's contentious global trading environment. This is not the time to reinvent the wheel. Mr. Mendelson, chief negotiator for the European Union, was quoted as demanding that the President veto any Farm Bill that resembles 2002.

I hope we do not allow the European Union to dictate America's agricultural policy.

The CHAIRMAN. We won't.

Mr. BUSHUE. The conservation programs, Title 2, within the current Farm Bill are extremely important for Oregon producers. The Conservation Security Program rewards producers who are meeting the highest standards of conservation and environmental management by providing payments for a wide range of structural and land management practices. Additionally, CRP, EQIP, and WHIP are all examples of how government and private landowners can work together.

The Market Access Program encourages the development, maintenance and expansion of commercial export markets for agricultural commodities. All regions of the country benefit from this program's employment and economic effects from expanded agricultural export markets.

Energy issues are very important in the next Farm Bill. Farmers are facing increased expenses due to energy prices. This is not only felt from energy our farms directly consume, but in price increases on production inputs. Oregon agriculture sees an exciting opportunity in the development of renewable energy resources. However, we need a continued investment in technology development along with grants and loans programs promoting farmer investments.

The fruit and vegetable industry is very important to Oregon's economy. It is a very fragile industry that has not traditionally been part of the Farm Bill structure. The planting prohibition on base acres has been the only benefit. That appears to be in jeopardy, and I encourage you to address this issue and make these growers whole.

Crop insurance is an important safety net but the program needs an overhaul in order to better address the diversity of crops and plant varieties in a diverse state like Oregon. In addition, disaster payments need to be funded outside of the Farm Bill.

This is an exciting time for United States agriculture. So much of what happens in Congress has a direct impact on the industry. As farmers and ranchers continue to utilize cutting edge technology, yields will increase while maintaining our international reputation of providing Americans with the lowest cost of food in the world.

Finally, I would like to take a moment to thank the Chair and Senator Smith for their leadership in providing agriculture with a Guest Worker Program as part of a Comprehensive Immigration Reform Bill.

It is with sincere gratitude that I thank you not only for the opportunity to share with you the many challenges facing agriculture today but also for the great work you folks do day in and day out in our behalf.

[The prepared statement of Mr. Bushue can be found in the appendix on page 51.]

The CHAIRMAN. Barry, thank you. Mr. Reese.

STATEMENT OF SHERMAN REESE, NATIONAL ASSOCIATION OF WHEAT GROWERS, PENDLETON, OREGON

Mr. REESE. Mr. Chairman and Senator Smith. My name is Sherman Reese. I am a wheat farmer from Echo, Oregon. I am currently serving as the past-President of the National Association of Wheat Growers.

I thank you for this opportunity to discuss our members' concerns about the current Farm Bill and our thoughts on the 1907 Farm Bill. Effective farm legislation is essential not only for wheat growers but also for rural economies and American consumers. Farm programs are designed to cushion the boom and bust cycles that are inherent to agricultural production, and to ensure consistently safe, affordable and abundant food supply for the American people.

The 2002 Farm Bill has strong points and the wheat growers that I represent here today believe that the next Farm Bill should build on these strengths. But while wheat growers generally support current policy, much of the, quote, safety net provided by the 2002 Bill has not been effective for wheat farmers. Since 2002

wheat growers have received little or no benefit from two key components of the current Bill, the Counter Cyclical Program and the Loan Deficiency Payment Program, for two main reasons.

First, severe weather conditions for several consecutive years in many wheat states have led to significantly lower yields or total failure. The loan program and the LDP are useless when you have no crop.

Second, the target price in the Counter Cyclical Program for wheat was set considerably lower than the market and conditions indicated, and severe weather conditions in some areas have created a short crop, which has led to higher prices in other areas.

As a result, there's been very little support in the form of counter cyclical payments. As you can see by the chart in my testimony, the support level for wheat as compared to other commodities for the 2002 to 2005 estimated crop years even as a percentage of production costs is relatively low. We are not in any way suggesting that other crops receive too much support. Far from it. They face the same problems our growers face and rely heavily on this safety net.

We are simply stating that wheat producers need a viable safety net also. There is no doubt that America's farmers would rather depend on the markets than the government for their livelihoods, but the current economic and trade environments do not offer a level playing field in the global market place. Many of our trading partners support their farmers at much higher rate than the U.S.

At the same time we face continually increasing production and transportation costs. Fuel and fertilizer prices are up an estimated 24 to 27 percent for wheat growers just from last year, it is estimated in a recent FABRI report. And the current disaster situation, including droughts, floods and fires has been especially troubling for our members.

In my own farm my costs for anhydrous has gone from 28 cents to 48 cents. Also our members would like to see the conservation programs continue as presently authorized with full funding, would like to explore opportunities to streamline the program sign-up to be less consuming and more producer friendly. We believe in the pursuit of renewable energy from agricultural resources support additional incentives.

In closing I must state that we are firmly committed to developing an effective 2007 Farm Bill and welcome the opportunity to work with you to do so.

Thank you for this opportunity. Thank you for coming to Oregon, Mr. Chairman, Senator Smith, thank you for the opportunity to testify. I will be happy to answer any questions.

[The prepared statement of Mr. Reese can be found in the appendix on page 114.]

The CHAIRMAN. Mr. Souza.

STATEMENT OF RAY SOUZA, MEL-DELIN DAIRY, TURLOCK, CALIFORNIA

Mr. SOUZA. Good morning, Chairman Chambliss and Senator Smith. Thank you for holding this western field hearing and allowing me the opportunity to testify on behalf of Western United Dairymen, which is California's largest trade producers, producer trade association.

I'd like to begin by telling you that my name is Ray Souza. I own Mel-Delin Dairy in California and have a milking herd of about 1200 total head of dairy animals.

First of all, let me begin by telling you that there are many good things in our current Farm Bill. The Dairy Providers Support Program came into play early in the life of the Farm Bill and was not used at all during the middle of the 5–year period of the Bill.

But unfortunately it has been reactivated during the past few months. But our producer members overwhelming support continuing the use of the Dairy Support Program.

But there are four major points I'd like to remind you about in that Price Support Program. First of all, it has cost far less than the projected number at the original time the Bill was passed.

Second, at the current level of 9.90 support for the program does not simulate any new production, for 9.90 is far below the actual cost of production. And in 2002 and early 2003, a period of the lowest prices in a generation, it did help keep the bottom from completely falling off, although I will tell you that implementation of the program could have clearly been improved, since the price got as low as $8.47 in California, while Californians intended that the program not allow prices to fall before the 9.90 support.

The fourth point I would like to make is that this is a one farm safety program written that allows the Treasury to recoup its costs. The government either sells the surplus dairy products back to the commercial market when prices rise or use them for nutritional assistance programs, both domestically and abroad.

So, not only are farmers supported when the prices are headed down, but consumers also benefit when the prices are headed back up as the stored product comes back into the commercial market, helping stabilize the price.

Given the fact that a new WTO agreement seems very unlikely, there is no reason that the Dairy Price Support Program should not be continued.

Given the history of the expenditures of the Farm Bill, the fact that the cost is recovered, and what appear to be far higher input costs for dairy farmers in the perceivable future, the score of this program in the next Farm Bill should be significantly lower if the cost level of 9.90 remains the same.

The 2002 Farm Bill also includes authorization and funding for the Dairy Export Incentive Program for DEIP. DEIP is our counter to the European Union's aggressive support subsidies that are often responsible for keeping world dairy products prices artificially low.

It is fully WTO legal, authorized and funded by Congress and signed into law by the President of the United States.

Mr. Chairman, during that period of the extremely low prices in 2002 and 3 the Department only released DEIP bonuses for a small amount of butter.

So far in 2006, again with very low prices and much economic pain for dairy farmers, there is nothing on DEIP.

Something this committee could do tomorrow to help farmers in the rural communities nationwide is to ask the Secretary of Agriculture to authorize some DEIP bonuses as our hopes for a successful outcome in the Doha Round, have all been evaporated and this

would be an appropriate time to pursue our export goals aggressively, using all available legal tools. DEIP is one of those tools.

I'd also like to just briefly touch on the conservation title. The conservation title includes a very important program for western dairymen.

The EQIP program has worked very well within California, and dairymen in my state have been very involved in the EQIP program. We have a very good relationship with NRCS chief Bruce Knight in Washington, D.C., and state conservationist Lincoln Burton. Mr. Burton was especially helpful in developing ways to move funds from counties where EWIP was under-subscribed to counties where the program was over-subscribed. This resulted in the additional completion of 21 critically important projects without requiring any additional funding for EQIP.

This exemplifies the importance of local control to the success and efficiency of the program.

Mr. Chairman, in the interests of time I will conclude my testimony, but I have provided additional comments in the testimony provided to you and the committee. Thank you again for holding this hearing and allowing me to testify. I will be happy to answer any questions you or other members of the committee may have about these issues.

[The prepared statement of Mr. Souza can be found in the appendix on page 117.]

The CHAIRMAN. Thank you very much.

Ms. Livingston.

STATEMENT OF SHARON LIVINGSTON, OREGON CATTLEMEN'S ASSOCIATION, SALEM, OREGON

Ms. LIVINGSTON. Chairman Chambliss, Senator Smith. Thank you for allowing me to be here and speak for the Oregon cattle industries' perspective on the upcoming 2007 Farm Bill.

I am Sharon Livingston. I live in Long Creek, Oregon. I am current President of the Oregon Cattlemen's Association.

And my grandmother came to Long Creek, across the Oregon Trail, with two very, very small children, and she settled in Long Creek, and I'm proud to still be there.

The American public wants quality food and open spaces. Livestock producers provide quality food and open spaces.

With regulations imposed by the Endangered Species Act, Clean Water Act, Clean Air Act and others, it is becoming increasingly difficult for producers to comply and still stay in business.

Most areas, many areas are being turned to development, and good ag production land is lost. Livestock producers provide watershed, wildlife protection and habitat for numerous species.

In turn, ranchers need to be rewarded for their environmental improvements and contributions. Programs such as EQIP and WHIP are most utilized by ranchers. We must have strategically located offices and qualified, credible personnel to aid in applying for and implementing these programs.

Ongoing research into environmental issues and best grazing management practices is essential. We rely a great deal on Oregon State University for much of this research, and dollars need to be made available for continuing programs.

Our association and industry just voted a 50 cent increase in our beef check-off, and ten cents of each goes to research for grazing and ten cents for animal science. We feel we're stepping up to the plate.

I can't say enough about alternative fuel sources and the need to relieve livestock producers from the dependence upon foreign fuel. All you had to do was see the news this morning.

Diesel's not available. I buy my hay, and it has to be trucked in a minimum of 112 miles.

The Market Access Program, I echo what Mr. Bushue said. We need to develop our markets and regain for Oregon the export market that we had to Japan.

Country of origin labeling could go hand in hand with national animal I.D. They are not the same thing, however. I think it's time that our people know where their beef is bred, fed and processed.

Thank you for the opportunity to be here. I will answer any questions. The livestock industry is important to Oregon, and I appreciate your support in Congress.

[The prepared statement of Ms. Livingston can be found in the appendix on page 92.]

The CHAIRMAN. Thank you. I thank all of you very much for that very informative testimony.

Let me start, Mr. Bushue, Mr. Reese, with a set of questions that we've asked in each hearing, and we will continue to ask as we go through this. And these are on some very basic issues of the current Farm Bill, and will help us prepare for, or how we need to address these issues in the next Farm Bill.

First of all, how would you prioritize Farm Bill programs generally and the commodity title specifically and how would you rank the relative importance of the Direct Payment Program, the Marketing Loan Program, and the Counter Cyclical Payment Program. Mr. Bushue?

Mr. BUSHUE. That's a tough question to ask the President of a general farm organization, so I will pass that one off by basically saying, for as diverse of agriculture as Oregon has, it is difficult for us to prioritize. They all play a very significant role in various types of products and commodities that we raise here. So, we wouldn't prioritize. We'd merely fund them at a higher level.

The CHAIRMAN. OK. Mr. Reese?

Mr. REESE. Well, I'll go out on a limb. The wheat farmers, as my testimony indicated, feel that the last few portions of the LDP Marketing Loan Program and counter cyclical have not been helpful.

We would prioritize the direct payment as being the most important, in terms of cash-flow and in terms of making your banker comfortable with an operating loan, the last two are maybes and the first one is for sure.

So, for us the direct payment is most important, followed by the marketing loan, LDP program, and then last, counter cyclical.

The CHAIRMAN. OK. We can expect an effort to further reduce payments limits in the next Farm Bill. The payment limits need to be modified in the next Farm Bill, and why?

Mr. BUSHUE. I think from the Farm Bureau's perspective, the Farm Bureau has always supported the current Farm Bill and

there have been payment limitations in place I believe since the 1970's.

We would not effectively ask for any change in that or reduction certainly.

The CHAIRMAN. Mr. Reese?

Mr. REESE. We feel the same way. Obviously, farms have gotten bigger, and those payment limits need to be commensurate with increased farm size.

If we are going to look at increasing the direct payment, that portion of the commodity title is going to have to be increased as well, something up from the current 40,000 per unit.

As far as the overall size, we would probably support, we do support keeping it where it is, the current limit, overall limit.

The CHAIRMAN. OK. The Doha Round of negotiations seeks to provide additional market access for U.S. agriculture goods in exchange for cuts in domestic farm payments.

Is this a reasonable exchange for farmers?

Mr. BUSHUE. Well, it would be nice if the Doha Round had been completed, but certainly Americans produce a lot more than they are able to consume, and sometimes up to 30 percent of our agricultural products need to be exported, so trade is absolutely critical to the future of agriculture, not only in Oregon but in the United States.

And I think if we could have gotten by with reducing domestic supports, mostly agricultural industry supported that, but only in a tradeoff for increased market access. And since that didn't happen, I think it's going to make your job as a Chairman of the Agriculture Committee considerably harder, but we'll support you where we can.

Mr. REESE. As far as wheat's concerned, I think we're in a more critical situation than probably almost any crop.

In Oregon, as most of the people in the audience know, 85 percent of our wheat is exported. The figure drops to about 50 percent nationwide. So we are heavily dependent upon exports to keep wheat viable.

At the same time a lot of our members across the Nation and in Oregon are hanging on by the finger tips, and these direct support payments that we are getting are in some cases the only profit margin the farmer has left.

So, to trade that away for a hope in increased market access is a gamble we're willing to make, but only if we can find a way to make it a quid pro quo. We haven't found that yet obviously.

The CHAIRMAN. Some organizations have explored the possibility of a revenue based approach for the commodity title.

What are your thoughts on a revenue based approach as a safety—revenue based approach to a safety net as a replacement for the current commodity programs?

Mr. BUSHUE. It is my understanding the corn industry is looking into this very strongly, but I think at this stage, going back to my comment about reinventing the wheel, I think it is an awfully large fundamental shift in the way in which Farm Bill programs are funded, and I don't know that we would support that wholly at this stage. Maybe for 2007 or later on, after we have extended this Farm Bill.

But I think at this stage we had probably better stay where we are, because I'd be concerned about what revenue base would affect on the conservation programs, crop insurance and maybe even Title 1. So I think at this stage the Oregon Farm Bureau's preference would be to say no to that one.

The CHAIRMAN. OK. Mr. Reese?

Mr. REESE. Well, Mr. Chairman, we've been looking at that concept internally within NAWG, and can't find yet a way to make it work across the board.

The most we've been able to see is 70 percent support.

We're wondering what happens with the other 30 percent. Do you fill that with crop insurance? Do you fill that with another direct payment?

We farm in such a low margin level to begin with, that to have only 70 percent direct support for us probably would not work.

The CHAIRMAN. OK. Last, should an increase in conservation or energy programs come at the expense of commodity programs?

Mr. BUSHUE. You know, that's another difficult one. We think that energy in the state of Oregon, and of course nationwide, is a huge issue and a huge cost to agriculture.

But to take money from commodity payments to fund conservation seems like robbing Peter to pay Paul.

I guess like most farmers, we want as much as we can get in terms of trying to make sure we have a safety net, because food security is clearly a national security issue. I'm not convinced that the tradeoffs would be worth it in terms of the agricultural industry as a whole. So, I would say no.

Mr. REESE. Perhaps over time that concept would work. Right now I don't believe it would.

And one of the main reasons is, if you look at conservation and also energy crops, not every farm is blessed with the opportunity to participate in conservation programs. They're very unequally spread.

And so from that standpoint, I think there's an inequality there that has to be addressed before that kind of fund transferable is even considered.

Other than that, I think we still need to keep with the current commodity situation as it already is with the funding.

The CHAIRMAN. Mr. Souza, the 2002 Farm Bill, as you know, included the Milk Income Loss Contract program to assist dairy producers when prices were low. This has been a somewhat controversial program.

But should Congress extend this program, or are there other remedies low commodity prices that you would recommend?

Mr. SOUZA. The MILC program is not something that's worked very well for the western dairy producers.

We feel that continuation of the program, you should do a couple things.

One would be, it has to become more equitable. It's very—discriminates toward western producers, family farmers in the West. As you know, it basically sets a cap of about 200 cows—or 150 cows. And on the West Coast, out here, Oregon included, our numbers are much bigger.

So we are not covered, as some of the smaller herds are. So we think any continuation of the MILC program or likewise program, should be less discriminatory, it should embrace all dairy producers, not just a select few.

The CHAIRMAN. OK. Currently only dairy producer cooperatives have the ability to forward contract with their members.

Does forward contracting provide producers with an additional risk management tool to manage price and income volatility in the marketplace, and should this option remain available only to dairy producer cooperatives, or should processors and noncooperative dairy producers also be able to utilize this risk management tool?

Mr. SOUZA. Well, just a couple of things. One is that forward contracting really does not work very well with the concept of pooling.

It does affect those people that prefer to stay, to take the pool price for their milk.

Second, it was part of the 2002 Farm Bill as a pilot project. It was not driven by producers. It was primarily pushed by the processors. It has not been popular with producers. We had a very low participation in the pilot project.

And the analysis shows that those producers that did participate in forward contracting actually fared less than those that did not, fared better than those that did.

I don't believe that it has a real value for long-term stability for producers. It may have that for the processors.

Mr. Chairman. Ms. Livingston, what effect would bans on packer ownership and forward contracting of cattle and mandatory country of origin label have on livestock producers in this part of the country?

Ms. LIVINGSTON. There is no definitive answer. I spent some time the last week speaking with major cow/calf and feedlot people, and we know that in order to get our product to the final market, we must have packers. When packers don't have a supply, then they shut down. We lost a facility in the Pacific Northwest that was a major part of our marketing of cull cows. You know what those are. They are a major part of our income. Now when I sell a cull cow, or anyone in Eastern Oregon, I believe they go to Fresno, California, for slaughter.

We must have our packing houses. I prefer to work through collaboration, consultation, and cooperation, rather than litigation and legislation.

I think we have legislation on the books. Let's enforce it. We don't need anymore laws.

Now, it's a Catch–22, and here I sit telling you this. But it's a serious issue. There will always be ways for packers to own cattle. We're not going to stop that. And I don't believe in whipping them to death, because we do need them.

The CHAIRMAN. OK. Talk for a minute about mandatory price reporting. We have been trying to get this reorganized in Congress now for a couple of years. The House passed a 5–year reauthorization. We passed a 1–year. And we've been unable to agree with the House on a compromise on that issue.

Mandatory price reporting is operating on a voluntary basis now. How is that working and what are your thoughts on whether or not

we should reauthorize the legislation, requiring mandatory price reporting.

Ms. LIVINGSTON. The people that I spoke with said they thought it was working. It's like anything that's voluntary.

But when you force people, it seems there are always ways to avoid this.

So, at this point I can't give you a definitive answer on that, and I apologize. But it's a very complicated, complex issue. And we'll just have to live with it. And we don't have the voice that some of the people in the Midwest do. And that's where much of this takes place.

The CHAIRMAN. From an Oregon Cattlemen's Association standpoint, what's your most pressing environmental issue and what's your most important conservation program?

Ms. LIVINGSTON. Anything to do with the Endangered Species Act is pressing. We can use the EQIP. I personally have used EQIP. We can use WHIP.

Anything that rewards our people for their good conservation practices is important.

The CHAIRMAN. OK. Senator Smith?

Senator SMITH. Thank you, Mr. Chairman. I think as I am understanding these mikes, you've got to be close to them or you'll be cutoff.

I know this hearing is on the Farm Bill. But two of the committees, or at least one of the committees I serve on, the Finance Committee, deals with an issue that I believe has a great impact on the future of farming and ranching in this state. And that is the issue of the estate tax.

So I wonder, Barry, if you, speaking for farmers generally, can you give us some idea what will be the impact to future farmers and ranchers if we don't come up with some compromise that the President can sign?

This is an issue that's often described as something done for the rich. Are your members all rich, Barry?

Mr. BUSHUE. We only wish we were, sir.

The death tax, as we prefer to call it, has been a critical issue for agriculture, not only in Oregon but nationwide, and we were very frustrated and frankly very upset that we weren't able to get some kind of rationale, common sense solution to the problem through the Senate.

Of course, full repeal is where we would like to be.

But frankly, we were looking for a solution, and solution appeared to be in the Thomas Bill.

It was somewhat frustrating, I guess, just being blunt as I usually am, that there was a number of other issues thrown in there for reasons of trying to gain votes.

The minimum wage issue was put in there. I understand that had some obvious problems.

But getting right to the nuts and bolts of it, in order to pass on a family farm, and there's folk in this room right here that are trying to do that today, they're not wealthy people, they're not big farmers, they're family farmers that have invested their lives and their lifestyles in agricultural operations, and they are trying to pass it on to their children.

To be faced with huge tax liabilities in the event of their unfortunate death, to pass it on to their children makes it almost impossible to pass some of these operations on and keep them in family farming.

And when you look at agriculture as a whole nationwide, virtually all farms are family farms. I think the exact figure is 95 and a half percent or something like that, are family farming operations.

Oregon has made a huge investment in its land use policies to try and maintain an agricultural land base. Nationally there is a need for an agricultural infrastructure to maintain agriculture without an opportunity to pass those family operations on and face these families with tax debts that the only way they can pay them is to sell land and their other assets, which land is their main one, seems somewhat short-sighted and very narrow minded, frankly.

And I know where your support has been, and I'm sure Senator Chambliss shares that.

And so, any voice you can use to rectify this situation is going to be not only welcome but absolutely critical to the survival of agriculture and the small farms that make up the bulk of agriculture in the United States.

Senator SMITH. One of the most contentious issues that I have ever dealt with and have done so for the last 10 years in the U.S. Senate is the issue of immigration.

I have, as people in this community know, I have been a sponsor of a Guest Worker Program from the first year I was in the Senate.

And yet we seem to be at logger heads as a nation.

But I wonder if Barry or any of you can speak to the issue, what it would mean to Oregon agriculture if we just passed the House Bill, which is a fence, security only, and fining employers.

What would it mean to horticulturalists, nurserymen, wineries, farms in general?

Mr. BUSHUE. Well, with the help of Senators such as yourselves, we have long tried as an agricultural organization, both statewide and nationally, to make sure we had a legalized work force.

This isn't something new to agriculture, and it frustrates us I guess that the American public seems to have taken this up as an issue as something that's new. It's not new to us. It certainly isn't new to you, sir, by the fact that you've been so involved in this over the last 10 to 12 years.

An enforcement only bill such as passed by the House would put us in the position of being law breakers and put us in the position of having to create a work force from nothing.

We currently have a work force, some of which is legal. All of mine are, of course. But it does, it puts us in a bad position of trying to find a work force which cannot be filled from outside the place we have them now.

If you look at the employment rate, the unemployment rate in the United States is rated somewhere around 4 percent. Many economists will tell you that that is full employment.

If you were to deport 11 to 15 million people tomorrow, there aren't enough American citizens left to fill that void that are employable. Let alone the rhetoric that we hear about people lining

up to take these jobs, if only we paid enough. There isn't enough profit in agriculture to pay 20 and $30 an hour for labor.

Senator SMITH. Barry, on that point, I want to emphasize something. I often hear on talk radio in Oregon it said that all you have to do is pay them $50 an hour and you'll get Americans to do this work.

But assume, if you did that, say you were a pear grower in Medford or in Hood River, and you paid $50 an hour for your labor, doesn't that just mean you wouldn't grow pears and produce these commodities in Hood River or Medford?

Mr. BUSHUE. It just means I wouldn't produce them at all.

Senator SMITH. It would go to another country.

Mr. BUSHUE. Absolutely.

Senator SMITH. OK.

Mr. BUSHUE. And I think if I could just take liberty here, I seldom listen to talk radio because you get exactly what you pay for.

Senator SMITH. Well, you know, I don't in any way want to discount the security concerns our country has, and the legitimate demand the American people make that we secure our border. I think that those things are essential, and have so voted.

But I think to stop there without a Guest Worker Program would be economically and humanitarilly damaging to this country, and this state in particular, in ways that are not comprehended by all.

And I just simply hope that the American people will understand that we can't stop there. And I'm not talking about a path to citizenship. I'm talking about a Guest Worker Program, at a minimum, beyond the House Bill, must be ultimately enacted, or it will be damaging to people on both sides of the issue.

Thank you, Mr. Chairman.

The CHAIRMAN. Well, thank you, and, you know, you raise one of the most significant issues that we have faced in this country, and certainly your tenure in the U.S. Senate and my tenure in the U.S. House and in the Senate. The immigration issue is the most volatile, most explosive, most politically charged issue that I've ever seen.

And I have been a strong advocate of reforming the current H2A Program for agriculture, because it is too expensive and too cumbersome.

And we've got to have a temporary worker program of some sort that will allow everybody at this table and every farmer and rancher across America the opportunity to have a pool of workers who are here legally from which to choose. And we're going to continue to work on this very sensitive issue.

Also a couple of you have mentioned Doha, and let me just say that Gordon's exactly right, we're going to write the Farm Bill. We're not about to let Europeans dictate to us or participate in the writing of that Farm Bill.

As I have so often said around the country, I'm a lot more concerned about farmers in Paris, Texas, than I am farmers in Paris, France.

And I'm still very hopeful that we can reach some sort of agreement within Doha, because, again, each of you express how valuable it is to export your products, which we know are the finest agricultural products grown anywhere in the world.

But unless we achieve the market access and unless the Europeans quit being protectionists, as frankly my friend Mr. Mendelson, who likes to criticize us, but the truth of the matter is, they have been extremely protectionists of their farmers. And we'll never have an agreement unless they decide to get reasonable and give us true market access.

Senator SMITH. Mr. Chairman, isn't it true that U.S. levels of agricultural subsidies are about a third what European subsidies are?

The CHAIRMAN. That is exactly right. They just provide them in a different way. Ours are more market oriented, which is why we think the 2002 Farm Bill policy has worked very well.

We've got some shortfalls, as our wheat growers across the country have reminded us everywhere we have been.

Mr. REESE. And will continue to do so.

The CHAIRMAN. We will continue to look at that particular policy as we go forward with the next Farm Bill.

So, again, thank all of you for being here. We appreciate it very much.

And we will now ask that our second panel to come forward. Mr. Ken Lorensen, Salem, Oregon, representing the Oregon Department of Forestry; Mr. Klaren Koompin, I hope I've got that right.

Mr. KOOMPIN. You did well, sir.

The CHAIRMAN. From American Falls, Idaho, representing the Potato Growers of Idaho; Mr. Pete Brentano of Wilsonville, Oregon, representing the Oregon Nurserymen Association; Mr. Ernest Gallo, Modesto, California, representing the Wine Institute and California Association of Wine Grape Growers.

So, gentlemen, thank you very much for being here. We will follow the same format of taking opening statements from you, and again I would remind you that we will accept your full written statement for the record.

Mr. Lorensen, we will start with you.

STATEMENT OF TED LORENSEN, OREGON DEPARTMENT OF FORESTRY, SALEM, OREGON

Mr. LORENSEN. Chairman Chambliss, Senator Smith, thank you very much for being here today and inviting me to testify.

I notice from the introduction that the focus has been on agriculture and its importance to Oregon.

I just want to talk a little bit about forestry and its importance to Oregon and the West as well.

And before I get to that, I want to mention that I think that in the context of the Farm Bill, there's some perspective at least in the West Coast that forestry is often the poor cousin to agriculture in that context. But at least in the West Coast and in Oregon I think there needs to be a very strong marriage between forestry and agriculture. Many of our producers do both types of activities. And having both means success is important to their overall health.

Within Oregon 57 percent of Oregon's forest land is owned by the Federal ownership. Both the Forest Service and Bureau of Land Management. But 85 percent of Oregon's timber harvest comes from private lands. Oregon's the nation's largest producer of lumber. And we have been in that capacity for a long time.

In the context of the Nation and forestry security, for a long time imports have been a big portion of how we've met our wood products demands. Now 30 percent of the nation's demand for wood products, is met by foreign imports, mainly from Canada and increasingly from other nations, including nations such as South American countries and New Zealand.

It's very true that family forest lands are extremely important and vulnerable part of the land base, that's been assisted by Farm Bills in the past.

Nationally 40 percent of the nation's forest lands are family owned forests. In Oregon that's only 20 percent. But yet 85 percent of the wood products provided by Oregon's landowners come from private lands. Increasingly the family forest lands are critically important to that 85 percent of the harvest.

In some Eastern Oregon counties, particularly like Baker County, Malheur County, family forest landowners now make up the largest share of the timber harvest, even though they are only 20 percent of the ownership.

And, again, Eastern Oregon's fairly unique in the sense of Oregon forestry, but I think that it is important to think about the difference as you look at Oregon's forests from the dry east side to the wetter west side.

So, forests are very important to Oregon from an economic standpoint. They provide 85,000–plus jobs that are direct and over 190,000 indirect and direct jobs, because of a higher multiplier effect that occurs with the higher paying forestry type jobs.

In terms of economic output, Oregon's forest sectors provide $22 billion of output, 11 percent of the total value of goods and services produced in Oregon.

Again, that's disproportionate because of the higher labor, higher prices for labor paid for those sector jobs.

In the last several years we have done some fair amount of work looking at what the contribution to Oregon's forests can add to Oregon's economy.

And I've provided a fair amount of information on some studies done by the Oregon Forest Resource Institute that really concluded that without major change in Federal timber harvest, the statewide Oregon harvest can be increased by 25 percent, or an additional 20,000 forest sector jobs.

The Farm Bill can contribute greatly to that kind of success, if it was written well. And in our opinion the Farm Bill needs to think about a broader policy perspective that we call sustainable forest management, that tries to integrate in a cohesive way environmental, economic and social values that come from our forest lands.

Such a policy, to be undertaken, would include a number of concepts.

I want to express the importance of a sustainable forestry management policy across all ownerships, including Federal, state, and other public, industrial and family forest lands. It would encourage and promote a dialog around establishing such a national policy. It would encourage new and innovative policies and create new nonregulatory programs. It would clarify and enhance the rolls of Federal, state and local governments, respectful of the delegation of

powers, promote regional collaboration and joint planning and program delivery.

It would respect the critical role of private forest ownership in our country while striving to conserve in a fair and equitable manner the public benefits they provide.

And very importantly, it would recognize the Federal lands must better contribute to the goals of sustainable forests in a coordinated manner across landscapes, that in some parts of the country these lands have a pervasive influence on sustainability of all forest lands.

I do know that you flew yesterday, looked at some of the fires, and again in the context of fire protection in Oregon, if the Federal lands cannot provide good fire protection, private lands will be at such risk, they will disinvest in those lands and convert them to other uses. And we're seeing that happen across portions of Eastern Oregon and Southern Oregon.

Sustainable forestry policy needs to promote new and creative delivery systems. Need to encourage reason in the forest tax policy. Again, the death tax was talked about earlier, but I think that's equally important for forestry. And it does need to recognize the local influences that impact U.S. forests and how we need to be able to compete fairly and equitably.

I do want to make the point in that context, that the National Association of State Foresters and Society of American Foresters are both working on these ideas and invite you to join them to further develop them as you develop the Farm Bill.

Forestry needs to continue to be a part of the Farm Bill, and I know you're probably going to ask the question, how do you prioritize things.

But the bottom line, the Farm Bill needs to place a higher priority on forest lands than currently exists and needs to encourage better participation by forest landowners.

I do want to make one point with regard to the Western States, particularly the coastal states, is that most of our states have regulatory forest practices acts.

And as a principle that could be looked at, I think it's important to think about in the Farm Bill, is to try and reward those states that are doing the most.

And I think in the past there's been a little bit of inequity in how some of the Farm Bill programs have treated forestry and often rewarded those that have done the least.

As a simple example, in Oregon we require that landowners reforest after timber harvest. As a result of the requirement to plant, that makes those sorts of activities ineligible for Federal cost share programs. And we do provide cost share, Federal cost share dollars to land owners that plant at higher levels than what the regulation requires.

But again those kind of concepts, as you get into wildlife issues, Federal ESA issues, those sorts of things, as a principle make a lot of sense to us.

It's very true that the Farm Bill has been very successful and education's very important to that part, and we hope to continue that as well. Thank you.

[The prepared statement of Mr. Lorensen can be found in the appendix on page 98.]

Mr. Chairman. Thank you very much.

Mr. Koompin.

STATEMENT OF KLAREN KOOMPIN, POTATO GROWERS OF IDAHO, AMERICAN FALLS, IDAHO

Mr. KOOMPIN. You did very well. Chairman Chambliss, I'm going to attempt to poke five pounds of wisdom this three pound bag we've go, and I can see it's pretty difficult, but I'm going to take off here.

You did a great job with my name. I'm from American Falls, Idaho. We're representing not only PGI but also the National Potato Council.

I've served as President of the PGI as well as Executive Director of the United States Potato Board, as well as 9 years on county committee, FSA committee of Prior County. You can tell our name went from, start out of school, caboose, we hit Ellis Island, we went from Greek to Dutch just by the stroke of a pen.

So that's going to bring me into one of my first critical issues that probably transcends above all titles in the Farm Bill, and that is the labor shortage, immigrant shortage of farm workers here in the United States.

As potato growers, we are very dearly affected by this. We applaud the vision of the Senate in passing a somewhat ag jobs bill by Senator Craig that we supported very well, and after listening to Senator Crapo's statement in Moscow, I believe he softened his stance a little bit also, and is leaning that direction, so you might want to ask him if that's still true.

It will become very critical, and we need to solve it. We also need to give those people a pathway to citizenship.

With respect to any other titles of the Farm Bill, we have to always keep cognizant that we do not put one farmer at an advantage over another one. And specifically talking about the CSP program.

Any time you have the ability to pertain $40,000 more per year than your next door watershed neighbor, so to speak, and you're going to do that for it looks like now maybe forever, because there will be watersheds that will never be eligible for the CSP, that's a distinct economic disadvantage that the government has set up for one farmer versus another.

And anything in the Farm Bill that puts an advantage of one area over another must never happen.

The same with the RMA. There are provisions in that, as far as the AGR, it has been studied now for 5 years, and it either needs to be implemented across the country, as the CSP must be, or eliminated. It cannot be targeted to one area versus the other, and have that opportunity for one farmer and not the other.

Getting to the Farm Bill titles. I think the first one the potato growers are most concerned with are obviously the planting flexibility.

We all know that was specifically mentioned in the Brazilian case, and we all know that it didn't—you know, it was not illegal.

It was only said that this is obviously an amber box payment, not a green box payment.

We cannot allow specialty crops, particularly potatoes, to be raised on base acre government subsidized soybean/corn acres. And we do not want any payments from the government, potatoes growers never have, and will not.

But we feel very strongly that we do not want to subsidize potato crops on those soybean or corn acres also. And in fact that's exactly what it is. And you've got my written testimony.

Mentioned the only other one is transportation. It is absolutely critical. All 50 states trade with each other. We trade with the world. We need two tracks. We need an evening of the wage law between Washington, Oregon, New York, Florida. I believe a repeal of the 1975 law that fixed the weight limits would automatically terminate that, or allow a heavier load.

Right now we're working with an 80,000 limit. We should be able to go to 102. We have states that go from 80 to 146. You might be interested to know that the highest weight law in the states is 146. That's New York. The 80,000 ones are pretty much stretched through the Midwest. All trucks have to go through the Midwest from coast to coast. So, they are limited to 80,000. That in itself would probably show, what, 15, 20, 30 percent savings in transportation costs. So that is something that has to be done. Thank you.

[The prepared statement of Mr. Koompin can be found in the appendix on page 79.]

The CHAIRMAN. Thank you very much.

Mr. Brentano.

STATEMENT OF PETE BRENTANO, OREGON NURSERYMEN ASSOCIATION, WILSONVILLE, OREGON

Mr. BRENTANO. Chairman Chambliss and Senator Smith, my name is Pete Brentano of Brentano's Tree Farm, and thank you for the opportunity to testify here today.

I am co-owner of our family farm in Oregon's Willamette Valley where we grow shade and ornamental trees as well as a variety of other specialty crops.

And I have the pleasure this year to serve as the President of the 1500 member Oregon Association of Nurseries which represents Oregon's nursery and greenhouse industry, which is the state's largest sector of agriculture with annual sales in excess of $840 million.

Today I want to focus most of my talk on plant pest and disease issues.

Plant pest and diseases threaten West Coast nursery growers with serious economic harm due to crop loss, closed markets, or burdensome regulatory restrictions.

In this respect we differ little from growers of Florida citrus or soybean farmers. What's popularly known in the press as sudden oak death threatens to result in very restrictive and expensive regulations for West Coast nursery growers.

A more effective approach to nursery regulation and inspection is needed. And one that relies on nurseries to develop and implement a system to prevent the introduction pests and diseases onto the nursery.

We believe the next Farm Bill must provide for a multi-pronged effort as follows. Authorize and direct research on systems of nursery production and measure their efficacy in preventing the introduction and spread of plant pest and disease problems; develop and pilot test systems of production for various types of nurseries in different geographic regions of the United States; establish definite time tables for the dissemination and adoption of the new systems of production; and establish definite time tables for the implementation of regulatory programs, based on these new systems of production.

We at the OAN believe tremendous opportunity exists to improve and enhance nursery regulation and inspection, and the Farm Bill should establish clear and overarching goals to guide development of new regulatory policy, based on a comprehensive program of research, demonstration and extension.

And I've included with my testimony a brief discussion paper describing that position.

Quickly I want to call your attention to several other issues that merit our attention. Water quantity and availability. Based on a Federal and state partnership study the availability of water for western agriculture and develop an inventory of potential new water stored sites, soil conservation and habitat restoration, support research and incentives to assist nurseries with soil erosion, water conservation and efficiency, create a specialty crop title in the Farm Bill.

We want to see emphasis and organization of farm policy for the benefit of specialty crop agriculture. We don't want subsidies but we have very focused issues and concerns. Support the industry's growing partnership with USDA rural development in our joint effort toward energy efficiency.

And even though it's not a part of the Farm Bill, agriculture needs a comprehensive immigration reform bill that embraces a Guest Worker Program because frankly without labor, the nursery industry would not survive.

Thank you for listening to my testimony today.

[The prepared statement of Mr. Brentano can be found in the appendix on page 59.]

The CHAIRMAN. Thank you. Mr. Gallo.

STATEMENT OF ERNEST GALLO, WINE INSTITUTE AND CALIFORNIA ASSOCIATION OF WINE AND GRAPE GROWERS, MODESTO, CALIFORNIA.

Mr. GALLO. Chairman Chambliss and Senator Smith, thank you for the opportunity to appear before you today and present to you some key facts of the wine and wine grape industry.

I'm proud to represent both the Wine Institute, California's public policy advocacy association, of over 900 wineries and associated businesses, and the California Association of Wine Grape Growers, also known as CAWG, which is the California advocacy group for our wine grape growers.

I am a third generation to be involved with the family winery, the E&J Gallo Winery of Modesto, California.

The California vintners face increasingly competitive environments. I'd like to share with you some of the key trends in our in-

dustry and propose solutions that rely upon the cooperation of the industry, state and Federal Governments.

In the context of the Farm Bill, I believe laying out this information will help to convince you as policymakers that our industry is dynamic and could be a great fuel for the United States 21st Century agricultural economy, if given the proper support for research and development.

Imports as of 2005 data represent more than 27 percent of the wine consumed in the U.S. today. Since 1984 the value of imported wines has grown from 954 million to 3.8 billion in 2000. This dramatic rise represents a structural shift from old world European wines to new world wines, particularly Australia.

Australia surpassed France 2 years ago and is poised to overtake Italy as the No. 1 importer into the United States. Australia's success reflects skilled marketing in a focused export driven campaign strongly supported by government and well organized industry.

A partnership between the industry and the government has also created one of the best research programs for viticultural knowledge in the world. Their research program is seen as a key driver for improving quality and marketability of their wine into the export market.

California's home, and so is Oregon, to the most productive agriculture in the world. It is also the most urbanized and fastest growing state. These are pressures that our growers face on a day-to-day basis, and the pressures are increasing all the time.

The Farm Bill debate is a perfect forum for this discussion to really come to fruition.

To that end, several of us in the grape industry have developed an industry paper that I have submitted to the committee into the record with my full written testimony, which outlines more fully for you what we would like to see in the next Farm Bill to ensure the grape industry's place as the sixth largest crop in America and the largest specialty crop.

And this is by date value, not the added value that comes with the industry which is three times as much.

Thank you for the opportunity to comment, and I'm delighted to answer any questions you may have. Thank you.

[The prepared statement of Mr. Gallo can be found in the appendix on page 70.]

The CHAIRMAN. Thank you very much, Mr. Gallo. And as I mentioned to you before the hearing, are the namesake of a very famous family that we're all familiar with in the winemaking industry. And we're very pleased that you're here. I don't limit myself to Oregon Pinot Noir, I want to assure you of that.

Mr. Lorensen, you mention this fire we saw yesterday. I picked up the paper this morning, and, gee whiz, boy, when I look at something like that, what a gosh awful sight. Senator Smith and I got to see it up close and personal yesterday. And a couple of comments about it.

Senator Smith has a bill, and we also passed a bill, the Healthy Forest Act, a couple years ago, that we've had some problems in the implementation of. But those types of measures, particularly the bill that Congressman Walden and Senator Smith have been working on, appear to be the types of measures that will not only

help you here but even in our part of the world, where we have significantly less percentage of our land in the hands of the government. Most of it private lands, where we can do a lot of management practices.

Let me just ask you about the types of practices you use to limit the possibility of disasters like this fire that's ongoing right now at Lake George and your comments relative to the legislation that we have passed, and has it been a help to you, or are there other things that we need to do in that respect?

Mr. LORENSEN. Chairman Chambliss and Senator Smith, good question, and I know you both worked on this issue in terms of Senator Smith's Healthy Forest Restoration Act. It has been very helpful. There has been a lot of thinning work, forest health work has improved the stand conditions so they will be survivable in the context of a fire.

There's been a lot of work around communities, developing community welfare protection plans and implementing projects around those.

But at the pace we're going, we're basically not catching up to the problem. And I know that Healthy Forest Restoration Act programs are being reviewed in terms of how we can improve the efficiency on those.

In Oregon we have had very little success in using the stewardship agreements to do work on Federal lands that would protect the adjacent private lands.

There's lot of things we are trying to implement, but it's been a struggle. And I guess one general comment, to the extent that those programs can be delivered through Farm Bill like programs rather than through a Federal agency where you might then have ESA consultation, those sorts of things, that would be an efficiency.

Senator SMITH. Mr. Lorensen, to follow up on Senator Chambliss' question, we saw land burning yesterday that was primarily Federal, but there was clearly some private land being burned.

From what you observed over the years, after this fire is extinguished, what will be the treatment on one versus the other?

Mr. LORENSEN. There will often be very different levels of treatment. Typically, on the Federal lands, time will become a huge factor and process will most often result in their inability to salvage timber, if that's an allowed——

Mr. Smith. But will you see timber salvaged on private land?

Mr. LORENSEN. On private lands, you will see salvage almost begin immediately.

And in fact, to use an example, on state owned lands, where we had fire, we had a timber sale up within 3 weeks after a fire. So, a huge difference.

Federal lands, it might be 3 years, and then the value becomes a huge issue on whether there's a competitive opportunity——

Senator SMITH. And how about replanting of new seedlings?

Mr. LORENSEN. Same sort of thing. With private lands, if they do salvage, which almost always will occur, they will have to plant, by law, in Oregon. We can provide some——

Senator SMITH. They have to replant, whether you cut it or whether you salvage it?

Mr. LORENSEN. If they salvage it, they have to cut. If they don't do any salvage work, they wouldn't have to reforest. But again I've never seen any private landowner not reforest.

Senator SMITH. And how much sooner do they have a new forest versus——

Mr. LORENSEN. Typically the seedlings will be free to grow in three to 5 years, which means they will be up above the brush and moving toward a timber crop.

The CHAIRMAN. Let me ask you about your soft wood forests in this part of the country. We have seen—My home state happens to be, as you well know, a large timber producing district, large timber producing part of the world, primarily soft wood timber.

We have seen the export of the pulp wood timber industry outside of the United States over the last several years, it is virtually non-existent now.

But I was at Georgia Tech last week and had a chance to visit with a number of professors there and researchers who are very, very close, and I mean very close, within a matter of months now, rather than years, of developing a process for the conversion of soft wood timber into ethanol.

Is there similar research going on in this part of the world relative to the use of your timber products for the manufacture of alternative energy?

Mr. LORENSEN. Chairman Chambliss, there is, and indeed we have been doing a lot of work, and a study will be presented next week with regard to opportunities around bio-energy in Oregon.

But there's a huge opportunity in Oregon, not just to create ethenol, but to burn wood for the generation of heat and energy, and at least in this context, the Western States, that represents really what I call a quadruple win, and again if it gets into the Farm Bill, can provide support for that, that would be a big help.

But in terms of bio-energy, the potential there, if successfully implemented, results in healthy forests, obviously provides energy and jobs, but it also would reduce CO2 emissions greatly.

Again, you saw a lot of emissions yesterday, and I apologize for the smoke, but it's really a choice of how you want to oxidize your forests, and you can oxidize them in a way that will produce energy and jobs, or you can oxidize them in the way that causes the Federal treasury to spend a lot of fire suppression dollars.

The CHAIRMAN. Mr. Koompin, proposals have been made to provide more money to specialty crop industry, as we have been around the country talking with farmers relative to specialty crops. These proposals range from state block-grants to research money to some type of Counter Cyclical Program.

Which of these ideas or others do you think would benefit the industry most, and do you have any particular ideas you want us to put in the world?

Mr. KOOMPIN. Yes. I think the block-grant programs for the States work very well, here 4 years ago, when that was authorized. That works very well. We definitely need more dollars for research. And that can be very broad or very narrow.

Just the introduction of the energy problem that we're facing today is going to help any specialty crop. The nice thing about specialty crop production is you have the ability to raise a multitude

of crops, given our environmental parameters or frost dates and so forth.

But, you know, you may envision the day that we are back in the late 1940's and early 1950's where I think the latest statistics I read that fully 50 percent of the farm ground in the United States was dedicated to energy production; and in the form of grasses, grains, hays, for the horse feed.

And maybe life is a full circle and we will come back to that. So any kind of research.

Potatoes lend themselves very well to research manipulation and direction.

With that being said, the Russet Burbank is still the largest potato plant and he's been around for 105 years, so history's with us. Continuation of the MAP funds.

Anything that would help us export our products, that's a new growth area for potatoes, has been and will be. We survived the low carb diet, but we did take a little hit. But we're coming back and rebounding nicely.

Any investment in prevention from introduction of pests; with trade, we know it is going to be a two-way street. We have to be critical that we don't let anything in that devastates not only the potato industry but horticulture of any kind.

And then of course any kind of transportation relief that can be handled by the Federal Government, and that truly is a Federal Government problem. We have 50 states with 50 different laws. And the interstate system has to be our artery. And so any of those above mentioned, Chairman Chambliss, would be greatly appreciated by the potato industry.

The CHAIRMAN. My son-in-law is a vegetable grower. He prides himself in the fact of being a specialty crop producer, that he doesn't look to the government for help with respect to farm payments.

But he and I have talked from time to time about this issue of planting flexibility, and you addressed it in your opening comments.

What would be the result, do you think, in the specialty crop industry in this part of the country if we changed our planting flexibility provisions in the next Farm Bill?

Mr. KOOMPIN. Mr. Chairman, I can't give you a specific figure, but I will be able to give you a specific figure in a month, and it may be available now.

The National Potato Council has hired a private economic firm to ferret that number out. It would be in the hundreds of millions.

We've got approximately a two billion dollar industry in the state of Idaho, as far as potatoes. That's total processing value added as well as farm gate. And I can assure you nationwide that if planting flexibility changed, it again puts one farmer, without redoing the whole Farm Bill, because if you're going to subsidize a potato crop in Indiana, or tomato crop in Indiana, by not taking away either base acres or farm program payment, and that's what happens now.

And so it's somewhat controlled. But if you eliminate that, then you are in effect subsidizing that crop of tomatoes or potatoes, on what used to be soybean, corn ground. And if you are going to sub-

sidize that acre of potatoes in Indiana, you are definitely probably going to have to subsidize the crop in Idaho, Washington or in Oregon, and you can do that in lots of different ways, I guess.

You can create—increase everybody's base acres across the nation. And we have to make sure that whatever provision we do, we do not jeopardize one farmer's ability to compete with the government subsidy to another farmer.

The CHAIRMAN. Mr. Brentano, you indicate support of conservation programs in your testimony. What's the right balance between land retirement programs like the CRP and working land programs like EQIP?

Mr. BRENTANO. All in all, I guess I believe that it's not an either/or issue. One is a conservation program and one is a program within the conservation title which helps farmers and ranchers to comply with all the laws.

A program like EQIP, which is far more technical and helps with the best management practices and is quite project specific, is the way we like to see things. We like to see the land being in production and we think that that's probably the best way to go about things for us.

The CHAIRMAN. You mention the need for new regulatory structure for addressing plant, pest and disease issues at the USDA, and you specifically note that the basic features of HACCP could apply to the nursery industry.

How much would compliance with this new system cost the industry?

Mr. BRENTANO. Right. Much like HACCP, we like to look at a new system, which is based on the system's approach where we're looking at the way that the production is done rather than an end regulation point.

As far as the cost to industry, right now we have a test pilot in Oregon that we've done with core nurseries. The costs to the industry vary greatly. Some of our nurseries are showing, and they're fairly large nurseries, but anywhere from 18 to $20,000 a year, up to one of our larger nurseries, showing it to be closer to $80,000 a year for their costs.

What the cost would be to government is really hard to tell at this point. But I think that's why we're pushing for some research and a science-based program which would have a big test pilot element to it.

Frankly, right now our system is somewhat broken, if you look at issues that have come up, like Emerald Ash Borer or the Phytophthora ramorum. These can be quite devastating and close the market.

So perhaps the system where we are looking at what we're doing in the fields and preventing and not allowing in the disease or the pest could be actually less costly in the end.

The CHAIRMAN. Mr. Gallo, your comments and your numbers relative to the increase in imports into this country are particularly interesting.

I don't know whether you have any similar numbers to tell us what sales of domestic wines, what's happened to the sales of domestic wines, whether we've seen a huge increase in that over the last several years, during that same period of increasing imports,

but I would suspect it probably is, it's your industry, thanks to any number of reasons, most importantly the quality of products that your winery and other wineries around the country are producing now.

But the Market Access Program, which you mention in your testimony, has been a critical program, and is one that as we reauthorize the Farm Bill, we will be talking a lot about, particularly as we talk about trade. How has the Market Access Program affected your industry? Is it something we ought to expand on in general? Tell me your thoughts relative to that.

Mr. GALLO. Thank you, Mr. Chairman. MAP, for the wine industry, is really the U.S. version of what every other major wine producing country offers their producers to help fund the promotion of exports.

What does that mean? What that means is for the producer, it allows them to attend trade shows, it allows them to taste retailers and import trade on their products, it allows them to bring visitors to their wine country, and if you look at all our competition, all our competition enjoys similar programs. However, they tend to be funded at higher levels and supported by their governments.

Now, let me address the benefits of MAP and what return we have seen in this country as a result of it.

First off, MAP has been very successful in introducing our wines to international importers, consumers and retailers. I think the success is best illustrated by the growth of our exports over the last decade.

In 1994 the value of our exports was about $196 million, the value of California wine exports outside the United States.

By the year 2004, 10 years later, that value had swelled to $808 million.

Now, there's still a lot of work to do. There's still a lot of opportunity. Because even with that success, we only have a 5 percent market share of the global wine export market.

So, to answer your question, I believe that the success of the program should justify that, A, it should continue, and more importantly, it should be increased as the expanding needs of all the participants demand it.

Senator SMITH. Mr. Gallo, though I'm a teetotaler, Oregon's wine industry is such an important part of our agriculture, I've had to learn a little bit about winemaking from Jim Bernau and others.

I have recently read an article that talked about France is actually taking acreage out of grapes, and the point of their doing that is to keep their prices high.

And as you noted in your opening testimony about Australia's success, and I would probably throw New Zealand in that as well, it seems that it isn't just the government involvement but also they are meeting quality standards comparable to those in Europe, and they're doing so at dramatically lower prices.

Is that what, in your view, is that part of the equation here?

Mr. GALLO. Which part? The lower prices?

Senator SMITH. The lower prices and equal quality.

Mr. GALLO. Quality is what this business is all about. This isn't a commodity business. This is a specialty crop. And specialty crop is all about value added, value added either in the product itself,

quality, being can you offer the same quality at a given value, or can you offer a wine style or taste that can't be offered somewhere else, it's no longer a commodity because you can't compare the price, or whatever other type of value adding you can add to it, such as if people come and visit the wine country, they leave with an experience that is beyond the product itself.

Now, just to address, you know, the French comment that you made, you know, they state that they're taking out acreage to raise prices.

I think more than anything else, that may be true. But however the biggest driver is they have a tremendous surplus in Europe. And right now you're seeing that the government is actively spending dollars to buy the grapes to distill into fuel ethanol, which I can assure you, you know, grapes should not be used by the Farm Bill for any sort of ethanol production. It is not the most cost-effective means of fuel.

So I think——

Senator SMITH. Some of my colleagues seem to live on it. Pretty good fuel.

Mr. GALLO. Human fuel versus automobile fuel.

Senator SMITH. You know, it is interesting, and I understand obviously there's expensive ones and there's Two Buck Chuck.

One of the investors in Two Buck Chuck told me that he moves 2,000 cases a day through Costco. And I know the industry's expanded dramatically in California.

I'm from Eastern Oregon, and I never thought I would see what I see today, and that is hundreds, maybe thousands of acres of potato, wheat land, it's all in vines now. And I'm wondering if the industry isn't in danger of becoming a commodity.

Is there a glut? I mean, that's what makes it a commodity ultimately on a world market.

Mr. GALLO. Worldwide, there is a surplus of grapes in the ground. Hands down, there is a tremendous surplus out there.

But yet those producers who focus on quality, who focus on investment in new process technology, investment in new viticultural technology, investment in just simply how you run a fermentation so you can have a clean fermentation, all leads to a better product, and it's rewarded by the consumer. So even in a commodity——

Well, let me step back. Even in a surplus situation, if you're competing on quality, it doesn't matter if there's a surplus out there.

Now, the issue with Two Buck Chuck is a little more complicated. Let me talk about the subtlety of Two Buck Chuck.

Senator SMITH. That fellow told me after the first drink he couldn't tell the difference between one versus the other anyway. I don't know, but that's what he said.

Mr. GALLO. It depends on the size of his drink. Two Buck Chuck was the result of a planting boom in California that went through the 1990's.

In grapes, unlike most commodity crops, but I'm sure a lot of specialty crops, especially tree fruits follow this way, is that you don't get your first crop, and you don't get a full crop until your third year of production.

So there is a lag effect. And as a result, if you see a trend and it's trending upwards, like any agricultural situation, you know,

farmers look at their neighbors and they say, you know what, this is a good business to be in, you can make more money, they jump on board.

It doesn't become apparent, it's not visible, what are the supply and demand, because you have hidden supply coming on line. Once that comes—So you had a lagging supply curve, and it would further cause problems, we had a slight slowdown that followed the bust of 2000, which was the internet bust, and combined resulted in a glut in California, but the market forces did self-correct it, and we are now in balance.

So, just in four or five short years, the industry was able to get in balance.

How do you do it? Some vineyards came out of the ground. And some entrepreneurs, like my Uncle Fred, Two Buck Chuck, managed to find that he can buy wine, and buy grapes cheap, during that glut period.

Senator SMITH. And that's going away, so that will go away, too?

Mr. GALLO. I think Two Buck Chuck has evolved. In the beginning it was literally a better opportunity than putting it to the still.

And then now with Two Buck Chuck specifically, it's a partnership with Trader Joe's, and as a result, they have a longer term contract and with that, you can assign supply to that program and you work on thinner margins with a guarantied supply, or guarantied volume.

Senator SMITH. Well, I thank you for helping me to understand that.

Mr. Koompin, I was one of the creators of the Conservation Security Program. And I'm certainly open to changes and expansions.

And I'll tell you a part of what has driven my involvement in it. I have seen my farmer neighbors for years be penalized by the cost of environmental farm practice regulation.

What I was trying to do was reward them for it, and to help have the dual benefit to the environment and without the penalty to the farmer.

But I know it's a very limited program, it's frankly very underfunded, even at the authorized levels, it is nowhere near funded by the USDA.

But my motive in being involved in it was frankly my fear, and I say this for the education of those who are here, if you read the New York Times, the Washington Post, was it the Journal of Constitution in Atlanta?

The CHAIRMAN. Communist.

Senator SMITH. The communist. The support for agriculture mirrors the population of those involved in agriculture. It's probably 2 percent, if you want to be liberal right now, in terms of how you calculate it. And these farm programs are deeply unpopular.

What is popular is environmental issues.

And so my thinking was, how could I help my farmers get ready for the world of tomorrow, because if there is not public support for farm programs, farm programs are in jeopardy every time a new one comes up, and everyone has said they need more; and the world community, and you have my commitment, you have the Chairman's commitment, we're not going to let Paris, France, determine the ag policy for Paris, Texas.

But the facts are that our country, long before Saxby and I showed up in the Senate, we became members of the WTO, and WTO rules are going to tighten and tighten and tighten, ultimately even reducing European subsidies, which are two-thirds more than ours, and frankly their taxpayers can't afford what their current programs are, but they're going to tighten.

And a lot of these things will lose public support, these farm programs, unless we can find some replacement.

So, what I'm simply saying, and stating, is that we need your help to look for other ways consistent with WTO rules and regulations that will allow us to be helpful to the farm community. CSP, I believe is one of those. And so it's simply an invitation for you to be open with my office, to make it bigger, to make it better. It is consistent with the WTO regulations.

Mr. KOOMPIN. I can address that real quick, Senator Smith, and due to lack of time, my comments on the great vision of the CSP program was cut out, but now maybe it is a good time to say the idea, the principle, the vision of the CSP program, we realize in the farming community, is the way government support of agriculture is probably heading, if you followed it at all in the last 20 to 30 years, and especially since the WTO.

So, you know, our thanks and pat on the back for that program as far as it was envisioned. The problem with the CSP program is of course the implementation of the funding.

Senator SMITH. Yeah.

Mr. KOOMPIN. So, do we think that, are we going to look better in the eyes of the nation? Yes, we are. And can we make that CSP program or something like it work? Yes, we can.

But it cannot target watersheds and for the most part I envision that there will be areas that will never, ever be able. So that how do you——

Then you get back to the questions we raise, how can we justify a $40,000 payment to Joe in watershed A, and the poor guy raising the same crop in a different state or in the same state, or in the same county, does not get that.

So, that's a definite problem. But we do, our hands would be ready to help work out any program you come up with, and we will be after some ideas.

Senator SMITH. We will need your help, because I think you are right to perceive it as the future.

Rather than ask more questions of more panelists, Mr. Chairman, I will ask it through written, through the record.

But I do want to make note for the record the presence of Katie Koba. Katie, there you are. Katie is the Director of Oregon Department of Agriculture, and we're honored to have you here, Katie.

The CHAIRMAN. Thank you. Mr. Lorensen, I can't help but note, as we are sitting here talking, we are hearing those airplanes take off, and I suspect that maybe a hundred percent of them are heading toward that fire out at Lake George.

As Senator Smith and I flew over that yesterday, when those airplanes take off from here, they are a mighty big looking piece of equipment, but when you look at them dropping the retardant and the water on that fire, they pale in comparison to the size of that fire. But hopefully we're going to see that controlled short term.

To all of you, again, thank you very much for being here. We look forward to continuing to dialog with you, and we would like to be able to use all of you as a resource as we move into the writing of this next Farm Bill. So, thank you very much.

We will now move toward panel three, if these members will come forward, Mr. Jim Bernau, Turner, Oregon, representing the Willamette Valley Vineyards; Jennifer Euwer Hunt from Hood River, Oregon, representing the Pear Bureau of the Northwest and Northwest Horticulture Association; Mr. Doug Krahmer from St. Paul, Oregon, representing the Oregon Blueberry Commission; and Mr. Mark Wettstein, Ontario, Oregon, representing the Nyssa-Nampa Beet Growers Association.

Again, we'll follow the same format. Mr. Bernau, welcome to our panel, and we'll start with you to take any opening comments from you.

STATEMENT OF JIM BERNAU, WILLAMETTE VALLEY VINEYARDS, TURNER, OREGON

Mr. BERNAU. Mr. Chairman Chambliss, Senator Smith, thank you for supporting the wine industry each in your own way.

My name is Jim Bernau, and I am the founder and CEO of Valley Vineyards, a publicly held Winery in Turner, Oregon. Our winery currently farms over 250 acres of vineyard land and we sold last year about 140,000 cases of wine.

I also serve as the Chair of the Legislative Committee of the Oregon Wine Growers Association and am here on their behalf.

At $3.5 billion grapes the sixth largest crop in the United States, research conservatively estimates, that the production of wine and wine grapes and their related industries produced more than $90 billion of economic value to the U.S. economy in 2004.

Our industry accounts for over a half a million full-time jobs, and roughly 18 billion in annual wages. Additionally about 30 million tourists visit wineries each year, spending approximately $2 billion. The industries pays 4.3 billion in Federal taxes and almost five billion in local and state taxes.

Almost 10 percent of the approximately 3,500 wineries in the United States are in Oregon.

Oregon's focus is on a high quality wine and wine grapes that translate into high quality of life for our neighbors and our communities. We're environmental stewards of the land. Over 37 percent of our acreage is farmed with certified sustainable practices.

Despite our growth, we have tens of thousands of marginal acres of land lying fallow, under-used, some with dying fruit and filbert trees on them.

A 2005 study of the Oregon wine grape industry found our economic impact was about 1.4 billion. We generate about 8,500 jobs and pay more than 200 million in wages. We attract high value tourists who spend more than the average tourist, boosting hotel and restaurant sales.

In 2004 our wineries generated tourism revenue that approached $100 million.

As you heard from Mr. Gallo, over 25 percent of the wine consumed in the United States is imported, supported by well financed

foreign government programs, a threat to the development of the Oregon wine industry.

Our industry respectfully asks that the 2007 Farm Bill finance greater support of specialty agriculture. We have several specific suggestions.

One, sustain and grow the funding of the Northwest Center for Small Foods Research.

Two, provide continued support for the Market Access Program.

Three, we appreciate your role in creating the Conservation Security Program and ask that you expand it.

Authorize mandatory funding of the $5 million a year from the Commodity Credit Corporation to establish the national clean plant network.

Expand the state block-grants for specialty crops program.

Provide a funding mechanism to support industry-government research partnerships.

And, seven, we appreciate our growing partnership with rural development. The Oregon Wine Board has applied for a value-added producer grant to support our efforts to increase the sale of Oregon wine out throughout the nation. The State of Oregon constitutes approximately 1 percent of the nation's population but accounts for nearly half of all of Oregon wine industry sales.

Thank you very much for the opportunity to testify before you today.

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

The CHAIRMAN. Thank you. Ms. Euwer.

STATEMENT OF JENNIFER EUWER, PEAR BUREAU NORTHWEST AND NORTHWEST HORTICULTURE ASSOCIATION, HOOD RIVER, OREGON

Ms. EUWER. Good morning, Chairman Chambliss. I am Jennifer Euwer, a fruit grower in the Hood River Valley. My husband Steve Hunt and I farm a total of 240 acres of—Is this on?

The CHAIRMAN. I think it's just quit on you.

Ms. EUWER. Is that better?

The CHAIRMAN. No. Let's stop for a minute.

Ms. EUWER. My husband Steve Hunt and I farm a total of 240 acres of pears and cherries and apples. My family has grown pears in Oregon since 1912, the Columbia Red Anjou variety being initially discovered in one of our orchards.

I appreciate this opportunity to provide comments about the importance of several components of the 2007 Farm Bill. Nutrition, the MAP program and research.

The 2007 Farm Bill provides an excellent opportunity to bring agricultural policy in line with Federal health and nutrition recommendations.

A strong fruit and vegetable agricultural policy will benefit tree fruit growers while at the same time make it easier for Americans to benefit from consuming a diet rich in a variety of fruits and vegetables.

The 2005 dietary guidelines issued jointly by USDA and the Department of Health and Human Services recommends that all Americans eat five to 13 servings of fruits and vegetables a day.

These guidelines are the strongest statement ever about the need to increase consumption of fruits and vegetables, recommending that Americans double their consumption of produce.

For children, making fruits and vegetables more readily available at locations where kids spend a lot of their time, such as in schools, is one of the most effective means of increasing their consumption of produce.

I believe that the upcoming Farm Bill should include language to expand the successful fresh fruit and vegetable snack program to all 50 states, including Oregon, and to double funding for the Department of Defense's fresh fruit and vegetable program for schools.

This would go a long way to promoting the health of the nation's school children, while improving the economic health of the nation's fruit and vegetable farmers.

The USDA's Market Access Program is another initiative that deserves to be fully funded in the new Farm Bill. It benefits growers and allows for USA pears or other U.S. agricultural products to be more competitive in overseas markets.

By helping expand USA pear exports the MAP program helps stimulate more demand and therefore stronger overall returns for my fellow pear growers and me.

With the help of the MAP funded promotional activities, U.S. pear exports have established a record value in each of the past seven seasons. Prior to the inception of the MAP only 10 percent of the crop was exported. Today that percentage is closer to 35 percent.

I see the MAP program as a vital part of the upcoming Farm Bill and something that is ideally suited to support high value products such as pears and cherries and maintaining the export competitiveness of U.S. products.

Agricultural research funding at both land-grant institutions and USDA's agricultural research service should also be a major focus of the next Farm Bill. We need advances in technology, especially labor-saving devices, if we are to remain competitive on a world market. And I'll point out that I brought the cherries in the back of room, and I grew them, but they were bred in Canada.

The CHAIRMAN. This country of origin, labeling issue is tough.

Ms. EUWER. Well, I just planted some more that were bred in Europe. The best way I can see to keep our fruit growers producing—the nutritional fresh produce that they provide for America is to provide an environment conducive to their profitability.

Fully funding MAP to help our exports, expanding produce consumption through good and extensive nutrition programs, and providing for increased agricultural research funding are three specific policy objectives that I think Congress should achieve during its work on the next Farm Bill.

Thank you, Mr. Chairman. I am happy to answer any questions, especially about what would happen if I had to pay $50 an hour as a pear grower in Hood River.

[The prepared statement of Ms. Euwer can be found in the appendix on page 65.]

The CHAIRMAN. Thank you very much. Mr. Krahmer.

STATEMENT OF DOUG KRAHMER, OREGON BLUEBERRY COMMISSION, ST. PAUL, OREGON

Mr. KRAHMER. Thank you, Mr. Chairman, and Senator Smith. My name is Doug Krahmer. I'm co-owner of Blue Horison Farms in St. Paul, Oregon.

On our farm we produce a variety of commodities, including blueberries, grass seed, hazel nuts, clover, wheat, flower seeds and fresh cut flowers.

The produce industry has experienced tremendous changes over the last several years. We've worked hard to remain profitable, satisfied consumer demands and conform to and develop new technology and compete in an increasingly global marketplace.

Many of our products are highly perishable and are driven by risk taking entrepreneurial spirit that we produce in the produce industry continue to engage in. We take tremendous risk each year, not knowing if Mother Nature, retail channels, and the marketplace or any other number of issues will or will not stand in the way and cause us to lose or gain in the investment we have made.

Our markets is highly volatile. Yet we have never relied on traditional farm programs to sustain our industry. Instead, we look to each other to promote efficiency and reward market competition that so marks our industry.

Unfortunately, the marketplace in which we operate is becoming less neutral and even handed. Regulations driven by food safety concerns, responses to food defense requirements, and other very legitimate consumer and customer needs, are placing more and more burdens on farmers and their partners who pack and ship perishable agricultural commodities.

In our effort to respond to these needs, we are obligated to introduce costly measures and undertake expensive actions.

Farmers shoulder the responsibility of supplying high quality food that is safe, and nutritious, while not being too expensive for the consumer. We work hard at this, helping to continue to ensure the miracle of abundant fresh food production in the United States at prices the American—that are low to the American people by world standards.

We do not support the extension of the 2000 Farm Bill. We believe government policy should provide incentives for private investment, tools to increase profitability, and help to those producers who are committed to constant improvement to better serve consumer needs.

We do not want policies that sustain yesterday's business. We want investment in the future. Ultimately the goal of any farm policy should be to enhance the tools necessary to drive demand, utilization, and consumption of our products, and not distort the production of those products with respect to domestic and international markets.

The 2002 Farm Bill began to make progress toward those objectives and was further enhanced through the Child Nutrition Reauthorization Act of 2004, and the Specialty Crop Competitiveness Act which we signed into law in December of 2004.

The fruit and vegetable industry strongly supports maintaining or strengthening the current U.S. planting policy which restricts

producers from growing fruits and vegetables on acres receiving program payments.

Fruit and vegetable producers are concerned that any alterations in this provision would allow commodity producers to mitigate any startup cost or mitigate risk inherent to fruit and vegetable production resulting in unfair competition.

I would refer you to my written comments, and I thank you for the opportunity to testify here today.

[The prepared statement of Mr. Krahmer can be found in the appendix on page 83.]

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

Mr.Wettstein.

STATEMENT OF MARK WETTSTEIN, NYSSA-NAMPA BEET GROWERS ASSOCIATION, ONTARIO, OREGON

Mr. WETTSTEIN. Senator Chambliss and Senator Smith, members of the committee, thanks for this opportunity.

My parents moved from Utah in the winter of 1946 and I was born that spring, and my mother at 91 told me this spring how big the sugar beets were that year.

I farm with my brother Louis. We farm 1200 acres. 350 acres is in sugar beets, 175 acres is in onions, and the rest is divided among alfalfa, wheat and corn.

Eight years ago there was 1200 growers that bought Amalgamated Sugar Company, also known as White Satin. These sugar growers are in Magic Valley and the Treasure Valley.

And in order to raise the capital to buy that company, it cost us $400 a share, which allowed us to grow one acre. We purchased 350 shares, so we could grow 350 acres of sugar beets, at a cost of $140,000. Minus our tractors, the equipment to plant, cultivate, and harvest sugar beets, would be another hundred thousand.

If the sugar beat industry went south, we would lose at least $200,000. That investment would just be gone.

Once an industry like sugar beets leaves an area, it never comes back.

Idaho and Oregon is the second largest producer of sugar beets in the United States.

There are thousands of jobs that rely on this crop, and it has an economic return of almost two billion dollars.

Six miles from our farm is a little town called Nyssa, Oregon, population, 3,000. And in 1938 the sugar factory was built there, and 2 years ago this factory closed because of economic reasons. It wasn't ready to cave in. It was well run, well maintained, and very efficient, but it just wasn't economical. 300 people worked there. The payroll was 12 million, and another million-and-a-half went into the local economy for parts and services.

But there are two forces at play on sugar. One is the food producers who have put pressures on sugar to keep it low, and in the last 20 years, ice cream, candy and bakery products has gone up between 30 and 50 percent, where the return to the sugar grower has gone down 20 percent.

The other force are the trade deals, that we've allowed too much sugar into this country. We are the fifth largest producer of sugar.

Also the fifth largest consumer. Yet we are the second largest importer of sugar.

And so we are able to produce sugar for the U.S. market. But because of the trade deals, there's too much sugar on the market.

And so we support the Farm Bill because we hope that that would give us some guaranties against the glut that would come in from NAFTA, CAFTA, Columbia and Peru. This has operated at no cost to the taxpayers. And we feel that the American consumer doesn't want to be in a position to have to rely on foreign sugar.

And I have a longer version of our industry's position that I'd like to submit, and I thank you for this opportunity.

[The prepared statement of Mr. Wettstein can be found in the appendix on page 123.]

The CHAIRMAN. Thank you, and certainly your statement will be included in the record.

Mr. Bernau, during the consideration of the 2002 Farm Bill there it was much discussion of increasing our investment in the development of rural America, and specifically how wineries might contribute to this goal through the value added producer grant program that you alluded to.

Has your industry been able to take advantage of the value-added producer grant program and if so, what types of investments and rural development have been made by the beneficiaries?

Mr. BERNAU. Chairman Chambliss, first of all we do view this program to be very important. We have not had an opportunity yet to receive funding, but we have made application for funding.

A $265,000 value added producer grant has been requested. It has the support of our Oregon rural development. We estimate that this will increase the sale of Oregon wine by 117,000 cases, generating $16 million in revenue.

So, it will pay for itself many times over if we're able to obtain the grant and implement this plan.

The CHAIRMAN. Proposals have been made to provide more money to the specialty crop industry, and these proposals range from state block-grants to research money to counter cyclical programs.

You alluded to the state block-grants which have been received very favorably in this part of the country.

Which others would benefit the wine industry the most and what ideas do you have about the funding of those proposals?

Mr. BERNAU. The state block-grant program has been helpful to us. We actually did receive some money to expand our out-of-state sales. It was a small amount of money, which we matched with industry money, and increased our presence in specific markets. So that has been very beneficial.

You know, I spent a considerable amount of my time in my earlier testimony talking about the economic impact of our industry.

When I was just getting my first grapes off of my vineyard, and when Senator Smith first entered the Oregon State Senate, our industry was very small. Generating very little tax money.

But just my little company last year paid $237,000 in Federal excise tax and $625,000 in Federal Income Tax. When that piece of ground I'm on, paid nothing. It was an abandoned plume orchard.

So, the leverage is remarkable, when you apply these funds to these programs.

The CHAIRMAN. This year you mentioned the importance of nutrition-related programs, export market development programs and research programs.

Given the current budget situation of many competing priorities in the next Farm Bill, which of these do you believe will most directly benefit producers of specialty crops?

Ms. EUWER. I wouldn't rank them. I think they are all very important. The nutrition program in particular is so beneficial, both to the producers and to the consumers, that it seems clearly important to fund that.

Market Access Program looks to me to be very valuable in helping both the producers and the import/export balance in the United States. And research is always very important.

My point about the cherries was simply that these are things that are being done in other places, Breeding programs, for example, and we need research in the United States. It's harder and harder to come by research money, and very important for our industry.

The CHAIRMAN. Our school lunch programs all across the country are taking more and more advantage of the local crops grown in certain areas.

Do you find that the school lunch programs in Oregon are taking advantage of buying specialty crops that you grow or folks in your organization grow?

Ms. EUWER. I don't really know.

Senator SMITH. Ask blueberry guy.

Mr. KRAHMER. Blueberries, they do.

Ms. EUWER. I think they do some, but I don't know to what extent.

The CHAIRMAN. Well, I will ask Mr. Krahmer, relative to blueberries, are school lunch programs taking advantage of blueberries?

Mr. KRAHMER. Yes. I think they have been. You know, blueberries over the last few years have certainly been higher priced than some of the other berry crops in Oregon, but I know, even our Marion blackberries and some of the other specialty berry crops in Oregon have used the school lunch programs to get some of their excess fruit out of the market and into the schools where it can be used for nutrition.

The CHAIRMAN. OK. Let me address this again to you, Mr. Krahmer, and Ms. Euwer. A broad coalition of specialty crop interests have formed the Farm Bill Working Group and include within their 2007 Farm Bill priorities mandatory allotment of funding for specialty crop production within the EQIP program.

Given the current participation levels by the specialty crop industry and conservation programs, such as EQIP, will the industry be able to utilize the mandated increase access?

Mr. KRAHMER. I can answer that. Yeah. Our industry is strongly in favor of both the EQIP program and CSP.

EQIP program, for example, I planted some berries in the last few years that I've used the EQIP program to help fund a drip system, and it does a variety of things.

Number 1, it reduces the amount of water that I'm pulling out of the rivers to irrigate that crop. It allows me to put the water only where the plant needs it. It allows me to better utilize my fertilizers and my disease control methods.

I don't—I'm not putting water on the bush and encouraging disease up in the bush.

And so, yeah, we're—we use that program. We believe that it's very advantageous for our industry to be able to afford some of these new technologies to better the environment.

The other thing on the CSP is many of the specialty growers have put in these conservation practices, from sod, waterways, minimizing irrigation, doing integrated pest management, all of these kind of things on our own.

And what CSP does, as Senator Smith alluded to earlier, is it comes in and it actually rewards us for having used those practices in the past.

Ms. EUWER. I would answer much the same in our area. There are many, the CSP is in effect in Hood River, and we are being rewarded for the things that we were already doing. And I think that that was a very good way to address that problem.

And EQIP, while I have not used it personally, many of my neighbors have, to do much of the same, water—specialty water irrigation, and I just don't happen to be as close to a stream as other people.

But even those of us who haven't participated in it directly have seen what the other farmers are doing, and people are doing it on their own because they're seeing it demonstrated, and so it is actually benefiting I believe even people who aren't directly involved in it.

The CHAIRMAN. Mr. Wettstein, you mentioned trade agreements and their affect on the current sugar program, and frankly your comments reflect one reason that I have been saying that the extension—or an extension of the current Farm Bill is really impractical because what's going to happen is that beginning January 1, 2008, which would be within 3 months of the expiration of the current Farm Bill, we will see imports from Mexico being increased under NAFTA.

We also have some other agreements that will allow additional imports of sugar.

And just recently USDA and OMB have come out with some numbers which suggest that the current No Net Cost Program, the current No Net Cost Sugar Program, will all of a sudden have a cost that will begin at about $30 million a year and very quickly will go to possibly as high as about $300 million a year. Now, that's from a cost standpoint, what it will do. So that's going to be a problem.

What will the additional imports that are going to be allowed under our trade agreements, including NAFTA, do from a practical standpoint to the sugar industry in this country?

Mr. WETTSTEIN. Well, first off, the sugar industry is not happy at all with any of its trade policies. It allows more sugar into this country, which makes it so we have to produce less, and because of the over-supply, we are paid less.

But with the NAFTA agreement and some of the other agreements, when that expires, we're unclear exactly just how that will affect us, because we don't know how much sugar they will bring into this country, will export into us. We don't know ourselves what our market will be doing in this country, how much sugar we will be using.

And the problem with Mexico is they have never played by the rules. They have denied a side letter to the agreement on sweeteners, and they have a soda tax. So that stops our supply of sweeteners into their country.

So, if we just have a glut of sugar come into this country, we're done. The producers of sugar in this country are through.

The CHAIRMAN. Well, I'm sure you're familiar with the fact that the USDA and USDR just recently entered into an agreement with Mexico relative to the export in the United States of high fructose corn syrup down there, which is going to have a significant impact.

I realize that that decision is not popular in your industry, and I guess we'll have to see how it affects it over the next several months, as we get into the Farm Bill.

Last, Mr. Wettstein, what is your industry's outlook for commercial production of ethanol from sugar, and do you envision a market for ethanol from sugar in this country?

Mr. WETTSTEIN. The USDA was supposed to have conducted a study that was to be completed in July on this very topic. And I haven't seen that report.

But Luther Markwart in Washington, D.C., has I think seen it. And I talked with him yesterday, and he said that it was just not economical right now to convert sugar into ethanol without it being highly subsidized.

I think it is like Ernest Gallo said, it would be like converting grapes into ethanol. It could be done, and probably the only place that it's viable at this point would be Hawaii. But until technology is developed and commercialized, it probably won't be viable for at least 10 years.

The CHAIRMAN. OK. Senator Smith?

Senator SMITH. Mr. Wettstein, as I believe I understand, the plant that you spoke of that closed, that was the former U & I Sugar, or White Satin, is that the plant you are speaking of?

Mr. WETTSTEIN. It was one of—Amalgamated Sugar. Amalgamated Sugar had four factories, four refineries, and this was one of them. This was the fourth one.

Senator SMITH. The other four are open?

Mr. WETTSTEIN. The others are open. And so our beets are transloaded and shipped to Nampa, Idaho, to be processed.

Senator SMITH. So that plant is still open in Nampa?

Mr. WETTSTEIN. Yes.

Senator SMITH. OK. The plant that closed, and the others that are still open, are they making money?

Mr. WETTSTEIN. You know, it's interesting what happens in 1 year. A year ago we had 500,000 tons of sugar in storage, and, a hurricane in Louisiana and Florida devastated the sugar cane industry, and so the USDA came to Amalgamated and said, you can put that sugar on the market.

Senator SMITH. So it got valuable all of a sudden.

Mr. WETTSTEIN. Right.

Senator SMITH. But that's an aberration. Katrina I hope doesn't come every year, for their sakes, not for yours.

Obviously, some of these plants, and the industry as a whole, were in extremous long before NAFTA and CAFTA, is that an accurate statement, but those have complicated it?

Mr. WETTSTEIN. It's complicated it. This plant closure was not an isolated case. In the last 10 years one-third of all the U.S. mills and refineries have closed.

Senator SMITH. I'm aware of that. And certainly in Hawaii, there's very little cane sugar done there now. Many mills have closed there.

How uncompetitive are sugar beets to sugar cane? Or to high fructose corn? What's the cheapest producer of sugar?

Mr. WETTSTEIN. I think it's more economical to produce sugar cane, because of the process. We are the world's most efficient at producing sugar, and we're doing that on top of, high labor cost and environmental regulations.

We can compete with any country in the world. We just can't compete with their sugar that's highly subsidized.

Senator SMITH. And how much of a damage do things like Splenda and Aspertain, these various nonsugar sweeteners, how much of a factor is that to the industry's difficulties?

Mr. WETTSTEIN. I think that's sort of cyclical. It's something sort of fad-ish. It's like using margarine and butter. Some people will use Splenda and some will use sugar, and I think it is just a matter of taste, but I don't think it has had a real huge impact on our industry.

Senator SMITH. Ms. Euwer, do you employ people in your pear business?

Ms. EUWER. Yes.

Senator SMITH. Are any of them migrant workers?

Ms. EUWER. T1YES.

Senator SMITH. As you employ them, I imagine you're very careful to look at their documentation?

Ms. EUWER. Yes.

Senator SMITH. And is it hard to tell which are legitimate or which are fraudulent?

Ms. EUWER. Yes.

Senator SMITH. Should you be fined if one of them, you learned months later, from the Social Security Administration, that a number doesn't check out?

Ms. EUWER. No.

Senator SMITH. Do you have a way to determine in advance, is there anything you could do as an employer of migrant laborers to determine the legality when they first show up to work?

Ms. EUWER. Not that I know of.

Senator SMITH. I don't know of anything either.

So I agree with your statement, and I think the reason I have asked you that is to demonstrate just how unfair some of the proposals are to American agriculture and other employers who make a good faith effort to comply but have no government system by which to determine legality now.

And frankly, the INS tells me it would be years before they could ever determine or develop such a system. And I simply state that for the record, to show the unfairness of some of the demagogoery that you hear on the radio waves.

Do you pay the minimum wage?

Ms. EUWER. No.

Senator SMITH. What do you pay?

Ms. EUWER. We may $8.00 an hour in general, and we picked our cherries by the hour this year because we didn't think we were in full production, although it turned out we almost were. But we paid $12 an hour for that.

And when people are picking during our harvest period, they're making 14, $15 an hour, plus the housing that's provided to them, they have housing provided for both them and their families and their utilities.

Senator SMITH. So, you pay, when you factor in all the cost of employment——

Ms. EUWER. I try not to think about it.

Senator SMITH. You pay well above the $7.50 Oregon minimum wage?

Ms. EUWER. Yes.

Senator SMITH. Way above. What do you think of the proposal by some that you ought to pay $50 an hour so you can hire—you could be certain that you could get American born citizen labor?

Ms. EUWER. That would put the fruit industry out of business. And in Hood River, the development pressures are so great that that land, once it went out of fruit production, would be lost, paved over, never to be seen again in the form of agriculture.

Senator SMITH. Where would American pears come from? Where would pears come from that Americans would then eat?

Ms. EUWER. The largest source of pears I think that we eat right now are from South American, from the Rio Negro Valley in Argentina.

Senator SMITH. So those who cavalierly throw out the suggestion for you, really what they're advocating is the destruction of your industry, of your business, and frankly Oregon agriculture as well as many other industries.

Ms. EUWER. Yes. But I don't think people realize that.

Senator SMITH. I don't think they do either. Has the debate made it difficult for you to find employees, anyone at this point?

Ms. EUWER. We personally have not had difficulty finding employees. We've had the same people working for us for a very long time.

Senator SMITH. Have you heard that in your industry?

Ms. EUWER. Yes. Especially, you know, for people that don't have housing. Smaller farmers who can't afford to have as much housing, yes. And as we get into cherries, too, it's different than pears. Pears, we can pick pears for 2 months. We had to pick our cherries in 4 days. So you need a lot more people. And that's something that we hadn't really experienced before this year. And that is a different situation than we have been in the past.

Senator SMITH. Have you ever had a green pea and pear salad. I'm trying to promote——

Ms. EUWER. I had a delicious pea salad the other day at the deli on Mt. Hood.

Senator SMITH. Did you put pears in it?

Ms. EUWER. No. I just ate the peas. I love peas.

Senator SMITH. Oh, you are a great American.

The CHAIRMAN. Did you ever try peanuts in that salad?

Ms. EUWER. I take peanuts in my salads, too.

Senator SMITH. Mr. Bernau, have you ever tried Two Buck Chuck?

Mr. BERNAU. Yes, I have.

Senator SMITH. Are yours better than that.

Mr. BERNAU. The Two Buck Chuck has introduced many, many new consumers into the world of wine. And they're trading up. They're trading up. Once they've tried the wine, they're looking for wines of higher quality.

And so the glut of wine that produced the Two Buck Chuck has produced a whole new set of customers for us.

Senator SMITH. I only asked that for the sake of humor, but I really do renew my question to you as to Mr. Gallo, do you see the vintner industry in danger of becoming a commodity, or do you see it as a value-added quality, ultimately can keep—can make a difference?

Mr. BERNAU. Your line of questioning is excellent. Because it does reflect on what's happening internationally. And that's why I modified my first remarks to add the point of difference about the land that's planted.

The land that's planted in Spain and France and other areas that are affected by the new world wines of Australia, are in the many, many hundreds of thousands of acres, planted for a long, long time.

What we have here in Oregon is only about 14,500 acres planted, a very small amount of acreage. And I pointed out that many more acres are still available for planting.

We produce products of high quality, which consumers are trading up to.

Just because consumers are trading away from low quality wines doesn't mean there's an excess or a surplus. What it really means is that consumers are changing their habits. They're drinking less, which is good. They're moderating their lifestyles, which is good. They're concerned about health and safety. And so they're drinking less, but they're drinking higher quality.

The wine sales in Oregon are very high. Just our own depletions from our distributors to their customers are up over 130 percent year-to-date. What this means is there is a substantial opportunity for the American public, the taxpayer, and the Congress. Very small amounts of investment that allow us to grow, will leverage a great deal of economic activity, provide a lot of opportunity.

Senator SMITH. Well, I wish you well, and all of you. Thank you so very much for your contribution to the Senate record. You have added measurably to our understanding. And we compliment you for what you do, and we thank you, on behalf of the Nation that is well fed because of folks like you.

We've got to improve nutrition, work on obesity, and it's ironic that on the one hand we are trying to reduce hunger and yet reduce obesity. So we've got to find that balance, I suppose.

But I think the things that you produce by and large are good for people, and certainly we hope they're good for your families and your businesses, and all the best to you.

The CHAIRMAN. Well, to this panel, as with our other two panels, thank you very much for your great input. We again wish to continue to dialog with you, use you as a resource as we move toward writing this Farm Bill. And thank you for taking time to come to Redmond today to spend some time with us and to really open our eyes to western agriculture. So, again, thank you for being here.

Senator SMITH. Mr. Chairman, may I say again on behalf of Oregon agriculture how much we appreciate the Chairman of the Agriculture Committee. As I said, this is the first time in history an Ag Chairman's come to Oregon to hold a Farm Bill hearing, so how about a round of applause for Chairman Chambliss.

[Applause.]

The CHAIRMAN. Well, you're kind. Thank you very much. And, again, thanks to all of you in the audience who came out today to participate and to listen to the testimony that we've had.

I would remind you that if any of you are interested in submitting a statement into the record, as we move forward with writing the next Farm Bill, you're certainly welcome to do so, by just going onto our website at Senate Ag Committee, you can find exactly how to do that.

I want to say to the folks here at the Deschutes Fair and Expo facility, thank you for being great hosts to us. Boy, what a magnificent facility this is. I am very impressed with it. And particularly thanks to Roxie Toteroff, I hope I've said that right, Roxie, to Lois Tillman and to Grover Earp, who I understand is a relative of Wyatt Earp.

I assume, Grover, your family migrated here from Dodge City, Kansas, because we all know that that is the home of the gun fight at O.K. Corral.

We in Georgia are pretty proud of the fact that Valdosta, Georgia, which is very close to my home town, is the home of Doc Holiday. So Doc and Wyatt and all the Earp family out there did pretty well at the O.K. Corral.

But we're pleased that you all would extend such hospitality to us today. And we thank you for that.

The record for this hearing will remain open for 5 days, and I wish to note specifically that we have a statement from Senator Wyden that without objection will be added into the record.

And with that, thank you very much for being here. Thanks for your participation. And this hearing will now be closed.

[The prepared statement of Senator Wyden can be found in the appendix on page 48.]

[Whereupon, at 11.30 a.m., the hearing was adjourned.]

APPENDIX

AUGUST 15, 2006

RON WYDEN
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STATEMENT FOR THE 2007 FARM BILL HEARING
UNITED STATES SENATOR RON WYDEN
August 15, 2006

I commend the Chairman for his judgment in selecting my home state of Oregon as the host for one of the Committee's hearings to kick off the 2007 Farm Bill hearings. The diversity of Oregon's agriculture offers an excellent backdrop against which to get a balanced perspective of the many issues Congress faces in the next Farm Bill. Standing second only to California in the variety of crops grown, Oregon is a microcosm of the specialty crops and commodity products that make up all of agricultural America: from berries, apples and pears, grass seed, and nursery products to wheat, beef, and dairy. Let me highlight Oregon's priorities for the Farm Bill.

When people think about the Farm Bill, they often think about commodity crops such as wheat, corn and sugar. That's also the case here in Oregon. These programs are important for our wheat, sugar beet and dairy farmers, and our farmers and ranchers need the muscle of the Federal government behind them in trying to open markets overseas for Oregon products.

In addition to continuing to refine support in these more traditional agricultural areas, another important task for the next Farm Bill is to provide research, processing and marketing opportunities for specialty crops, which account for nearly 50 percent of the total value of crops produced. I introduced a Specialty Crop Bill in 2005 to provide a targeted policy for specialty crop agriculture. Congresswoman Darlene Hooley has a companion bill in the House of Representatives. Our bills would strengthen specialty crop marketing, help get better prices for specialty crops, and help farmers and processors compete better in an increasingly global market.

Key components of the legislation are the permanent expansion of a specialty crop grant program, which has only been offered at limited times in the past, and giving states the opportunity to designate the recipients of USDA's value added grant program. The next Farm Bill should encourage farmers and processors to become "certified" by having USDA reimburse half the cost of the certifications. Certification comes in many forms, such as "Good Agricultural Practices," "Good Handling Practices," or "Organic." Certification is often necessary before farmers or processors can effectively market products, and such certified products often fetch premium prices – allowing farmers to increase their market share. Lastly, just like other farmers, specialty crop farmers ought to be able to get crop insurance, have access to loan programs, get help and funding for exports, and be included when our trade negotiators are engaged in free trade talks. I would urge the Committee to incorporate this legislation into the 2007 Farm Bill.

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The USDA's Fresh Fruit and Vegetable Program should be expanded. Oregon has struggled to participate in this critical program, but because of limited funding, Oregon has not yet been able to join. This program has proven to be an effective model for increasing children's consumption of fruits and vegetables and for decreasing their purchase of unhealthy food – all while providing a market to our growers. The 2007 Farm Bill is the next best chance to extend the benefits of this program to more states – in fact, hopefully to all states.

Another important aspect of the Farm Bill is conservation of natural resources. Good conservation practices are vital to clean air, clean water and sustaining endangered species, while rewarding good stewards of the land. The Conservation Security Program is key but the way it has been rolled out, watershed by watershed, has been frustrating for many, and I have heard reports that many farmers who are anxious to participate have not yet had the opportunity to do so. As it now stands, some counties and farms have been able to benefit, while others have begun keeping records and preparing to apply in the hopes that their watershed will soon get in. All farmers who make the commitment required should be able to get into this program.

In Oregon, there have been problems with sign up periods being poorly timed for farmers' crop-dependent schedules, resulting in many farmers being unable to sign up during the time periods allotted. Unnecessary bureaucratic hurdles and administrative stumbling blocks must be removed so that farmers are the focus of the program schedule, not the government's bookkeeping calendar. Many producers would also benefit from additional technical assistance, as well as incentives to implement practices that stabilize soil and enhance water quality. Assistance in addressing water usage issues and providing support for programs to conserve water, like the Water Conservation Program, is also critical; it is an issue of great concern in my state here, where regions like the Klamath basin confront many water usage issues. My hope is that the next Farm Bill will continue and extend the conservation provisions of the law.

Oregon's nursery growers have expressed their support for specialty crop and conservation programs, but pest and plant disease issues remain a concern for them. Oregon is an innovator in a positive, industry driven system to prevent the spread of pest and disease. Onerous regulations by USDA would inhibit Oregon's ability to ship plant material; the federal agency should instead expand, on a national basis, the US Nursery Certification Program that effectively deals with pest and disease control in Oregon. The Farm Bill provides a tremendous opportunity to streamline nursery regulation and inspection and to boost funds for research.

On other matters, I continue to strongly support country of origin labeling. I was one of the original co-sponsors of the legislation to reinstate the original mandatory country of origin labeling provisions. I believe this is important to protect both our growers and our consumers. For years I have also supported increased funding for agricultural research. Research dollars have been important to Oregon agriculture because they enable Oregon agriculture to be competitive in the world markets. Forestry provisions are also important to our state – a forestry leader. Assistance through cost share programs to private non-

industrial forest land owners helps our growers adopt sustainable forest management practices. Also valuable are programs which authorize research pilot programs in carbon sequestration for agriculture producers and forest land owners

The nutrition and rural development titles provide significant benefits to Oregon. Oregon's neediest benefit from important USDA programs, such as food stamps, school lunch programs, the WIC program, and the Seniors Farmers Market program, of which Oregon is one of the pilot states. The rural development programs also provide important assistance to rural communities – from getting high speed internet access to providing firefighter and emergency personnel funding.

Finally, the Farm Bill can play a more important role in reducing US dependence on foreign energy sources. Farmers need help facing huge increases in fuel costs, and programs that boost renewable energy development through more crop research and infrastructure development could develop a closed energy loop in the United States. I urge the Committee to look at ways the Farm Bill could be modified to promote renewable energy. A range of possibilities exist in this area - such as supporting research and construction funding for anaerobic digestion on livestock operations, developing solar panel irrigation pumps, or offering more research and funding for diversified biorefineries that utilize locally available feedstocks, commodities, and biomass for production of biobased products. The potential to support innovation, while supporting our farmers, is vast.

In closing, I want to thank the Committee for allowing me to share the views of Oregonians on priorities for the next Farm Bill, and I look forward to working with you on it.

Mr. Chairman and members of the committee, I want to thank you for the opportunity to testify before you today. My name is Barry Bushue and I am currently serving as President of the Oregon Farm Bureau Federation (OFBF). It is a privilege to represent all members of the Oregon Farm Bureau and the agriculture community in the great State of Oregon.

OFBF is the largest agriculture organization in the state. We represent all aspects of agriculture. Consequently our interests are wide and diverse. I would like to take this opportunity to touch on a few of the many areas of significance this upcoming Farm Bill, your committee and Congress has to our community.

In light of the indefinite suspension of the World Trade Organization talks, Oregon Farm Bureau supports an extension of the current farm bill. Despite an ambitious offer by the United States to reduce spending on trade distorting domestic supports, no progress was made to allow increased market access for American food and fiber products. Extending the current farm program, with minor changes to take into account recent trade rulings, will help ensure U.S. farmers have the support they need to survive in today's contentious global trading environment. Farmers and ranchers are generally pleased with the current farm program. The 2002 Farm Bill has worked, however, trade negotiations are critical to the success of producers.

The Market Access Program (MAP) uses funds from the U.S. Department of Agriculture's (USDA) Commodity Credit Corporation (CCC) to help U.S. producers, exporters, private companies, and other trade organizations finance promotional activities for U.S. agricultural products. The MAP encourages the development, maintenance, and expansion of commercial export markets for agricultural commodities. Activities financed include consumer promotions, market research, technical assistance, and trade servicing.

The program forms a partnership between non-profit U.S. agricultural trade associations, U.S. agricultural cooperatives, non-profit state-regional trade groups, small U.S. businesses, and USDA's Commodity Credit Corporation to share the costs of overseas marketing and promotional activities such as consumer promotions, market research, trade shows, and trade servicing.

Each year, MAP helps launch and expand sales of U.S. agricultural, fish, and forest products overseas. Rural American farmers and ranchers, as the primary suppliers of commodities, benefit from MAP. All regions of the country benefit from the program's employment and economic effects from expanded agricultural export markets.

USDA has approved MAP proposals to promote a wide variety of U.S. commodities in almost every region of the world. Among those U.S. food and fiber products, many of which Oregon is famous for, are apples, asparagus, canned peaches and fruit cocktail, catfish, cherries, citrus, cotton, dairy products, dry beans, eggs, feed grains, frozen potatoes, grapes, honey, hops, kiwifruit, meat, peanuts, pears, pet food, pistachios,

poultry meat, prunes, raisins, rice, salmon, soybeans, strawberries, sunflower seeds, surimi, tallow, tomato products, walnuts, watermelons, and wheat.

Commodity programs, focused in Title I of the current legislation, are also working well. Three programs, fixed direct payments, counter cyclical income support payments and commodity loan programs all generate income support for a variety of commodities including wheat, feed grain and rice. The Commodity Title allows farmers to benefit from the market, but had some reliable income during times of low prices.

Fixed direct payments are not tied to production of specific crops, the amount of production, or the price of the crop. With planting flexibility, farmers and eligible landowners are not confined to producing crops for which they are receiving direct payments. They could receive a payment for one commodity, but in any given year, plant another on the acres in which they are receiving payments. Thus, farmers' planting decisions are based on expected market prices and variable costs of production.

The fruit and vegetable industry is a very important part of Oregon's agriculture. It is a very competitive and fragile industry impacted by spikes in plantings, production, weather, availability of labor and foreign competition.

Primarily by choice, the fruit and vegetable industry has neither asked for, nor received commodity specific programs. The tradeoff has been planting prohibition on base acres under Title I commodity programs. Recent WTO rulings have put the prohibition as risk. In fairness to the industry I hope the extension of the 2002 Farm Bill will be able to address this issue and make fruit and vegetable growers whole.

Counter cyclical payments (CCP's) support and stabilize farm income when commodity prices are less than target prices. Payments linked to past production may lead to expectations that benefits in the future will be linked to then-past, but now-current, production. Such expectations may affect current production decisions. CCP's provide farmers with incentives to build a planting history for program crops, constraining their response to market prices and focusing their response to market signals augmented by expected benefits of future programs and future program changes.

Commodity loan programs allow producers of designated crops to receive a loan from the Government at a commodity-specific loan rate per unit of production using production as loan collateral. After harvest, a farmer may obtain a loan for all or part of the new commodity production. When commodity prices are below commodity loan rates, loan benefits clearly counter market receipts.

Environmental conservation is of the utmost importance to farmers and ranchers. I am thankful everyday that I am able to enjoy Oregon's beautiful surroundings. It is too often that farmers and ranchers are labeled as anti-environmentalists, but the exact opposite is the case. Farmers and ranchers are directly involved in the protection and utilization of the environment surrounding us. Preservation of land and conservation of other natural resources is necessary if we are to live and professionally thrive.

The conservation programs (Title II) within the current farm bill are extremely important for Oregon producers. Not only do they strengthen the ties farmers and ranchers have to their land, but they also promote and assist improving and enhancing those surroundings.

The Conservation Security Program (CSP), new in the 2002 Farm Act, further expands the objective and role of agri-environmental policy. The CSP rewards producers who are meeting the highest standards of conservation and environmental management by providing payments for a wide range of structural and land management practices. The new program has allowed for farmers and ranchers a broader array and greater flexibility to address natural resource concerns while promoting both conservation and continued agricultural production.

Conservation Reserve Program (CRP), Environmental Quality Incentives Program (EQIP) and Wildlife Habitat Incentives Program (WHIP) are all examples of how government and private landowners can work together. CRP offers annual payments and cost sharing to establish long-term, resource-conserving cover on environmentally sensitive land, EQIP provides technical assistance, cost sharing, and incentive payments to assist livestock and crop producers with conservation and environmental improvements and WHIP provides cost sharing to landowners and producers to develop and improve wildlife habitat.

Providing producers the choice of a wide range of voluntary conservation and environmental programs creates multiple benefits. It allows land to remain agriculturally productive, which in turn creates a situation where land can be passed down from one generation to the next. Farmers and ranchers aren't getting any younger. In 2002 the average age of a farmer was 55 and that number continues to rise. It is becoming increasingly difficult to attract young people back to the farms. Interest in the lifestyle doesn't present itself as the problem. The ability to raise a family while providing everyday needs is another matter. The long term consequences of this are daunting. The backbone of any nation is the ability to provide its own food supply. Without continued agricultural output our nation faces the all too serious threat of depending on foreign fresh fruits, vegetables and meat.

The dependence on any food supply also includes food safety. The concept of the Country of Origin Labeling is an important one and should continue to be addressed. In addition, the implementation of the National Animal Identification System (NAIS) is designed to protect agriculture by enhancing emergency and response capabilities. This system is not without merit or concern. Although currently a voluntary system, the timeline for reaching 100% producer participation is 2009.

One paramount concern is cost. Estimated costs to implement an identification system are as high as $100 million annually and current appropriations are not meeting those needs. In FY 2006 USDA received one-third of the dollars needed. The United States Animal Identification Organization (USAIO) prices its animal movement database at approximately 30 cents per head for the life of an animal. This figure does not include identification tags and other on-farm costs.

The third phase in an animal identification system is the development and maintenance of a national database. Producers recognize that for the system to work, the government must be able to access the data it needs to track a diseased animal. However the legitimate concern of having the ability to protect private business information must be addressed.

Energy issues should be a priority in the next Farm Bill. Farmers are facing increased expenses due to energy prices. This is not only felt from the energy our farms directly consume, but in price increases on production inputs. Since 2002, we have faced a nearly doubling in fertilizer prices. Agriculture also sees opportunity in developing renewable energy. However, we need a continued investment in technology development along with grants and loans programs promoting farmer investment.

As an ambassador for Oregon agriculture I am deeply concerned about the Farm Bill. In addition, there are many other issues affecting producers that are outside the scope of both the Farm Bill and the committee, but the impact on agriculture is significant.

Permitting the drilling of natural gas in the outer continental shelf will provide future relief for farmers and ranchers are now facing historically high energy costs. High natural gas prices are particularly onerous because they factor into fertilizer, irrigation and heating costs. For a number of years, Federal energy policy has encouraged use of natural gas, particularly as a fuel for generating electricity, without increasing domestic supplies.

Estate taxes are a tremendous burden on farmers and ranchers. Individuals, family partnerships or family corporations own 99 percent of the two million farms that dot America's rural landscape. Farms face a common problem of being land rich, but cash poor. The burden of the estate tax too often forces farmers and ranchers to sell land, buildings or equipment needed to operate their businesses. When farms and ranches disappear, the rural communities and businesses they support also suffer.

The Reauthorization of the Secure Rural Schools Act is essential. This funding is vital for rural schools, roads and county services across the nation; Oregon counties will receive $1.6 billion in county payments funding over the life of this legislation that will expire in September of this year. More than 100 years ago, Congress recognized that these counties and communities with federally owned forestland within their boundaries would not be able to provide basic services because of the reduction in local property tax base. Congress also recognized that national forests exist for the benefit of an entire nation, and therefore, the entire nation has a role in maintaining the health of our forests and their surrounding communities.

This is an exciting time for US agriculture. So much of what happens in Congress has a direct impact on the industry. As farmers and ranchers continue to utilize cutting edge technology, yields will increase while maintaining our international reputation of providing American's with the lowest cost of food in the world. I would also like to take a moment to thank the Chair for his efforts to provide agriculture with a guest worker program. A usable, common sense

immigration reform package that includes border security and a guest worker program is critical to agriculture. It is with sincere gratitude that I thank you for not only the opportunity to share with you the many challenges facing agriculture today, but also for the great work you do day in and day out.

U.S. Senate Committee on Agriculture, Nutrition, and Forestry
Aug. 15, 2006 Field Hearing
Redmond, Oregon

Testimony by Jim Bernau, Founder and CEO of Willamette Valley Vineyards, Turner, Oregon

Chairman Chambliss and Members of the Committee,

Thank you for inviting us to be here today and for holding this meeting in Oregon. My name is Jim Bernau and I'm the Founder and CEO of Willamette Valley Vineyards, a publicly-held winery in Turner, Oregon. We currently farm over 250 acres of vineyard and sold approximately 140,000 cases of wine in 2005. I also serve as Chair of the Legislative Committee of the Oregon Winegrowers' Association and am here on their behalf.

At $3.5 billion, grapes are the sixth largest crop in the United States. MKF Research Inc. conservatively estimated that the production of wine and wine grapes and their related industries produced more than $90 billion of economic value to the U.S. economy in 2004. The industry accounts for 514,000 full-time jobs with $17.9 billion in annual wages. Additionally, about 30 million tourists visit wineries each year, spending approximately $2 billion. The industry pays $4.3 billion in federal taxes and almost $5 billion in local and state taxes.

Almost 10% of the approximately 3,500 wineries in the United States are in Oregon. Oregon's focus on high quality wine and wine grapes translates into a high quality of life for our neighbors and communities. It goes well beyond what we grow, make and sell. It's the added value we bring to our state and our country. We're environmental stewards of the land – over 37% of our acreage is farmed with certified sustainable practices. Preserving the land means we can continue to produce high quality wine and provide for future generations.

New and diverse winegrowing regions bring dynamic growth and commerce opportunities to the entire state. A 2005 study of the Oregon grape and wine industry found that our economic impact was over $1.4 billion. We generate over 8,500 jobs and pay more than $200 million in wages. We attract high-value tourists who spend more than the average visitor, boosting hotel and restaurant sales. In 2004, our wineries generated tourism revenue that approached $100 million. Not only do Oregon vineyards and wineries expand farm employment and help provide rural stability, they keep poor soils in agricultural use and are a primary driver of general rural economic benefits.

Grapes and wine are the ultimate high-value, value-added crop, but they are capital- and labor-intensive. The workers in our fields are the life blood of our businesses. The Hispanic workforce of the 21st century is much like the European immigrants of the 19th and 20th centuries. Unfortunately, many immigrants are here illegally and this needs to

be addressed. We only ask that in the effort to correct the challenges of illegal immigration, opportunities remain in place to sustain the workforce in our fields. Failure to do so will bring our economy to its knees.

Roughly 25 percent of the wine consumed in the United States today is imported, supported by well-financed foreign government programs - a threat to the development of the Oregon industry. The 2007 Farm Bill can help us lead in the production of wines offering superior quality and excellent value in the face of strong international competition.

Specialty crops are reported to me to be about 50% of crop agriculture yet receive little help. Our industry requests that the 2007 Farm Bill reallocate funds from the vast agricultural subsidies currently in place to finance greater support of specialty agriculture. We believe the distribution of federal funds should be more equitable, and we have several specific suggestions:

1) Sustain and grow the funding for the **Northwest Center for Small Fruits Research**--this program is a model of cooperation between states, crops and institutions.

2) Provide continued support for the **Market Access Program, or MAP**. American wineries currently have only a 5 percent share of the world market. There are many more countries and new markets to enter as well as market share to grow in countries where we currently sell our wines.

3) Expand the **Conservation Security Program** to reward more farmers for using best practices. Protecting the environment and productivity today will mean less cost for producing products in the future and will help to ensure sustainability in the years ahead.

4) Authorize mandatory funding of $5 million a year from the Commodity Credit Corporation to **establish the National Clean Plant Network** for diagnostic and pathogen elimination services.

5) Expand the **State Block Grants for Specialty Crops Program**. Due to the wide diversity and localized needs in specialty crop production, state departments of agriculture are uniquely able to assist local growers with the specific investments they need to increase competitiveness.

6) Provide a **mechanism to support industry-government research partnerships**, such as the National Grape and Wine Initiative (NGWI), which will enhance the competitiveness of specialty crops.

We appreciate our growing partnership with Rural Development. The Oregon Wine Board has applied for a Value Added Producer Grant to support our efforts to increase sales of Oregon wine in other parts of the nation. The State of Oregon constitutes only approximately 1% of the nation's population but accounts for nearly half of all Oregon wine sales.

If these things can be accomplished in the 2007 Farm Bill, specialty agriculture in the Pacific Northwest will successfully compete on the national and world stage. Thank you for the opportunity to testify today and we appreciate your efforts to improve American agriculture.

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August 15, 2006

The Honorable Saxby Chambliss, Chairman
Senate Committee on Agriculture, Nutrition and Forestry
Russell Senate Office Building, Room 328A
Washington, DC 20510

Dear Chairman Chambliss:

On behalf of the Oregon Association of Nurseries, I thank you for the opportunity to submit a written statement to the U.S. Senate, Committee on Agriculture, Nutrition and Forestry. We in Oregon appreciate the committee's willingness to travel to the Pacific Northwest to hear concerns of growers as it pertains to farm policy.

The Brentano family farm is a diversified operation on about 1,500 acres that my three brothers and I manage. The nursery operation, which I manage, grows shade and ornamental trees for sale primarily to landscapers and horticultural distributors who supply the landscape trade. In addition to nursery stock, we grow a diverse mix of crops that includes filberts, grass seed and vegetables. I earned a bachelor's degree in crop and soil science as well as in business management from Oregon State University.

Most Oregon nursery growers would reject the idea of income subsidies or market stabilization programs from the federal government. We accept the risks of farming and believe undue influence in the marketplace through subsidies would do more harm than good for the nursery industry. However, like other sectors of U.S. agriculture, we face a range of problems and issues in Oregon that would benefit from a forward-looking, responsive 2007 Farm Bill.

First, let me address what I think has been effective in past farm bills.

1. Conservation programs that focus on soil stabilization, improved water quality and better habitat for wildlife.
2. Export programs that fund market development activities and technical assistance to eliminate market barriers to specialty crops, including nursery stock.
3. USDA's Rural Development programs that provide for value-added agricultural development grants, rural and regional planning, water and sewer application grants, and the Rural Business Investment Program.
4. Research dollars to further innovation in production technology, best practices and disease management. The USDA Agricultural Research Service's Floriculture and Nursery Research Initiative, with its $6 million in funding, is a vitally important program aimed at addressing stakeholders' issues and needs.

The next farm bill offers a tremendous opportunity to help specialty crop agriculture cope with new and challenging issues. It's my hope the OAN can provide the committee with legislative concepts that are useful, proactive, and detailed as the committee begins to consider and evaluate the elements of the 2007 Farm Bill.

Nursery Regulation Framework

The biggest challenges to the nursery industry are plant pest and disease issues. West Coast nursery growers face continuing uncertainty that a new pest or plant disease will suddenly disrupt the industry, causing serious economic losses and resulting in closed markets. In this respect, we differ little from growers of soybeans, wheat or Florida citrus. If nursery growers on the West Coast are unable to ship plant material, then nursery retailers and landscapers across the country suffer, too, because they won't have access to plant material to sell during the critical spring sales season. Like Christmas trees, our industry has a narrow window of time in which to sell our product.

Examples of recent problems include the presence of Emerald Ash Borer in parts of the upper Midwest and Canada, which caused a dramatic drop in demand for ash trees across the country. That meant millions of dollars in lost sales for Oregon nursery growers. The importation of improperly or untreated solid wood packing material associated with industrial goods threatens to introduce exotic and damaging wood-boring insects, such as the Asian longhorned beetle. And, the most serious threat currently confronting nursery growers in Washington, Oregon and California is the plant disease *Phytophthora ramorum*, popularly known in the press as "Sudden Oak Death", but the industry refers to it as *P.ramorum*.

Since the beginning of 2005, Oregon nursery growers have been annually inspected for the presence of *P. ramorum*. Growers producing plants listed as possible hosts for *P. ramorum* must also allow for extensive collection of plant samples for testing, and they must sign a compliance agreement with the Oregon Department of Agriculture (ODA) that imposes certain additional requirements. The nursery industry asked for this regulatory program, and we strongly value ODA's contribution toward our industry's reputation for producing high-quality nursery stock free of harmful pests and diseases.

As an aside, Oregon nursery and greenhouse growers, handlers and retailers fund the state's nursery inspection program through a system of licensing and fees. Over 4,600 nursery licenses are issued, which generate approximately $1.5 million in revenue for inspection and regulatory activities. In addition, the program generates another $240,000 for nursery research. I tell you this because our industry recognizes the value of effective and credible inspection and regulatory activities.

Based on our experience with *P. ramorum* and other pests and plant diseases, we conclude the following:

- The current model of nursery regulation and end-point inspection struggles to keep pace with the rising threat of pests and diseases.
- USDA and most state departments of agriculture lack adequate resources to effectively prevent the introduction of new pests and diseases, to quickly identify pests and diseases

of concern when early established, and to implement decisive eradication measures before they become established.
- Consequently, a new approach to nursery regulation and inspection is needed.

A new, more-effective strategy for nursery regulation and inspection would rely on nurseries to develop and implement a systems approach that prevents the introduction of pests and diseases into the nursery, conducts regular monitoring for pests and diseases and employs quick and effective responses when problems are found. These systems of nursery production would be married to programs of regulation, inspection and certification. The premise behind this systems approach is that it's better to focus scarce industry and government resources on promoting and regulating sound systems of production, instead of the current practice of chasing pest and disease problems through programs of end-point inspection. In short, we need to prevent problems from occurring instead of trying to catch problems after the fact.

As you know, the preferred model of assuring the safe production of food is based on Hazard Analysis Critical Control Points (HACCP). We believe many of the basic features of HACCP can apply to the nursery industry.

Specifically, we think new systems-based approaches to regulation and inspection can substantially reduce the risk of introducing and spreading harmful plant pathogens by using the following:
- Have nurseries conduct a risk analysis and determine the greatest risks of introducing a significant plant pest or disease to the nursery.
- Develop and implement effective management tools, at critical control points based on the risk analysis, that operate independently to minimize or eliminate the risk of introducing pests and diseases of concern.
- Require record keeping to ensure proper implementation and management of the "system" and to allow more effective inspection by regulators.
- Growers who pass inspection and are audited and certified as having in place an effective system of controls can ship freely (without need for ongoing end-point inspection).

I want to stress that the idea of nursery inspection and regulation based on a systems approach remains an untested concept. What I've described may seem sensible, but we lack the coherent body of research that provides growers a diverse set of demonstrably effective tools from which they can select to use in their particular operation.

Currently, USDA is test-piloting the concept of a systems approach and certification in a limited way under the U.S. Nursery Certification Program (USNCP). However, no program of research and analysis is associated with the program. In other words, USDA isn't tracking and measuring whether USNCP nurseries are producing cleaner nursery stock than nurseries operating under more traditional programs of inspection. And, no effort is being made to systematically identify and record the challenges and costs to the nursery (or the regulatory agency) of adopting such an approach.

The OAN fears the USNCP test-pilot program, which is intended to facilitate trade with Canada, will evolve into a mandatory program <u>before</u> necessary research has been conducted. Last year, USDA reached agreement with Canada and Mexico, under the auspices of the North American

Plant Protection Organization, to require by 2012 that nursery stock traded between our three countries be produced and regulated under the systems approach. We don't know how this can occur in the absence of research necessary to provide tools for growers to use in an integrated system. That's why we need to act now to develop a program of research and demonstration to determine the effectiveness and applicability of new systems of nursery production and management.

We believe the next farm bill should provide for a multi-pronged effort, as follows:

- Authorize and direct research on systems of nursery production and measure their efficacy in preventing the introduction and spread of plant pest and disease problems.
- Develop and pilot systems for various types of nursery production in different geographic regions to ascertain effectiveness and cost of adoption, and to determine compatibility with new regulatory approaches.
- Establish definite timetables for the dissemination and adoption of new systems of production.
- Establish timetables for the implementation of regulatory programs based on the systems approach as systems are proven effective and become economical to adopt.

We at the OAN believe there is a tremendous opportunity to improve and enhance nursery regulation and inspection. However, the next farm bill must establish a clear set of overarching goals and a program of research, demonstration and dissemination. I've included with my testimony a brief discussion paper describing our position.

Water Quantity and Availability

The state of Oregon is not unique in facing increased competition for natural resources due to high growth. In the Portland metropolitan area alone, the state's largest population center, an estimated 1 million additional people will establish residency over the next 20 years. This growth will not be limited strictly to the confines of the existing city limits; rather growth will reach deep into nearby rural areas, pitting development interests against agriculture for access to water and land.

The OAN advocates for a federal-state partnership to conduct an in-depth study of water quantity and availability throughout the state of Oregon. The committee knows full well the problems that occurred in Congressman Greg Walden's district regarding water availability in the Klamath Basin. We believe a thoughtful and complete study of water quantity and availability, and a comprehensive inventory of potential water storage sites will help us to keep pace with future demands for water in the West.

Soil Conservation and Habitat Restoration

The environmental and conservation programs in Title II should continue to focus their dollars on promoting best practices on working lands. With heavy winter rains experienced in the Northwest, soil erosion can be a big issue for the nursery industry. Program crop producers have made great strides in adopting conservation measures, but nursery and Christmas tree growers would benefit from additional technical assistance and incentives to implement practices that stabilize soil and enhance water quality.

Previously, I mentioned the need to inventory potential water storage sites. Another way to increase water availability is to identify and promote more efficient use of irrigation water. Numerous opportunities exist to lessen the use of irrigation water in the nursery industry through drip irrigation and by using more intelligent systems of irrigation based on a plant's rate of evapotranspiration and current weather conditions. However, these conservation approaches cost money, and assistance in this area could increase the availability of water for the benefit of farmers, urban users and fish in our streams and rivers.

Include a Specialty Crop Title

We urge the committee to adopt a separate title to the farm bill that acknowledges the contribution of specialty crop agriculture, which accounts for nearly 50 percent of the total value of agricultural crops produced. Accordingly, we support Sen. Larry Craig's push for comprehensive specialty crop legislation in the form of S. 2487. A specialty crop title would provide appropriate organization and focus on farm policy as it relates to specialty crop agriculture and since the product is not considered "trade distorting" by the World Trade Organization.

Immigration Reform

The Oregon Association of Nurseries and the American Nursery & Landscape Association strongly support immigration reform legislation passed by the U.S. Senate. When the House and Senate move to conference on their respective approaches to immigration policy, we urge passage of a comprehensive immigration bill that achieves three important features: 1. establishes border security, 2. provides for an effective guest worker program (to supply much-needed workers for agriculture), and 3. adjusts the status of undocumented immigrant workers with an established record of work in agriculture.

In our view the Senate approach provides the most complete response to the chaos that is immigration policy by strengthening border security and sensibly addressing the problem of the 11 to 12 million undocumented immigrants now working in the United States. In contrast, passage of HR 4437 would do severe harm to Oregon's nursery and greenhouse industry.

As the current president of the Oregon Association of Nurseries, based in Wilsonville, Ore., I submit these comments on behalf of more than 1,500 wholesale growers, retailers, landscapers and suppliers. Oregon's nursery and greenhouse industry is the state's largest agricultural sector. Annual surveys conducted by the Oregon Agricultural Statistics Service consistently show the nursery/greenhouse industry leads all other sectors of Oregon agriculture in sales, payroll and full-time employees. Oregon trails only California and Florida in nursery production and accounts for 15 percent of all U.S. nursery crops.

Other key facts about the Oregon nursery industry:

- Oregon is the nation's largest "exporter" of nursery stock. Over $600 million worth of nursery and greenhouse product — about three-quarters of all production — is sold outside the state.

- Wholesale sales of nursery/greenhouse material were $844 million in 2004, and when combined with Oregon's Christmas tree sector, we generate close to $1 billion in annual sales at the farm gate.
- Oregon's nurseries account for just slightly more than 1 percent of all agricultural land in Oregon, yet produce more than 20 percent of all agricultural sales.
- Oregon is No. 1 in the US in the production of shade trees, coniferous evergreens and Christmas trees; No. 2 among all states in the production of deciduous flowering trees and other broadleaf evergreens; and No. 3 in the production of deciduous shrubs, other ornamentals and fruit and nut plants.

I hope I provided you a useful snapshot of the opportunities and challenges that face nursery growers in Oregon and the Pacific Northwest. Please feel free to call upon Oregon's nursery industry as a partner and resource for the next farm bill.

Sincerely,

Pete Brentano
Brentano's Tree Farm
5009 Davidson Road N.E.
St. Paul, Oregon 97137

Good morning, Chairman Chambliss.

I am Jennifer Euwer, a fruit grower in the Hood River Valley. My husband, Steve Hunt, and I farm a total of 240 acres of pears and cherries. My family has grown pears in Oregon since 1912, with the Red Anjou variety being initially discovered in one of our orchards.

I appreciate this opportunity to provide comments about the importance of several components of the 2007 Farm Bill.

The 2007 Farm Bill provides an excellent opportunity to bring agricultural policy in line with Federal health and nutrition recommendations. A strong fruit and vegetable agricultural policy will benefit tree-fruit growers while at the same time making it easier for Americans to benefit from consuming a diet rich in a variety of fruits and vegetables. A diet that has been shown to reduce heart disease, diabetes, and cancer, as well as helping people maintain a healthy weight.

The 2005 Dietary Guidelines, issued jointly by USDA and the Department of Health and Human Services, recommend that all Americans eat 5 to 13 servings of fruits and vegetables a day. These guidelines are the strongest statement ever about the need to increase consumption of fruits and vegetables, recommending that Americans double their consumption of produce.

For children, making fruits and vegetables more readily available in locations where kids spend a lot of their time, such as in schools, is one of the most effective means of increasing their consumption of produce. I have been frustrated not only as an agricultural producer, but also as a parent by the lack of fresh fruits and vegetables in pubic school lunches.

I believe that the upcoming Farm Bill should include language to expand the successful fresh fruit and vegetable snack program to all 50 states, including Oregon, and to double funding for the Department of Defense's Fresh Fruit and Vegetable Program for schools.

There are many reasons for expanding the Fresh Fruit and Vegetable Program to all 50 States, such as the increase in overall consumption by kids and the immediate behavior change, but I would like to offer you some first hand experience about how the pilot program benefited the children, but also added to the health of an industry. It turned out, based on the USDA's review of the program, that pears were the fourth most popular fruit purchased by the schools following apples, bananas and citrus. This is a very good showing as pears come in about 8th in a typical U.S. retail produce department sales ranking.

Another interesting fact from USDA's evaluation was that pears were the most popular "never before tried fruit". One of the beautiful things about this program is that it gives children a chance not only to have more fruits and vegetables around to help them make better food choices, it also exposes them to new varieties of produce that they may never have seen or had an opportunity to try before. It is important for people to eat a variety of fruit and vegetables including the pears and cherries that I grow, and this program gets kids started on that road early in life.

Expanding the snack program to all 50 states, including Oregon, would go a long way to promoting the health of the nation's school children as well as improving the health of the nation's fruit and vegetable farmers.

USDA's Market Access Program (MAP) is another initiative that deserves to be fully funded in the new Farm Bill. It benefits growers and allows for USA Pears or other U.S. agricultural

products to be more competitive in overseas markets. By helping expand the USA Pear exports, the MAP program helps stimulate more demand and, therefore, stronger overall returns for my fellow pear growers and me. With the help of the MAP funded promotional activities, U.S. pear exports have established a record value in each of the past 7 seasons. The 2005-06 season is expected to establish a new record of $119 million.

Our growers' promotion arm, the Pear Bureau Northwest, has participated in the MAP program since its inception and U.S. pear exports during that time have risen from 1 million 44 lb boxes to over 5 million boxes on average the past 5 seasons. Prior to the inception of the MAP, only 10 percent of the crop was exported. Today that percentage is closer to 35 percent. In 1985, the USA Pear growers were exporting to 25 countries and the Pear Bureau had promotional programs in 12 countries. Today the Pear Bureau has promotional programs in 38 markets and the industry is exporting USA Pears to over 55 markets. This growth in the importance of the export markets for the USA Pear industry is directly linked to the success of MAP and our industry's good working relationship with USDA's Foreign Agricultural Service (FAS).

For a single export market, Mexico is the industry's best success story and exemplifies the positive benefit of the MAP program. Since the start of our industry's work with FAS, exports to Mexico have increased 978 percent. Today, Mexico is the industry's top export market and the MAP funded activities have helped develop that market from a low-grade, small-size export market in the years prior to NAFTA to an export market that is now nearly 40 percent of our total exports. Mexico has also grown to become a diverse export market, which imports a range of sizes, varieties and grades. Currently exports have averaged around 2.8 million boxes after reaching a high of 3.2 million boxes in 2001-02. The MAP funded activities, such as in-store sampling promotions, have allowed

consumers to taste new varieties, which have led to increased shipments of different pear varieties to Mexico. Mexico now is one of the top export destinations for Green Anjou, Bartlett and Bosc pears and is an emerging market for Red Anjous. The advertising efforts have increased the exposure of USA Pears and the overall consumer awareness levels. Consumer research has shown that consumers have become more familiar with USA Pears, are eating more of them, are familiar with the ripening process and all this is attributed to the MAP funded activities in Mexico.

I see the MAP program as a vital part of the upcoming Farm Bill and something that is ideally suited to support high-value products such as pears and cherries and maintain the export competitiveness of U.S. products. I believe that this program should be fully supported by Congress. It is a program that benefits the growers and, according to a FAS cost benefit analysis study on the MAP program, it is very good use of federal resources and brings a positive benefit to the overall economy.

Agricultural research funding at both land grant institutions and USDA's Agricultural Research Service should also be a major focus of the next Farm Bill. We need advances in technology, especially labor saving devices, if we are to remain competitive on a world market.

Because our U.S. growers have a far higher cost of labor, and face more stringent and costly environmental standards---as opposed to those in other producing countries---it is extremely difficult for them to compete with foreign imports. For many reasons, including, I believe, national security, it should be our nation's policy to do what we can to keep agriculture viable in our county, now and in the future. For that to happen we have to act NOW to ensure that the land where we grow fresh produce---what I call "High Vitamin value" land, stays in agricultural production. This is

the very land most in danger of development, because it is so close to more densely populated areas. (Higher value crops meant smaller sized farms, which led to denser populations where fresh produce was grown, even as the country was originally settled.)

The only realistic way I can see to keep our fruit growers farming is to create an environment conducive to their profitability. Fully funding MAP to help our exports; expanding produce consumption through good and extensive nutrition programs; and providing for increased agricultural research funding are three specific policy objectives I think Congress should achieve during its work on the next Farm Bill.

More detailed and varied recommendations on the 2007 Farm Bill will be made in the coming months by groups such as the United Fresh Fruit and Vegetable Association and the Northwest Horticultural Council. I urge this committee to take these recommendations, when made, into full account.

Thank you Mr. Chairman. I am now happy to answer any questions.

August 15, 2006 – Senate Committee on Agriculture, Nutrition and Forestry
Farm Bill Field Hearing
Testimony of Ernest J. Gallo, E & J Gallo Winery
On behalf of Wine Institute and
California Association of Winegrape Growers (CAWG)

Thank you for inviting me to testify at the Senate Committee on Agriculture, Nutrition and Forestry's West Coast field hearing on the upcoming reauthorization of the Farm Bill. My name is Ernest Gallo, and I am the Director in the Technology and Quality organization at E & J Gallo Winery, in Modesto, California. It is a pleasure for me to be here today representing Wine Institute, of which my company is a founding member, and the California Association of Winegrape Growers.

Established in 1934, Wine Institute is the public policy advocacy group of over 900 California wineries and affiliated businesses that initiates and advocates state, federal and international public policy to enhance the environment for the responsible consumption and enjoyment of wine. Wine Institute also provides its members with support on international market development, scientific research and education programs, and, with CAWG, a sustainable winegrowing program that promotes environmentally and socially responsible winemaking and grape growing practices for the California wine community. Wine Institute seeks to broaden public understanding of the wine industry and its legitimate and important role in the American economy, lifestyle and culture. Wine Institute membership represents 95 percent of California's wine production and 85 percent of U.S. production.

The California Association of Winegrape Growers (CAWG) was created in 1974 to be an advocate for California winegrape growers on state, national and international issues. CAWG represents its members on matters addressing public policy, industry affairs and research and education programs to enhance the business of growing California winegrapes. CAWG represents the growers of more than 60% of the state's annual tonnage of grapes crushed for wine and concentrate.

My family's winery was founded in 1933 and I am the third generation to be involved with our family's business. This gives me an informed and unique perspective on the past, present and future of the wine and grape business in California, the United States and abroad. Given the importance of the wine and grape industries to the future of the United States agricultural economy, the opportunity to join the debate on the reauthorization of the Farm Bill is invaluable. Let me first share with you some important statistics about my industry.

Grapes and winegrape crops are produced in more than 40 states. Grapes are the sixth largest agricultural crop in the U.S. producing more than $3 billion worth of fruit. Grapes are the highest value fruit crop per acre in the nation, and have the highest farm gate value of any specialty crop.

As vineyards continue to expand, so do the number of producing wineries. There are over 4,000 wineries in the United States and at least one winery in each of the 50 states. Wine production from grapes consumes approximately half of the average annual grape crop. The nation's top wine producing states are: California, Washington, New York, Oregon, Pennsylvania, and Michigan. California produces about 90 percent of the volume.

Winegrapes are the ultimate value-added agricultural crop. Wine production adds value of at least $2 for each $1 of farm gate value. It is a signature product for California and a driving force of the California economy. The overall economic impact of the wine industry on the economy of California grew by nearly 40% between 1998 and 2002. According to a 2004 study sponsored by Wine Institute and CAWG, *Economic Impact of California Wine,* the full economic impact of wine on the California economy is $45.4 billion. Wine is the number one finished agricultural product from California.

Wineries and Winegrapes in California

Wineries and winegrape growers are deeply rooted in our communities. There are 1,049 wineries in California. Winegrapes are grown in more than 45 of California's 58 counties by 4,805 growers covering 522,000 acres. The industry generates 207,550 full-time equivalent jobs with $7.6 billion in wages paid. The retail value of California wine is $15.2 billion. The state's wineries attract 14.8 million visitors annually. Annual taxes paid by the California industry to the state are about $1.9 billion and $5.6 billion total, including other states and the federal government.

The industry has grown by expanding its market and creating new products as it continues to improve product quality. American consumers are buying more wine and they are also buying more expensive wine. The most rapidly growing segment of the wine market is "premium" wine – wine over $15 per 750 ml bottle, a trend that strongly benefits growers and vintners. California is at the center of America's quality wine production, making California the fourth largest wine producer in the world, after France, Italy and Spain.

Statistics alone do not adequately measure the intangible value the wine industry brings in terms of overall health benefits, enhanced quality of life, limitation of urban sprawl and greater visibility for the State of California worldwide. Working to keep the California wine industry in its premier position in the global wine market and ensure its long-term success will protect the significant benefits it provides to the State of California.

Key Industry Trends

Production/Consumption Imbalance: In recent years, we have experienced a significant production/consumption imbalance. As a result, nearly 80,000 acres of winegrape vineyards have been removed from production. Some industry experts estimate that as many as 20,000 acres of vineyards have been abandoned. The slowing

economy earlier this decade came at a time when new plantings of the late nineties were just coming into production. The aggressive, but painful removal of so many acres of vines, the success of the relatively new "super value" wine category (wines under $3 per 750 ml.), expanding exports and an improving economy appear to have corrected the supply/demand imbalance for most varietals.

Imports: U.S. imports of wine have risen consistently for the last decade, as the rising U.S. dollar improved the competitiveness of imports and new importers targeted the key middle market wine segment – wines in the $5-8 or $5-10 segment.

Imports now represent more than 27% (as of 2005) of the wine consumed in the U.S. Since 1984, the value of imported wine has increased from $954 million to $3.8 billion in 2000. While the weakening of the dollar has increased pressure on importers, many are absorbing the adjustments to avoid increasing prices and potentially undermining their hard-won market shares.

A significant structural change has occurred in the U.S. market for imports, with "New World" wines, particularly Australian, claiming an accelerating market share. Concurrently, sales of "Old World" – European – wines have been rising at a much slower rate and, in volume terms, sales of French wines have been flat or declining.

Australia surpassed France in volume of imports to the U.S. in 2002 and is poised to overtake Italy as the number one importer to the U.S. Australia's success reflects skilled marketing in a focused, export-driven campaign, strongly supported by government and a well-organized industry. A strong partnership between the Australian industry and its government has also created one of the best research programs for viticulture and enology in the world. In fact, its annual $25 million investment in research over the past fifteen years can be seen as the key driver to improving quality and marketability of Australian wines into the export market. According to the Australian Broadcasting Corporation, the Western Australian wine industry is requesting AUS$1.8 million from the state government for a U.S. marketing push.[1] In addition, the French government recently launched a multi-million euro program to rescue France's struggling wine industry, including 12 million euros to develop a "France" wine brand and to support exports to fast-growing markets including the United States.[2]

Sustainable Winegrowing Practices: Even though California is one of the most productive agricultural regions of the world and by far the most productive in the U.S., we farm in the country's most populated state. 12.5 percent of the U.S. population resides in California. Our current population is 36 million and we are growing at about 550,000-600,000 people a year. By 2050 we will have 55 million Californians – and we will need 7 million more homes for them, 10 million more jobs for them, and roads for 12 million more motor vehicles. These factors cause an intense competition for natural and agricultural resources in the State.

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[1] ABC On-line, "Gov't asked to provide funds for US wine push," March 30, 2006, www.abc net./au.

[2] Decision News Media SAS, "French government unveils wine rescue plan," March 30, 2006.

California's rural areas are changing dramatically as a result of our population explosion and urban encroachment. The wine community has responded proactively. More than four years ago CAWG and Wine Institute partnered to create the Sustainable Winegrowing Program. We knew that if we wanted to maintain a positive business and public policy atmosphere we needed to demonstrate that we produce wine with practices that are environmentally sound, economically feasible, and socially responsible. That means being able to maintain market share in a fiercely competitive global market while keeping good neighbor and community relations. In addition to the decrease in available farm land and water for agriculture, we were also witnessing international sustainable winegrowing trends.

Food and wine companies – like autos and electronics – are viewing their value chains in a broader and more holistic way as they take moves to manage risk at every step. Brand identity and company/industry reputation have increasing importance in today's global marketplace. Documented sustainable practices increase our value to the consuming public and the market's gatekeepers, like retailers and others in the distribution chain.

On a long-term basis, growers and vintners see sustainability as a way to differentiate their product in a very competitive world market. But, it's much more than that. Being good stewards of the land and good neighbors are important business and personal values in the wine community. Most owners and employees live at or near their vineyards and strive to maintain a healthy and beautiful environment for themselves, their neighbors and wine country visitors. They work to produce high quality grapes and wine and they want to pass the legacy of these family-owned businesses to future generations.

In order to help us achieve our vision to be a world leader in sustainable practices, a 50-member joint committee was formed by Wine Institute and CAWG to develop and implement the Sustainable Winegrowing Program. An evaluation of what we needed to do showed that we had a rich foundation of programs at the regional level and a number of innovative individuals and companies. Our committee quickly came to a consensus that a voluntary self-assessment tool that includes best practices for both vineyard and winery operations would best serve the industry and appeal to the broadest array of growers and vintners.

The resulting publication of the *Code of Sustainable Winegrowing Practices Self-Assessment Workbook* includes 6 chapters licensed from the Lodi Woodbridge Winegrape Commission and all new materials for winery practices and neighbors and communities. The workbook allows us to benchmark our practices relative to regional and statewide data in 221 criteria addressed in 13 chapters: viticulture, soil management, vineyard water management, pest management, wine quality, ecosystem management, energy efficiency, winery water conservation and quality, material handling, solid waste reduction and management, environmentally preferred purchasing, human resources, and neighbors and communities. We have recently added a chapter on air quality.

Since November 2002, we have held over 145 educational workshops throughout the state, attended by several thousand winery and vineyard enterprises. More than 1,300 workshop participants have evaluated their operations using the workbook. In October 2004, we released the first statewide *California Wine Community Sustainability Report* based on the submission of self-assessments to help us establish baselines and identify targets for improvement. We are now in the process of facilitating action plan workshops to help participants identify their goals and create action plans for improving practices in their vineyards and wineries. Follow-up reports will track ongoing progress.

Our work on sustainable winegrowing benefits California's social, environmental and economic needs and has received recognition as a model by:

- Governor Schwarzenegger (Governor's Environmental and Economic Leadership Award, 2004)
- California Council for Environmental and Economic Balance (Governor Edmund G. "Pat" Brown Award, 2005)
- California Department of Pesticide Regulation/Environmental Protection Agency ((Integrated Pest Management Innovator Award, 2003)
- The *White House Conference on Cooperative Conservation* recognized the program as a model for conservation (August 2005).

California farmers and processors face unique environmental challenges because of our more stringent state and local environmental regulations. Viticultural practices and the cost of doing business are directly impacted by new air quality rules and emerging water quality regulations. Wineries are facing additional compliance costs for the treatment of winery process water and stringent rules to reduce ethanol emissions created in the fermentation of red wine and brandy.

This new era of intense regulation requires producers to demonstrate success in solving environmental problems and to reduce current and future environmental liabilities. The Sustainable Winegrowing Program provides practical best practices designed to generate tangible results that benefit our industry and the general public.

Export Expertise: The expansion of exports of California wine over the last decade has been dramatic: from $196 million in 1994 to $808 million in 2004. Sustaining these exports while the U.S. dollar was rising earlier this decade made this growth particularly notable. New markets have been penetrated, new products introduced in all price segments and market share has increased.

Wine Institute manages the California Wine Export Program, using resources from USDA's Market Access Program (MAP). This program provides up-to-date information on export market dynamics, marketing opportunities and promotion in over 20 countries. The MAP is essential to the continued growth of California wine sales overseas.

U.S. wines continue to face substantial competition in the international market and cannot afford to be saddled with restrictive trade barriers. U.S. producers must contend with a

heavily subsidized and protected EU wine industry. The popularity of wines from Australia, New Zealand, South Africa, Chile, and Argentina combined with relatively weak currencies in those countries makes them formidable competitors.

Previous multi-lateral and bi-lateral trade negotiations have created situations for the wine industries of the U.S. trading partners that are much more advantageous for them than they are for the U.S. wine industry itself. Only a concentrated effort by the wine industry, the Administration and Congress will overcome trade barriers and unfair trade practices throughout the world. Subsidies, protectionist policies and tariffs all inhibit the competitiveness of the U.S. wines.

California has the water, the soils and the climate to produce a broad range of wine styles to please any palate. We can compete but we need continued Congressional support for the matching funds provided through MAP and for the reduction of foreign wine tariffs to help us break into heavily subsidized markets.

Pests and Disease Issues: On behalf of the industry, I want to take this opportunity to once again express our appreciation to Congress and the Administration for helping to create and support the Pierce's disease/Glassy-winged Sharpshooter Program. Pierce's disease (PD), a fatal infection of grape vines and dozens of other plants by the bacterium *Xyella fastidiosa* (Xf), is being spread throughout California by the Glassy winged Sharpshooter (GWSS). GWSS was first detected in California in 1989. It has invaded much of Southern California and is established in the southern San Joaquin Valley.

This vigorous and difficult-to-control insect vector, indigenous to the southeastern United States and northern Mexico, threatens California's entire grape and wine-producing community. Commercial grape varieties grown in California cannot tolerate infection by the Xf bacterium and are quickly killed or rendered uneconomical. There is no cure for Pierce's disease. The onslaught of the GWSS and its spread of Pierce's disease triggered a massive and expensive cooperative response by federal and state agencies, California nurseries, citrus and winegrape growers to contain, control and eradicate new infestations of the GWSS in California. There are many crops and commodities threatened by the agents that cause Pierce's disease, including almonds, citrus, stone fruits, alfalfa and oleander. The risks to California agriculture presented by the GWSS and PD were recognized by a USDA declaration of emergency on June 23, 2000, and a subsequent allocation of CCC funds to conduct research, manage and fight the disease.

The immediate response of state and federal government working with industry to stop the movement of the pest and implement a research program to find long-term management solutions for the disease is truly appreciated by growers and vintners. In fact, earlier this year, almost ninety percent of the growers and vintners voted to extend an assessment on winegrapes for another five years to fund research for the control of Pierce's Disease and the Glassy-winged Sharpshooter. Since the program was created, the industry assessment has raised more than $21 million to help fund over 100 research projects and to partner with the state and federal government to implement an effective program. The total state, county, university and commodity contributions in the form of

in-kind services, budget allocations and compliance to prevent pest movement are estimated to be about $24 million a year.

The control and containment program, which is a function of state and federal government, is resource intensive. Congress has appropriated money for the program beginning in FY 2001 and every year thereafter. However, the program has not been fully funded on an annual basis forcing ongoing reliance upon emergency CCC funding for containment and control activities. We have just learned that the Office of Management and Budget has denied the release of $5.2 million in emergency funding despite a FY 2005 Agricultural Appropriations conference report request. While progress is being made, events this spring have shown the need to fully fund this vital program. Multiple GWSS egg masses were found on nursery plants shipped to Napa, Sonoma and San Joaquin counties, underscoring the importance of an aggressive containment and control program with a strong nursery shipping inspection program.

We cannot afford anything less than a fully funded program to prevent the movement of the pest and the potential for infestations that spread the disease. Full funding of the program, approximately $28 million, is being sought for the next fiscal year.

Currently, the industry is fighting an infestation by Vine Mealy bug. The Vine Mealy bug is an exotic pest first found in the Coachella Valley, Riverside County in 1994. Since then, it has spread to an additional 18 counties. The pest feeds on grapes, fig, pomegranate, avocado, date palm, apple, quince, and certain ornamental plants. Not only does the pest feed on sap, it also excretes large amounts of honeydew as it feeds, fouling the plant. The pest's activities provide a food source for sooty mold, attracts ants, and reduces the quality of harvested grapes.

Vine Mealy bug threatens over 900,000 acres of grapes and over $3 billion in derivative annual income in California. To meet this threat, a cooperative work group has been formed, including representatives of the grape industry, the Animal and Plant Health Inspection Service (APHIS), the University of California, the California Department of Food and Agriculture and California County Agricultural Commissioners. This group has developed a program that includes public education; detection, monitoring and mapping surveys; research; and a control program implementation plan. The industry has invested more than $1 million for research and is seeking $1.2 million from APHIS for a biocontrol program to eliminate this pest.

The constant introduction of new pests and diseases with the free and easy movement of people and products underscores the critical importance of an adequately funded exotic pest/disease exclusion and detection program at the state and federal levels. APHIS must have all the resources it needs to assure the highest possible level of pest exclusion activities to protect agriculture, natural resources and public health from exotic pest and diseases.

Research. California winegrape growers and vintners are innovative, adaptive and willing to meet new challenges. Success in maintaining a competitive edge is directly

tied to investment by industry and government in research and extension of research results to stimulate innovation by industry and early adoption of best practices. Countries such as Australia have taken the investment model and are now outpacing the United States in product development and improvements. The Australian government has a matching dollar program for grape and wine research that is part of a $25 million (US$) annual investment program for the grape and wine sector – significantly higher than the United States. The U.S. needs to expand its investment in grape product research and development if we hope to continue our record of growth and economic success.

In 1996, the industry created the Viticulture Consortium, administered by Cornell University, Pennsylvania State University and the University of California (Davis). The Consortium funds grants for state researchers in about twenty states through a competitive process. The Consortium raises funds from both the industry and state sources to match federal support. As an active partnership of federal, state and industry resources, it is a keystone of grape related research in the United States.

In addition, in 2004, to gain the broader perspective of the grape and grape product industry, we created the National Grape & Wine Initiative, an alliance of wine and grape producers to promote sustained growth through increased spending on research and extension activities. Members include national representatives for wine, juice, raisins and table grapes; and wine and juice producers; as well as academics and government officials.

The initiative's goal is to triple the industry's economic impact to $150 billion by the year 2020, by strongly increasing market share and becoming the world leader in value and sustainability, as well as contributing to the quality of life in rural communities by identifying shared priorities for research and development and working together to see them implemented.

For example, the Initiative is collaborating with ARS and CSREES at USDA to incorporate industry priorities into their programs. We are also working with the House and Senate Committees on Appropriations to fully fund the Viticulture Consortium, ARS viticulture research, the Market Access Program, Pierce's disease and other key research and development programs.

At the same time, we are pursuing aggressive fundraising within the winegrape and wine community to provide matching funds. We recognize that meeting the competitive challenges we've outlined here today will require an unprecedented commitment and cooperation by the industry and its supporters.

The Farm Bill debate is a perfect forum for this discussion to crystallize in earnest. To that effect, the industry has developed a grape industry position paper outlining what we would like to see included in the next Farm Bill to achieve our worthwhile goals. I attach it to my testimony for the Committee's record. I am pleased to list California Association

of Winegrape Growers, Wine Institute, California Table Grape Commission, Sun Maid Raisins, Welch's Grape Juice, Wine America and E & J Gallo as endorsers of this industry position.

Mr. Chairman, we look forward to working with you, your Committee and the Senate in the coming months as you undertake the challenge of writing a Farm Bill for the 21st century. Your support for our industry is much appreciated and I thank you for this opportunity to testify.

I would like to thank you for the opportunity to provide input to your committee on the important job of designing the 2007 Farm Bill. I have been asked to represent the interests of specialty crop producers in the Northwest region of the United States. I currently serve on the board of directors for the National Potato Council, and have been president of the Potato Growers of Idaho. I also served as an executive member of the United States Potato Board (USPB), and my wife, Cheryl Koompin, is currently an administrative member of the USPB. I have also been involved with the Farm Service Agency as a past county committee member.

My brother and I started farming together in 1974. Our diverse farm of potatoes, sugar beets, grain and corn is located on the Snake River in American Falls, Idaho. Cheryl and I have two boys who have both graduated from college. They are back on the farm and hope to make farming their career.

Before I begin my comments on specific Farm Bill titles, I feel compelled to raise a critical issue, that if not resolved soon, will affect specialty crops more than all the titles of the Farm Bill combined. I refer to the rapidly developing shortage of immigrant farm workers. It is imperative that comprehensive immigration reform that includes the AgJobs provisions for agriculture be passed as quickly as possible. I applaud the vision of the Senate in passing this comprehensive reform and request that everything possible be done to maintain the important provisions for agriculture in the House / Senate conference committee.

Current efforts to tighten the border are contributing to an already critical shortage of farm workers. Many of our resident farm workers are being enticed by much higher paying jobs. I know of a large potato farm that normally secures 250 workers for harvest through simple advertisements in newspapers. This year, the farm only received 35 applications, which has put them in a very difficult situation. The booming construction industry in the Northwest will continue to lure away our current farm labor force. Other specialty crops have even higher labor needs than potatoes. Irreparable harm will be done to the suppliers of our nation's fruits and vegetables if workable guest worker programs are not enacted soon.

With respect to the 2007 Farm Bill, potato growers currently do not receive and do not want to receive direct payments of any kind. I also passionately believe, any provisions in the new farm bill cannot favor or give advantages to one farmer over another. We do believe, however, that there are many things that Congress can do to improve the competitiveness of our industry by investing in infrastructure, expand the use of conservation programs for specialty crop producers, improve our export possibilities, provide protection from invasive pests, expand research, and help to increase the consumption of fruits and vegetables as targeted in USDA's nutritional guidelines. The challenges associated with transportation also need to be addressed, and is a critical element that is too often forgotten. It is imperative that this committee collaborates with the appropriate jurisdictional committee to resolve many of the transportation issues crippling the agricultural industry.

Farm programs shouldn't put any sector of the Ag economy at a disadvantage. Perhaps the highest priority in the 2007 Farm Bill is to maintain the prohibition of planting fruits and vegetables on land where growers receive direct payments derived from having a "base" in a program crop. The demand for potatoes is very inelastic and even small increases in potatoes, or any other specialty crop for that matter, can result in a drastic decline of prices. Our industry has seen many such years recently, and cannot afford the market distorting changes that would result if the current prohibition were removed.

Because of the urgency in addressing the matters I am discussing with you today, I believe that a new Farm Bill should be adopted as scheduled, rather than extend the current Farm Bill as has been suggested. We support the broad principles of the specialty crop coalition, of which the National Potato Council has helped co-chair. We believe that it is in the best interest of America to support a strong specialty crop industry. On a per acre basis, potatoes and other specialty crops produce much more value than a crop such as wheat. Whereas an irrigated acre of wheat in Idaho may produce from $300 to $450 of value, on average, an acre of potatoes adds over $2,000 to the state's economy. Agricultural areas where specialty crops are grown support a much larger economy. Additionally, many specialty crops also support a large value-added processing industry.

That said I also support a strong wheat industry. Many growers in the Northwest also produce wheat, and due to the inelasticity of potatoes that I described earlier, we certainly do not want more wheat growers raising potatoes, unless the market for potatoes grows accordingly.

The following are specific priorities for potato growers as related to specific Farm Bill titles: Conservation Programs: CSP – The Conservation Security Program envisioned by writers of the last Farm Bill truly included some innovative concepts; however, the program was not designed to work for specialty crop producers. Some potato producers have been able to adopt practices that allow them to participate in CSP, but it will be very difficult for most. Producers of other specialty crops that require more soil cultivation, such as sugar beets, dry edible beans, and onions, will most likely find it impossible to qualify for CSP. The biggest problem with CSP is the slow and completely unfair way in which it is being implemented. It is absolutely unfair and improper that one grower may be receiving payments of $40,000 per year, while a competing producer, in a different watershed, has not even had the opportunity to sign up; and at the current rate of implementation, may never get the chance. The CSP program either needs to be revised and adequately funded or canceled. If it is not available to every producer, the program should be discontinued. If CSP is funded, EQIP funds should be targeted to help growers qualify for CSP.

EQIP - We believe that a mandatory allotment of EQIP funds for specialty crop producers, similar to what currently exists for livestock should be adopted. Environmental benefits of reduced pesticide application can be achieved by helping growers adopt new practices, including IPM and organic production.

Risk Management – Multi-peril crop insurance continues to be unaffordable for many potato growers and specialty crop producers. The current program does not adequately protect seed potato producers. We suggest a pilot project that would re-direct subsidies used for crop insurance into a "disaster savings program" that would help producers build up a savings account to use in times of crop disaster. We would also like a pilot program to develop a workable seed potato insurance product. We also have serious concerns with the pilot Adjusted Gross Revenue (AGR) program. We believe that despite efforts to make the program work, it is still too subject to fraud and is still market distorting. It also does not work well for producers that are consolidating and expanding their operations. The AGR Lite program will not work for most potato and specialty crop producers due to the gross revenue limit.

Transportation – Although not a current Farm Bill title, good transportation infrastructure is vital to rural America. The Northwest's major potato markets lie far from production areas. The transportation of goods between all 50 states has to be facilitated by an efficient transportation system. The lack of two-way tracks in the United States is one obvious example of how the transportation infrastructure is crippling the agricultural industry. Adequate railroad infrastructure and competitiveness are vital to our agricultural economy. With respect to the highways and interstates, there is paramount need to make weight laws consistent across the entire nation. The law that fixed all weight limits in the United States needs to be repealed. While I acknowledge that this is an agricultural hearing, if the nation's transportation system is revamped, it could do more for specialty crops than any amount of money allocated in the next farm bill.

Energy Production – The current high energy prices have had a serious affect on specialty crop producers. High fuel prices lead to high fertilizer and pesticide prices as well. We do believe, however, that there is a very real silver lining to high fuel prices – production of ethanol from grain and cellulose, as well as farm produced bio-diesel. U.S. policy should promote the production of these renewable energy resources. Perhaps the result of increased renewable energy production around the world will be a new level of rural prosperity. Perhaps even a level of prosperity that will allow program crop subsidies to be cut and the funds to be re-directed to areas that are in serious need.

Research – We support significant new investment in research for specialty crops, through both the National Research Initiative and programs within Cooperative State Research, Education and Extension Service (CREES) and Agriculture Research Service (ARS). With the sale of organic products rising nearly 20 percent per year, we support a significant increase in research dedicated to organic production and farm conversion to organic systems.

State Block Grants – We support an expansion of the State Block Grants for Specialty Crops program originally authorized in the Specialty Crop Competitiveness Act of 2004. Due to the wide diversity and localized needs in specialty crop production, state departments of agriculture are uniquely able to assist local growers with the specific

investments they need to increase competitiveness.

Nutrition Programs – We support a strong new emphasis within the 2007 Farm Bill on increasing the availability and consumption of fruits and vegetables. Access should be increased through all USDA nutrition programs. Cooperative promotional programs should also be included as a way to improve the attitude of consumers towards the consumption of fruits and vegetables.

International Trade – We support programs to increase foreign market access, to increase funding for Technical Assistance for Specialty Crops program, and creating a new Export Division within Animal, Plant, Health, and Inspection Service (APHIS) to attach with much greater vigor the real, but too often hidden trade barriers facing our industry in Sanitary and Phytosanitary (SPS) issues. We also support continuation of the Market Access Program (MAP).

Invasive Pests and Diseases –We support significant new investment in prevention of the unintentional introduction of plant pests and diseases, such as the Potato Cyst Nematode that we are currently dealing with in Idaho.

Unique Attributes of Specialty Crop Producers –Due to the nature of high-value specialty crop production, many current Farm Bill programs and disaster programs are of limited value to specialty crop producers due to payment caps, and limits on adjusted gross income. If an ad-hoc disaster program is ever offered again for potatoes, we offer to help design a program that will be both more fair and workable to producers and save the government money. We support a thorough review of all farm programs to ensure that specialty crop producers have access to benefits comparable to other farmers.

Thank you for the opportunity to provide input into the 2007 Farm Bill.

Prepared Statement
by

Doug Krahmer
Blue Horizon Farms

Development of 2007 Farm Bill

Committee on Agriculture
United States House of Representatives

August 4, 2006

Introduction

Mr. Chairman and Members of the Committee, my name is Doug Krahmer and I am a co-owner of Blue Horizon Farms in St Paul, Oregon. On our farm we produce a variety of commodities including blueberries, grass seed, hazelnuts, clover, wheat, flower seeds and fresh cut flower

As an active member in Oregon Agriculture and natural resources, I appreciate the opportunity to testify before the Committee regarding the future direction of the 2007 Farm bill and what role Congress and the Administration will play in shaping policy for growers across the United States.

Industry Overview

The produce industry has driven and experienced tremendous changes over the last several years. We have worked hard to remain profitable, satisfy consumer demands, conform to and develop new technology, and compete in an increasingly global market place.

Many of our products are highly perishable and are driven by a risk taking entrepreneurial sprit that we in the produce industry continue to engage in. We take tremendous risk each year not knowing if Mother Nature, retail channels, the market place or any other number of issues will or will not stand in the way and cause us to lose or gain from the investment that we have made.

Our markets are highly volatile, yet we have never relied on traditional farm programs to sustain our industry. Instead, we look to each other to promote efficiency and reward market competition that so marks our industry.

Unfortunately, the market place in which we operate is becoming less neutral and even-handed. Regulations, driven by food-safety concerns, responses to food defense requirements, and other very legitimate consumer and customer needs, are placing more and more burdens on farmers and their partners who pack and ship perishable agricultural commodities. In our effort to respond to these needs, we are obliged to introduce costly measures and undertake expensive actions. Farmers shoulder the responsibility of supplying high-quality food that is safe and nutritious while not being too expensive for the consumer. We work hard at this, helping to

continue to ensure the miracle of abundant fresh food production in the United States at prices to the American people that are very low by world standards.

From this background, it is clear that the agriculture industry operates in a global marketplace. We are frequently being asked to be year round suppliers, which has resulted in operations that were once solely domestic to an operation that provides domestic produce in the summer and sources foreign produce in the winter months. In the produce industry, the balance of trade has shifted, where we import more produce than we export. That is why I strongly believe that it is vital that the U.S. government provide the tools necessary for domestic producers to remain viable in a global marketplace. While we have natural climate cycles and production variables that allow for counter markets – winter/summer for some products, we do have direct competition on some products, as well as direct competition for export markets.

Given the shifts and dynamics of our industry, we therefore welcome the opportunity to discuss with you today how the 2007 Farm Bill can enhance the competitiveness of our industry while increasing consumption of agricultural produces. We strive to fulfill consumer needs and affordable healthy food choices, but we need agricultural policy priorities to assist us in that effort. It is in this context that we raise the importance of fruit and vegetable crops today – not as simply one more sector of the agricultural economy, but as a vital national priority in every Congressional district and to the health of our nation overall.

Domestic Policy Issues Facing the Produce Industry

We believe government policy should provide incentives for private investment, tools to increase profitability, and help to those producers who are committed to constant improvement to better serve consumer needs. We do not want policies that sustain yesterday's business; we want investment in the future. Ultimately, the goal of any farm policy should be to enhance the tools necessary to drive demand, utilization, and consumption of our products and not distort the production of those products with respect to domestic and international markets. The 2002 Farm Bill began to make progress toward those objectives, and was further enhanced through the Child Nutrition Reauthorization Act of 2004 and the Specialty Crop Competitiveness Act which was signed into law in December of 2004. However, so much more is required to bring fruit and vegetable producers the tools they need to meet national public policy objectives.

Four years ago during testimony before the House Agriculture Committee regarding the reauthorization of the 2002 Farm Bill, the produce industry presented broad based recommendations of the produce industry. Overall the produce industry strongly supported the development of farm policies that sustain financial stability and viability of our nation's agriculture industry while maintaining appropriate flexibility for our producers. We believe that the Farm Security and Rural Investment Act of 2002 did take a step in the right direction for the produce industry. However, we believe that there are additional areas where the federal government can assist in maintaining the competitiveness of the produce industry. As the fruit and vegetable crop production across the country varies in different states and regions, so do the individual elements that impact production from weather, to land values, local regulation and local pest and disease pressures. We also face additional costs to maintain a viable production – where it is investing in trees for several year that are not mature enough to produce a crop, or costs to maintain multiple crops on the same acreage in a given year. Therefore, I would like to highlight today some of the policy areas that we believe Congress should incorporate into the 2007 Farm Bill that will help the fruit and vegetable industry and enhance the foundation of policy tools available to this important segment of U.S. agriculture.

Prohibition of Planting Fruits and Vegetables on Contract Acres

The fruit and vegetable industry strongly supports maintaining or strengthening the current U.S. planting policy, which restricts producers from growing fruits and vegetables on acres receiving program payments. Fruit and vegetable producers are concerned that any alternations in this provision would allow commodity producers to mitigate any start-up costs or mitigate risk inherent to fruit and vegetable production resulting in unfair competition. Current market conditions and potential for disruption that has led the industry's support for this provision since 1985 has not changed. If anything, they have worsened and the need to retain this provision has become even more important. If the restriction is lifted by Congress, the industry believes hundreds of millions of dollars of negative economic impact will be felt by the fruit and vegetable industry.

Nutrition Policy

The fruit and vegetable industry has the good fortune to offer consumers a healthy and nutritious product that is recognized as critical to preventing cancer and other chronic diseases, reducing obesity and diabetes, and maintaining overall good health. The *Dietary Guidelines for Americans* call for the consumption of 5 to 13 servings a day of fruits and vegetables as a cornerstone of good health. Yet, on any given day 45 percent of children eat no fruit at all, and 20 percent eat less than one serving of vegetables. While nutrition policy is not solely a Farm Bill issue, we have a unique opportunity to ensure that policies are carefully considered so that the new *Guidelines* are fully implemented.

To this end, future farm policy will not only support American agriculture; it will support and encourage the health and well-being of all Americans. Driving domestic consumption of our perishable commodities will benefit the entire fruit and vegetable industry, resulting in a stronger price for producers across the country. The School Fruit and Vegetable Snack Program is an effective and popular nutrition intervention program proven to increase fresh fruit and vegetable consumption among children in participating schools. This program allows children to experience the great taste of fruits and vegetables and thereby has the potential to build lifelong healthy eating habits. Started in the 2002 Farm Bill and subsequently expanded during the reauthorization of Child Nutrition program in 2004, this program should be significantly expanded in the 2007 Farm Bill in order for all states to participate in this program. These purchasing programs should also expanded to include the U.S. Department of Denfense.

State Block Grants

The industry also supports continued expansion of the State Block Grant Program for Specialty Crops that was authorized in the 2004 Specialty Crops Competitiveness Act. This program allows states to invest in programs and projects that support production-related research, commodity promotion, food safety and other programs that enhance the competitiveness of specialty crop producers. Due to the variety of crop production among states, the "state grant" nature of the program is essential to the success of the program and benefit to local producers.

Research Policy

Research serves as both a foundation and a catalyst for growth in the advancement of any industry. Federal investment in agricultural research dedicated to the economic vitality and long-term viability of the United States produce industry has been extremely limited. Fruit and vegetable crops and their research needs are unique and important. These crops are typically characterized by high production input costs, unique market challenges, and are a significant source of essential nutrients required for good health.

Federal investments in research and development for fruit and vegetable crop production including, plant breeding, pest management, production, physiology, food science, mechanization, marketing, product development, food security, food safety, processing, marketing, and consumption which influence public access to these vital commodities must be re-emphasized in the next Farm Bill. Funding that emphasizes nutrition will provide significant return on investment through better health amongst the U.S. populace and at the same time enable specialty crop producers to secure a competitive position in the global marketplace.

In the Pacific Northwest the federally funded Small Fruits Research Center has proven to be a model of success in efficiently investing research funds to address the immediate challenges of producers.

Conservation Policy

Today consumers want an agricultural production system that not only produces abundant, affordable and safe food and fiber, but also conserves and enhances the natural resource base and protects the environment. The public benefits of working land conservation programs are a more stable and productive farm economy and an improved environment. Protecting the environment and productivity today will mean less cost for producing products in the future and will therefore assist in ensuring sustainability in the years ahead.

For the produce industry, there continues to be mounting pressures of decreased availability of crop protection tools that can be used to provide the abundant and safe food supply the consumer demands. In turn, environmental regulations continue to put pressure on the industry's ability to be competitive in a world economy. Because of these factors, the industry supports expanding cost share and incentive programs such and the Environmental Quality Incentives Program and the Conservation Security Program that encourages producers to

invest in natural resource protection measures they might not have been able to afford without such assistance. There is also a need for targeted technical assistance to help fruit and vegetable producers' access conservation programs – providing both education on available programs and technical assistance in preparing documentation and farm assessment that are necessary to apply for the conservation programs. The current administrative structure of national Soil and Water Conservation Districts could serve a key role in bringing conservation programs into practice with producers.

International Trade Policy

The economic well-being of the produce industry and other agricultural commodity sectors depends heavily on exports which account for one-third or more of domestic production, provides jobs for millions of Americans, and makes a positive contribution to our nation's overall trade balance. This year, the value of U.S. agriculture exports is projected to be a record of $64.5 billion. Unfortunately, imports are forecasted in 2006 at record levels of $61.5 billion. With the United States' 2006 trade balance forecasted to be at its lowest point in 20 years, serious attention must be made to our current trade policies which help expand market access. Without improved international trade policies that advance open and fair trade practices in the global market, the U.S. surplus in agricultural trade which has declined over 90 percent since 1996 will continue to fall.

U.S. fruit and vegetable growers face significant obstacles in the development of export markets for their commodities and unique challenges due to the perishable nature of our products. Without further commitment to export market development by the federal government and commitment to reducing tariff and non-tariff barriers to trade, the U.S. produce industry will continue to lose market share to global market competitors. Farm bill programs that have worked well increasing access to foreign markets for domestically produced fruits and vegetables are the Technical Assistance for Specialty Crops and the Market Access Program. This program should be continued and expanded in the next Farm Bill.

Immigration Reform

The produce industry relies on agricultural labor to harvest fruits and vegetables across the United States. Immigrants have historically provided much of that labor. In time, those

immigrants and their children move up the economic ladder, following the American Dream, and being replaced by new entrants behind them. For this reason, we support programs that are designed to facilitate lawful entry of farm workers into the United States. As Congress continues to debate immigration reform the produce industry urges Congress to support comprehensive immigration reform which includes a strong guest worker program that will match a willing foreign employee with a willing employer when no U.S. workers are available. As a member of the produce industry, I know that many of the labor intensive jobs of planting, harvesting and packaging fresh fruits and vegetables are done by a temporary workforce. More than any other sector of the economy, seasonal and physically demanding farm jobs do not attract enough native born workers to get the job done. As a result, agriculture relies heavily on immigrant labor.

In addition, as a citizen of this country I strongly support homeland security which includes increased border enforcement and security. However, an enforcement-only approach offers an incomplete solution to the problem of illegal immigration. We need a legislative solution which provides a process that allows certain undocumented workers currently in the United States to gain legal status after they pay a fine and meet strict criteria. Through this approach, we can achieve our border security and enforcement goals while allowing our trained and experienced workforce a chance to earn legal status, and provide expanded legal ways for future temporary workers to enter, work, and depart in a safe and orderly fashion.

Finally, we must have immigration reform efforts that place reasonable requirements on employer verification processes. I continue to be concerned that without enough support, Congress will pass an enforcement-only bill that imposes unreasonable requirements on employers and would be impossible to comply with.

The fruit and vegetable industry needs and want access to a legal labor force but to put enforcement alone ahead of reforms that ensure access to a legal labor force is to put the cart before the horse and is not a viable business solution for our industry. The damage to agriculture will be irreversible. Instead, Congress must pass reforms that include guest worker programs, realistic approaches to the current undocumented workforce in the United States, and reasonable requirements on the business sector dealing with employment verification processes.

It seems futile to continue to entertain proposals that suggest workers currently in the U.S. go back to their country of origin before they can proceed with applications to quality for guest work or other legal status programs.

Conclusion

We look forward to working with the committee on the development of the next Farm Bill. Many of the pressures that fruit and vegetable producers face are similar to those of producers of other commodities – increased regulation, high energy costs, transportation costs and input costs, but the perishability of our crops result in different marketing strategies, market requirements and the need to move our products to market quickly. We hope these unique characteristics can be addressed through agricultural policies that drive domestic consumption, and expand foreign market access while investing in research, food safety, conservation and pest exclusion policies that benefit the members of the produce industry. All to often, fruits and vegetables or "specialty crops" are often ignored when it comes to the development and implementation of U.S. farm policy. Like producers of program crops, fruit and vegetable growers face significant challenges in the production and marketing of their commodities that must be addressed if they are to be competitive in an increasingly global marketplace. Considering that nearly half of farm revenue in the United States comes from specialty crops it's very appropriate that a re-balancing of program support be examined.

We ask that the Committee continue to work with the produce industry to ensure that fruits and vegetables are appropriately addressed as you move forward in the development of the 2007 Farm Bill. We certainly recognize the fiscal constrains facing the Congress, however, the many challenges facing the fruit and vegetable industry will only worsen if real and adequate policy reforms are not provided through a Farm Bill that appropriately meets the needs of the broad U.S. agriculture community.

Thank you.

Testimony

On behalf of the

Oregon Cattlemen's Association

With regard to

Agriculture Policy and the 2007 Farm Bill

Submitted to the

The United States Senate - Committee on Agriculture, Nutrition, and Forestry

The Honorable Saxby Chambliss, Chairman

Submitted by

Sharon Livingston

President
Oregon Cattlemen's Association
Member
National Cattlemen's Beef Association

August 15, 2006
Redmond, Oregon

Mr. Chairman, Members of the Committee, thank you for the opportunity to present the Oregon cattle industry's perspective on the upcoming 2007 Farm Bill. My name is Sharon Livingston, and I am a cattle producer from Long Creek, Oregon. I am the current President of the Oregon Cattlemen's Association.

As with most other agriculture industries we are paying very close attention to the development and drafting of the 2007 Farm Bill. As cattle producers, our industry typically prefers a hands off approach to the various programs that are included in the Farm Bill. Most producers would prefer to be left alone and not have the government intervene in the daily business of the cattle industry. As a result of this hands off approach, most cattle producers don't directly take advantage of Farm Bill related programs.

However, while cattle producers themselves don't typically take advantage of Farm Bill programs, the provisions of the Farm Bill indirectly affect the entire industry. Livestock consumes a large portion of the major feeds that are grown throughout the country. As our cattle are finished in feedlots they consume crops, such as corn and barley, which are milled into feeds. As the nation's largest segment of agriculture, the cattle industry is focused on continuing to work towards agricultural policy which minimizes direct federal involvement; achieves a reduction in federal spending; preserves the right of individual choice in the management of land, water, and other resources; provides an opportunity to compete in foreign markets; and does not favor one producer or commodity over another.

Environmental Protection

Cattle producers are intimately involved in the protection and utilization of the environment that surrounds us. Our livelihood depends on the sustainable use of the land and other resources to ensure our families are able to remain on the land for future generations. I like to think of farmers and ranchers as the original environmentalists. We are constant stewards of the land because our industry depends on the continued resources that it provides us everyday.

Cattle ranching and environmental stewardship can go hand in hand in virtually all situations. Where managed properly, cattle can improve and enhance nearly all landscapes and terrains. Cattle can survive and thrive in all types of climates, from semi arid deserts to lush valleys near the coastlines. It is a constant goal of ranchers to operate their ranches as environmentally friendly as possible, which is where individual ranchers can utilize government conservation programs. Our highest priorities are to utilize these government programs to relieve regulatory burdens imposed under the Clean Air Act, Clean Water Act, and ESA. The programs most responsive to these needs are Environmental Quality Incentives Program (EQIP) first and foremost, and then Wildlife Habitat Incentives Program (WHIP).

The Environmental Quality Incentive Program (EQIP) is one of the most utilized programs for ranchers in Oregon. This program rewards and provides incentives to cattle

producers for their environmental stewardship. Targeted spending within this program can have dramatic effects for landowners who want to be recognized and rewarded for their work. This program could be expanded with controlled spending to directly target additional partnerships with landowners.

Environmental programs such as EQIP, WHIP, and the Conservation Security Program (CSP) are valuable assets to producers who manage their land in accordance with USDA principles. We would like to see these programs continued and urge USDA to seek out additional partnerships that further promote conservation.

The Farm Bill programs we are talking about today are only effective if USDA has the personnel to deliver programs to producers. Farm Service Agency recently retracted a restructuring process of their offices. Although we didn't take a position at that time, I would urge FSA in any future restructuring process to ensure, qualified and competent employees are available for producers in localized areas to deliver the programs and technical advice that are offered.

Research

We would like to see additional money devoted to science-based research in the agriculture arena. Numerous issues, including regulations governing air and water, continually plague Oregon farmers and ranchers. Credible and unbiased research is desperately needed to defend against attacks from activist groups that intend to do harm to agriculture and other natural resource based industries. Fact based science is not only good for ranchers, but for everyone. Many millions of dollars will be "totally wasted" on environmental issues unless we know and understand the science of the issue.

In Oregon as in many other states, we depend heavily on our land grant university, Oregon State University (OSU). OSU manages and houses the extension and agriculture experiment stations that are located throughout the state. Farming and ranching industries need the research knowledge that is gained by these institutions each year. Those of us who are in the "harvesting and food production business" have benefited greatly from the research and Extension Service at OSU. Without it, many of us would not be profitable enough to stay in business. Research on animal diseases, overall animal health, nutrition, marketing, meat preparation etc. not only provides a benefit to ranchers like myself, but to the average consumer household as well. A recently formed forage/livestock endowment started at OSU, has great potential to help ranchers across the nation with cutting edge research. This is a specific area we would like to see funded and expanded.

Taxes

Taxes are a large concern for ranchers throughout the nation. The Death Tax in particular is especially damaging to family farms and ranches. This tax has the ability to force a family that has been in business for multiple generations to sell out.

Contrary to the arguments of some, the Death Tax is not a tax on the rich. The rich have adequate funds to hire attorneys and accountant's to avoid the tax. In a land rich but cash poor occupation such as farming and ranching, a family may have only one option to pay a large tax bill upon a family members death: sell the assets. This unfair tax strips local rural economies of family businesses and diverts money to the federal government that could be better utilized in struggling local economies.

Water

Additional resources should be provided to fund the continued development of water storage. In the arid West, water has been, and will continue to be a major source of contention from numerous parties. Funds should be dedicated to capturing more surface water during spring melt and wet periods, as about 95% of this vital resource flows to the ocean unused. By doing so we could potentially reduce much of the conflict over competing uses.

The ongoing conflict between water users in the Klamath Basin and fishermen along the coastline is an example of the competing interests for water. This problem can be traced to numerous issues including the Endangered Species Act, federal mismanagement of resources, and changing natural conditions. Developing additional water storage capacity within the Basin would help this problem. The lack of storage capacity has the potential to decimate two industries, the farmers and the fishermen. This situation is a perfect illustration that no one wins but the lawyers.

Agriculture is losing the "water wars" because virtually no new water is directed towards production, but rather towards other uses. Presently, the "water pie" is finite and all parties' fight over their piece. Efforts and funds should be directed towards making the pie bigger. Incentives should be towards producing more water storage for multiple uses including irrigation when it is needed during the growing season.

Property Rights

At the forefront of most battles fought in the cattle industry are private property rights. The right to own private property in this country without the fear of a "taking" is one of our most revered rights we all have. The Oregon Cattlemen's Association and I consistently defend the rights we have and regularly work with both state and federal legislators to make our voice heard. The recent Kelo vs. New London Supreme Court decision is especially troubling to the concept of private property rights ownership. I applaud the Committee's work in this arena and specifically certain members of the Committee for their dedication to the continued protection of private property.

Public Lands

Public lands' grazing is an integral part of the ranching industry in the West. Public agencies own a majority of the land in many of the 12 western states, and Oregon is no exception. Public lands ranchers rely on the administering agencies, BLM, U.S.

Forest Service and various state agencies, to ensure that ranching remains a viable option on these lands. The profitability and uncertainty associated with these lands has eroded to the point that many ranching businesses are failing. While public lands grazing issues haven't typically been included in the Farm Bill, this is an issue that we ask that the Committee take note of and help these ranchers trying to utilize these marginal lands.

An area of concern to public land ranchers is the encroachment and advance of invasive weeds. These weeds displace forage that is vital for both livestock and wildlife. Some level of funding should be made available through the Farm Bill to control invasive weeds on both private and public land.

Most rural eastern Oregon towns rely on a ranching economic base. The ranchers that inhabit and sustain these towns typically have a private and public grazing land mixture. Because the federal government owns the majority of the land in eastern Oregon these operations rely heavily on utilizing these arid grazing lands. The continued use of these public lands is becoming increasingly contentious and uncertain for numerous reasons such as activist lawsuits, invasive noxious weeds, ESA listings, and wilderness designations.

Activist groups such as the Oregon Natural Desert Association and Center for Biological Diversity have found a niche in filing lawsuits against the public agencies administering these grazing lands. Most lawsuits that are filed are similar in nature charging the agencies are not properly following NEPA, FLPMA, EIS's, the ESA and various other policies the agencies are required to contend with. These lawsuits are typically filed against specific allotments that ranchers depend on for their livelihood. This normally forces producers to get involved in these lawsuits to defend their grazing practices. These lawsuits cost ranchers thousands upon thousands of dollars to defend their allotments and often times these individuals cannot pay the bill and are forced to lose their grazing rights. The misinterpretation and abuse of the above named policies are contributing to the extinction of ranching families and rural ranching towns.

Energy

We must put more effort into research and development of renewable energy. Fuel and fertilizer inputs are two of the largest costs for agriculture producers across the nation. In addition to oil prices, natural gas prices have severely elevated fertilizer and chemical pesticide costs.

Fuel production related to ethanol is an exciting opportunity to lessen U.S. dependence on foreign oil. Caution must be used to minimize the impact on corn supplies for livestock feeding. Livestock consume a majority of the corn that is produced around the nation and as supplies tighten a potential exists to harm the livestock industry. Development of alternative fuel sources is a beneficial thing for the entire country but discretion should be exercised to avoid harming industries that currently depend on these products. A careful balance must be struck between providing ample feed supplies, renewable fuel sources, and price.

Conclusion

This is an exciting time to be affiliated with the livestock industry. While the future holds great promise, we must be careful to learn from new lessons each day. We are not asking for any handouts or special consideration in the 2007 Farm Bill. We only ask that policy be developed that will allow producers to remain productive and competitive in the global market. Often times this means that government must stay out of the marketplace and allow market forces to dictate. We look forward to working with this Committee in the drafting of the new Farm Bill and hope we can work together to find the most efficient way to use the limited funds available in an equitable program.

Testimony of Theodore (Ted) Lorensen
Assistant State Forester, Oregon Department of Forestry
before the Senate Committee on Agriculture, Nutrition and Forestry

Hearing on 2007 Farm Bill

August 15, 2006

Introduction

Mr. Chairman and members of the Committee, thank you for inviting me to talk with you today about the 2007 Farm Bill.

The nation's forests provide a tremendous array of goods and services. They provide ecosystem services like clean water and carbon storage; they provide timber and jobs to rural economies around the country, where they support family wage jobs in manufacturing, forestry, transportation and services. Forests are very important to our economy and quality of life, yet the nation lacks a clear vision with policies that promote environmentally, economically, and socially sustainable management of the nation's public and private forests as a priority.

Family forestlands are an extremely important and vulnerable part of the land base that has been greatly assisted by farm bills in the past. More than 40% of our nation's forest lands are family-owned forests. These forests contribute to a wide array of tangible, marketable products, while meeting a range of soil, water, air, plant and wildlife goals. There are over 10 million family forest landowners who need federal financial and technical assistance. Technical assistance enables many landowners and operators to apply sustainable practices without necessarily requiring financial assistance, making these initiatives efficient and effective. Studies prove that forest landowners who receive technical assistance spend more of their own money to implement practices on the ground. According to a recent Forest Service report, "Forests on the Edge," more than 44 million acres of private forest nationwide -- about 11 percent -- are expected to see increased development within the next 25 years. The report says most of the boom will be in watersheds in California, the Pacific Northwest and the eastern United States, the report says.

In addition to recognizing the role that family and non industrial private forests play in the conservation of the nation's natural resources, we must think broader than these ownership boundaries. The nation is in need of a strong commitment to sustainable forest management across all ownerships, not just family-owned forests. Federal forests, state

forests, other public forests, and private forests all have important roles and are dependent upon each other in achieving overall sustainability. The interdependence of public and private forestlands is now being well demonstrated by the loss of lumber mills and other infrastructure necessary to support the essential management of our forests throughout the West. Private forestlands in parts of eastern Oregon can no longer be economically managed due to substantially increased hauling distances to the nearest remaining markets. Based upon recent analysis conducted by the Department and USDA Forest Service, if current policies remain in place, it is likely that 3 additional mills in eastern Oregon will soon close, making the problem worse. Without the opportunity to manage these lands, forest health cannot be sustained and uncharacteristic wildfire will continue to test our resources.

"Sustainable forest management" is an internationally accepted and applied concept. Key to the vision of sustainability is that, across large areas, forests must be able to deliver a full, integrated set of values and services. That is, the social, economic, and environmental values services of our forest must be considered together and in an integrated manner.

The need for integration is based upon a key realization that if forests cannot generate revenue than we either risk conversion to other uses or forests will become unhealthy as the landowners cannot afford to keep them or manage their forest's health. Thus, we lose the benefit of environmental values such as clean water and wildlife habitat, or social values such as recreation and scenic beauty. This is true on both public and private ownerships.

At the same time, if a forest's intrinsic environmental values are not protected we jeopardize the basic soil, water and biological capacity that underpin the derived economic and social values. Social values obtained from forests such as recreational opportunities and scenic beauty cannot be provided if the environmental and economic aspects of forests are not also maintained. And completing this integrated circle, if the environmental and economic concerns push beyond the social license to do forest management, we lose our ability to enhance and manage the forests' resources.

The vast majority of our laws and policies in the US do not reflect this concept—that the economic, social, and environmental aspects of forests are each important and essential to maintaining and conserving the nation's forests.

Currently, there is no national statement in support of sustainable forest management. We continue to work in a policy environment that does little to encourage sustainable management on the forest landscape and across all ownerships. Various realities reflect this lack of sustainable forest management laws and policies including:

- Rapid loss of forests to development
- Widespread sale of industrial forestlands
- Growing forest health problems—insects, diseases, invasive species, and wildfires
- Continued disinvestment in federal forestlands
- Changing market forces through globalization

- Economic instability of private family forests.

Sustainable forest management can help address these challenges and at the same time provide numerous new opportunities for the nation including improved energy security, reduction in greenhouse gases, cleaner water, healthy rural economies and domestic jobs, to name a few. We should concentrate our efforts on promoting policies and investments that keep our forestlands producing a wide array of outputs. With the right policy framework and investments, forests in the United States have great potential to increase their contribution to the social, economic and environmental health of our great nation.

This new vision of and wise investment in sustainable forestry is clearly needed to allow our forest sector to compete in the global economy and realize its economic, environmental and social potential at home, while avoiding transferring environmental costs to less enlightened nations.

The forest sector is extremely important to the nation's and Oregon's economy. The Oregon Forest Resources Institute (OFRI) commissioned E.D. Hovee & Company in 2004 to conduct an economic study, *Oregon Forest Sector Contributions and Potential* (copies of the Phase I and II Reports' Executive Summaries are attached). The study's goal was to identify steps that the forest sector could take to enhance its contributions to the state's economy, particularly in rural communities, while keeping its internationally regarded environmental commitments.

Phase I of the study found that Oregon's forest sector provides 85,600 direct jobs and a total of 190,400 direct and indirect jobs when multiplier effects are included. These direct and indirect jobs account for some 9% of jobs in Oregon and 10% of the state's labor income. The total economic output supported directly and indirectly by Oregon's forest sector is about $22 billion, or about 11% of the total value of goods and services produced in Oregon.

The study also found that the projected harvest levels of less than 4 billion board feet annually over the next 10 years were less than half of the harvest levels in the 1980s. This projection was due primarily to a continuation of the current management strategies on federal forestlands that have reduced their harvest by more than 90 percent. While harvest levels on private lands have remained relatively stable, they now account for 85% of the total harvest, which underscores the importance of private lands. The study concluded that, **without major changes in federal timber harvests**, annual statewide harvest levels could be increased by 25% to 5 billion board feet, potentially providing more than 20,000 additional forest sector jobs. Still well below the biologically sustainable level of 10 billion board feet.

Phase II of the study *(Oregon's Forest Cluster)* concluded that to compete more effectively in the 21st century global market, Oregon's forest sector needs to embrace an updated, expanded "forest cluster vision." The Forest Cluster Analysis recommends a new vision that encompasses: 1) strengthening a core forest sector with enhanced networking capability, 2) positioning Oregon as a global leader committed to both market

and non-market objectives, 3) pursuing commodity and value-added niches and 4) benefiting rural and urban communities. The forest cluster is likely to be enhanced by providing the regulatory incentives necessary to sustain long-term investment in healthy Oregon forests while offering the flexibility for businesses, non-profits and public agencies to be nimble in creating and sustaining market leadership yielding economic contributions to the state for generations to come.

Congress needs to clearly establish a vision and policies that promote sustainable management of the nation's public and private forests as a high priority. The vision and policies need to promote the great potential of the nation's and Oregon's forests. A strong statement about the nation's commitment to sustainable forest management is needed in the 2007 Farm Bill. Such a statement will:

1) Express the importance of sustainable forest management across all ownerships; federal, state, other public, industrial and family forests;
2) Encourage and promote dialogue around establishing a national policy;
3) Encourage new and innovative policy ideas and create new non-regulatory programs that support sustainable forest management across the landscape and ownership boundaries;
4) Clarify and enhance the roles of federal, state, and local governments, respectful of the delegation of powers, to promote regional collaboration and joint planning and program delivery;
5) Respect the critical role of private forest ownership in our country while striving to conserve, in a fair and equitable manner, the public benefits that they provide;
6) Recognize that federal lands must better contribute to the goal of sustainable forests in a coordinated manner across landscapes, and that in some parts of the country these lands have a **pervasive influence on the sustainability of all forestlands**.
7) Promote new and creative delivery systems for outreach, education, research and technical assistance to deal with the changing environments of forest ownership, management and investment; and
8) Encourage the revision of forest tax policy in relevant legislation to create fiscal mechanisms for new emerging environmental markets, establish a clear national priority for sustainable forests across all ownerships, and level the playing field so sustainably managed forests can compete with real estate market values; and
9) Recognize the global influences that impact US forests and the impacts that America's consumption of wood has on the world's forests.

The National Association of State Foresters and the Society of American Foresters are currently working on these ideas and they invite you to join them as further development is made in conjunction with various partners and interests. We look forward to working with you to promote sustainable forest management across our nation.

In the short-term, forestry needs to be a part of the Farm Bill with its own title as well as integrated into other titles like conservation, energy and rural development--since forestry can help meet the goals of these titles too. We offer the following suggestions:

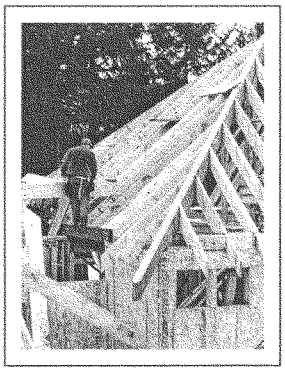
- Place a higher priority on forestland than currently exists and encourage greater participation by forest landowners.
- Leverage income from both public and private sources to reward private landowners for managing their lands to provide public benefits to communities and the environment.
- Be well integrated and coordinated among federal and state partners, in order to improve efficiency and facilitate landowner participation in programs.
- Be directed at key state priorities, encourage multiple landowner cooperation across landscapes and watersheds, and address issues on a scale that will make a difference on the ground. Support for renewable fuels development – bioenergy – should be an important consideration for the future Farm Bill. Attention to forestry in the Farm Bill should recognize the pressures that family forest landowners are facing. Changes in statute should provide more reasons for family forest landowners to retain ownership, rather than sell and further fragment our forests.
- Recognize the central role that outreach, education and technical assistance can play in guiding forest landowners toward sustainable stewardship of their forests, and the role that forestry research can play in moving these objectives forward.

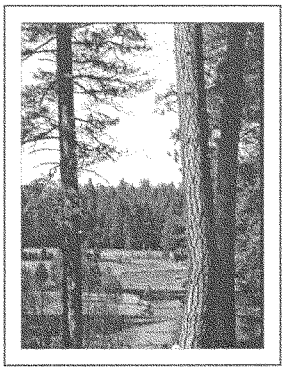
State Forestry Agencies are willing to bring more information and input to the discussion on Farm Bill issues over the next six months, as well as to help implement the Farm Bill's forestry initiatives.

Study Highlights

Oregon Forest Sector Contributions & Potential

May 2004





A new economic study confirms the importance of the Oregon forest sector to the state's economy today and in the future. The sector is critical for the prosperity of rural Oregon. The study outlines options that allow increasing jobs and revenues from the forest sector consistent with Oregon's vision for environmentally, socially and economically sustainable forest management.

Of paramount importance is maintaining the stability of timber supply so Oregon can maintain the competitive advantage it has traditionally enjoyed in talent and infrastructure. Without stability, including more intensive management of federal lands, the industry faces disincentives and higher risk of disease, insect infestation and intense, uncharacteristic fire. This problem is already evident in eastern Oregon. If increasing amounts of land are reserved from harvest, Oregon runs the risk of losing forest management expertise and resources that distinguish Oregon around the world and make the state a leader in forest resource protection.

Oregon Forest Sector Contributions & Potential, the study conducted for the Oregon Forest Resources Institute by E.D. Hovee & Company and FP Marketing Solutions, describes contributions of the forest sector to Oregon's economy and evaluates best opportunities for forest products to compete in a global market. Special attention was given to opportunities associated with secondary wood products, small and large logs and *Brand Oregon*.

For a copy of the full study, contact the Oregon Forest Resources Institute at 503-229-6718, Ext. 21, or via email at ofri@info.com. The study also can be downloaded from OFRI's website at www.oregonforests.org.

Study Highlights Include:

- Oregon's forest sector is important to the economy today and in the future.
  - o It is especially critical for the prosperity of rural Oregon.
  - o Oregon can increase forest sector revenue and employment without diminishing its commitment to sustainability.

- Stability of timber supply is important in maintaining the competitive advantage Oregon has traditionally enjoyed in talent and infrastructure.
  - o Maintaining stability, including more intensive management of federal lands, is essential to avoid industry disinvestments and reduce the risk of disease, insect infestation and uncharacteristic fire. The need for stability is particularly evident in eastern Oregon.

- Tilting too far toward reserve strategies costs us more than harvest revenues – it risks the loss of forest management expertise and resources that distinguish Oregon around the world and make us leaders in forest resource protection.

- Forest land-use protection is put at risk by increasing regulation and limiting infrastructure to the point that private forestland cannot be profitably maintained in timber production.

- Oregon's forest sector has restructured in the wake of timber supply restrictions on federal lands plus rapid changes in both technology and global competition.

- Total harvest levels today from public and private forests are less than 4 billion board feet annually—less than 50% what they were in the mid-1980s. While harvest levels on private lands have remained relatively stable during this period, they now account for 85% of the total harvest.

- The core forest sector groupings of Primary Products, Secondary Products and Forestry Services:
  - o Employ 85,600 people as of 2000 (4% of Oregon's total employment). Total direct and indirect jobs produced by the sector exceed 190,000—9% of total state employment because the industry has a relatively high job multiplier of 2.22 – for every person employed directly in the forest sector, another 1.22 jobs are supported elsewhere.
  - o Account for a total industrial output of $12.6 billion and wage income of $3.5 billion (over 6 % of the total output value of the state and 5% of Oregon's wage income). The Primary Products sector pays an average wage $49,800—45% higher than the state's average wage of $34,400.

- Competitive strengths noted by stakeholders include highly productive forests, a strong forestry infrastructure (westside), proximity to markets, and a tradition of environmental leadership, including land use laws protecting forest use.

- Disadvantages cited include effects of reduced harvest, high cost of production and an unpredictable political climate. These factors have led to deterioration of forestry infrastructure east of the Cascades.

- Global production of wood fiber is expected to outpace demand, placing more intense cost pressures on Oregon's forest sector. Two divergent approaches are anticipated from industry participants—improved efficiencies for cost reduction and specialty products supporting premium pricing.

- Certification standards appear important to achieve market access (especially for retailers), but do not yet support a clear market premium.
  - o Uncertainty is expressed as to whether Oregon wood can establish a distinctive presence in a commodity market.
  - o Cautious optimism is noted for a *Brand Oregon* concept emphasizing both sustainable forest management and the quality of Oregon wood.

- Oregon's forestlands are being managed under three primary strategic approaches: Reserve (managed for older forest habitat and objectives other

than harvest), Multi-Resource (managed for a variety of environmental and social objectives with limited harvest) and Wood Production (managed primarily for wood production).

- o This results in an overall management strategy that can be economically, environmentally and socially sustainable across the landscape.

- While baseline harvests dropped from 8.7 billion board feet in 1986 to 3.4 billion in 2001:
  - o Annual harvest projections range from a baseline scenario of about 4 billion board feet annually (most likely over the next 10 years) to a possible long-term sustainable harvest of up to 5 billion board feet, primarily from private forestlands. (This is well below the "biological potential" of 10 billion board feet.)
  - o At 5 billion board feet per year, the potential added direct job impact is estimated at 38,100.

- Other scenarios also were evaluated:
  - o Variables that affect the future harvests actually realized include the degree to which federal harvests approach levels of the Northwest Forest Plan and subsequent Healthy Forests Initiative.
  - o Management of state forests for multi-resource use, and management intensity of both industrial and family forestlands for wood production use.
  - o Direct forest sector employment could increase from 21,000 to 52,000 jobs (above base year levels), depending on the forest management scenario considered.

- This review suggests that non-market values associated with Oregon's forests likely are less affected by the level of harvest than by how the forest landscape is managed. More intensive management of public and private lands can address both market and non-market values

Opportunities:

Looking to the future, opportunities to increase the market and non-market contributions from Oregon's forest sector appear integrally linked to:

- Acceptance of intensive forest management on some parts of the landscape— complemented by reserve and multi-resource objectives on other parts of the landscape—to better achieve economic, environmental and social benefits.

- Active management to achieve objectives, whatever and wherever they are—both market and non-market objectives, reserve and output objectives—on all three categories of the forest landscape.

- More certainty about the management and outcomes for Oregon's reserve, multi-resource and wood production forests—yielding stable harvest levels across small- to large-log and multi-species resources together with enhanced non-market values.

- Primary producers utilizing state-of-the-art technology for top-end products—accessing a broader customer base and creating a market premium.

- Secondary value-added producers encouraged to come, stay and expand in Oregon—backed by availability of needed in-state raw materials and supportive infrastructure.

- Forestry tourism generating more and better employment opportunities—and reinforcing non-market ecosystem services, proximate land and passive (non-use) values.

- A full complement of supporting infrastructure including trained labor force, contractors, transportation, material and equipment suppliers—together with responsive public education, transportation, land use/regulatory, community and public services.

- Use of *Brand Oregon* to describe and sell Oregon forestry outputs statewide and globally.

Implementation:

Some areas recommended for action or further research include the following:

- Convene stakeholders to collaboratively develop a common vision for Oregon's forest sector and its role in Oregon's economy.
- Recognize the eastern Oregon forest sector as an area of special emphasis for the state—addressing issues of declining employment, infrastructure, fire and habitat management on a priority basis.
- Conduct detailed market research and complete design for a forestry-based *Brand Oregon* initiative.
- Establish a working group to assist landowners and others seeking to be certified in a "market-based" forest certification scheme
- Work with federal land management agencies to establish protocols for more intensive fuel reduction to reduce risk of uncharacteristically intense wildfire and for other harvest activities—better implementing the adopted Northwest Forest Plan and Healthy Forests Initiative.
- Support research and outreach activities by the OSU Watershed Research Cooperative at the Hinkle Creek Paired Watersheds that evaluate the effects of modern forest practices on the physical and biological watershed characteristics, and evaluate the effectiveness and efficiency of modern forest practices in supporting the objectives of the Oregon Forest Practices Act and the Oregon Plan.
- Continue to work for recognition of the Oregon Plan for Salmon and Watersheds as the appropriate mechanism to protect and restore watersheds and listed anadromous fish populations.
- Develop and regularly monitor market and non-market benchmarks against which management and performance of Oregon's forest sector can be assessed.
- Support efforts to integrate a statewide conservation strategy with economic development priorities.
- Encourage changes in federal regulatory decision-making processes for consideration of short- and long-term risks to ecosystem health.
- Examine growth vs. likely harvest rates of Oregon's forests in different regions of the state (northwest, southwest, and eastern) that are managed under different management approaches (reserve, multi-resource, and wood production). Assess implications of growth in excess of harvest for increased timber harvest and for increased risk of uncharacteristically intense wildfires.
- Secure funding for research and implementation of prototype biomass and small timber projects.
- Conduct more refined and product-specific analysis of potential productivity questions for Oregon primary processors.
- Consider more detailed research to refine economic impact estimates and identify key opportunities for Oregon forestry tourism.

Bottom Line:

- Opportunities for improved economic contributions center on the need for a stable timber supply consistent with economic, environmental, and social objectives; development of new products and processes utilizing small diameter timber; and enhanced public awareness of the ability of Oregon forests to achieve economic, environmental, and social benefits.
- Barriers to be addressed include the need for a consensus vision and leadership to move from vision to action.

Assessment Highlights
Oregon's Forest Cluster

First of three economic assessments in Phase II of the study:
Oregon Forest Sector Contributions & Potential

Prepared for the Oregon Forest Resources Institute

October 2005

The Oregon Forest Resources Institute (OFRI) commissioned E.D. Hovee & Company in 2004 to conduct an economic study, *Oregon Forest Sector Contributions and Potential.* The study's goal was to identify steps that the sector could take to enhance its contributions to the state's economy, particularly in rural communities, while keeping its internationally regarded environmental commitments.

Based on 2000 data, Phase I of the study found that Oregon's forest sector provides 85,600 direct jobs, or a total of 190,400 direct and indirect jobs when multiplier effects are included. These direct and indirect jobs account for some 9% of jobs in Oregon and 10% of the state's labor income. The total economic output supported directly and indirectly by Oregon's forest sector is about $22 billion, or about 11% of the total value of goods and services produced in Oregon.

The study also found that projected harvest levels of less than 4 billion board feet annually over the next 10 years were less than half of the harvest levels in the 1980s, due primarily to a change in management strategies on federal forestlands. While harvest levels on private lands have remained relatively stable, they now account for 85% of the total harvest. The study concluded that annual statewide harvest levels could be increased by 25% to 5 billion board feet (still well below the biologically sustainable level of 10 billion board feet), potentially providing more than 20,000 additional forest sector jobs. Experience this past year reinforces this long-term potential, as timber harvest in 2004 was up by nearly a half-billion board feet to about 4.45 billion.

Phase II of the study provides economic assessments focusing on *Oregon's Forest Cluster*, *Forest Tourism* and *Forest Growth & Mortality*. Following are highlights of the *Oregon's Forest Cluster* assessment. Highlights of the *Forest Tourism* and *Forest Growth & Mortality* assessments plus the full Phase I and Phase II study reports are available from OFRI.

Oregon's Forest Cluster

A cluster approach is being promoted by the Oregon Economic and Community Development Department, the Oregon Business Council and others as a way a business sector can enhance its contribution to statewide economic development.

Oregon's forest sector typically is defined as comprising primary and secondary wood products plus forestry services. A cluster approach involves an expanded view of geographically concentrated and interconnected economic activities and linkages to customers and suppliers, focusing on current and prospective competitive advantages offered by a region and its networked economic activities.

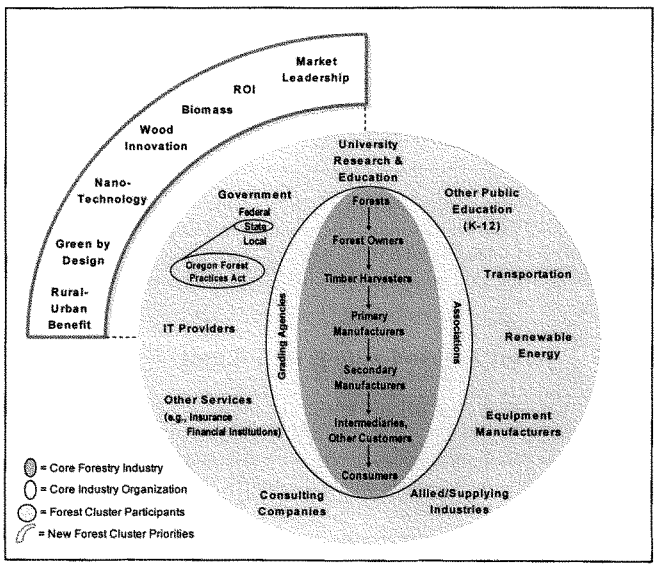
The forest cluster analysis represents the next step toward broadening the view of Oregon's forest sector to encompass an expanded cluster linked to existing and potentially supportive sectors throughout the state's economy.

Historically, Oregon's forest sector has been concentrated in or near the forest, with supportive industries (e.g., equipment suppliers, product distributors, etc.) more likely to be located in urban areas. While the historical linkages are still important, an updated cluster analysis is important to assessing opportunities for: 1) re-establishing linkages for improved individual company performance, innovation and statewide economic impact, and 2) identifying new partnerships with other new and emerging business clusters that have become critical to Oregon's continued prosperity.

Today the forest sector has restructured in response to changing timber supply and global competition and is now concentrated closer to major transportation corridors. It produces innovative products with an educated, technologically sophisticated workforce using research and high-tech equipment and processes. While the restructured forest sector is no longer the largest contributor to the state's economy, it is lean, resilient and competitive and remains critical to the prosperity of rural communities.

A New Vision for Oregon's Forest Cluster

To compete more effectively in the 21st century global market, Oregon's forest sector needs to embrace an updated, expanded forest cluster vision. The Forest Cluster Analysis recommends a new vision that encompasses: 1) strengthening a core forest sector with enhanced networking capability, 2) positioning Oregon as a global leader committed to both market and non-market objectives, 3) pursuing commodity and value-added niches and 4) benefiting rural and urban communities.



Source: Eric Hansen, FP Marketing Solutions, as modified by E.D. Hovee & Company, LLC

A key question for the future involves a strategic choice between a competitive approach prominent in other U.S. business sectors (taking advantage of quick-moving opportunities in a world of hyper-competition, customization and rapid technological innovation) and one common in China and other countries (investing in relationships that provide a long-term strategic advantage). Oregon's forest cluster historically has operated more by the latter model. The

question now is whether to stay the course or adopt a more *cutting edge*, rapid-fire business paradigm for global competitiveness. The strategic direction chosen could combine elements of both approaches by: a) providing the regulatory incentives necessary to sustain long-term investment in healthy Oregon forests while b) offering the flexibility for businesses, non-profits and public agencies to be nimble in creating and sustaining market leadership yielding economic contributions to the state for generations to come.

Summary of Forest Cluster Recommendations

A. MARKET LEADERSHIP

- *Sustainable, predictable* harvest, increased from 4 to 5 billion board feet per year
- Transition from commodity to more value-added *mass customization*
- *Cooperative legislative agenda* with other key Oregon business clusters
- Commitment to a statewide *green agenda*
- Moving the forest cluster *front & center* on the state's economic development agenda
- *R&D brokered* through OSU & cooperating institutions
- *Wood marketing* as the renewable, environmental & energy friendly alternative

B. ROI VIA STRATEGIC MANAGEMENT

- *Timely, reliable* forest growth & mortality data
- *Ecosystem services* tailored to diverse forest & landowner interests
- Potential *state acquisition* of over-cut lands for long-term schools funding as working forests
- Tradable monetary credits for *carbon sequestration*
- Mechanisms for voluntary purchase or donation of *conservation rights*
- Maintenance of *large log* milling & marketing capacity

C. BIOMASS CONVERSION

- *Statewide commitment* to biomass for renewable energy
- *Biomass* inventories & 10-15 year supply assurances – with eastern Oregon priority
- *Bio-energy* cost write-downs & encouragement of utility participation
- *Bio-fuels* encouragément with minimum instate ethanol standards & potential public corporation vehicle for facility financing
- *Bio-products* research & development via the Wood Innovation Center coupled with nanotechnology linkage

D. WOOD INNOVATION

- Globalized *information* dissemination & networking
- Real-time *buyer-seller* networks
- Customized, *rapid-fire* business & product research
- Forest cluster *business & finance* education
- Product design, testing & packaging *services*
- *R&D linkages* to biomass & nanotechnology commercialization
- Cooperative forest cluster *marketing*

E. NANOTECHNOLOGY

- *Partnership* exploration with ONAMI educational institutions & industry
- Forest nanotechnology *research leadership* with OSU & cooperating institutions
- Reach-out to *venture capital* partners
- Funding identification for *joint forest cluster/high-tech* nanotech research initiative

F. GREEN BY DESIGN

- Continued application of internationally recognized *criteria & indicators* for forest sustainability
- *Peer-to-peer* dialogue & education between Oregon's forest products and architectural/engineering communities
- Business-led approach – backed by *consensus-based* public policy
- *Cooperative initiatives* – for large log & nontoxic engineered products, life-cycle standards for materials selection, use of sustainable wood in urban construction
- Consideration of *statewide* forest certification

G. CLUSTERING FOR RURAL & URBAN BENEFIT

- *Active management* appropriate to wood production, multi-resource & reserve forests
- *Timber harvest* consistent with Northwest Forest Plan
- Scheduling to facilitate *multi-season* in-forest employment
- Incentives for *micro-business* including specialty species utilization
- Encouragement of forest-related *recreation tourism*
- *Investment* in rural transportation, infra-structure, rural industrial sites, affordable housing & Enterprise Zone opportunities

Statement on the 2007 Farm Bill for the Senate Agriculture Committee

August 15, 2006, Redmond, Oregon
Presented by: Klaren Koompin, American Falls, Idaho

I would like to thank you for the opportunity to provide input to your committee on the important job of designing the 2007 Farm Bill. I have been asked to represent the interests of specialty crop producers in the Northwest region of the United States. I currently serve on the board of directors for the National Potato Council, and have been president of the Potato Growers of Idaho. I also served as an executive member of the United States Potato Board (USPB), and my wife, Cheryl Koompin, is currently an administrative member of the USPB. I have also been involved with the Farm Service Agency as a past county committee member.

My brother and I started farming together in 1974. Our diverse farm of potatoes, sugar beets, grain and corn is located on the Snake River in American Falls, Idaho. Cheryl and I have two boys who have both graduated from college. They are back on the farm and hope to make farming their career.

Before I begin my comments on specific Farm Bill titles, I feel compelled to raise a critical issue, that if not resolved soon, will affect specialty crops more than all the titles of the Farm Bill combined. I refer to the rapidly developing shortage of immigrant farm workers. It is imperative that comprehensive immigration reform that includes the AgJobs provisions for agriculture be passed as quickly as possible. I applaud the vision of the Senate in passing this comprehensive reform and request that everything possible be done to maintain the important provisions for agriculture in the House / Senate conference committee.

Current efforts to tighten the border are contributing to an already critical shortage of farm workers. Many of our resident farm workers are being enticed by much higher paying jobs. I know of a large potato farm that normally secures 250 workers for harvest through simple advertisements in newspapers. This year, the farm only received 35 applications, which has put them in a very difficult situation. The booming construction industry in the Northwest will continue to lure away our current farm labor force. Other specialty crops have even higher labor needs than potatoes. Irreparable harm will be done to the suppliers of our nation's fruits and vegetables if workable guest worker programs are not enacted soon.

With respect to the 2007 Farm Bill, potato growers currently do not receive and do not want to receive direct payments of any kind. I also passionately believe, **any provisions in the new farm bill cannot favor or give advantages to one farmer over another.** We do believe, however, that there are many things that Congress can do to improve the competitiveness of our industry by investing in infrastructure, expand the use of conservation programs for specialty crop producers, improve our export possibilities, provide protection from invasive pests, expand research, and help to increase the consumption of fruits and vegetables as targeted in USDA's nutritional guidelines. The challenges associated with transportation also need to be addressed, and is a critical element that is too often forgotten. It is imperative that this committee collaborates with the appropriate jurisdictional committee to resolve many of the transportation issues crippling the agricultural industry.

Farm programs shouldn't put any sector of the Ag economy at a disadvantage. Perhaps the highest priority in the 2007 Farm Bill is to maintain the prohibition of planting fruits and vegetables on land where growers receive direct payments derived from having a "base" in a program crop. The demand for potatoes is very inelastic and even small increases in potatoes, or any other specialty crop for that matter, can result in a drastic decline of prices. Our industry has seen many such years recently, and cannot afford the market distorting changes that would result if the current prohibition were removed.

Because of the urgency in addressing the matters I am discussing with you today, I believe that a new Farm Bill should be adopted as scheduled, rather than extend the current Farm Bill as has been suggested. We support the broad principles of the specialty crop coalition, of which the National Potato Council has helped co-chair. We believe that it is in the best interest of America to support a strong specialty crop industry. On a per acre basis, potatoes and other specialty crops produce much more value than a crop such as wheat. Whereas an irrigated acre of wheat in Idaho may produce from $300 to $450 of value, on average, an acre of potatoes adds over $2,000 to the state's economy. Agricultural areas where specialty crops are grown support a much larger economy. Additionally, many specialty crops also support a large value-added processing industry.

That said I also support a strong wheat industry. Many growers in the Northwest also produce wheat, and due to the inelasticity of potatoes that I described earlier, we certainly do not want more wheat growers raising potatoes, unless the market for potatoes grows accordingly.

The following are specific priorities for potato growers as related to specific Farm Bill titles:

- **Conservation Programs: CSP –** The Conservation Security Program envisioned by writers of the last Farm Bill truly included some innovative concepts; however, the program was not designed to work for specialty crop producers. Some potato producers have been able to adopt practices that allow them to participate in CSP, but it will be very difficult for most. Producers of other specialty crops that require more soil cultivation, such as sugar beets, dry edible beans, and onions, will most likely find it impossible to qualify for CSP. The biggest problem with CSP is the slow and completely unfair way in which it is being implemented. **It is absolutely unfair and improper that one grower may be receiving payments of $40,000 per year, while a competing producer, in a different watershed, has not even had the opportunity to sign up; and at the current rate of implementation, may never get the chance.** The CSP program either needs to be revised and adequately funded or canceled. If it is not available to every producer, the program should be discontinued. If CSP is funded, EQIP funds should be targeted to help growers qualify for CSP.

  EQIP - We believe that a mandatory allotment of EQIP funds for specialty crop producers, similar to what currently exists for livestock should be adopted. Environmental benefits of reduced pesticide application can be achieved by helping growers adopt new practices, including IPM and organic production.

- **Risk Management** – Multi-peril crop insurance continues to be unaffordable for many potato growers and specialty crop producers. The current program does not adequately protect seed potato producers. We suggest a pilot project that would re-direct subsidies used for crop insurance into a "disaster savings program" that would help producers build up a savings account to use in times of crop disaster. We would also like a pilot program to develop a workable seed potato insurance product. We also have serious concerns with the pilot Adjusted Gross Revenue (AGR) program. We believe that despite efforts to make the program work, it is still too subject to fraud and is still market distorting. It also does not work well for producers that are consolidating and expanding their operations. The AGR Lite program will not work for most potato and specialty crop producers due to the gross revenue limit.

- **Transportation** – Although not a current Farm Bill title, good transportation infrastructure is vital to rural America. The Northwest's major potato markets lie far from production areas. The transportation of goods between all 50 states has to be facilitated by an efficient transportation system. The lack of two-way tracks in the United States is one obvious example of how the transportation infrastructure is crippling the agricultural industry. Adequate railroad infrastructure and competitiveness are vital to our agricultural economy. With respect to the highways and interstates, there is paramount need to make weight laws consistent across the entire nation. The law that fixed all weight limits in the United States needs to be repealed. While I acknowledge that this is an agricultural hearing, if the nation's transportation system is revamped, it could do more for specialty crops than any amount of money allocated in the next farm bill.

- **Energy Production** – The current high energy prices have had a serious affect on specialty crop producers. High fuel prices lead to high fertilizer and pesticide prices as well. We do believe, however, that there is a very real silver lining to high fuel prices – production of ethanol from grain and cellulose, as well as farm produced bio-diesel. U.S. policy should promote the production of these renewable energy resources. Perhaps the result of increased renewable energy production around the world will be a new level of rural prosperity. Perhaps even a level of prosperity that will allow program crop subsidies to be cut and the funds to be re-directed to areas that are in serious need.

- **Research** – We support significant new investment in research for specialty crops, through both the National Research Initiative and programs within Cooperative State Research, Education and Extension Service (CREES) and Agriculture Research Service (ARS). With the sale of organic products rising nearly 20 percent per year, we support a significant increase in research dedicated to organic production and farm conversion to organic systems.

- **State Block Grants** – We support an expansion of the State Block Grants for Specialty Crops program originally authorized in the Specialty Crop Competitiveness Act of 2004. Due to the wide diversity and localized needs in

specialty crop production, state departments of agriculture are uniquely able to assist local growers with the specific investments they need to increase competitiveness.

- **Nutrition Programs** – We support a strong new emphasis within the 2007 Farm Bill on increasing the availability and consumption of fruits and vegetables. Access should be increased through all USDA nutrition programs. Cooperative promotional programs should also be included as a way to improve the attitude of consumers towards the consumption of fruits and vegetables.

- **International Trade** – We support programs to increase foreign market access, to increase funding for Technical Assistance for Specialty Crops program, and creating a new Export Division within Animal, Plant, Health, and Inspection Service (APHIS) to attach with much greater vigor the real, but too often hidden trade barriers facing our industry in Sanitary and Phytosanitary (SPS) issues. We also support continuation of the Market Access Program (MAP).

- **Invasive Pests and Diseases** –We support significant new investment in prevention of the unintentional introduction of plant pests and diseases, such as the Potato Cyst Nematode that we are currently dealing with in Idaho.

- **Unique Attributes of Specialty Crop Producers** –Due to the nature of high-value specialty crop production, many current Farm Bill programs and disaster programs are of limited value to specialty crop producers due to payment caps, and limits on adjusted gross income. If an ad-hoc disaster program is ever offered again for potatoes, we offer to help design a program that will be both more fair and workable to producers and save the government money. We support a thorough review of all farm programs to ensure that specialty crop producers have access to benefits comparable to other farmers.

Thank you for the opportunity to provide input into the 2007 Farm Bill.

National Association of Wheat Growers
415 Second Street, N.E., Suite 300, Washington, D.C. 20002, (202) 547-7800 • Fax: (202) 546-2638

Sherman Reese, Past President
National Association of Wheat Growers
before
the Senate Agriculture, Nutrition and Forestry Committee
Farm Bill Regional Hearing
Redmond, Oregon
August 15, 2006

Mr. Chairman and Members of the Committee, my name is Sherman Reese. I am a wheat farmer from Echo, Oregon and am currently serving as the Past President of the National Association of Wheat Growers (NAWG). I thank you for this opportunity to discuss our members' concerns about the current Farm Bill and our thoughts on the 2007 Farm Bill.

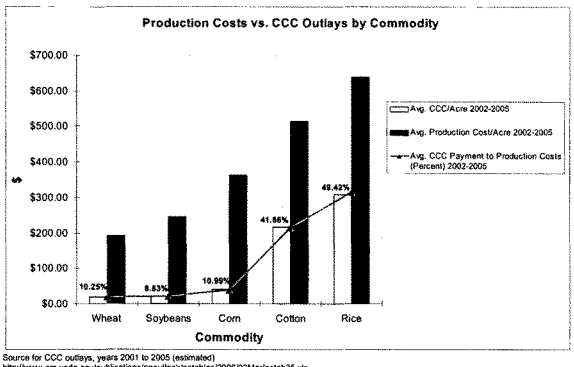
Effective farm legislation is essential, not only for wheat growers, but also for rural economies and American consumers. Farm programs were designed to cushion the boom and bust cycles that are inherent to agricultural production and to ensure a consistently safe, affordable and abundant food supply for the American people.

The 2002 Farm Bill has strong points, and the wheat growers that I represent here today believe that the next Farm Bill should build on these strengths. But, while wheat growers generally support current policy, much of the "safety net" provided by the 2002 bill has not been effective for wheat farmers.

Since 2002, wheat growers have received little or no benefit from two key components of the current bill, the counter cyclical program and loan deficiency payment program, for two main reasons. First, severe weather conditions for several consecutive years in many wheat states have led to significantly lower yields or total failure. The loan program and the LDP are useless when you have no crop. Secondly, the target price on the counter cyclical program for wheat was set considerably lower than market conditions indicated, and severe weather conditions in some areas have created a short crop, which has led to higher prices in other areas. As a result, there has been very little support in the form of counter cyclical payments.

As you can see by the chart in my testimony, the support level for wheat compared to other commodities for the 2002 to 2005 (estimated) crop years, even as a percentage of production costs, is relatively low.

	Wheat	Soybean	Corn	Cotton	Rice
AVG CCC/Acre '02-'05E	$19.71	$20.67	$40.68	$216.38	$308.87
AVG Production Costs/acre '02-'05E	$192.64	$245.25	$362.61	$513.81	$638.76
AVG CCC to Production costs (%)	10.25%	8.63%	10.99%	41.68%	49.42%



Source for CCC outlays, years 2001 to 2005 (estimated)
http://www.ers.usda.gov/publications/agoutlook/aotables/2006/03Mar/aotab35.xls
Sources for production costs/acre: http://www.ers.usda.gov/Data/CostsandReturns/testpick.htm

We are not, in any way, suggesting that other crops receive too much support – far from it, they face the same problems our growers face and rely heavily on this safety net. We are simply stating that wheat producers need a viable safety net also. There is no doubt that America's farmers would rather depend on the markets than the government for their livelihoods, but the current economic and trade environments do not offer a level playing field in the global marketplace. Many of our trading partners support their farmers at a much higher rate than in the U.S. At the same time, we face continually increasing production and transportation costs. Fuel and fertilizer prices are up an estimated 24 to 27 percent for wheat growers just from last year, as estimated in a recent FAPRI report, and the current disaster situation, including droughts, floods and fires, has been especially troubling for our members.

These issues, along with potential changes in the World Trade Organization rules, have led us to begin looking at other options for the 2007 bill. While we are not currently committed to any one proposal, we are analyzing the effects of making minor changes to program components.

For instance, we are examining the impact of increasing the direct payment. This component provides the most reliable cash flow of all program components and, as such, greatly aids in securing operating credit. We are also studying an increase in the target price to be more aligned with today's market conditions while leaving the current structure of the loan program as is. Another concept involves altering the counter cyclical program to be based on revenue rather than price alone. I expect our full board will be looking closely at the effects of these options and others in the near future and will soon be recommending specific proposals.

Also, our members would like to see the conservation programs continue as presently authorized, but with full funding, and we would like to explore opportunities to streamline program sign-up to be less time consuming and more producer friendly. We also believe strongly in the pursuit of renewable energy from agricultural sources and support additional incentives for further research and development of renewable energy initiatives, specifically cellulosic ethanol.

In closing, I must state that we are firmly committed to developing an effective 2007 farm bill and welcome the opportunity to work with you to do so.

Thank you for this opportunity. I am ready to answer any questions you may have.

U.S. Senate
Committee on Agriculture, Nutrition and Forestry
Regional Farm Bill Field Hearing
August 15, 2006
Redmond, Oregon

Testimony of:
Ray Souza
Mel-Delin Dairy
Turlock, California

On Behalf of:
Western United Dairymen

Good morning Chairman Chambliss and Members of the Committee. I want to thank you for holding this Western Field Hearing today and the chance for me to provide input on current and future federal farm policy on behalf of dairy producers. My name is Ray Souza. I am the owner and operator of Mel-Delin Dairy in Turlock, California, which consists of 300 acres and 1,200 head of dairy cattle. I have been in business on this farm since 1984.

I am a past President, currently Vice President and Chairman of the Legislative Committee of Western United Dairymen, a trade association that represents over 1,100 of the dairy producer families in California. I am also a Member of California Dairies, Inc., the largest milk marketing cooperative in California, and the second largest cooperative in the country. My dairy is located in the heart of the Central Valley — an area that is home to the production of one out of every five gallons of milk produced in the U.S.

Before moving specifically to the Farm Bill, let me first tell you that California dairy producers have a crisis on their hands. We have historically low milk prices, which we've had before. But what is different this time is those historically low milk prices have to cover historically high input costs. Diesel fuel, corn, alfalfa, electricity, you name it. Our costs are up dramatically and our income is down just as bad.

Late season and persistent rain virtually ruined first-cutting alfalfa. My brother is in the hay business and I can't even find the top-quality hay I'm used to feeding at any price. Corn is getting very expensive as well. We don't grow much corn in California, and what we do grow is chopped into silage. Corn for our grain and concentrate mix is getting more expensive every day because of higher demand and higher trucking costs.

To top it all off, we just lived through nearly two weeks of 100-degree plus temperatures. California dairy producers lost an estimated 20,000 to 35,000 cows in just that two-week period. The cows that made it through, especially the high-producing early-lactation cows, won't recover to their full production potential until they have their next calf about a year from now.

Mr. Chairman, it's hard to find positives given these conditions I've described, but you've asked me here today to discuss the Farm Bill and I can tell you there are many good things about that bill. The Dairy Price Support Program came into play early in the life of the Farm Bill, was not used at all during the middle of the five-year period for the bill and, unfortunately, has come back into play during the past few months.

There are three major points I'd like to make about the Price Support Program. First, it has cost far less than projected at the time the bill was passed.

Second, it did help keep the bottom from falling out in 2002 and early 2003 during a period of the lowest prices in a generation. Although I will tell you that implementation of the program could clearly have been improved, since the price got as low as $8.47/cwt in California, while Congress has mandated that the program not allow prices to fall below $9.90/cwt.

The third point I'd like to make is that this is the one farm safety net program written to allow the federal treasury to recoup its cost. The government either sells surplus dairy products back to the commercial market when prices rise or uses them for nutrition assistance programs either here or abroad. So not only are farmers supported when prices are headed down, consumers benefit when prices are headed back up as stored product comes back onto the commercial market. Nutrition assistance programs are important to everyone, and dairy farmers have historically had a great working relationship with the nutrition community on sound federal policy in that arena.

Given the fact that a new WTO agreement seems very unlikely, there is no reason the Dairy Price Support Program should not be continued. Given the history of expenditures in the current Farm Bill, the fact that the cost is recovered, and what appear to be far higher input costs for dairy farmers in the foreseeable future, the "score" on this program for the next Farm Bill should be significantly lower if the current level of $9.90/cwt remains the same.

The Milk Income Loss Contract Program, or MILC, or now "MILC-X," has far less consensus of opinion among producers in the west. Future programs of this type must be non-discriminatory, and a careful evaluation of their potential to stimulate production must be conducted and considered as policy is developed.

I'd like to move now from "MILC" to two programs that are "MIA – missing in action." The 2002 Farm Bill includes authorization and funding for the Dairy Export Incentive Program, or DEIP. The DEIP is our counter to the European Union's aggressive export subsidies that are often responsible for keeping world dairy product prices artificially low. It is fully WTO-legal, authorized and funded by Congress, and signed into law by the President.

Mr. Chairman, during that period of the lowest prices in a generation in 2002-2003 the Department released DEIP bonuses for a little butter and that was all. So far, in 2006, again with very low prices and much economic pain for dairy farmers, there is nothing on DEIP. Something this Committee could do tomorrow, to help dairy farmers and rural communities nationwide, is to ask the Secretary of Agriculture to authorize some DEIP bonuses.

It was also during that period of low prices a couple years ago that dairy farmers stepped up with the National Milk Producers Federation's Cooperatives Working Together (CWT) self-help program. This is a good example of the "hand-shake" dairy farmers are looking for from government as opposed to a handout. Issuing DEIP bonuses now would spur the development of export markets for U.S. dairy products, make CWT more effective, reduce CCC surplus purchases, and reduce the cost of MILC to the federal treasury. It might also signal to our trading partners that the U.S. is serious about its farm safety net until they're ready to return to the bargaining table and make international competition in dairy more fair.

The other program passed in the 2002 Farm Bill, but not implemented to date, is the assessment of the promotion and research checkoff on imported products. Our own government says they won't even try to implement that import checkoff because our law exempts a little over 1/100th of a percent of milk produced in this country. I suppose with the recent collapse of the trade talks, maybe the WTO really doesn't have anything better to do than worry about point-zero-one-percent of milk produced in the U.S. Still, the marketers of those imported products benefit from our farmer-funded promotion and research programs, so it's time that our government says they have to pay their fair share.

Gladly moving back now to things this Farm Bill does right, the Conservation Title includes a very import program for western dairymen. The Environmental Quality Incentives (EQIP) program has worked very well in California. Dairymen in my state especially appreciate the local control involved in approval of the cost-share contracts. We have had a very good working relationship with NRCS Chief Bruce Knight in Washington, D.C., and State Conservationist Lincoln E. Burton. Mr. Burton was especially helpful in developing ways to move funds from counties where EQIP was undersubscribed to counties where the program was oversubscribed.

On the flip side of the coin, however, is the Conservation Security Program (CSP). It seems this program suffers from the lack of local control that has made EQIP so successful, since to participate in CSP you must first be located in a primary watershed as designated by somebody in Washington, D.C.

California dairy farmers have been at the forefront in development of technologies for turning livestock waste into energy. We believe we can continue to develop as a significant energy supplier, but incentives will be required. We strongly urge you to include an aggressive Energy Title in the next Farm Bill. A key area on that front will be technology review and evaluation. There is seemingly no lack of technologies out there but no one knows what really works and what doesn't and farmers simply do not have the resources, let alone the time, to experiment.

Animal health programs are critical to the dairy industry. The Johne's Disease Control Program authorized in the 2002 Farm Bill has been put to good use by the dairy industry. We must, however, rely on the annual appropriations process for the funding. I urge you to authorize a reliably funded Johne's Program in the next Farm Bill.

Dairy farmers support animal identification. The development of a national ID system should continue along the lines of the USDA five-year plan and then become a mandatory system.

I mentioned nutrition programs earlier. They have been an important feature of the Farm Bill for both producers and the public. The WIC and Food Stamp Programs provide nutrition assistance and education for our most at-risk citizens. Farmers benefit from the food requirements those programs include. The variety of foods in those programs should be increased. The best nutrition science available today suggests, however, that dairy foods not only provide many essential dietary requirements, they play a valuable role in maintenance of proper body weight. Keeping dairy requirements in those programs fully funded is the right thing to do.

A subject that comes up from time to time is forward contracting for dairy farmers. Simply put, forward contracting between farmers and private handlers is not consistent with the goals of a system that includes regulated minimum prices. If you're in favor of pooling, this type of forward contracting cannot be allowed.

While these are not Farm Bill programs, there are a few priority issues for dairy farmers right now I'd like to mention. First, dairy farmers in all parts of the country rely on immigrant labor to milk their cows. Access by farmers to a properly documented workforce is a must for everyone in this country, not just farmers. An effective guest worker program improves national security. However, a policy that forces farmers to be responsible for document verification and subject to fines or worse will make many decide that continuing to farm is simply just not worth the risk involved.

I'd like to take this opportunity to thank the Committee for its help in passing S 2120, the Milk Regulatory Equity Act of 2006. This bill has already helped level the playing field for dairy farmers in this part of the country.

Mr. Chairman, thank you again for holding this hearing and allowing me to testify. I will be happy to try to answer any questions you or other Members of the Committee may have about these issues.

Personal Biography of
RAY SOUZA

PERSONAL HISTORY:

A native Californian, born and raised in Turlock, California. Graduate of Turlock High School, and attended Modesto Junior College, completing various courses pertinent to agriculture. Married 35 years to wife Lynette; one daughter, Jaymi Barandica, and one grandchild.

OCCUPATION:

Owner/Operator of Mel-Delin Dairy, Turlock, California, consisting of 300 acres, 1200 head of dairy cattle. Current rolling herd average 26,000 pounds of milk. Acquired ownership of Mel-Delin Dairy in 1984, and through subsequent purchases the original dairy now consists of over 220 acres. Breeder and developer of Holstein sire *Mel-Delin Boutonniere*, highest type sire in U.S. in 1989.

APPOINTMENTS AND OFFICES:

- Elected Chairman of Stanislaus County Planning Commission (2006)
- Appointed to Stanislaus County Planning Commission (2002)
- Elected President Western States Dairy Producers Trade Association, a multi-state association of dairy producer trade associations representing seven western states (2002 – 2005)
- Appointed to the USDA /USTR Agricultural Technical Advisory Committee ATAC (2001 – Present)
- Elected President, Stanislaus County fair (2001-2002) maximum term allowed
- Appointed to Governor Gray Davis' Ag-Water Transition Team (1998)
- Elected Board of Directors, Western United Dairymen (1994 – present)
- Elected President, Western United Dairymen Board of Directors (1998-2001) maximum term allowed
- Appointed by USDA to National Beef Promotion & Research Board of Directors (1994 – 1998)
- Appointed by CDFA to California Beef Council (1991 – 1999)
- Appointed to Stanislaus County Fair Board of Directors by Governor Pete Wilson (1996)
- Elected VP Stanislaus County Fair Board of Directors (2000 – Present)

MEMBERSHIPS:

- Turlock Chamber of Commerce (2002 – Present)
- Stanislaus County Farm Bureau (1980 – Present)
- Western United Dairymen and predecessors (1975 – Present)
- California Farm Bureau (1980 – Present)
- California Dairies, Inc. Cooperative and predecessor (1996 – Present)

ACTIVITIES:

- Turlock Chamber of Commerce Legislative Committee (2001 – Present)
- Committee Member & Presenter, 1999 Governor's San Joaquin Valley Economic Summit
- Co-Chairman, WUD/CFBF Environmental Task Force (1998 – Present)
- Invited speaker on agriculture at various civic groups
- Agriculture Chairman, Salute to Youth Night (1990)
- Turlock Chamber of Commerce Agriculture Scholarship Committee (2001 – Present)

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Testimony of
Mark Wettstein
Board member, Nyssa-Nampa Beet Growers Association
To the Senate Agriculture Committee Field Hearing in
Redmond, Oregon
August 15, 2006

Mr. Chairman and members of the Committee: My name is Mark Wettstein. I live in Ontario, Oregon. My wife Kelly is an OB nurse – we have three daughters – my only son died from a farm accident. We farm 1200 acres – 350 acres of beets, 175 acres of onions, and the rest is divided between wheat, corn and alfalfa. Over the years, the smaller family farms in our area have been disappearing, and larger farms are the only ones who can stay in business.

Eight years ago, twelve hundred sugarbeet growers in Oregon and Idaho bought the Amalgamated Sugar Company, which consisted of four processing factories. These factories are some of the finest and most efficient beet factories in America and around the world. To do so, we took on a lot of personal debt and made huge personal investments. We took these actions based on a sound sugar policy and a balanced domestic market. Growers believe that the structure of our sugar policy is a good one. It was designed to benefit farmers, our factory workers, our processors, and taxpayers and consumers. I want to be clear that we support this current policy, and want it to continue.

But two years ago, the factory in Nyssa, Oregon--where I had delivered my beets--closed its doors. It was an excellent factory. Why did the farmer-owners decide to close it?

Because there is one aspect of our trade policy that threatens this program. Our trade negotiators continue to give away our market in foreign trade deals.

The United States is the second-largest importer of sugar in the world, but our own trade negotiators keep giving our market away. I understand they gave some more access to Mexican sugar just a couple of weeks ago. Our growers are outraged and angry that U.S. trade negotiators take care of foreign producers in these trade agreements and then tell efficient, taxpaying American farmers, "tough luck." When farmers who own their factories have to shut them down, it just shows you how bad things are.

Now my beets have to be shipped 35 miles across state lines to Nampa, Idaho. The beets can move, but not the 600 jobs and a payroll of $12 million that our workers and communities have lost. The closure of our factory means a loss of approximately $1.5 million each year in sales and revenue to Amalgamated's local vendors and suppliers. That might not seem like a lot of money to the U.S. Congress, but our rural communities have felt the brunt of this pain and loss. I wish our trade negotiators would come out here and explain to our people why we have to get in line behind foreign producers to get access to our own market. There is something fundamentally wrong with that approach to trade.

Consolidation has been tough, but we have no alternative but to maintain our investments in specialized equipment and the value of our company shares. Otherwise, farmers and banks throughout the region would suffer, and 200,000 acres of prime land would have to go into other crops. Sugarbeets are the one stable crop that growers can count on—and keeping them is critical when we talk to our bankers.

Idaho and Oregon is the second-largest sugarbeet-producing region. Thousands of jobs are directly supported by the sugarbeet factories that process beets that are grown in Idaho, eastern Oregon and south-central Washington state. A recent study by the University of Idaho reports that the sugarbeet industry makes a $1.6 billion economic impact on the area economy. Eight crop alternatives to sugarbeets--wheat, barley, dry beans, corn grain, corn silage, alfalfa hay, potatoes and onions--were considered in a University of Idaho study. These crops are commonly grown in rotation with sugarbeets. If we were to lose sugarbeets, acres would go into these crops, most of which are already in surplus, and we would see a further price decline in those markets.

Additionally, the Willamette Valley in eastern Oregon is the only place in the country where sugarbeet seed can be grown. Production varies from 2500 to 6000 acres a year, with a value of $4 million to $8 million. The mild winters, low disease pressure and dry harvest weather makes the area desirable for growing seed. West Coast Beet Seed is jointly owned by a group of sugarbeet seed and sugar companies.

Our family farms, factory employees and the various related industries need a fair and stable sugar policy to continue well into the future. But they aren't the only ones who benefit from our current program. It's operating at no cost to taxpayers, and consumers get a dependable supply of an essential food ingredient at a stable price.

Senators, please tell our negotiators to stop giving away our markets, and keep the current program in the next farm bill. We need some guarantees that sugar from NAFTA, CAFTA, Columbia and Peru do not glut this county. The farm bill should send a clear message and that message is we have sugar in this county which shouldn't be messed up. Would consumers ever want to be dependent on foreign sugar like we are dependent on foreign oil.

I would like to submit a longer version of our industry's position for the record. Thank you for the opportunity to testify before your Committee.

Supplemental information attached to the testimony of Mark Wettstein, presented at the Senate Agriculture Committee field hearing in Redmond, Oregon on August 15, 2006

Sugar Policy Is Working

U.S. sugar policy is working for U.S. consumer and taxpayers, and gives American sugar farmers a chance to survive. The industry and the policy have survived some major challenges over the past few years.

- A disconcerting 3-year decline in sugar consumption during 2001-2003 coincided with some unusually large crops that caused a huge buildup in producer-held stocks of sugar in 2004 and 2005.
- The threat of large imports of sugar from Mexico under the NAFTA and possible mandates for more sugar imports in other free trade agreements caused uncertainty in the market.
- An unprecedented string of natural disasters – drought in the West, excessive rains in the upper Midwest, and three hurricanes that ravaged Louisiana and Florida – sharply reduced domestic production.

But the market is on the mend and the policy has shown its adaptability to challenging circumstances.

Sugar consumption has rebounded strongly. After average annual declines of more than 150,000 tons during 2001-2003, consumption has been growing at a robust rate in excess of 200,000 tons per year since then *(Figure 1)*.

USDA has responded to the coincidence of added demand and reduced supply in a manner that has defended both taxpayers and consumers. To their credit, USDA and the industry took immediate, effective steps to avoid a serious supply interruption.

- USDA allowed producers to release onto the market the half million tons of sugar producers had been required to store to balance the market.
- USDA more than doubled imports. We are now the world's second largest sugar importer.
- Cane refiners damaged by the hurricane worked frantically, with important help from USDA, to care for their workers and get their operations up and running again.

Throughout, consumer sugar supplies and prices have remained steady and U.S. sugar policy has continued to operate at no cost to taxpayers.

On the trade policy front, USDA has reassured Congress, and the industry, that it will not allow unneeded imports from Mexico or under other FTAs to jeopardize the no-cost operation of sugar policy for the remainder of the 2002 Farm Bill.

Background: Industry Size, Efficiency, Restructuring

The U.S. sugar producing industry accounts for 146,000 jobs in 19 states and generates $10 billion in annual economic activity. Sugar is vital to the economies of many states and localities.

In states such as Louisiana and Wyoming, sugar accounts for about 40 percent of the state's total crop receipts. Sugar accounts for 11-24 percent of all crop receipts in seven other states. There are small towns in every state that would most likely wither and die if they lost their sugarbeet or sugarcane processing plants.

The United States is the world's fifth largest sugar producer and consumer and the second largest importer. U.S. production is about evenly divided between sugarbeets, grown in twelve mostly northern-tier states, and sugarcane, in four southern states (*Figure 1*).

Two decades of declining real prices for our product have forced U.S. producers to reduce costs. We have done so through investment in yield-improving technology, in the field and in the factory – beet sugar yields per acre are up 35 percent and cane sugar yields 38 percent since the early 1980's (*Figure 2*) – and through a wrenching industry restructuring over the past several years.

Beet and cane growers throughout this nation are among the most efficient sugar producers in the world. We are particularly proud that we achieve this efficiency while complying with the world's highest labor and environmental standards and despite the strong dollar over the past several years, particularly relative to the developing countries that dominate the world sugar market.

According to LMC International's global 2003 survey, beet growers in the United States are the most efficient growers in the world. We are, as a whole, are the third lowest cost among 41 producing countries or regions; U.S. cane sugar producers are 26th lowest cost of 64 countries, virtually all them developing countries with low social standards and costs.

In the late 1990s, even nominal sugar prices were extremely low *(Figures 3-6)*, and this accelerated the industry restructuring. Just since 1996, nearly a third of all U.S. beet and cane processing mills and cane sugar refineries have closed. Independent beet processors and cane sugar refining companies sought to exit the business. When no potential buyers emerged, beet and cane growers, alarmed they would have no place to deliver their sugarbeets and raw cane sugar, organized cooperatively to purchase beet processing plants and cane refineries.

Just between 1999 and 2005, the grower-owned share of U.S. total sugar refining capacity more than doubled, from 34 percent to 84 percent. Growers' share of cane sugar refining capacity shot up from 14 percent to 73 percent; beet growers' ownership of beet processing capacity became complete, climbing from 62 percent to 100 percent. While this enables the growers/processors to achieve greater efficiencies, the enormous amount of investment involved makes the growers more dependent than ever on maintaining a stable sugar market in the U.S.

Background on U.S. Sugar Policy

U.S. sugar policy is unique among U.S. commodity programs. Under all commodity programs, the government offers farmers operating loans which they can satisfy by repaying the loan with interest or by forfeiting to the government the crop they put up as collateral. While other programs also provide income support to farmers when market prices fall below the loan rate, sugar policy does not, and is designed to run at no cost to the government by avoiding loan forfeitures.

Sugar policy is an inventory management program. The Secretary of Agriculture has two tools to manage the market: a WTO-legal tariff-rate quota (TRQ) to control imports, and a marketing allotment program to control domestic supplies.

The TRQ is a tool of limited use. The government cannot reduce imports below the minimum to which it has committed in trade agreements: 1.256 million short tons in the WTO and up to 276,000 short tons of surplus production from Mexico in the NAFTA. Essentially by subtracting required imports from anticipated consumption, and allowing for reasonable stock levels, USDA calculates the amount of sugar that could be marketed each year without the risk of depressing prices and inviting loan forfeitures.

When Congress designed sugar policy in the 2002 Farm Bill, it also specified that marketing allotments would be triggered off if imports rise above 1.532 million short tons, the total of U.S. import requirements under the WTO and the NAFTA. Congress essentially was sending a message that this required import amount, about 15 percent of

U.S. sugar consumption, was enough. Imports could grow if U.S. sugar consumption growth outstrips U.S. production growth, or if there is a crop shortfall. But U.S. producers should not have to cede larger minimum shares of their market to foreign producers.

CAFTA and Sugar Policy. CAFTA or other bilateral or regional free trade agreement (FTA) concessions, on top of the WTO and NAFTA concessions, could trigger off marketing allotments and endanger no-cost operation of sugar policy. The additional 120,000 short tons of first-year access granted to CAFTA countries exceeded the limits on the import concessions that Congress envisioned.

The Administration did, however, prior to CAFTA's passage in July 2005, promise that the new FTAs would not jeopardize no-cost operation of U.S. sugar policy, at least in the short run.

In a June 29, 2005, letter to Chairman Chambliss, Secretary Johanns provided assurance that "the DR-CAFTA will not interfere with USDA's ability to operate the sugar program in a way that provides the full benefit to domestic growers through the remainder of the 2002 Farm Bill. If the Farm Bill import trigger is exceeded and the domestic market is adequately supplied with sugar, then the excess imported sugar up to an amount equivalent to DR-CAFTA imports will be purchased by CCC and made available for conversion to ethanol." Secretary Johanns also promised a USDA study on "the feasibility of converting sugar into ethanol," which was issued July 10, 2006.

Secretary Johanns noted that his assurance would apply to "imports from NAFTA, CAFTA, and other trade agreements" in addition to the import trigger amount of 1.532 million short tons. This assurance is valuable because of the added danger to the program's operation posed by above-quota imports from Mexico and by additional concessions since negotiated in FTAs with Colombia (55,115 short tons) and Peru (12,125 short tons) *(Figure 5)*.

The U.S. sugar market has been able to absorb additional CAFTA sugar and Mexican above-quota imports this year because of the sharp drop in domestic production in 2005/06, and USDA has not needed to divert any imported sugar to nonfood uses. It is likely, however, that the factors that allowed the additional CAFTA sugar to be absorbed this year will not exist in future years.

Trade Policy Concerns

American sugar producers are rueful about the reality that, while we are efficient and would like to become more so by increasing throughput and minimizing unit costs, U.S. trade policy constrains us from doing so. With consumption declining as it was in recent years and a large segment of the U.S. market reserved for imports, American producers are residual suppliers of their own market. To make matters worse, there is enormous political pressure to increase imports and no prospect of reducing them.

FTAs. In addition to the CAFTA which cedes another 169,000 short tons of our market to those countries over the next 15 years, the Administration is at various stages of negotiating bilateral or regional FTAs with 21 other sugar-exporting countries. These countries produced an annual average of 50 million tons of sugar during 2003/04-2005/06. They exported 25 million tons per year – nearly triple U.S. sugar consumption. All these countries already enjoy guaranteed shares of the U.S. sugar-import quota, essentially duty-free.

The American sugar industry does not believe the U.S. sugar market should be carved up for subsidized foreign sugar producers, particularly without addressing the subsidies in those countries. We therefore urge the Administration to either exclude sugar from future FTA negotiations or ensure that the import concessions that are granted in these agreements do not depress the U.S. sugar market. Keep in mind that reforms of FTA countries' market distorting programs do not occur in FTAs -- these agreements do nothing to level the playing field in the highly distorted world market for sugar.

WTO. Sugar is the most distorted commodity market in the world. The government in every country that produces sugar intervenes in its sugar market in some way. The biggest producers, and subsidizers, dump their surplus on the

world market for whatever price it will bring. As a result of this pervasive dumping, so-called world market prices for sugar have averaged barely half the world average cost of production over the past two decades *(Figure 8)*.

No producer could survive at prices so low. But government intervention ensures that domestic wholesale prices, at which most sugar is sold, are well above world dump market levels. Globally, domestic clearing prices for sugar average 22 cents per pound -- about double the world dump market price and virtually the same as the U.S. refined beet sugar support price of 22.90 cents per pound *(Figures 9, 10)*.

The sugar subsidy problem is a global problem. It must be addressed globally in the WTO – comprehensive, multilateral, sector-specific negotiations – all countries, all programs. The industry has supported the WTO approach since the onset of the Uruguay Round in 1986.

Piecemeal market access concessions in bilateral and regional free trade agreements will *not* help solve the global sugar subsidy problem. Such concessions could, however, put the U.S. sugar industry out of business while foreign subsidies continue unchecked. Further, it will force U.S. sugar producers to grow other crops, depressing those prices and increasing the federal program costs.

Given the current state of WTO negotiations, however, the industry is doubtful that fundamental reform of the world sugar market can be accomplished in the Doha Round. Many of the most highly distorting foreign sugar policies are indirect and non-transparent and, thus, not easily reached by the formulaic approach being pursued in the negotiations. It seems highly unlikely that, if agreement on the basic modalities is reached, there will be sufficient energy, time, or leverage to pursue sectoral approaches.

Developing countries account for 75 percent of world sugar production and exports. But, given the extensive commitments to special and differential treatment and the opaque nature of most developing-country policies on sugar, such policies will be little affected by Doha. Furthermore, most sugar-producing developing countries will likely claim "special product" status for sugar to avoid opening their own markets to imports. Finally, some sugar producing developing nations have highly sophisticated agricultural sectors and we therefore support differentiation among developing countries.

NAFTA. The 15-year NAFTA phase-in will end in 2008 with the elimination of all barriers to trade in sugar and corn sweeteners; moreover, the WTO has ruled that Mexico must eliminate the 20 percent tax it imposes on beverages made with corn sweeteners. Unlimited imports and use of corn sweetener in Mexico could displace as much as two million tons of Mexican sugar and thousands of Mexican sugar farmers. A flood of Mexican sugar into the United States would destroy the U.S. market.

The Mexican sugar industry, nearly half of which is still owned and operated by the Mexican government, is also concerned about competition with efficient American sugar producers. It has not permitted the entry of the 7,258 tons of annual sugar access the U.S. is allowed under NAFTA. This amount, and additional shipments, could begin flowing into the Mexican market in 2008.

The sugar industries of both countries are exploring ways in which their governments might manage sweetener trade flows between the countries and maintain stable market conditions beyond 2008.

U.S. Sugar Policy: Success for Taxpayers

American sugar farmers are proud of the fact that sugar is the only major U.S. commodity program run at no cost to taxpayers. We derive all our returns from the marketplace. We receive no income supports from the government to cushion the blow when market prices drop. We have not had an increase in our support price in 21 years, though inflation since 1985 has been 81 percent.

In many years U.S. sugar policy has been a revenue raiser. During the 17-year period of fiscal years 1991 to 2007, government outlays for all other commodity programs are estimated to be $253 billion. In contrast, sugar net *revenues* to the government are estimated to be $22 million. Since the start of the 2002 Farm Bill, sugar policy net revenues have been $239 million *(Figure 8)*.

U.S. Sugar Policy: Success for Consumers

American consumers get a great deal on sugar. Consumer prices are low and affordable by world standards, and extremely stable. Foreign developed-country consumers, on average, pay 30 percent more for their sugar than American consumers do. And, remarkably, U.S. retail sugar prices are essentially unchanged since the early 1990's. In terms of minutes of work to purchase a pound, sugar in the U.S. is about the most affordable in the world *(Figures 9, 10)*.

Even after the shock to the U.S. sugar supply chain from the weather disasters in 2005, U.S. retail prices still averaged 43 cents per pound – the same level as in 1990 and even in 1980.

American consumers' savings on sugar could be even greater, but history has shown that consumers do *not* benefit when producer prices for sugar fall: Grocers and food manufacturers routinely absorb their savings as higher profits rather than passing the lower sugar prices along to consumers. Food manufacturers have enjoyed retail price increases for sweetened products at least in line with inflation, while paying producers lower prices for the sugar the manufacturers buy *(Figure 11)*.

Higher Wholesale Prices in 2005/06

Food manufacturers complain that wholesale refined sugar prices have risen and that at times during the post-hurricane period supplies were tight. It is important to put these developments into perspective.

- The wholesale price increase has been only the third significant rise in the past 21 years – on a par with modest rises in 1989-90 and 1996 related to weather-related crop disruptions. Corrected for inflation, prices food manufacturers paid for sugar in 2005 were 30 percent lower than in 1985 *(Figure 3)*.

- Food manufacturers have, in effect, been victims of their own success. In bringing policy pressure to keep producer prices for sugar low the past two decades, they have forced many producers out of business (38 percent of all sugar production facilities have closed just since 1996) and reduced capacity. Manufacturers have shifted storage burdens on producers and demanded just-in-time delivery. These factors have made manufacturers vulnerable to transportation and producer-facility disruptions.

- The food manufacturers have demanded extremely high-quality sugar and this has made them vulnerable to the type of quality problems they have experienced with foreign sugar.

- Their first market price rise in 10 years is enabling producers to cope with soaring costs for fuel, fertilizer, and weather damage and, perhaps, buy down some of their debt.

The lesson to the food manufacturers, and to Congress, is clear: If food manufacturers are to expect reliable high-quality supplies of refined sugar, they cannot afford to force more U.S. beet processors or cane refiners out of business.

Conclusion

U.S. sugar policy has worked for American taxpayers and consumers. It has given American sugar growers a chance to survive in a highly subsidized and distorted world market.

The greatest threat to continued no-cost operation of this successful policy is the horde of FTAs with sugar-exporting countries that could carve up our market to subsidized foreign producers, without addressing any of the foreign subsidies that so badly distort the world market. These foreign distortions must be addressed, but that can only occur in the multilateral context of the WTO.

We urge that fair and stable U.S. sugar policy be allowed to continue.

Figure 1

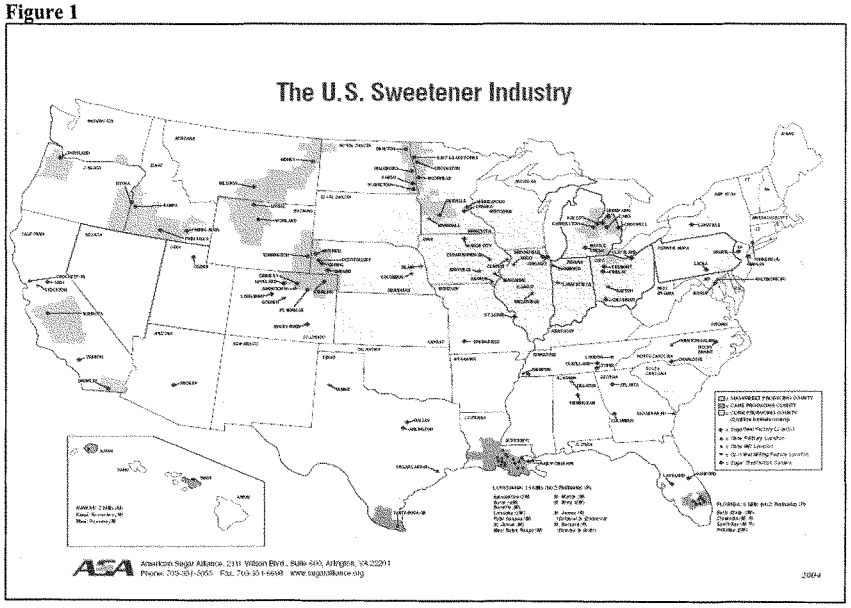


Figure 2

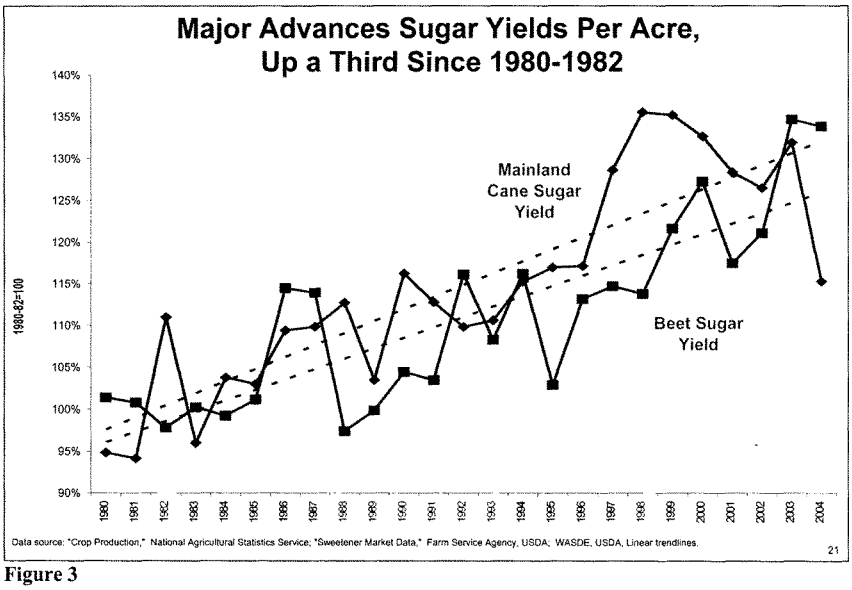

Major Advances Sugar Yields Per Acre,
Up a Third Since 1980-1982
140%
135%
130%
125%
120%
115%
110%
105%
100%
95%
90%
1980-82=100
Mainland
Cane Sugar
Yield
Beet Sugar
Yield
1980
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
Data source: "Crop Production," National Agricultural Statistics Service; "Sweetener Market Data," Farm Service Agency, USDA; WASDE, USDA, Linear trendlines.
21

Figure 3

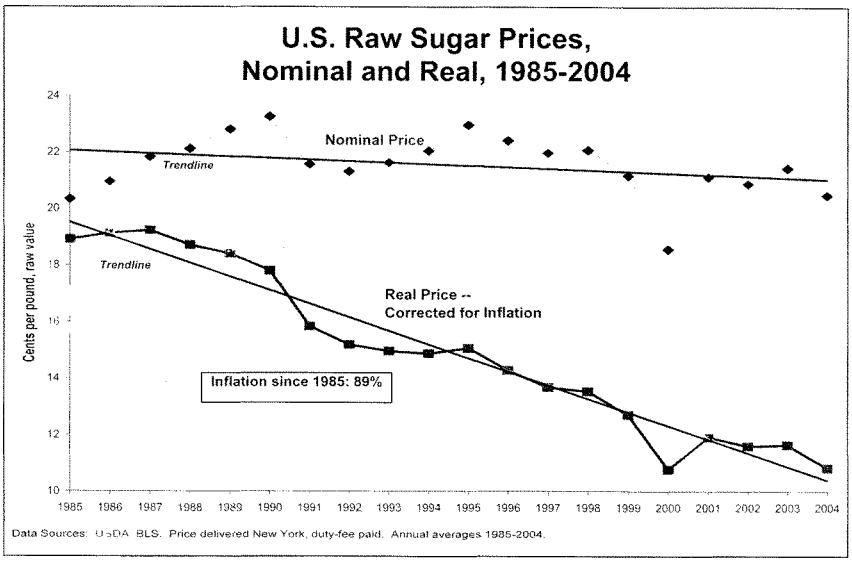

U.S. Raw Sugar Prices,
Nominal and Real, 1985-2004
Nominal Price
Trendline
Trendline
Real Price --
Corrected for Inflation
Inflation since 1985: 89%
Cents per pound, raw value
24
22
20
18
16
14
12
10
1985
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
Data Sources: USDA, BLS. Price delivered New York, duty-fee paid. Annual averages 1985-2004.

Figure 4

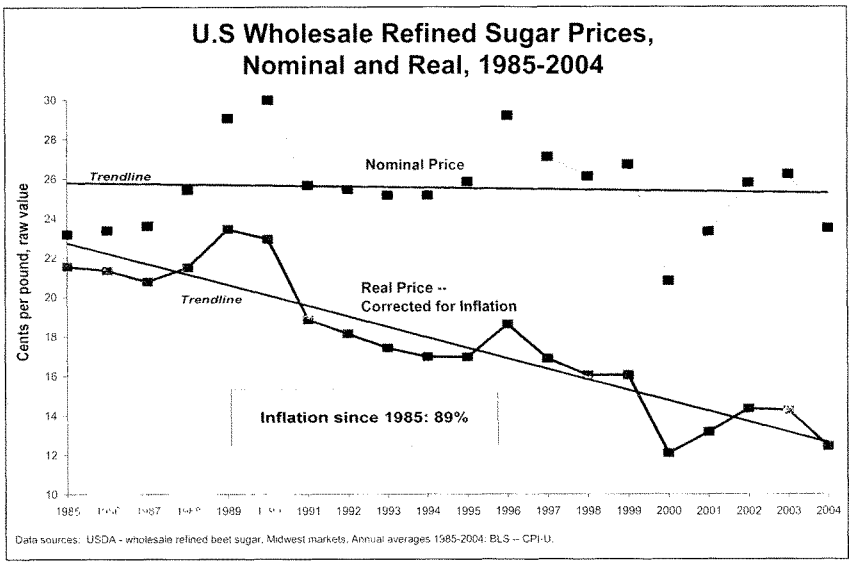

U.S Wholesale Refined Sugar Prices,
Nominal and Real, 1985-2004
Cents per pound, raw value
Nominal Price
Trendline
Real Price --
Corrected for Inflation
Trendline
Inflation since 1985: 89%
30
28
26
24
22
20
18
16
14
12
10
1985
1989
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
Data sources: USDA - wholesale refined beet sugar, Midwest markets, Annual averages 1985-2004; BLS -- CPI-U.

Figure 5

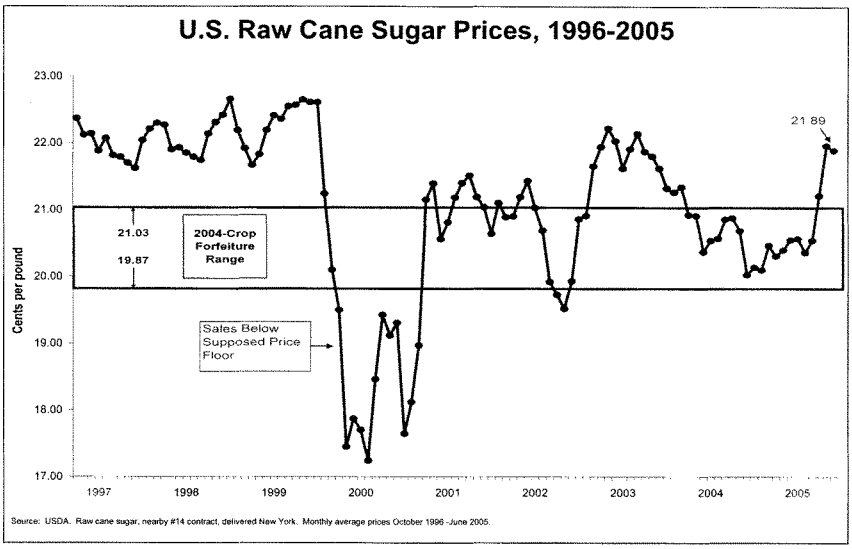

U.S. Raw Cane Sugar Prices, 1996-2005
23.00
22.00
21.00
20.00
19.00
18.00
17.00
Cents per pound
21.03
19.87
2004-Crop Forfeiture Range
Sales Below Supposed Price Floor
21 89
1997
1998
1999
2000
2001
2002
2003
2004
2005
Source: USDA. Raw cane sugar, nearby #14 contract, delivered New York. Monthly average prices October 1996 -June 2005.

Figure 6

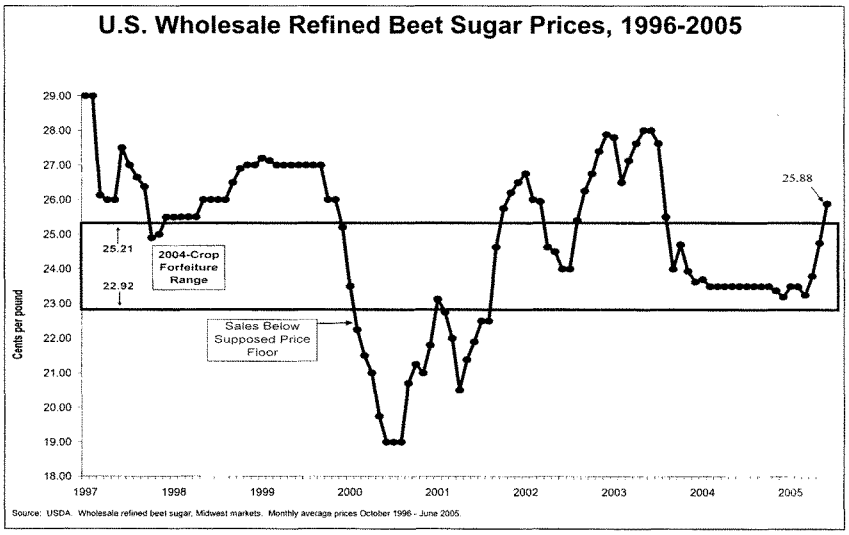

U.S. Wholesale Refined Beet Sugar Prices, 1996-2005
Cents per pound
29.00
28.00
27.00
26.00
25.00
24.00
23.00
22.00
21.00
20.00
19.00
18.00
25.21
22.92
2004-Crop Forfeiture Range
Sales Below Supposed Price Floor
25.88
1997
1998
1999
2000
2001
2002
2003
2004
2005
Source: USDA. Wholesale refined beet sugar, Midwest markets. Monthly average prices October 1996 - June 2005.

Figure 7

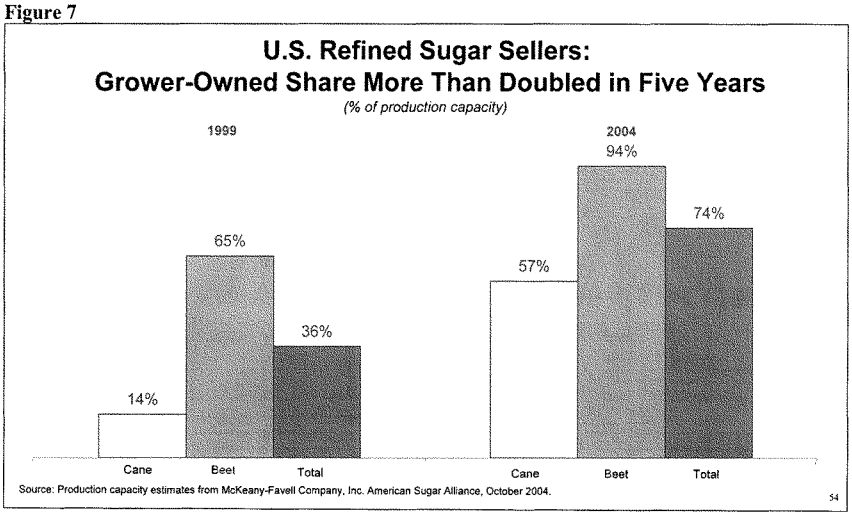

U.S. Refined Sugar Sellers:
Grower-Owned Share More Than Doubled in Five Years
(% of production capacity)
1999
14%
65%
36%
Cane
Beet
Total
2004
57%
94%
74%
Cane
Beet
Total
Source: Production capacity estimates from McKeany-Favell Company, Inc. American Sugar Alliance, October 2004.
54

Figure 8

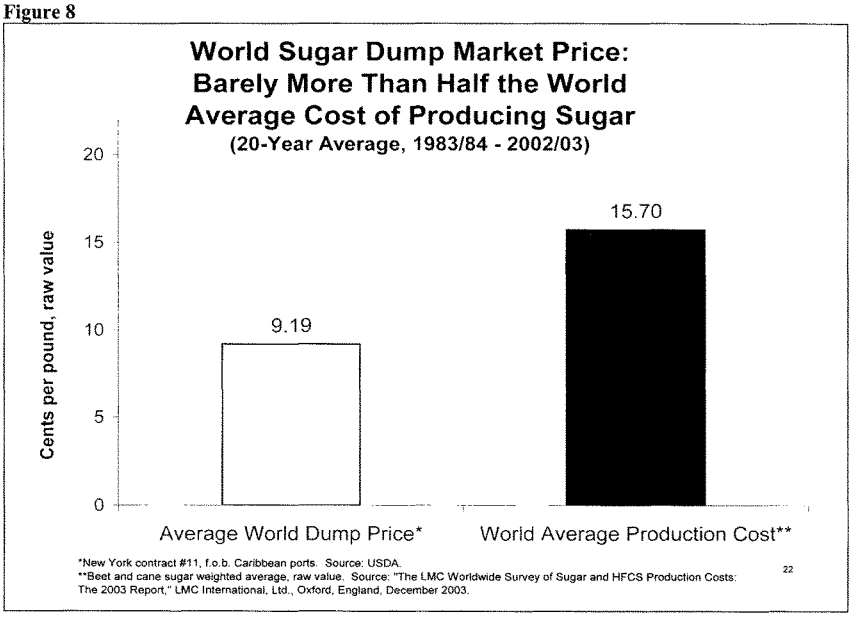


Figure 9

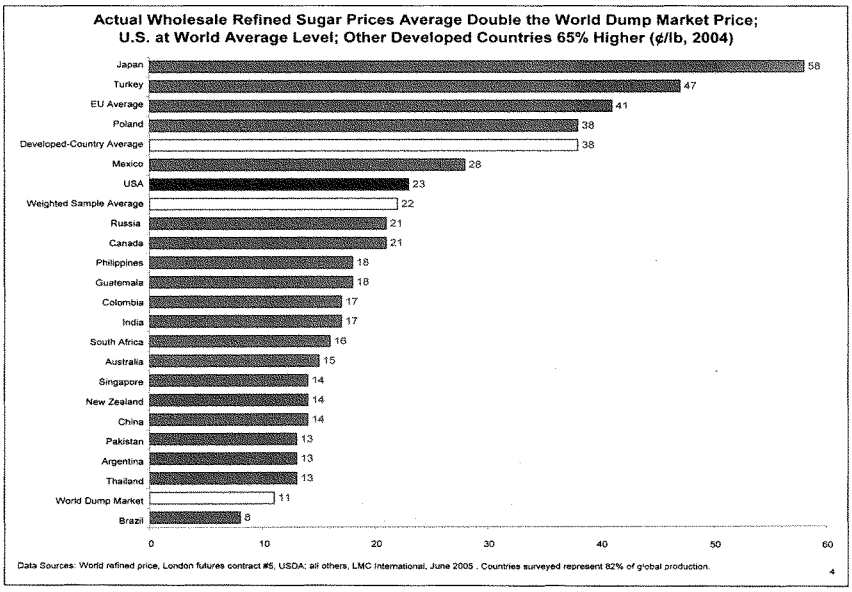

Actual Wholesale Refined Sugar Prices Average Double the World Dump Market Price;
U.S. at World Average Level; Other Developed Countries 65% Higher (¢/lb, 2004)
Japan 58
Turkey 47
EU Average 41
Poland 38
Developed-Country Average 38
Mexico 28
USA 23
Weighted Sample Average 22
Russia 21
Canada 21
Philippines 18
Guatemala 18
Colombia 17
India 17
South Africa 16
Australia 15
Singapore 14
New Zealand 14
China 14
Pakistan 13
Argentina 13
Thailand 13
World Dump Market 11
Brazil 8
0
10
20
30
40
50
60
Data Sources: World refined price, London futures contract #5, USDA; all others, LMC International, June 2005 . Countries surveyed represent 82% of global production.
4

Figure 10

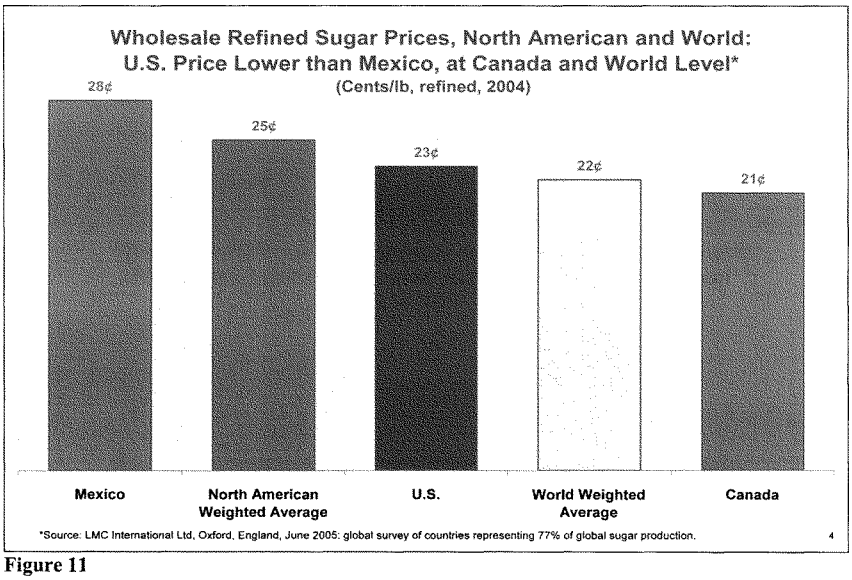

Wholesale Refined Sugar Prices, North American and World:
U.S. Price Lower than Mexico, at Canada and World Level*
(Cents/lb, refined, 2004)
28¢
25¢
23¢
22¢
21¢
Mexico
North American Weighted Average
U.S.
World Weighted Average
Canada
*Source: LMC International Ltd, Oxford, England, June 2005: global survey of countries representing 77% of global sugar production.
4

Figure 11

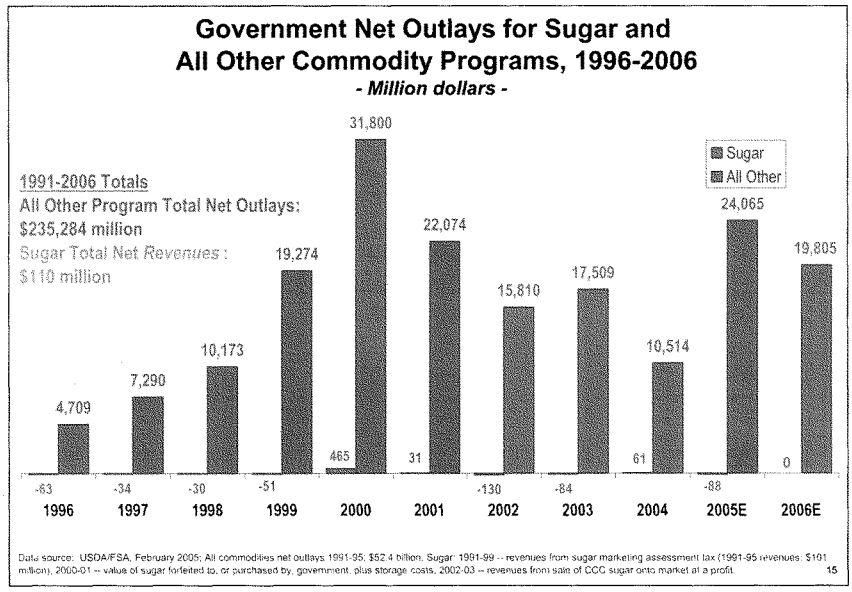

Government Net Outlays for Sugar and
All Other Commodity Programs, 1996-2006
- Million dollars -
1991-2006 Totals
All Other Program Total Net Outlays:
$235,284 million
Sugar Total Net Revenues:
$110 million
Sugar
All Other
4,709
7,290
10,173
19,274
31,800
22,074
15,810
17,509
10,514
24,065
19,805
-63
-34
-30
-51
465
31
-130
-84
61
-88
0
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005E
2006E
Data source: USDA/FSA, February 2005; All commodities net outlays 1991-95: $52.4 billion. Sugar: 1991-99 -- revenues from sugar marketing assessment tax (1991-95 revenues: $191 million), 2000-01 -- value of sugar forfeited to, or purchased by, government, plus storage costs, 2002-03 -- revenues from sale of CCC sugar onto market at a profit.
15

Figure 12

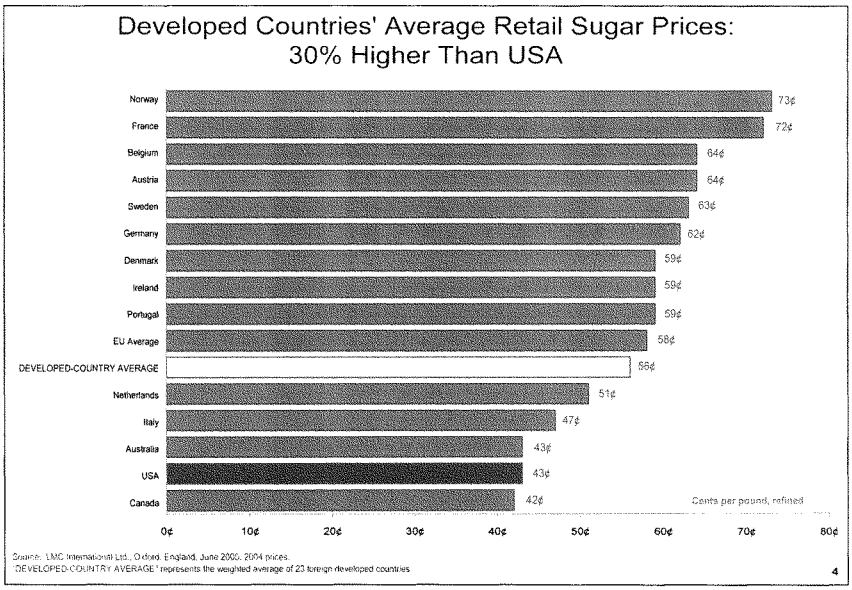

Developed Countries' Average Retail Sugar Prices:
30% Higher Than USA
Norway 73¢
France 72¢
Belgium 64¢
Austria 64¢
Sweden 63¢
Germany 62¢
Denmark 59¢
Ireland 59¢
Portugal 59¢
EU Average 58¢
DEVELOPED-COUNTRY AVERAGE 56¢
Netherlands 51¢
Italy 47¢
Australia 43¢
USA 43¢
Canada 42¢
Cents per pound, refined
0¢ 10¢ 20¢ 30¢ 40¢ 50¢ 60¢ 70¢ 80¢
Source: LMC International Ltd., Oxford, England, June 2005, 2004 prices.
"DEVELOPED-COUNTRY AVERAGE" represents the weighted average of 23 foreign developed countries
4

Figure 13

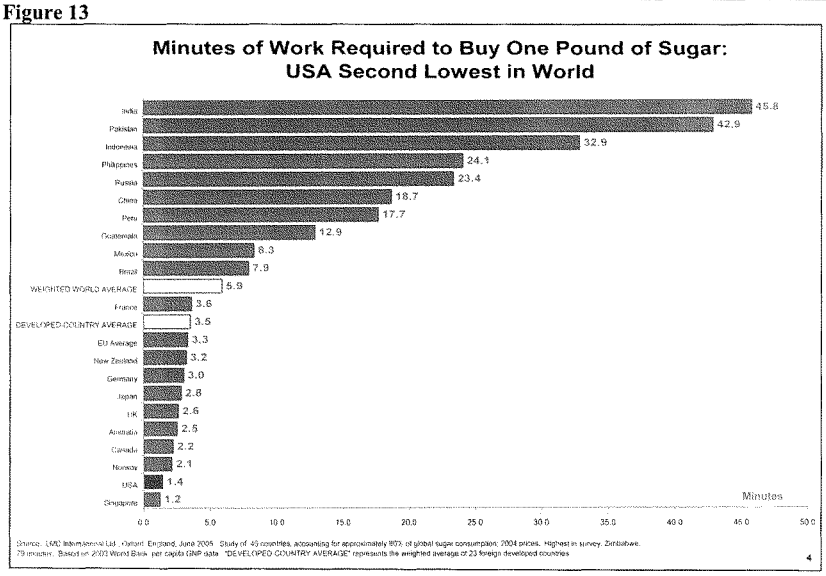

Minutes of Work Required to Buy One Pound of Sugar:
USA Second Lowest in World
India 45.8
Pakistan 42.9
Indonesia 32.9
Philippines 24.1
Russia 23.4
China 18.7
Peru 17.7
Guatemala 12.9
Mexico 8.3
Brazil 7.9
WEIGHTED WORLD AVERAGE 5.9
France 3.6
DEVELOPED-COUNTRY AVERAGE 3.5
EU Average 3.3
New Zealand 3.2
Germany 3.0
Japan 2.8
UK 2.6
Australia 2.5
Canada 2.2
Norway 2.1
USA 1.4
Singapore 1.2
Minutes
0.0 5.0 10.0 15.0 20.0 25.0 30.0 35.0 40.0 45.0 50.0
Source: LMC International Ltd., Oxford, England, June 2005. Study of 40 countries, accounting for approximately 80% of global sugar consumption; 2004 prices. Highest in survey: Zimbabwe, 79 minutes. Based on 2003 World Bank per capita GNP data. "DEVELOPED-COUNTRY AVERAGE" represents the weighted average of 23 foreign developed countries
4

Figure 14

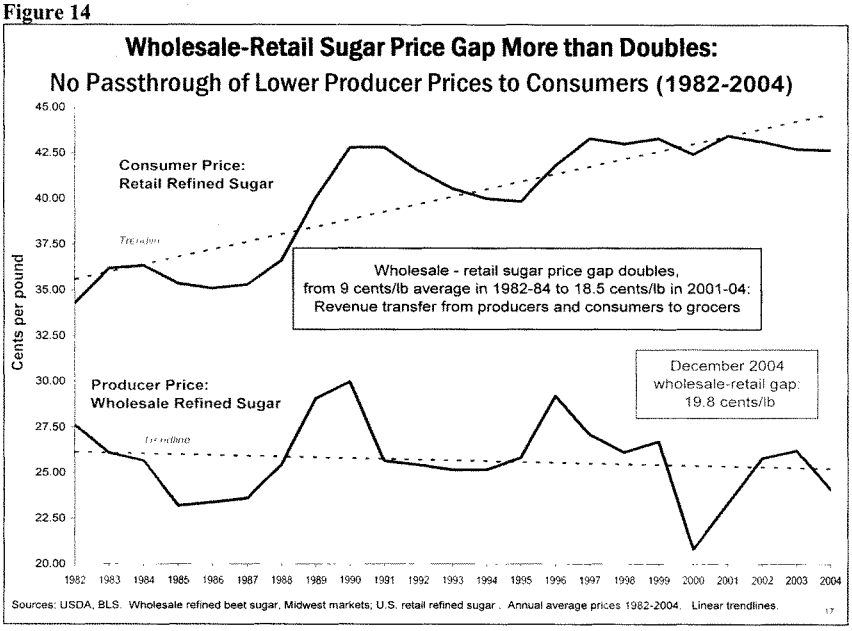


Figure 15

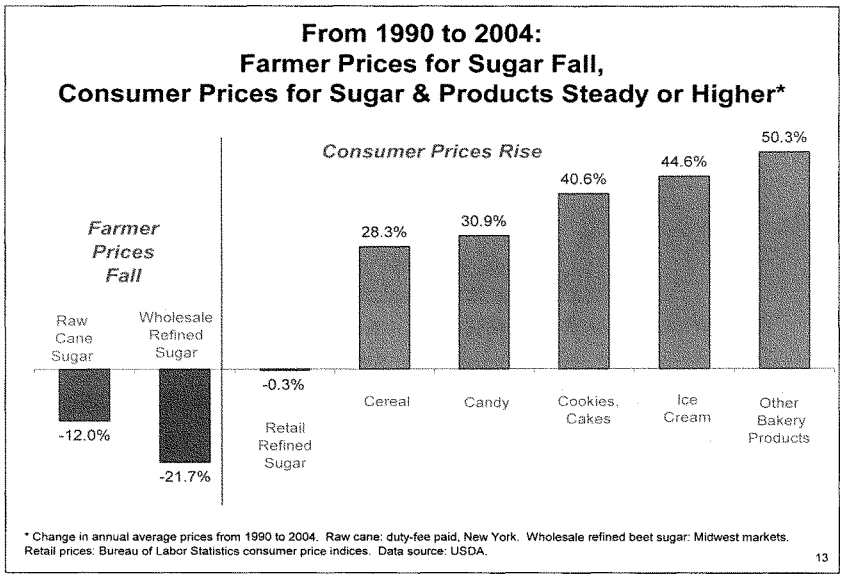
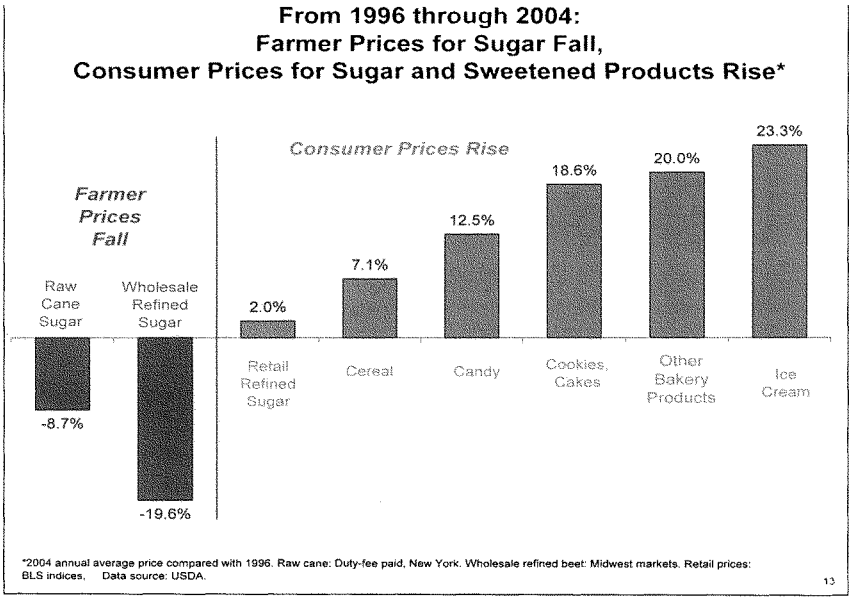

From 1990 to 2004:
Farmer Prices for Sugar Fall,
Consumer Prices for Sugar & Products Steady or Higher*
Farmer Prices Fall
Consumer Prices Rise
Raw Cane Sugar
-12.0%
Wholesale Refined Sugar
-21.7%
-0.3%
Retail Refined Sugar
28.3%
Cereal
30.9%
Candy
40.6%
Cookies, Cakes
44.6%
Ice Cream
50.3%
Other Bakery Products
* Change in annual average prices from 1990 to 2004. Raw cane: duty-fee paid, New York. Wholesale refined beet sugar: Midwest markets.
Retail prices: Bureau of Labor Statistics consumer price indices. Data source: USDA.
13

Figure 16


From 1996 through 2004:
Farmer Prices for Sugar Fall,
Consumer Prices for Sugar and Sweetened Products Rise*
Farmer Prices Fall
Consumer Prices Rise
Raw Cane Sugar
-8.7%
Wholesale Refined Sugar
-19.6%
Retail Refined Sugar
2.0%
Cereal
7.1%
Candy
12.5%
Cookies, Cakes
18.6%
Other Bakery Products
20.0%
Ice Cream
23.3%
*2004 annual average price compared with 1996. Raw cane: Duty-fee paid, New York. Wholesale refined beet: Midwest markets. Retail prices: BLS indices. Data source: USDA.
13

DOCUMENTS SUBMITTED FOR THE RECORD

AUGUST 15, 2006

Testimony of Tracy Helin, Outreach Director
Connecticut Association for Human Services, Hartford, CT
Submitted to the Senate Agriculture Committee Re: Farm Bill Field Hearing
Redmond, OR, August 15, 2006

My name is Tracy Helin. Thank you for the opportunity to submit these comments on behalf of the Connecticut Association for Human Services (CAHS). CAHS has advocated for Connecticut's lower income residents since 1910, and has made efforts to reduce the causes and effects of poverty at the state, regional, and national levels.

In recent years, CAHS has concentrated on improving overall family economic security. A critical component of the Farm Bill, the Food Stamp Program plays an important role in ensuring that the nutritional needs of working households are met as they move toward self-sufficiency and economic security. CAHS also recognizes that certain households may not reach self-sufficiency due to a variety of factors. For these households, food stamps may play an even more important role in meeting basic needs.

My comments focus on improving food stamp access for working families, simplifying program procedures, allowing food stamps to be more widely available to certain groups, and improved benefit levels. These comments are based on CAHS's experiences with potential applicants through various outreach programs over the past ten years.

1. **Improve Food Stamp Program access for working households.**

   An August 2005 report by Mathematica Policy Research, prepared for the United States Department of Agriculture, *State Food Stamp Participation Rates for the Working Poor in 2002*, noted that nationwide, only 46 percent of eligible working poor households participate in the Food Stamp Program. This is compared to an overall participation rate of 54 percent. This report also indicates that in Connecticut, the difference is greater, with 43 percent of working poor eligibles participating, compared to 58 percent of all eligibles. Between 2000 and 2002, the years noted in the Mathematica report, Connecticut saw a 5 percent decline in the working poor participation rate.

   Mandatory elimination of face to face interviews.

   While lower rates of participation among households with earnings may be caused by a variety of factors, such as lack of information, and low expectations, many working households may find it nearly impossible to complete the application process. In parts of Connecticut, applicants may be expected to drive over 30 miles each way to the nearest Department of Social Services (DSS) office. With this in mind, CAHS recommends that USDA **make face to face interview waivers mandatory for states**. This will improve efficiency for DSS workers, and ensure better access for potential applicants.

   Encourage states to increase office hours.

   Working families may find it difficult to reach DSS staff members due to limited office hours (generally 8 am to 4 pm in Connecticut). We recommend that USDA **look to improve the administrative cost-sharing formula** with states to make it more attractive (and more possible) for states to increase office hours and staffing levels. Along the same lines, CAHS suggests that a pilot initiative be created for states that do not currently **outstation food stamp intake workers in rural communities**. This would surely reduce the travel burden on applicants and may improve customer service aspects of the program. Outstationing should be encouraged at hours that are more

convenient for potential applicants, and would help to address application issues that are not easily resolved over the telephone.

Increase asset limit.
With regard to asset limits, **CAHS recommends that the asset limit be raised to at least $10,000.** The reasons for this are many. Most prominently, is that food stamp households are currently required to spend Earned Income Tax Credit (EITC) lump sums within one month of receipt. The EITC may provide working households with up to $4,300 in a lump sum. In some cases, this infusion of money is what starts to move a family toward self-sufficiency, and it seems illogical to penalize working families for attempting to build assets and save money.

2. **Simplify the Food Stamp Program.**
There are surely many ways to simplify the Food Stamp Program. Rules that pertain to certain populations, most notably Able Bodied Adults Without Dependents (ABAWDs) and legal immigrants, have the potential to create widespread confusion among eligible people, food stamp intake workers, and outreach workers. The following suggestions attempt to address issues that meet the needs of the greatest number of potential recipients, while aiming to ease the burden on state food stamp agencies.

Eliminate ABAWD rules and work requirements.
Connecticut currently has ABAWD work requirement waivers in place in many parts of the state. While we agree that availability of waivers is positive, the application process for waivers creates more work for state food stamp agencies. The existence of waivers only in certain labor surplus areas (LSAs), makes it difficult to present a consistent message to potential applicants, and may put an undue burden on intake workers when they attempt to determine if an applicant is covered by a waiver. The simplest way to eliminate this problem, and save administrative costs incurred by states is to **eliminate ABAWD work requirements.**

Bring legal immigrant provisions in line with the rest of food stamp rules.
All categories of legal immigrants should have food stamp access. The Farm Bill of 2002 made a series of positive changes in treating legal immigrant food stamp applicants. While this partial restoration was a victory, the additional rules that were implemented still restrict access for some categories of legal immigrants, and create many opportunities for public confusion and caseworker error. The requirement of five years of U.S. residency and 40 quarters of work make it virtually impossible for some groups of legal immigrants to qualify for food stamp, while some of their household members might qualify. This provision sends a mixed, and difficult to communicate, message to eligible populations. The Food Stamp Program would be greatly simplified if special rules for legal immigrant were removed.

3. **Enhance benefit levels.**
While we appreciate that the Food Stamp Program provides a valuable nutritional benefit, CAHS's experiences in the community suggest that more eligible households would apply if the Program were more attractive and allowed households to meet their basic needs. Earlier comments have noted that program rules and access issues seem to discourage (or prevent) some eligible people from applying. Moving beyond rules, and

considering food stamps as the cornerstone of the federally-funded nutrition programs, we also believe that it is important to ensure that the Program helps households to meet nutritional guidelines.

Increase the minimum benefit.
Perhaps the most common comment that CAHS outreach staff report is that the $10 minimum food stamp benefit is "too low." It is difficult to choose a specific minimum benefit level that will tip the scales and spur non-participating eligibles to apply for food stamps. But, we must look at the $10 minimum as far below adequate to make any improvement in a given household's nutritional outlook. CAHS suggests something in the range of $40 as a monthly minimum. Given that the Food Stamp Program has such a stringent means-tested eligibility basis, USDA should **set a minimum benefit level that will be increased to keep pace with the inflation rate**, and recognize that $10 is worth far less than it was when the benefit level was established. If a new minimum benefit level is set in 2007, an annual cost of living adjustment should be made, as is the case with Social Security.

Change basis for calculating benefits.
Many community members comment that food stamp benefits are not adequate to meet their monthly needs. With this, we recommend that some consideration be given to **switching from the Thrifty Food Plan to the Low-cost or Moderate-cost Food Plan.** If the Food Stamp Program is to be promoted as a nutrition program, it must allow for the purchase of fresh, healthy foods, which may be more expensive. It must be recognized that the Thrifty Food Plan simply does not meet this need.

Additional Comments.
In addition to these specific comments, I would like to take the time to offer CAHS's support of several other points that have been included in the remarks of some of my colleagues. These include:

- Further expansion of technology to improve access, including allowing for improved remote EBT card PIN number distribution.
- Elimination of all work requirements in the Food Stamp Program.
- Continue and expand the national food stamp marketing campaign.
- Amend the Transitional Benefits option to six months, rather than five, and make this a mandatory enhancement, rather than optional.

CAHS realizes that the Food Stamp Program is but one part of the massive Farm Bill, but we sincerely urge you to take these recommendations into account when considering appropriations. Thank you very much for providing the opportunity to present these suggestions, and for holding these forums.

Sincerely,

Tracy Helin
CAHS Outreach Director

P.O. Box 720 • Silverton, Oregon 97381 • Phone (503) 873-5346 • Fax (503) 873-2278

August 21, 2006

Robert Sturm, Chief Clerk
U.S. Senate Committee on Agriculture, Nutrition and Forestry
Room 328-A Russell Senate Office Building
Washington, DC 20510-6000

Re: Regional Hearing held in Redmond, Oregon on August 15, 2006

I am writing to strenuously object to the rule announced by USDA affecting producer-handlers in the Pacific Northwest Federal Order that went into effect April 1, 2006. This arbitrary rule is very damaging to three longtime northwest dairy operations and demonstrates the ability of powerful national milk interests to manipulate the hearing processes of USDA at the expense of longtime family producer-handlers. The United States Senate has the opportunity and the duty to correct this serious error when it rewrites the next Farm Bill.

Co-ops control the process first by bloc voting for their members. Individual producers have little say in the process and little understanding of the issue. The voting process itself is distorted because the question being voted on is whether to adopt the Federal Order language *as amended* rather than the issue itself. This bizarre format coupled with the enormous political power and deep pockets of the national and regional dairy interests guarantees that they will prevail over any minority interest.

The only chance a minority group has is to rely on fair and just treatment by USDA in its decision making process. In this case that didn't happen. To an objective person reading the transcript of the testimony the conclusion would be much different. USDA relied heavily on the testimony of high-powered economists and other experts hired by the big dairy interests even though none of them had any expertise whatsoever in the actual complexities of operating as a producer-handler. Meanwhile it ignored the testimony of witnesses whose testimony represented hands-on producer-handler experience spanning many decades.

For example, several producer-handler witnesses testified to the very real risks and costs of balancing milk production with sales that are unique to producer-handlers. Being exempt from the pooling and pricing provisions of the order helps a producer-handler overcome these unique balancing costs. The 1999 Federal Order Reform language says, "Finally, producer-handlers do not have an advantage as either producers or handlers so long as they are responsible for balancing their fluid milk needs and cannot transfer balancing costs to other market participants." Producer-handlers are charged significant economic penalties when they buy or sell fluid milk in order to balance production with market needs. The requirement that balancing costs not be transferred is being met

Proponents minimized the significance of balancing for producer-handlers and USDA apparently agreed. In the final rule however, the Department changed its position and acknowledged the complexities of balancing by stating, "Additionally, the handlers' burden of balancing their milk production is relieved. Milk production in excess of what is needed to satisfy their Class I route

disposition needs will receive the minimum price protection established under the terms of the two orders. The burden of balancing milk supplies will be borne by all producers and handlers who are pooled and regulated under the terms of the two orders."

The previous restrictions in the Federal Order language have been effective in regulating producer-handlers for decades. Most producer-handlers operating in the 1960's are gone. Few could compete with the larger handlers, even with the producer-handler exemption, and went out of business. History shows that in the Pacific Northwest order that when a producer-handler reached a certain size it no longer was feasible to operate under producer-handler status. It is noteworthy that nearly all producer-handlers that transitioned to become regulated handlers also phased out their production operation. The complexities and financial risk of managing both a dairy farm and processing plant made it impossible to operate without the producer-handler exemption. The producer-handler exemption did not provide producer-handlers with an unfair advantage, but it did help them to compete with their larger competitors.

The decision reached by USDA is inconsistent with the intent of the original Agricultural Marketing Agreement Act of 1937, and reverses 70 years of history upon which producer-handlers relied to build their businesses. The Act was intended to regulate handlers who purchased milk from farmers. It was never meant to regulate producers, even those that bottled their own milk. This position has been reaffirmed numerous times by the Department of Agriculture and by Congress.

As recently as the 1999 Federal Order Reform the exemption of producer-handlers from order pricing provisions was reaffirmed.

> The Department's reasons for exempting producer-handlers as discussed previously have not changed and the intent of this rule is not to make changes to regulate currently-unregulated producer-handlers regardless of size.

The recent rule change is completely contrary to previous law and precedent.

The proponents of this rule change, all competitors of producer-handlers, are the very entities that Congress originally intended to protect farmers from with the original milk legislation. Now, these multi-billion dollar conglomerates have corrupted the legislation originally intended to protect the average dairy farmer for their own financial interests.

USDA has manipulated the interpretation of Federal Order language to achieve its own objectives. There is inconsistency in whether the Department classifies producer-handlers as "producers" or "handlers". The record shows that USDA bends the classification to meet its own purposes. The section of the Final Rule labeled SUPPLEMENTARY INFORMATION, paragraph 4 states, "The Agricultural Marketing Agreement Act of 1937, as amended (7 U.S.C. 601-674), provides that administrative proceedings must be exhausted before parties may file suit in court." Here producer-handlers are considered handlers.

In paragraph 6 the definition is reversed, "Determining whether a producer-handler is considered a small or large business must depend on its capacity as a dairy farm..." Now producer-handlers are classified as producers.

Previous rule changes and legislation as recently as 1999 correctly classified producer-handlers as "small" businesses based on their capacity as handlers. The 1999 Federal Order Reform language states, " Since producer-handlers and exempt plants are specifically exempt from Federal order pricing provisions, the term producer should not include a producer-handler as defined in any Federal order. According to the Federal Order 124 regulations, Sec.1124.12 (b)(1), "Producer shall not include: A producer-handler as defined in any Federal Order." This is consistent with all previous federal order

proceedings where all producer-handlers were classified as "small" businesses based on their size as processors, rather than producers.

Size classification in the present rule making is in stark contrast to the historical record. Now the classification of all four affected producer handlers was changed from being "small" businesses based on the Small Business Administration definition of a processor, having more than 500 employees, to being a "large" business based on the dairy producer SBA definition of annual gross revenue in excess of $750,000. The SBA definitions have not changed and the sizes of the producer-handlers have not changed; only the interpretation has changed. This inconsistent classification is arbitrary and discriminatory. I believe that it is a deliberate attempt by the Secretary to avoid the analysis required by the Regulatory Flexibility Act that the Agricultural Marketing Service consider the economic impact of this action on small entities. By changing the classification, AMS chose to ignore the dire impact this action would have on some of the smallest processors in the Pacific Northwest Federal Order.

The negative consequences of this rule change are already being felt on the farms and in the communities of the Pacific Northwest. Mallorie's Dairy, one of the affected producer-handlers was forced to sell 800 mature cows in order to reduce production below the three million pound cap. Employees were let go and purchases of inputs reduced. The long-term economic effect on the local economy will be serious. Other Pacific Northwest producer-handlers are facing similar cutbacks. The damage to these businesses and the communities where they located far outweigh any possible benefits to other producers.

The Federal Order system as it now operates must be thoroughly overhauled or thrown out. Large dairy interests are now using it as a weapon to restrain trade, limit consumer choice, and to drive out producer-handlers, small co-ops, and proprietary handlers. The expansion and consolidation of co-op control limits producer options on where to sell their milk. Congress must address these issues. Legislation must be passed to reverse this abuse of power. The next Farm Bill would be a good venue to reexamine the usefulness of the entire dairy program. Hopefully Congress will consider the purpose of the system objectively without the self-serving interference of national dairy conglomerates. The original purpose of the law was to protect producers from predatory processors and to insure an adequate supply of bottled milk for consumers. If the Federal Order system is to continue it must return to its roots, reestablish objectivity and credibility, and quit attempting to regulate problems that don't exist. It cannot continue to operate at the whim of the very same conglomerates that it was originally created to regulate. Congress must take action.

Respectfully,

Charles Flanagan

Charles Flanagan,
Business Manager

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Testimony

On behalf of the

Oregon Cattlemen's Association

With regard to

Agriculture Policy and the 2007 Farm Bill

Submitted to the

The United States Senate - Committee on Agriculture, Nutrition, and Forestry

The Honorable Saxby Chambliss, Chairman

Submitted by

Ron Rowan
North Powder, Oregon

Marketing Committee Chair
Oregon Cattlemen's Association

August 15, 2006
Redmond, Oregon Hearing

Mr. Chairman, Ranking Member Harkin, Members of the Committee, thank you for the opportunity to present the Oregon cattle industry's perspective on the upcoming 2007 Farm Bill and more specifically, the value market promotion programs **that or which** contribute to our industry. My name is Ron Rowan, and I currently serve as the Marketing Committee Chair for the Oregon Cattlemen's Association.

The last several years have only served to reinforce the idea that international trade will play a pivotal role in ensuring the long-term health and viability of the beef industry. U.S. cattlemen have been and continue to be strong believers in international trade. We support aggressive negotiating positions to open markets and to remove unfair trade barriers to our product.

We support Congressional and regulatory action to address unfair international trade barriers that hinder the exportation of U.S. beef, and we appreciate the Committee's help in working to reopen foreign markets that were closed to U.S. beef after the discovery of BSE on December 23, 2003, in a Canadian cow in Washington State. As you are aware, we continue to fight to get our product into several countries and have seen recent setbacks in places such as South Korea and Japan. We ask that you continue to support our efforts to see that sound science is being followed by bringing down these artificial trade barriers. To grow our business, we must look outside of the U.S. borders in order to reach 96 percent of the world's consumers. We encourage the Committee's continued strong and vigilant oversight of the enforcement of any trade pact to which American agriculture is a party.

Market access alone will not suffice, however, and we look to industry and government partnerships, such as the Market Access Program (MAP) and the Foreign Market Development Program, to help expand opportunities and increase demand for U.S. beef. We urge sustained funding for these long-term market development efforts, as these programs provide us with the tools necessary to re-establish and expand our U.S. market share in foreign markets.

MAP serves as a "Buy American" program by promoting American-grown and produced agricultural products. MAP is administered on a cost-share basis, with American farmers and ranchers required to contribute up to 50 percent of the program's cost. MAP is specifically targeted for use by small businesses, cooperatives, and trade organizations. The U.S. Meat Export Federation (USMEF) coordinates with our national organization, the National Cattlemen's Beef Association (NCBA), to export beef and is by far the largest recipient of MAP funds. With these partnering dollars, we are able to carry out a variety of activities to raise consumer's awareness of and excitement for U.S. beef.

Examples of activities include:

- Chef competitions and workshops in key markets that teach techniques and encourage the hotel and restaurant industry to place U.S. beef on their menus.

- The "Carne de Res America, Sabor y Calidad a Tu Manera" (U.S. beef, flavor and quality your way) campaign in Guatemala is another example. It included a print and TV media conference at a five-star hotel, followed by a three-month marketing campaign to heighten consumer awareness and finally to make high quality grain-fed U.S. beef accessible for Guatemalan consumers. The campaign culminated with TV advertisements featuring a popular cooking show chef talking about U.S. beef cuts and dishes, and also promotions at a dozen popular restaurants.

- The Mother's Day Promotion in Mexico has been great success in recent years as a promotional event that includes consumers directly. Promotions likes this one involve offering U.S. beef products at the retail meat case that are worth points. Consumers are eligible to redeem the points for a ticket to a consumer event that is celebratory in nature, such as a Mother's Day Celebration. The consumer events are educational as well as entertaining and draw a large number of consumers to situations where they are further exposed to the positive attributes of U.S. beef. 2006 marked the

fourth year of the Mother's Day promotion and a new sales record; with U.S. beef moving off shelves at a record pace, the event sold out two weeks before the scheduled end of the promotion. This annual promotion is carefully designed around mom, the one who does most of the family food shopping and meal prep.

The reintroduction of U.S. beef into the Japanese Market is an example of activities needed to regain our lost market share. Just last week the first shipment of U.S. beef began selling in Costco stores in Japan. USMEF activities in the country helped Costco with this sampling promotion. Three Costco stores in the Tokyo area sold out of approximately 5 metric tons of U.S. beef in the first day of sales. About 60 media representatives were on hand to capture video footage and conduct consumer interviews. Although polls show many Japanese consumers still have some doubts about the safety of U.S. product and are reluctant to buy, results from the Costco reintroduction demonstrated that consumers were open to factual information and willing to give the product a try. Japanese shoppers lined up for U.S. beef being sampled at the store, and many purchased multiple packs of the product.

These are just a few examples of the great work USMEF does marketing U.S. beef around the world for our industry. The matching dollars from these market development programs are vital in our long-term development of foreign markets. It is the best way we can increase demand for U.S. beef around the world.

Thank you again for the opportunity to present the industry's view on the importance of these market development programs. I look forward to working with you as you write the 2007 Farm Bill.

SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY
FARM BILL REGIONAL HEARING
REDMOND, OREGON
AUGUST 15, 2006

STATEMENT OF OREGON DIETETIC ASSOCIATION

My name is Nancy Becker MS RD LD, and I am the Policy Team Chair of the Oregon Dietetic Association (ODA). I am representing the 650 members of the ODA and the 65,000 members of the American Dietetic Association (ADA). ODA and ADA commend the United States Senate for conducting a series of hearings as part of Farm Bill 2007 development. In addition, to the regional hearings, we ask the you hold a hearing on nutrition – in particular nutrition research, education and extension efforts – as part of the Farm Bill reauthorization process.

ADA is the largest organization of its kind and it is guided by a philosophy based on sound science and evidence-based practice. ODA and ADA members are sought-out participants in domestic and international discussions as they work on nearly every aspect of food, nutrition and health. As such, we are familiar with the importance of the Farm Bill on USDA food and nutrition resources.

The public needs an uncompromising commitment from their government to advance nutrition knowledge and to help people apply that knowledge to maintain and improve their health. Millions of Americans benefit from USDA food assistance programs, but we still see hunger in the United States. Co-existing with hunger is a national epidemic of overweight and obesity. In fact, overweight and obesity is the largest manifestation of malnutrition in the United States today. We also know that American children, who are a key recipient of USDA assistance programs, are overfed but undernourished. Studies show their physical stamina and activity have declined and their health literacy and knowledge is limited.

To address this sad commentary on the nutritional status of Americans, we recommend that the Senate address five key nutrition goals in their Farm Bill proposal.

USDA's food assistance programs must be available to those in need and adequately funded. USDA's domestic food assistance programs affect the daily lives of millions of people. About 1 in 5 Americans is estimated to participate in at least one food assistance program at some point during the year. The Food Stamp Program is a key component of the Federal food assistance programs, and provides crucial support to needy households. Food stamps reach those most in need. Most food stamp participants are children, with half of all participants under 18.[1]

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[1] U.S. Department of Agriculture, Food and Nutrition Service, Office of Analysis, Nutrition and Evaluation. *Characteristics of Food Stamps Households: Fiscal Year 2004,* FSP-05-CHAR, by Anni Poikolainen. Project Officer, Kate Fink. Alexandria, VA; 2005.

Households with children receive about three-quarters of all food stamp benefits. In addition, many food stamp participants are elderly or disabled.

Improving the nutritional status of Americans needs to rise in priority in food assistance programs, other food programs, and truly, for all Americans. A USDA study found a lack of several key nutrients in American diets, with nearly 93 percent of Americans having deficiencies in vitamin E. Americans also are not getting enough vitamin A, vitamin C or magnesium, according to the study. At the same time, consumers are eating too much of other dietary components. Almost 60 percent of the population consumes more than 10 percent of calories from saturated fat.[2] Approximately 95 percent of adult men and 75 percent of adult women exceed 2,300 mg of sodium per day.[3]

Increased investment in nutrition education and nutrition research is necessary and it must be sustained. If we expect consumers to take personal responsibility for making healthy choices, then we have a responsibility to make sure that they are adequately prepared. The government must invest in the nutrition research and nutrition education necessary to give Americans the knowledge and ability to make their own nutrition decisions. These nutrition recommendations and programs for the public must be based on sound science. Only the federal government has the public mandate and resources to carry out research on human nutrition needs and to develop dietary guidance that forms the basis for all federal nutrition programs. We believe federal research exploring the relationships between diet (particularly dietary patterns) and health is particularly important.

ADA is an advocate of grading the science behind recommended diets, nutrition guidelines and product label claims, and teaching consumers how to read, analyze and use that information. ADA has its own system of evidence grading that is serving as a model to government regulators and nutrition experts here and around the world. But information is not education.

Labels and pamphlets alone do not lead to behavior change. People have to be taught, and their educational experience needs reinforcement. Nutrition education that works is a worthwhile return on investment. Economic Research Service scientists have studied the connection between nutrition knowledge and food choices with Americans.[4] They have learned that in socio-economically matched individuals, a 1-point improvement on a nutrition knowledge scale correlates to a 7-percent improvement in diet quality. In matched households, an improvement in the primary meal preparer's knowledge translates to a 19-percent improvement in household meal quality. Clearly, nutrition education is one key to nutrition health.

Our experience has shown that registered dietitians are uniquely educated and trained to help people learn and incorporate healthful habits into their lives. ADA works continuously to make it possible for more Americans to have access to dietetic services through private sector and public program coverage.

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[2] Briefel RR, Johnson CL. Secular trends in dietary intake in the United States. *Annu Rev Nutr*. 2004;24:401-431.
[3] Institute of Medicine. Dietary Reference Intakes for Water, Potassium, Sodium, Chloride, and Sulfate. Washington, DC: The National Academies Press; 2004.
[4] U.S. Department of Agriculture, Economic Research Service and Center for Nutrition Policy and Promotion. *USDA's Healthy Eating Index and Nutrition Information.* Technical Bulletin No. 1866, by Jayachandran N.Variyam, James Blaylock, David Smallwood, Peter Basiotis. Alexandria, VA; 1998.

Having up-to-date knowledge of the nutrition composition of the food supply is essential for all of work in food, nutrition and health to bear fruit. While our farmers continue to grow a wide variety of foods for consumers here and abroad, our knowledge about food composition, the foods that Americans are eating and how overall dietary patterns contribute to health have grown outdated; some data series have lapsed. Our food supply is changing in important ways over time, as are the types of diets that people eat. Farmers and consumers need to understand what those changes mean.

Food security and food safety issues cannot be ignored. The traditional definition of food security has evolved beyond access to sufficient, healthy food and now encompasses an abundant food supply safe from intentional and unintentional contamination. Recent outbreaks of food and waterborne disease and threats of bioterrorism have focused attention on the safety of US food and water systems. The US government needs to play a proactive role in ensuring that appropriate food and water safety practices are implemented and followed and that research is conducted on possible future threats.

Conclusion

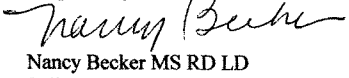
It has been more than a decade since Congress has made a comprehensive review of the nation's nutrition policies and programs. Discussions regarding USDA and nutrition typically focus on food assistance programs, but do not address the key underlying work being conducted by USDA researchers throughout the United States that forms the basis for the Federal nutrition information and education efforts affecting every American.

Clearly, there is significant potential benefit in addressing food, nutrition and health issues now, before circumstances deteriorate, and to ameliorate human as well as economic costs. There will be market needs for healthful products and services that can help the public become more involved with their health and health care management. But there are roles that currently are not being effectively addressed and may rightfully need to be addressed by public policy.

We need the U.S. Senate to address the now out-of-date perception that a safe, affordable, varied supply of food necessarily leads to a well-nourished, healthy population. It is time to shift to a new paradigm that is founded on people being able and willing to choose healthy diets for themselves and their families.

We ask the Senate Agriculture Committee hold a hearing on nutrition – in particular USDA nutrition research, education and extension efforts – as part of the Farm Bill process. We stand ready to provide recommended topics and witnesses that can help illuminate the vital role the farm bill reauthorization process plays in nutrition and the health of Americans.

Respectfully Submitted,



Nancy Becker MS RD LD
Policy Team Leader Oregon Dietetic Association
Adjunct Professor
Dept of Chemistry
Portland State University
Portland Oregon

Oregon Women for Agriculture

August 15, 2006

To Whom It May Concern:

Oregon Women for Agriculture (OWA) is an integral part of the national coalition of American Agri-Women (AAW). For over 30 years, officers and members of the groups similar to OWA from across our nation have actively developed national policy to protect and conserve our natural resources. If we, as women intimately involved in food, fiber and energy production, across this nation from New York, to Alaska, to Florida can agree on issues related to our diverse commodity productions, hopefully, you will proactively consider what we have thoughtfully agreed to over this span of time.

We come to you as members of Linn-Benton Women for Agriculture (LBWA), a very active chapter of Oregon Women for Agriculture.

The Farm Bill is not only a consumer bill but an environmentalist bill masquerading as a conservationist natural resource bill.

Raising crops and livestock used to be both full of joy and a challenge. Today, due to the continual heavy hand of governmental regulations and the over-enforcement of the Endangered Species Act, United States agriculture has been painted as sinful!
When in reality: 1 - Farmers/Foresters are true saviors of the environment;
2 - Farmers/Foresters are the true conservationists; and
3 - Farmers/Foresters know how to use the natural resources to benefit and protect all consumers and how to conserve the land and the natural environment which is part of the land.

One cannot put a price tag on the value of U.S. agriculture and its contributions to consumers, the environment and the conservation of our land!

We thank you for your willingness to consider the following policies in your law and rule making:

--We oppose granting any authority to the United Nations regarding the use or management of any federal, state or private properties in or of the United States; (In our opinion, the United Nations is dominated by individuals and nations determined to decimate the U.S. and the principles of Western civilization which have made living here the envy of the world.)

We believe in the multiple uses of natural resources.

In policy decision making more weight needs to be given to the expertise and knowledge of the average family farmer, including the growers of minority crops in addition to the producers of corn, soy beans, wheat, cotton, dairy, beef and pork. We need policies which promote and

ensure abundant, renewable natural resources and a healthy, productive environment. For national security, priority must be restored to utilize our resources to produce basic benefits of food, clothing, shelter and fuel.

Government agencies which have the power for decision-making affecting natural resource industries need to be held specifically accountable for their decisions which must be limited to specific authorization. (The Rapponos case of abuse of power by the Army Corps of Engineers is an example.) There should be:

Specific timetables,
Efficiency reports,
Cost of implementation,
Balancing of harms, and
Effect of no-management actions.

We support restricting and monitoring the conditions by which private non-profit groups can purchase land with the intent to sell or transfer ownership of that land to the government. The intent by government to acquire or take the use of land, or the land itself, should be an open process and readily available to public review.

We expect Congress to fully appropriate and disperse Payment in Lieu of Taxes (PILT) to local governments. This is very important to Oregon where so much of our state is locked up in timberlands under federal control where most harvest is currently not allowed. (See attached map of federal government controlled lands.)

We strongly support Legislation which considers "takings" as devaluation of land by:

Regulatory action,
Activities which negatively impact adjacent land, or
Activities which impact landowner's rights in any way.

We believe that water is property. Reallocation by government of any water originally permitted for private use is a "taking." (Hauge vs. U.S. Govt.)

Eminent Domain (condemnation) should only be used for public safety or public use such as roads and public buildings.

<u>We support the value of human life and safety above any other species whether listed as endangered, or threatened</u>. Funding for the Endangered Species Act (ESA) should be discontinued until the act is reauthorized and includes the following:

--Social, economic and environmental cost/benefit analysis and compensatory adjustments for takings are determined so that property owners are protected and fully compensated for loss of property, for loss of income, and for expenses.

--Allows the property owner who is sued for an alleged ESA violation to continue with existing farming, logging, fishing or mining practices until the suit is resolved;

Oregon Women for Agriculture

--Require feasible recovery plans that are cost effective and have the least negative social and economic impact. Plans must be reviewed every 5 years.

--Allow for administrative appeal of qualified major decisions and/or judicial review by qualified affected parties;

--Exclude a species from consideration as endangered or threatened, or de-list it, if it is abundant in any location;

--Acknowledge "extinction" as a natural process of evolution;

--Require the use of sound, verifiable, peer-reviewed science giving equal weight to historical data of the land before a listing is approved;

--Eliminate subjective biological units (sub-species, populations, stocks) and pursue recovery of only significant species; and

--Require that the Environmental Impact Statement (EIS) and critical habitat designations be completed before restrictive regulatory action is taken.

National farm policy is too critical to global human welfare to indulge temporary "politically correct" fads. An example is the current undue emphasis on native species over the more adaptable, productive species developed from world-wide selection, breeding, or genetic modification.

We know that we are the all-round best, safest, most sanitary, most fair to our employees producers in the world. We ask you to encourage us, not hamper us in the decisions you make.

Sincerely,

Chelle Davis

Chelle Davis, President
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August 15, 2006

Robert Sturm, Chief Clerk
U.S. Senate Committee on Agriculture, Nutrition and Forestry
Room 328-A Russell Senate Office Building
Washington, DC 20510-6000

RE: Farm Bill Hearing – Redmond, OR August 15, 2006

The Linn Soil & Water Conservation District has been working with landowners regarding conservation concerns in Linn County, Oregon for sixty years. Throughout those sixty years the face of Federal Conservation Programs has evolved with the times, and forces of special interest groups. As an entity that has worked to put the various conservation programs into practice, we have some notable concerns and comments regarding the evolution of the Federal Conservation Programs.

Conservation Programs as a whole have been very biased throughout the years; only providing those landowners and producers willing to "jump through hoops" with the advantage of monetary and planning assistance. In most cases the incentive of a monetary reward was needed to get the job done; however, there have always been individuals at the forefront who plan and implement conservation projects without Federal assistance. Planning and Implementation assistance should be provided to those individuals who are willing to implement the conservation and environmental restoration projects, regardless of their participation in the Federal Conservation Programs and other USDA programs.

As each new Farm Bill is implemented the programs are changed and molded to fit the requirement handed down. During the term of each Farm Bill the programs tend to evolve into completely different programs, tailored to the needs and desires of each state and growing region. While this tailoring of the programs is beneficial overall; it tends to confuse the public and make them wary of the programs. In an area such as the Willamette Valley of Oregon, with it's diversity of crops, implementation of the programs can be difficult, due to the continually changing rules and accepted practices. The programs, while needing to be tailored to production areas, also need to remain stable financially and in practical implementation of the desired practices.

The lack of consistency among federal agencies, as well as state agencies, regarding delineation of wetlands, soil types, and acceptable practices, makes it difficult to implement programs. There is a significant need for more cooperation among the federal agencies and the states, regarding delineation of wetlands, soil types, and acceptable practices.

The Conservation Security Program (CSP) should be a welcomed change to producers, special interests groups, and landowners. While the program encourages the implementation of many positive practices, it also causes a divide among producers – those who are getting large supplemental payments and those who are not. The Linn SWCD is concerned that the use of incentives payments under CSP may lead to land rent increases or landowners that are only willing to rent to CSP enrolled producers. While most producers are conscientious stewards of the land and environment, there are a number of producers that do not wish to be involved in any type of governmental program. The producers not enrolled in CSP will be unduly harmed by landowners increasing rent and forcing producers to enroll in federal programs. In the Willamette Valley, with the diversity of crops grown by each producer, the vast amount of paperwork involved to apply for the CSP payments is intimidating. The Conservation Security Program needs to be revisited and revised to meet the needs of all producers across the United States, not just the Big 5 commodity producers.

The local implementation of Federal Conservation Programs tends to focus on very large producers and corporate farmers, due to the time and costs associated with the paperwork required for each program. The encouragement of more corporate farms to participate in programs goes against common wisdom that shows that a family producer with their intimate ties to the land, and tighter bottom line, will strive to be the best steward of the land, today and for the future. All Federal Conservation Programs need to strive harder to include family producers, and smaller landowners.

The purpose of the Federal Conservation Programs is to assist local producers with the implementation of long-term stewardship practices, through planning and monetary assistance. These programs should not be used to hinder local producers or make corporate producers addicted to thinly veiled welfare checks.

The continued partnerships and cooperation among federal, state, and local agencies is needed in order to protect our precious resources and encourage our farmers to remain successful self-reliant producers of food and fiber.

Respectfully Submitted by,

Liz VanLeeuwen

Elizabeth (Liz) VanLeeuwen, Chair

August 17, 2006

Comments on 2007 Farm Bill
Senate Agriculture, Nutrition and Forest Committee
Farm Bill Regional Hearing
Redmond, Oregon, August 15, 2006

Kendra Kimbirauskas
Independent Farmer, Rural landowner
30871 S. Oswalt Rd.
Colton, OR 97017

Mr. Chairman and Members of the Committee:

I appreciate the opportunity to submit comments on the 2007 Federal Farm Bill.

My father, who farms beef on 200 acres in rural Michigan, has always said that, "the farmer is a dying breed." And if this is true, then I as young person attempting to follow my father's footsteps and make a living from the farm, is a breed that is nearly extinct.

As someone who has been involved with farming and agriculture since a child, I share a great interest and concern for the future direction of our nation's Agricultural Farm Policies and the legacy it might withhold for the future generations of farmers – like me – that follow.

Many changes have taken place over the past few decades, in regards to policies on agriculture, food and foreign trade that have had a dramatic effect on the financial viability of independent family farmers to sustain themselves within today's agriculture. Many of these negative changes have been the result of former and present Farm Bills that have promoted and encouraged industrialization within the agricultural sector; rather than focusing on the fundamentals of retaining a sustainable agricultural and safe food system, which has been the true historical bedrock of this country.

For reasons outlined above, I cannot support the continuation of the 2002 Farm Bill in its present form.

The 2002 Farm Bill is weighted to benefit the industrialization of the American farm and the corporate control of the market place, which has become a detrimental barrier for survival within rural agricultural communities in the United States.

In the 2007 Farm Bill, policies must change, so that independent, family farmers who are producing animals or corps using traditional, sustainable methods of production can either enter or continue to be competitive in our agricultural market place, while sustaining sound farming practices, a healthy environment, and a safe food system.

In the 2007 Farm Bill, subsidies to industrialized corporate farms should be capped, so that our free market place is not skewed, making it virtually impossible for beginning or existing family farmers to remain competitive or have the opportunity to grow and/or expand. Current farm policies encourage corporate growth and control of the US livestock industry and marketing systems, thus forcing existing or young farmers to become laborers for corporate agribusiness.

Focus in the 2007 Farm Bill should be on helping small, independent farmers remain competitive in the domestic economy, rather than geared toward increasing our global agricultural economy that primarily benefits corporate agribusiness and serves to harm independent farmers abroad.

Conservation priorities cannot be achieved through farm policy that allows industrial corporate farms and concentrated animal feeding operations (CAFO) to participate in the Environmental Quality Incentives Program (EQIP). These programs should be reserved for independent farmers and retained in the hands of those who care very much about the stewardship of the land. By allowing CAFOs to participate in the EQIP program, an incentive is created to damage the environment so that eligibility can be attained to qualify for payments under the program.

Much like the EQIP program, In the 2007 Farm Bill, Conservation Security Programs should be funded fully and reserved for independent farmers and ranchers who practice environmental stewardship and sustainable farming and/or grazing practices. Conservation Security Programs should not be directed at bad actors and industrialized farms as an incentive to change temporarily, in order to cash in and have immediate problems solved by taxpayer dollars.

The 2007 Farm Bill should focus on the redevelopment of rural communities that have been negatively impacted by the loss of the family farmer and the influx of corporate farms. The Federal Farm Bill could achieve this by eliminating programs that enhance consolidation of agriculture in the market place; implementing policies that benefit small and medium sized farming operations; and by directing monies to rebuild local and regional markets that enhance the local economy such as incentives for local foods to be used in schools and other institutions.

In addition the 2007 Farm Bill should help rebuild rural economies by assisting independent farmers and ranchers to build local or regional processing facilities; by providing incentives for agricultural diversification on the farm and in the local economy; and by working to preserve productive farm and ranch land.

America's farmers deserve better in the 2007 Farm Bill. We need policy that revitalizes the American Farm, our rural communities and protects the environment. Although dwindling in numbers, the American Farmer is not dead yet. With the help of federal policies that are in the very least equally balanced between the needs of agribusiness and independent farmers and ranchers, people like me will be able to earn a living from the farm and the American farmer will be producing farm fresh meat and vegetables for generations of consumers in the years to come.

Thank you for this opportunity,

Respectfully,

Kendra Kimbirauskas

Kendra Kimbirauskas
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August 15, 2006

United States Senate
Committee on Agriculture, Nutrition, and Forestry
Federal Farm Policy Hearing, Redmond, OR

Written Testimony Provided By:

Chris Voigt
Washington State Potato Commission
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cvoigt@potatoes.com

The Honorable Chairman Chambliss and Honorable Committee Members,

The Washington State Potato Commission works with approximately all 350 potato growers throughout Washington. Potatoes are the second largest crop grown in the state, with an annual farm-gate value of approximately $500 million. Washington State exports half of its potato crop and accounts for nearly one-third of all potatoes and potato products exported from the U.S., totaling nearly $500 million in value added exports from the Ports of Seattle, Portland, and Tacoma in the year 2001 alone.

A study of the economic impacts of the Washington State potato industry show that potato farming and related processing contributes over $3 billion annually to the Washington economy. This translates into over 27,000 jobs.

There is a disparity in the current Farm Bill that needs correction. Ninety-two percent of commodity spending was paid on 5 crops representing only a third of the growers in the U.S. The majority, the other two-thirds of the farmers, many specialty crop growers, receive very little support from the current Farm Bill. Potato growers do not want traditional programs with direct payments but need assistance in other program areas.

The Washington State Potato Commission is part of a national coalition of specialty crop producers advocating for a change in this disparity. We are advocating for the following Farm Bill policies

1. **Nutrition Programs** – We support a strong new focus within the 2007 Farm Bill on increasing the access and availability of fruits and vegetables, particularly to children. We support the development of a new nutrition promotion program to assist producers in enhancing their markets and improving the diets of Americans, and a general requirement that USDA feeding programs and commodity purchasing comply with the 2005 Dietary Guidelines.

2. **State Block Grants** – We support an expansion of the State Block Grants for Specialty Crops program originally authorized in the Specialty Crop Competitiveness Act of 2004, and funded through appropriations in the FY06 Agricultural Appropriations bill. Due to the wide diversity and localized needs in specialty crop production, state departments of agriculture are uniquely able to assist local growers with the specific investments they need to increase competitiveness.

3. **International Trade** -- We support programs to increase foreign market access, to increase funding for the Technical Assistance for Specialty Crops program, and creating a new Export Division within APHIS to attack with much greater vigor the real but too often hidden trade barriers facing our industry in sanitary/phytosanitary issues. We also strongly support the Market Access Program.

4. **Invasive Pests and Disease** – We support significant new investment in prevention of the unintentional introduction of plant pests and diseases. Investment in prevention is more cost-effective than mitigation. A recent find of the Potato Cyst Nematode in Idaho is an example of the need for tighter border controls. This find was the first in the US of this devastating pest and has eliminated many export opportunities.

5. **Research** – We support significant new investment in research for specialty crops, through both the National Research Initiative and programs within CSREES and ARS. There are several Congressional earmarks dedicated to potato research. We suggest making those earmarks part of the mandatory base funding for ARS.

6. **Unique Attributes of Specialty Crop Producers** – Due to the nature of high-value specialty crop production, many current Farm Bill programs and disaster programs are of limited benefit to specialty producers due to payment caps, limits on Adjusted Gross Income, limits on off-farm income even if integral to farming operations, etc. We support a thorough review of all farm programs to ensure that specialty crop producers have access to benefits comparable to other farmers, rather than being excluded or limited simply due to a higher-cost of production.

7. **Conservation Programs** – We support a mandatory allotment of funding for specialty crop production within EQIP similar to what currently exist for the livestock industry.

Thank you for this opportunity for the Washington potato growers to part of the dialog in developing this new Ag policy. Please feel free to call upon us as a resource in future discussion as we develop the new Farm Bill.

Sincerely,

Chris Voigt

Chris Voigt
Executive Director

Larry Bishop
84205 Hood Rd.
Milton-Freewater, OR
97862
(541)558-3825
August 12, 2006

Regional Listening Hearing
Redmond, Oregon
August 15, 2006

To Whom It May Concern:

My name is Larry Bishop and I am a fifth generation wheat farmer faming in the Milton-Freewater, Oregon and Walla Walla, Washington areas. I would like to go on record by stating that we need a new farm bill and not an extension of the old one. The current farm bill is not working properly and soft white wheat producers are failing every day because the promised governmental support is not there for them. Quite simply, because wheat has been split into classes with each class having its own loan rate soft white wheat has not been able to make use of the counter-cyclical program as it was envisioned. Currently you have a situation where soft white is a dollar to a dollar and a half cheaper than the hard wheats and we are not receiving any help because the counter-cyclical payment is based on all wheat in total. When you couple the low prices we are receiving for our wheat with the rapidly increasing prices for fuel and fertilizer, you have a recipe for disaster.

There are several ways to correct this situation. The first is to go back to one loan rate for all types of wheat. This would probably increase the loan rate in essence for soft white while lowering it for the hard wheats. I doubt if this will happen though because the other types of wheat are not going to want to give up their higher loan rates to help out soft white wheat. The second way to level the playing field is to keep everything as it is now except make the counter-cyclical payment class specific. That way if a wheat class is low in price in any given year there would be some governmental support for it. The third way would be to scrap out the counter-cyclical program and double the direct payment and the direct payment limitation. Couple this with keeping a marketing loan to provide a floor and you would have a program that a farmer could count on year in and year out. Also, from a budgetary standpoint it would be easier for the

government to budget for agriculture expenditures every year. The draw back to this program is that it may be harder to justify in the eyes of the American consumer in years when the prices are good. Under the current program the loan rate is starting to dictate what kinds of wheat a producer plants and that is contrary to the stated goal of the program.

Agriculture really needs to keep government involved because agriculture needs a safety net under it. This net not only props up the farmers, but it also ensures that the American consumer will have a cheap, reliable, safe supply of food. As events have shown us over the past few years, the United States does not want to become dependent on someone else for our food. It is bad enough when we have to look overseas for our energy needs and it could be catastrophic to us to have to buy our food elsewhere. Even if there was no problem getting food, other countries are not under any constraints to provide safe, clean food. The only way to be sure of our food is to grow it ourselves. By keeping agriculture strong we are able to compete overseas in the export markets and help the balance of trade with other countries.

We also need to keep looking at new ways to produce energy through agriculture. Governmental support is desperately needed to help build plants and research energy technology. Biodiesel and ethanol are going to become critical to the US. Our energy infrastructure is very fragile and easily disrupted, just look at the problem we are now facing with the Alaskan pipeline. Our goal should be to reduce our dependence on foreign countries for energy and bioenergy can help us get there.

Speaking of trade, we need to get rid of a lot of the tariffs and export subsidies that we now face. The WTO talks are designed for that and I realize that if other countries give up on some of their support programs, we will probably have to scale back some of ours. However, agriculture should not be sacrificed so big companies like Boeing and Microsoft can get ahead. Our negotiators have to look to the good of the whole country not to just a few large corporations. I would rather see no agreement rather than an agreement that penalizes agriculture.

Another leg of support for agriculture has to be good affordable crop insurance. I think that crop insurance is a better tool than disaster aid because in a localized area you can have a devastating problem, but if not enough farmers are impacted disaster aid will not come into play. I think that crop insurance has to be available to all farmers. If a farmer opts not to take crop insurance and has a disaster, then that should be on his head and not come begging for emergency help.

I also serve on the advisory board to an agricultural research station and we must keep the dollars flowing to those scientists. Those dollars have generated a lot of dollars for farmers by showing them new ways to farm and developing new crops and machinery that a few short years ago would have been unimaginable. We have cleaner air and water because of the work of these scientists and all society benefits from that, not just farmers. Scaling back research dollars is very counter productive, especially when you consider that research is already a very small part of the Dept. of Agriculture's budget.

The various conservation programs have greatly benefited our country as well. CRP and CREP have kept our streams and air cleaner. Wildlife has increased on those acres as well. The public once more has come out a winner with this program. We must maintain this program and probably should raise the acreage cap in the counties. Every acre we take out of production agriculture is an acre that is not producing wheat or corn or soybeans or cotton. This has to help run the price up for farmers who are producing these products as well as other crops.

In the next farm bill there will be more pressure to provide subsidies for other crops not currently subsidized. Because of budget constraints there will probably be less money available for the next farm bill. By supporting the major crops, the government is also supporting the minor crops indirectly by making it less likely that wheat farmers, for example, would want to switch gears and go into say cherries. Therefore we should take a really hard look at what will happen if you have a farm bill that inadequately supports everyone as opposed to a bill that keeps the major crops healthy.

As I have said before we need a safety net under us for our sakes and the sake of the American people. Agriculture is facing a perilous future and the government must continue to support agriculture for the good of the country.

Thank you,

Larry Bishop

United States Senate
Committee on Agriculture
Federal Farm Policy Hearing, Redmond, OR

Testimony Provided By:

Nels Iverson
1222 Miller Rd SE
Jefferson, OR 97352

The Honorable Chairman Saxby Chambliss and Honorable Committee Members and Guests,

My name is Nels Iverson and I am part of a family farming operation in the Willamette Valley of Western Oregon. We farm 2800 acres of potatoes, tulips, daffodils, grass seed, sweet corn, green beans, squash, and miscellaneous seed crops. Our farm is mostly dependent on the specialty crops that are produced. I was raised in the Willamette Valley and have been involved with production of crops my entire life.

Today I am representing the Oregon Potato Commission as a member of the Oregon State Potato Industry. I am currently Oregon Potato Commission Vice President and Chairman of the Trade Affairs Committee and a Representative to the National Potato Council. The Oregon Potato Commission works with approximately all 150 potato growers throughout Oregon. Potatoes are the fourth largest field crop grown in the state economically, with an annual farm-gate value of approximately $125 million. The impact to Oregon's economy is many times greater when all of the associated processing and handling is included. Oregon is very diverse in the production of potatoes, 68 percent are processed, 26 percent are fresh and 6 percent are used for seed.

There is a disparity in the current Farm Bill that needs correction. Ninety-two percent of commodity spending was paid on 5 crops representing only a third of the growers in the U.S. The majority, the other two-thirds of the farmers, many specialty crop growers like myself, receive very little support from the current Farm Bill. Potato growers do not want traditional programs with direct payments but need assistance in other program areas. In Oregon there are over 220 specialty crops produced. Many of the producers of these crops receive little or nothing from the federal farm bill programs.

The Oregon Potato Commission is part of a national coalition of specialty crop

producers advocating for a change in this disparity. We are advocating for the following Farm Bill policies

1. **Nutrition Programs** – We support a strong new focus within the 2007 Farm Bill on increasing the access and availability of fruits and vegetables, particularly to children. We support the development of a new nutrition promotion program to assist producers in enhancing their markets and improving the diets of Americans, and a general requirement that USDA feeding programs and commodity purchasing comply with the 2005 Dietary Guidelines.

   While nutrition policy is not solely a Farm Bill issue, we have a unique opportunity to make sure those policies under the purview of the House and Senate Agriculture Committees be considered carefully so that the new Guidelines are fully implemented. To this end, future farm policy will not only support American agriculture; it will support and encourage the health and well-being of all Americans.

2. **State Block Grants** – We support an expansion of the State Block Grants for Specialty Crops program originally authorized in the Specialty Crop Competitiveness Act of 2004, and funded through appropriations in the FY06 Agricultural Appropriations bill. Due to the wide diversity and localized needs in specialty crop production, state departments of agriculture are uniquely able to assist local growers with the specific investments they need to increase competitiveness.

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Thank you for this opportunity for the Oregon potato growers to part of the dialog in developing this new Ag policy. Please feel free to call upon us as a resource in future discussion as we develop the new Farm Bill. I would welcome any question you may have.

Nels Iverson

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