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TO REVIEW THE IMPLEMENTATION OF THE 2002 FARM BILL

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

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HEARING TO REVIEW THE IMPLEMENTATION OF THE 2002 FARM BILL

WEDNESDAY, MAY 14, 2003

U.S. SENATE,

Committee on the Agriculture, Nutrition and Forestry, Washington, DC

The committee met, pursuant to notice, at 2:10 p.m., in room SR–328A, Russell Senate Office Building, Hon. Thad Cochran, [Chairman of the Committee], presiding.

Present or submitting a statement: Senators Cochran, Lugar, Coleman, Crapo, Talent, Harkin, Leahy, Conrad, Daschle, Stabenow, Nelson, and Dayton.

STATEMENT OF HON. THAD COCHRAN, A U.S. SENATOR FROM MISSISSIPPI, CHAIRMAN, COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

The CHAIRMAN. The hearing of the Agriculture Committee will please come to order. We have a vote in progress over on the floor of the Senate and some of our Senate members are there on the floor for that purpose, but we will begin and give senators an opportunity to make opening statements and then proceed to hear from the Secretary.

We are very pleased that the Secretary is here with others from the department to discuss the implementation of the Farm bill that was passed last year. Ann Veneman has been doing an excellent job, in my opinion, as Secretary of Agriculture and so has the team she has assembled at the Department of Agriculture to assist her. Dr. J.B. Penn, Under Secretary for Farm and Foreign Agricultural Services is here with her today, Mr. Bruce Knight, chief of the Natural Resources Conservation Service, and Dr. Keith Collins, who is the chief economist for the department. We welcome all of you.

We know this is a very challenging opportunity to implement some new programs to help landowners and those involved in production agriculture in our country. There are some new complications because of options that are given to farmers to help decide how their benefits will be made available. The Farm Service Agency county offices have had their workloads increased enormously. Then we had the passage of disaster assistance legislation and the sign-up for the Conservation Reserve Program for them to deal with, as well.

We appreciate the work that all of you have been doing to ensure that the benefits and opportunities of the Farm bill are made available to those entitled to those benefits. There is an 80 percent in-

crease in authorization for conservation spending, for example, and the majority of those program funds are on working lands. This increase in funding possibilities comes with the increased need for technical assistance, which I know the Natural Resources Conservation Service is working to make available.

I was encouraged recently when I saw that Dr. Collins had indicated some good news in the economic outlook for agriculture in our country, suggesting that we would see an increase of about 11 percent in net cash income for farmers this year as compared to last year and that exports were likely to increase by 7 percent to a level of $57 billion, which is the highest level of farm exports since 1997. We hope that the work that the department can do in implementing the Farm bill will help assure that those expectations turn into realities.

With that note, I am happy to yield to my friend Senator Coleman for any opening statement that he would like to make.

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

Senator COLEMAN. Thank you. Thank you, Mr. Chairman. I want to thank you for holding this important hearing on the implementation of the Farm Security and Rural Investment Act of 2002 and I also want to join in thanking Secretary Veneman and Dr. Penn and Mr. Knight and Dr. Collins for appearing before us today.

Since I was not here to vote for the 2002 Farm bill, I have the luxury of prefacing my remarks by saying that I fully support the provisions of the Farm bill that Minnesota farmers like and, of course, I adamantly oppose the provisions they do not.

In any case, America's farmers have had some challenging times in recent years—the lowest real net cash income since the Great Depression, record low prices, record high cost of production, foreign tariffs and subsidies five and six times than our own, and the sheer strength of the U.S. dollar vis-a-vis our foreign customers and competitors. I believe a strong safety net for our farmers is needed and I believe the 2002 Farm bill provides some certainty for Minnesota farm families in uncertain times.

I commend President Bush for fully funding the Farm bill in his budget and I was pleased to join Senator Lincoln in successfully working to ensure that the budget resolution we recently passed did the same.

I understand from USDA, as the chairman has noted, that things may be looking up a little this year in terms of some commodity prices, and that is encouraging. There are some things that Congress can and should do, however, to help move things along for our farm families in rural America. Passing an energy bill with a strong renewable fuel standard and providing tax relief for our farm families would raise commodity prices while lowering their costs, and I am happy to be a part of both these efforts.

President Bush's decision to file a case with the WTO against the EU yesterday for its illegal ban on biotech agriculture is very important to my farm families and I appreciate the President's strong leadership on this issue. I encourage the administration to take the same strong stand with regard to the recent back-pedaling by Mexican on its commitments under NAFTA.

All that aside, we are here to discuss the Farm bill's implementation 1 year and 1 day after its enactment and on the whole, I believe the administration has done a good job and deserves high marks for undertaking an awful lot of work without much time to get it done, particularly with the added workload from the disaster assistance package.

I want to especially thank John Munson, Minnesota's state SFA director, the state SFA committee and all the Minnesota SFA team, both in St. Paul and in the field for their hard work, dedication, and effort in serving Minnesota farm families. Of course there are a few things here and there that might be tweaked to better serve the farmer and I will not be bashful talking with the department about how to fix those things.

Again on the whole, Mr. Chairman, Madam Secretary, you and your team have done a commendable job. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

Senator Conrad is recognized for any opening statement that you would care to make.

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

Senator CONRAD. Thank you, Mr. Chairman. First of all, thank you for holding this hearing, another one on the implementation of the Farm bill.

Welcome, Madam Secretary and other representatives—Mr. Collins, Mr. Penn, Mr. Knight.

Last fall's hearing on farm bill implementation focussed on a number of unresolved issues. Since that hearing I am glad we have finally been able to resolve the issue of loan rates for minor oilseeds and pulse crops but it is unfortunate we had to bring bipartisan pressure on the department to equalize loan rates for minor oilseeds and it is very disappointing that we had to actually push through legislation, again on a bipartisan basis, to force the department to follow the original intent of Congress in carrying out the new loan program for pulse crops. As I said, I am pleased we have finally put those two issues behind us.

However, in my view there remains a major piece of unfinished business with regard to implementing the Farm bill as Congress intended and that has to do with the interest rate for sugar loans. As we know, the 1996 Farm bill imposed a 1 percent interest rate surcharge on price support loans issued for sugar and other commodities. However, in the 2002 Farm bill Congress very specifically repealed the interest rate surcharge as it applied to sugar. I know because I wrote the new provision. The actual language of the new law very specifically exempted sugar from the interest rate surcharge and the conference report. Statement of managers declared that the new law "makes Section 163 of the FAIR Act inapplicable to sugar."

Even USDA agrees on that fundamental point. In its final rule governing operation of the sugar program, as published in the Federal Register on August 26 of last year, USDA said the following. "The 2002 Act eliminates the requirement that CCC add 1 percentage point to the interest rates as calculated by the procedure in

place in 1996 but does not establish a sugar loan interest rate. CCC has decided to use the rates required for other commodity loans." In other words, the department admits that Congress repealed the surcharge but the department does not seem to care. USDA is going to hit farmers with this surcharge anyway. That, to me, is a gratuitous penalty and it is gratuitous in terms of its disregard for the clear intent of Congress.

This provision, like others that we had to reverse, was paid for in the Farm bill. In the case of the interest rate on sugar loans, repeal of the sugar surcharge costs $5 million over 10 years. That was scored against the bill and we met that cost. As we saw with minor oilseeds and pulse crops, the department is attempting to undermine the law by administrative fiat.

When we get to the point of asking questions, Mr. Chairman, I am going to ask the Secretary about this matter. I advised her in our call the other day that we would have a chance to visit about this. I am hopeful that this can get resolved.

With that, I thank very much the chairman for again calling this hearing and for this time.

The CHAIRMAN. Thank you, Senator.

Senator Crapo, you are recognized for any opening statement that you would like to make.

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

Senator CRAPO. Thank you very much, Mr. Chairman. I will be brief. I, too, appreciate you holding this hearing. As yesterday marked the 1-year anniversary of the signing of the 2002 Farm bill, I appreciate Secretary Veneman being here with us today to discuss the implementation of this very important law.

Secretary Veneman, I want to commend you and the many USDA employees who have worked diligently to implement the new law. Idaho farmers and ranchers have been well served by the many local USDA employees who continue to work very hard on their behalf. Additionally, I appreciate the department's efforts to work with growers and commodity groups throughout the implementation process to get their input on various aspects of the programs. Cooperation and communication with the agriculture industry and the department will better ensure that the law is responsive to the needs of our nation's farmers and I recognize your effort to ensure that the farmers and ranchers have a voice in that process.

While throughout the process certain concerns remain to be addressed, some of which I will raise during questioning today, overall I have been very impressed with your dedication in getting this immense law implemented in a timely manner. I do want to interject right here that I share the concerns that Senator Conrad has just raised with regard to the sugar loan program and hope that we can get that issue resolved. You and I have discussed that before.

Further, while the Farm bill makes great strides to ensure the longevity of American agriculture, our high quality, world renowned agriculture products continue to face trade barriers that stifle the ability of farmers to remain competitive. I appreciate the

administration's efforts to work to expand foreign market opportunities and I encourage the department to continue to work to ensure that American agriculture interests are at the forefront of these trade negotiations. We have to make sure that new trade agreements bolster and do not hinder the ability of farmers and ranchers to compete in domestic and foreign markets.

Again I want to thank you for your hard work in implementing the law. There will be issues that we will need to continue to work on, but I believe that you have done a yeoman's effort and that your progress is to be commended. I look forward to working with you in the future as we ensure that the farm programs are best crafted to meet the needs of our nation's farmers and ranchers. Thank you.

The CHAIRMAN. Thank you, Senator Crapo.

I am pleased that the senator from Iowa, Senator Harkin, who is the ranking Democratic on the committee, is here. We had a vote on the floor of the Senate and it delayed some of us from getting here but Senator, I would be happy to recognize you for any opening statement you would care to make at this time.

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

Senator HARKIN. Thank you very much, Mr. Chairman, and I apologize for being a little late. I thank you for having this hearing to talk about the implementation of the Farm bill.

Madam Secretary, good afternoon. I am pleased that you could be here with your staff.

A year ago yesterday, I am sure it has been noted, President Bush signed the bipartisan 2002 Farm bill into law after he made a very strong statement of support at the White House. He underscored the law's importance to farmers, the rural economy, and specifically he cited the landmark conservation provisions of the Farm bill. The 2002 Farm bill, as passed, represented a great boost for producers, the environment and rural America.

As we have seen, those parts of the Farm bill that were implemented early and well have proven a success. We are also seeing positive results from the new policies and increased funding for conservation, rural development, renewable energy, nutrition, trade and research. Despite some fits and starts, it now appears that over 94 percent of eligible farmers have made their base and yield elections, as anticipated in the Farm bill. Madam Secretary, I commend you and the personnel at the department and all your field offices for your hard work in implementing these titles of the Farm bill.

Despite these successes, too many of the more innovative initiatives in the Farm bill remain on the shelf as a result of inaction, delays, and misapplication of the law. Too often the administration seems to create a Herculean task where, in fact, a clear path lies to the intended result in the legislation, and these have had really negative effects on producers in rural America. These conservation, rural development and energy programs, implemented as directed in the Farm bill, hold great promise for us.

Unfortunately, funding for Farm bill conservation programs turned out to be far less than anyone anticipated after the singing of the Farm bill. The promise of the conservation title has been limited by an inexplicable reading of the Farm bill's funding for conservation technical assistance. As a result, almost $160 million less will go to conservation in this fiscal year than the Farm bill provided and there will be similar shortfalls in future years if this reading is not reversed.

Further, implementation of probably the most greatly anticipated and innovative program, the Conservation Security Program, is also behind schedule, but we discussed that in a previous meeting.

As for rural development, virtually nothing has been done to carry out the Rural Business Investment Program, which was designed specifically to bring critically needed equity capital to rural communities, and I would like to have you address that in the question-and-answer period.

For the first time the Farm bill included an energy title, for the first time ever, but USDA is still far from finalizing guidelines for Federal agencies to purchase bio-based products, which is one of the key provisions in the title. In fact, there is a demonstration going on down on the Mall right now with soy-based diesel. You probably saw it; it is down by your place down there, all the cars and stuff with soy diesel.

Since the Farm bill was signed we have a budget that would undo much of the promise that the Farm bill held, and the budget proposes to drastically reduce or even eliminate funding for several rural development energy and conservation programs that were fully funded in the Farm bill.

Again we all have a common goal and that is the successful implementation of the Farm bill. As you said when the bill was signed, you and your staff are "strongly committed to ensuring timely and efficient implementation during the coming months." Again I do not want to discount the work that you have put into it so far. I know there have been new things in the Farm bill; I know it has taken time; I understand that. I just hope that we can work together to close some of the gaps that still exist that are out there in rural development, in the Rural Equity Fund, and working with the administration, getting some suggestions for you on how we get over that hurdle on the technical assistance problem that we have.

Thank you very much for being here. Thank you very much, Mr. Chairman, for having the hearing.

The CHAIRMAN. Thank you, Senator.

Madam Secretary, we appreciate again your being here. We have a copy of the statement that you have prepared and we will have that printed in the record in full and invite you to make any comments that you think would be helpful to the committee's understanding of the work the department is doing to implement the new Farm bill. You may proceed.

STATEMENT OF HON. ANN M. VENEMAN, SECRETARY OF AGRICULTURE, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC,

ACCOMPANIED BY J.B. PENN, UNDER SECRETARY, FARM AND FOREIGN AGRICULTURAL SERVICES;

BRUCE KNIGHT, CHIEF, NATURAL RESOURCES CONSERVATION SERVICE; AND

KEITH COLLINS, CHIEF ECONOMIST, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC

Secretary VENEMAN. Well, thank you very much, Mr. Chairman and Senator Harkin and the other distinguished members of the committee. We appreciate the opportunity to be here today to discuss the implementation of the Farm Security and Rural Investment Act of 2002. As has been noted several times already, it was just 1 year ago yesterday that that bill was signed into law by the president.

As you indicated, Mr. Chairman, I do have a formal statement and we do appreciate the fact that you have agreed to make it part of the record. I would like to summarize my statement and then we will be happy to take your questions.

I am pleased that we have with us today many people who have worked on the implementation of the Farm bill but here at the table with me is the Under Secretary for Farm and Foreign Agricultural Services, Dr. J.D. Penn, our chief economist, Keith Collins, and our chief of the NRCS, Bruce Knight. They have all been very involved in the implementation process.

What I would like to do is first make some general remarks about the challenges the department has met in implementing this farm bill and then discuss some of the accomplishments of the past year and conclude with some comments on the status of the implementation of the Agricultural Assistance Act of 2003.

Our No. 1 goal over the past year has been to implement the Farm bill provisions as quickly and efficiently as possible. I am very pleased and I am proud of the progress that the department has made to meet this goal. A major challenge was the late passage of this new complex bill and the fact that many of the provisions were applicable in the same year that the bill passed. Fortunately, the department was actively engaged in preparing for a new bill before it was passed, so as soon as it was enacted we moved quickly to go into high gear to implement it.

We established an internal working structure by putting together a board of directors that was made up of the subcabinet and then a working group that was co-chaired by Keith Collins, Scott Steele of our Budget Office and Hunt Shipman, who now works for the chairman. They did a terrific job of coordinating the resources of the department and to coordinate the department-wide implementation of the nearly 500 separate actions that we identified to implement the bill's provisions.

Also, as has been noted, our staff throughout the country has been working tirelessly and aggressively to implement the new provisions and get the benefits flowing to producers and other program participants. I know you would want to join me in expressing our great appreciation to all the hard-working USDA employees, as you have, all over the country who have put so much time into imple-

menting this bill. It is important that we do especially recognize our county-based employees who have been on the front line of sign-up and program delivery. Literally thousands of USDA employees have played a part in these efforts and I am incredibly proud of everybody on our team.

We also want to thank the Congress for providing the funding to implement the Farm bill. We're making good use of the funds to hire temporary staff and make technological improvements to help facilitate the sign-ups going on for all the Farm bill programs, as well as for the newly authorized disaster assistance programs.

We have made extensive efforts to keep the Congress, the general public and stakeholders informed at every step of the way. Based on congressional and stakeholder input we have received over the past year, we were able to fine-tune and make some adjustments where needed to meet constituent needs and the intent of Congress.

Throughout the implementation effort USDA has focussed on customer service and a commitment to ensuring that all customers are treated equally and fairly. We held numerous farm bill sessions across the country and in Puerto Rico to reach out to a full spectrum of USDA customers. To date, over $8 billion in new commodity program payments have been issued to agricultural producers during the first year of the Farm bill. Due in part to these payments, net farm income prospects will improve in 2003.

The Farm bill, along with the new Agricultural Assistance Act of 2003 and other on-going USDA programs, is providing immediate relief for producers dealing with financial stress and these efforts will continue. Also, the administration is strongly urging the Congress to enact an economic stimulus package to get the economy moving faster. This undoubtedly will also have a pay-off in farm country.

We would now like to focus in more detail on some of the key accomplishments of the various titles of the bill. First, Title I. All of the key commodity program provisions have been implemented efficiently and in a timely manner. These include direct and countercyclical payments, marketing assistance loans, crop bases and yield election, Milk Income Loss Compensation or what we refer to as the MILC program, dairy price support program, and the apple market loss assistance. A sugar marketing allotment program was established and all changes to the sugar loan program have been implemented for fiscal year 2003.

A new peanut program was implemented with direct and countercyclical payments, marketing assistance loans, and a buy-out program for current peanut quota owners. New marketing assistance loans were provided for peas, lentils, chickpeas, honey, wool and mohair. As prescribed by the Farm bill legislation, the Payment Limitation Commission has been established. It has been meeting regularly and is working on its report to Congress. It is chaired by our chief economist, who is here with us today, Keith Collins.

Turning to conservation, we are very pleased with the important changes in conservation policy made in Title II. The regulatory effort needed to implement these programs is an enormous undertaking. I am happy to report that rulemakings have been com-

pleted to continue conservation programs reauthorized in the Farm bill, such as the Wetlands Reserve Program, the Wildlife Habitat Incentives Program, the Farm and Ranchland Protection Program, and the Agricultural Management Assistance Program. We have also finalized the rule for the Conservation Reserve Program and began general sign-up for that program on May 5.

Our primary focus recently has been ensuring that the fiscal year 2003 funding authorized by the Farm bill is allocated to these programs. We recently announced that funding allocations totaling more than $1.8 billion in financial and technical assistance have been made available to farmers and ranchers for both farm bill and non-farm bill programs. This includes the state allocations for EQIP totaling $562 million. The final EQIP rule will be published very soon, which will give agricultural producers the opportunity to enroll in what has become one of the department's largest and most important conservation programs. Applications will be evaluated with priority given to those that are most cost effective and address national, state and local priorities.

We also announced the release of $53 million through the ground and surface water conservation provision under the Environmental Quality Incentives Program to provide cost-share and incentive payments to producers in 17 states that have been severely impacted by the drought.

Further, we will soon initiate the first sign-up for the Grasslands Reserve Program and have issued a notice of funding availability to get a limited program up and running for 2003. We will then go through the formal rulemaking process in developing the 2004 program.

We are also making steady progress on developing the proposed rule for the Conservation Security Program. The department was given very broad discretion to establish the program requirements. Given that, we thought it was necessary to seek broad public comment on the design of the program before we issued a proposed rule. We are now reviewing some 4,500 comments as we work on this rule.

Good progress is also being made in implementing the third party technical service provider provision that will help us deliver the technical assistance needed to support the implementation of the conservation programs. So far, more than 400 technical service providers have been registered through an on-line technical service provider registry.

We are also making excellent progress on the other titles of the Farm bill. While they may not receive as much attention as the commodity and conservation titles, they are no less important. With respect to the trade title, we are providing additional funds for market development activities, including the Market Access Program and the Foreign Market Development Cooperator Program. We are implementing the Technical Assistance for Specialty Crops Program and we are launching the McGovern-Dole International Food for Education and Child Nutrition Program, which builds on the Global Food for Education Initiative that USDA implemented during 2001 and 2002. We expect the new program to be fully implemented before the end of the fiscal year.

In the rural development area we have awarded hundreds of millions of dollars in rural development assistance, including value-added grants and water and waste disposal funds, and we have finalized regulations and are soliciting applications for an anticipated $1.4 billion in rural broadband loans and loan guarantees.

Concerning the nutrition title, we are providing greater access to and simplification of the Food Stamp Program. We have allocated funds authorized for the WIC and Seniors Farmers Market Programs in 2002 and 2003. We have implemented the pilot program to increase fruit and vegetable consumption in schools. These pilots were very well received by schools and by students and we are looking at ways of expanding this program in the future.

In the research area we have implemented the Senior Scientific Research Service, which allows the department to attract and retain the highest caliber scientists.

For energy we have implemented the Renewal Energy Systems and Energy Efficiency Improvement Program and announced the availability of $23 million in grants. We have implemented the Biomass Research and Development Program and have announced the availability of $21 million in grants. We have implemented the key provisions to the Bioenergy Program which provides up to $115 million in funding for fiscal year 2003.

Also, as authorized by the Farm bill, we have established the Office of the Assistant Secretary for Civil Rights. Vernon Parker has been confirmed by the Senate and we appreciate the hearing that he had in this committee. He is providing terrific leadership on civil rights issues in the department and I can tell you that he is already working very hard to put together a long-term plan to address these issues.

Finally, I want to give you a brief update on the $3.1 billion in disaster assistance that was included in the fiscal year 2003 omnibus budget package that was signed by the President on February 27. The same day the President signed the legislation I established a disaster assistance working group within USDA to begin work on the disaster assistance programs. Their charge is very clear—to make implementation of disaster assistance a farmer-friendly process and to make sure the program benefits reach producers as quickly as possible.

The 2000 disaster program took five and a half months. This bill is much more complicated and we will do it in four and a half months, again showing the persistence, efficiency and dedication of our work force in getting this job done.

I am pleased to announce that sign-up for the tobacco crop losses began on March 17. Sign-up for the additional benefits associated with the Livestock Compensation Program began April 1. The Cottonseed Payment Program sign-up began on May 2. Sign-up for the Crop Disaster Program will begin on June 6.

USDA has launched a disaster assistance implementation website that contains basic program information, such as announcements on program sign-up and various questions and answers, as well as comments and suggestions to encourage interested parties to provide input to USDA on how best to move implementation forward in a timely and expeditious manner.

Mr. Chairman, that concludes my overview of where we currently stand on implementing the Farm bill. The team at USDA has worked very hard to implement the new Farm bill efficiently and responsibly to best help our farm and food sector receive its intended programs and benefits. We are committed to continuing to do the best job we can to deliver the programs.

We are also committed to continuing to work with all of the Members of Congress and other stakeholders to ensure that the legislation is implemented fairly and properly.

Thank you again for having us here this afternoon. We would now be very happy to respond to your questions. Thank you, Mr. Chairman and members of the committee.

The CHAIRMAN. Thank you, Madam Secretary, for your excellent statement.

The Farm bill that we passed last year provided opportunities for those who wanted to participate in the programs to update their base acreage and yields for the purpose of determining the amount of farm program payments they would receive for the 2002 and later crop years. That deadline for sign-up expired on April 1.

Looking back at the process, do you feel that you can say that this was a fair process in terms of the familiarity that Farm Service Agency employees provided to farmers so that they could understand their options? To what extent did farmers take advantage of this option, if you know?

Secretary VENEMAN. Well, Mr. Chairman, we do think we got large amounts of information out so that people could make informed choices about updating bases and yields. I believe about two-thirds of the farmers updated—well, over 50 percent updated their bases and yields, about 33 percent stayed with their current bases and yields, and there are a very few that are still in the process.

We tried to make sure that our Farm Service Agency employees in the field had excellent training to be able to help farmers and ranchers. We provided as much information as we possibly could through web-based methods, questions and answers on the website. We had multiple farm broadcast briefings where we were able to get information out through Dr. Collins and Dr. Penn and other people who were involved in day-to-day implementation with the Farm bill. We had some web-based calculators that were available for farmers and ranchers to help them determine what was in their best interest with regard to the updates of bases and yields.

I was out this week in Missouri and I was talking with our state FSA director out there and he said, "You know, the people out here are really pleased in the county offices that they were able to do this. A year or so ago they just did not think they could get the job done and everybody is pretty proud of the fact that they were able to get it done and do it in a very timely manner."

That is a real indication that the tools that were put together worked. We got the farmers signed up for the programs within the time limits allotted. The payments, we have already made over $8 billion in financial assistance in the hands of the farmers.

The CHAIRMAN. Thank you. I am also at this point going to ask you or Dr. Collins to comment on the economic outlook for farmers. I mentioned in my opening statement the 11 percent increase in

net cash income that is expected for agriculture this year as compared to last year and the improvement in export volume by 7 percent up to an expected total for this year of $57 billion, which is the best performance in agriculture exporting since 1997. Are those numbers still looking good, Dr. Collins?

Mr. COLLINS. Yes, Mr. Chairman, they are. You summarized them pretty well. The only thing I would add to that is we are seeing a better improvement in the marketplace this year. Part of it is driven by last year's bad weather, which has boosted prices across the board. Part of it is driven by cutbacks in production by livestock producers who are raising livestock prices substantially. We are talking about an increase in cash receipts this year from the sale of farm products in the neighborhood of $8 billion, so that is showing that the market economy is, in fact, starting to improve.

Farmland values went up 4 percent last year. We think they will go up slower this year, a percent and a half, although I just met today with a bunch of bankers who told me that is wrong, that it is going to go up more than 1.5 percent this year. Almost nothing seems to suppress the rise in farmland values every year.

Also interestingly, despite the drop in farm income last year, we really have not seen a sizable increase in nonperforming loans by producers. By almost every lender category, nonperforming loans is fairly small. Take the Farm Credit System, for example. Their nonperforming loans in their loan portfolio are running about 1.3 percent or so.

Yes, there has been financial stress. It has been spotty. It has been driven by bad weather, drought. It has been commodity-specific in a couple of cases, like milk, but overall the farm economy still seems to be hanging on fairly well.

The CHAIRMAN. Thank you very much.

I am going to yield now to my friend from Iowa, the distinguished senator and ranking Democrat on the committee, and I am going to ask all senators if we can limit our time to 5 minutes for this opening round of questions. Then we can come back around for additional rounds of questions if senators would like to ask additional questions.

Senator Harkin.

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

Madam Secretary, I do not plan to ask any questions on the CSP today. We covered that pretty well the other day. I would like to reiterate the widespread support for the Conservation Security Program from both environmental, sustainable agriculture and commodity groups.

Mr. Chairman, I would just like to submit for the record two letters, one from conservation groups to Senators Bennett and Kohl, and one to you from major commodity groups expressing their support for CSP. Did I get a copy of that letter, too? I just wanted to submit those.

Senator HARKIN. Madam Secretary, I thank you for your hard work in implementing the 2002 Farm bill, including the first-ever energy title, and trying to move these forward. I am concerned about one provision of great importance that really lags, and that is section 9002. That is the Federal procurement of bio-based products.

As we all remember, in the Farm bill we put a provision in the Farm bill that basically mandates that all Federal departments are to give a preference to purchasing bio-based products as long as they are equivalent in price, availability, and performance, if I am not mistaken. I may be off a little bit there, but something like that. This section gives your agency the primary role in ensuring that the Federal Government purchases bio-based products made from domestic renewable agriculture or forestry materials.

Although the statutory deadline for publishing the final guidelines has passed, USDA has not even published a draft set of guidelines for agencies to follow in procuring bio-based products. Would you please give us an update on your progress in drafting and issuing product guidelines, as well as the status of the bio-based labeling initiative? When would this critical initiative be in place?

Secretary VENEMAN. Well, thank you very much for your question, Senator Harkin. This is a program that we have been working very hard to implement. However, the draft regulations have taken longer than anticipated for several reasons, not the least of which is the very complicated nature of this bill including some of the things you talked about—comparability of price, availability, and so forth. How do you measure, for example, the content of bio-based within a product?

There are a number of questions that have to be addressed in these regulations and our people have been working very hard to try to do that, working with the lawyers to make the proper interpretations of what the law requires. As they got into this process of implementing this provision a number of questions were raised that had to be answered and worked out through the process. That is why it has been taking considerably more time.

I might ask Keith Collins to comment for a moment on this, as he has been involved directly in some of the meetings.

Mr. COLLINS. Senator Harkin, you said earlier that some of these provisions we are not implementing with all due speed because we were making a Herculean task out of something that ought to be simple. We plead guilty to that in this case. We started out with just the opposite in mind, that we saw a Herculean statute that we wanted to implement in a simple way, so we drilled a couple of dry wells. We have drafted several sets of guidelines to make this program simple, fast, transparent, easy to implement, low cost to the private sector, low cost to us because there is no appropriation for us to implement it.

That was our strategy. That is what the industry wanted. That is what everybody wanted. Unfortunately, that is not the way it is working out and the Secretary hit on what are the key reasons as to why. Right out of the box we ran into some very difficult problems of trying to define what are the appropriate renewable materials that are eligible to be in a bioproduct. Simple task, but try to answer that question for trees, for example.

Then we had the problem of well, the Secretary has to recommend minimum bio-based content. How do you measure the bio-based content in a bio-product? There really is no way to do it, so we suggested self-certification on the part of manufacturers and

vendors. Our Office of General Counsel does not particularly like that approach.

Those are the small problems. The big problem is the one that you mentioned. The statute says to designate an item, the Secretary must consider economic and technical feasibility, including life cycle costs. We do not know of any other program that has to consider life cycle costs. Not even the Recycle Material Program considers life cycle costs.

Then, on top of that, if the Secretary designates an item, the statute says——

Senator HARKIN. There is a reason that was put in there, by the way. I remember that provision very well and there is a reason. Maybe other agencies and departments do not have to consider that. It is one of the reasons we waste a lot of money in the government.

Mr. COLLINS. Oh, I agree with you.

Senator HARKIN. Because we know something is cheap now but we keep buying it over and over. If we bought something more expensive it might last 10 years and it would be cheaper for the people of the United States. That is why we put that in there.

Mr. COLLINS. Let me say I agree with that completely and when you consider life cycle costs, that is going to be the best way that bioproducts can compete with non-bio-based products.

Senator HARKIN. That is true.

Mr. COLLINS. I agree with that. My only problem is how do you measure it and how long does it take to measure it and who measures it and who validates it?

In addition to that, the Secretary is required to provide information on the availability, the relative price, the functional performance, the public health effects and the environmental effects of each of the items she designates.

Now these are unique responsibilities put upon the Department of Agriculture. Can they be done? Yes, they can be done. Are we going to do them? Yes, we are going to do them. Could they be done in the few months that the bill allowed us to do it? That is too Herculean a task.

We are going to get there and we will be happy to meet with you, with the industry, with anybody, but it is not an easy thing to do.

Senator HARKIN. I appreciate that and you have had a lot of other things you have had to do, too, and your answer makes common sense. I just say that if there are things that need to be changed legislatively or if we need to make a modification, I would hope that you would get those to us forthwith.

Mr. COLLINS. It is important for us to get at least a draft out that the legal experts agree with and do that as soon as possible, so then people can see this path that we are on and if they think that we are making it unduly complicated, then they can respond either legislatively or through the comment period and that will help us a lot. We do have to get this first step behind us.

Senator HARKIN. Thank you.

I do have questions on my second round, but thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator.

Senator Coleman, we are going to try to stay within a 5-minute rule for this first round of questioning so that everybody will have an opportunity to ask questions. Senator Coleman.

Senator COLEMAN. Thank you very much, Mr. Chairman. Before I ask my question I would like to note that I share the concerns raised by Senator Conrad in his opening statement about the sugar interest rate issue and I have introduced a sense-of-the-Senate resolution on this, so we share the concerns and I am very hopeful that we can work with the USDA to resolve this issue. It is a very important issue to many of us here.

Let me turn my focus to the issues of the Milk Price Support Program and the concern that it has not been providing the safety net it was intended to provide, which is namely a price floor of $9.90 per hundredweight. Between January 2000 and April 2003, the class 3 price, which accounts for 85 percent of my farmers' production, actually fell below the $9.90 price floor mandated by Congress in 14 out of 38 months. With milk prices where they are today and Minnesota dairy farmers are struggling to survive, we need to work on this issue.

There were two specific proposals that I just wanted to address before you and get a response. One proposal is for the USDA to use its authority to increase the purchase price for cheese, butter and powder to reflect the true cost of selling surplus product to the Community Credit Corporation. Another proposal is to have the CCC actively trade on the Chicago Mercantile Exchange whenever the price falls to or below the price support level instead of purchasing in its current, more passive manner.

I am told you have authority to pursue either of these approaches. Would you comment on their merits and explain whether you intend to take such action or any other action to prevent milk prices from dropping below the statutory floor?

Secretary VENEMAN. I am going to ask Dr. Collins to comment on that. He has also been involved in the implementation of the dairy provisions.

Senator COLEMAN. Thank you, Madam Secretary.

Mr. COLLINS. Senator, I guess the first comment I would make relates to the premise that you started with in the question, and that is that the price of milk has not been supported at $9.90 because the class 3 price has been below $9.90. In fact, the class 3 price has been; so has the class 4 price.

What the statute requires us to do is to set purchase prices for butter, cheese, and nonfat dry milk so that a plant of average efficiency can pay, on average, at least $9.90 for milk. The best price series we have for what farmers are receiving for the price of their milk is not the class 3 minimum price under Federal orders or the class 4 price. It is the average price received by farmers for manufacturing-grade milk as reported by the National Agricultural Statistics Service. The most current price for the month of April is $9.90 a hundredweight exactly.

You can make a case that we are doing what the law says. Does that mean the price of milk will be under $9.90 in some areas at some times? Yes, that is going to happen.

Despite the fact that I just defended our program and the performance of it, to go to your options, we are, in fact, looking at this

question of whether it costs more to deliver products to the CCC rather than, say, to a processor, particularly, for example, with cheese, which is the one you are most interested in where the class 3 price has been so low.

We are, in fact, reviewing that whole delivery process now, all the steps that a processor has to take and the requirements that are imposed on a processor, and trying to look at the costs of that to see if that, in fact, is the reason why when we buy cheese it is causing the return to the processor to be low enough to cause them to bid below $9.90 for milk. We are looking at that. We have that under consideration and it has not moved through the system yet.

Regarding the second proposal you raised about USDA buying product off the Chicago Mercantile Exchange, that is one I cannot say that I have analyzed. Occasionally you do see the price on the Mercantile Exchange go below $9.90. I am not sure why that happens. One reason I would suggest is that when we buy cheese we require the seller to have the cheese graded and pay the cost of grading. Delivery of cheese on the Merc does not require the cheese be graded, so that is one reason why it can sell at less than what it sells to us, I suppose.

There may be specification differences, as well. It is something we could look at, although I am a little reluctant to think of USDA as a buyer on an organized exchange where we are paying brokerage fees and things like that. What we have now is a price support program where we have an open door to buy product at the purchase prices that we state and that that is probably the most effective way and direct way we can effectuate that program, but it is something we can look at if you would like.

Senator COLEMAN. The follow-up, and underlying both these proposals is the question of the difference between the cost of selling cheese on the commercial market and then selling cheese under the CCC purchasing program and I know some of our dairy farmers have talked about modernizing specifications so that they are more parallel to the commercial standards.

I guess the followup question on both of these is as you are looking into this do you have a sense of timing? Do you have a sense of when we can get more definitive resolution on these issues?

Mr. COLLINS. Dr. Penn and I have talked about meeting on this for the last week or so and we are going to do this pretty soon.

Senator COLEMAN. I would appreciate that.

Mr. COLLINS. We will make a decision one way or the other pretty soon.

Senator COLEMAN. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

Senator Conrad.

Senator CONRAD. I notice that the Democratic leader has arrived, Mr. Chairman, and I would certainly defer to him, given the demands on his schedule.

Senator DASCHLE. Thank you very much, Senator Conrad.

The CHAIRMAN. Senator Daschle.

Senator DASCHLE. Mr. Chairman, thank you very much.

Secretary welcome and thank you. I will be very brief. I have three questions if I can. The first has to do with disaster assist-

ance. You have had to cope with a number of different situations around the country and we in South Dakota have had a great deal of uncertainty with regard to disaster assistance. Last year we had both the Milk Assistance Program and the Livestock Assistance Program and both were provided to those who were eligible for drought assistance and it was very helpful.

This year, as you may know, the milk assistance is now being deducted from the livestock assistance, so you are not eligible for both outright, as you were last year. That has posed obviously some problems, given the very limited nature of this form of assistance. I am wondering if you could give us some indication as to why that is.

Also obviously there is a question of certainty and for a lot of these producers that is a very important matter, having the certainty of knowing just what eligibility would be. Could you address that, please?

Secretary VENEMAN. Well, Senator, we have been working very hard to implement the disaster legislation that was recently passed by the Congress. My understanding is that the statute as it was passed requires the deduction of the milk assistance from the livestock assistance, that the statute, the way it was constructed, required us to do it that way. I am going to have Dr. Penn explain it in a little more detail.

Mr. PENN. It is my understanding that the statute clearly said that producers could benefit from one or the other of the programs but not both, so we operated the Livestock Compensation Program first and that caused us to have to postpone the Livestock Assistance Program until that program was concluded so that we could deduct from the Livestock Assistance Program any benefits that had been received under the earlier program.

Senator DASCHLE. Mr. Penn and Madam Secretary, at least my staff have quite a different interpretation. We will have to sit down and try to work through this. We understand it may be budget-driven but let us see if we cannot resolve that.

I do not want to dominate the time. I have two other questions. One has to do with the country of origin labeling. Obviously there is a great deal of concern about what onerous implications there may be in regulation, either from the department or from packers with regard to compliance. Are you able to give us some assurance that there will not be the kind of onerous, burdensome regulatory framework for producers that will render the country of origin labeling issue relatively useless for our producers?

As I travel South Dakota and the country, that is the concern I hear most, is obviously given your position, they are concerned that that may be the case. We appreciate your willingness to work with us in spite of the fact that you opposed it but can you give us some assurance that that will not be the case?

Secretary VENEMAN. Yes, Senator. It is important to point out with regard to the country of origin labeling that we have consistently said that while we opposed country of origin labeling as the Farm bill was going through we had a specific statement in our administration position on that but nevertheless, it was passed by the Congress. We have worked to implement the provisions of the country of origin labeling. That required us initially to implement

a voluntary program which we put in place to be followed by a mandatory program.

There has been a tremendous amount of controversy about these provisions. As you point out, much of it is not about what the department's regulations would require but what the various steps in the food chain further up are going to require from the producers to assure that the country of origin can be verifiable. Because of the disparity of opinion and the strength of the opinion, we decided to have a series of listening sessions throughout the country to get input from various interested parties. We are in the process of doing that right now.

We have to do an economic analysis on this as we go forward because it is a significant rule. We will be looking for the least cost alternative in terms of implementation of a new regulation.

We are going to work with the interested parties including the Congress, but we do have some restrictions with the way the law was written in terms of how we can implement this provision.

Senator DASCHLE. Obviously it would be extremely troubling and disappointing if we went through all of this and found a regulation that was so onerous for producers that it was rendered virtually useless. Can we assume you will be finished by September 9, as the law requires?

Secretary VENEMAN. We are on track to complete the regulations.

Senator DASCHLE. Finally, let me just ask you about CRP. Obviously we had some software glitches and because of that, sign-up was delayed until it was the week before May 1. There are a lot of producers interested in sign-up on CRP. Is there any possibility we might be able to postpone the deadline to accommodate the fact that there were the glitches and the fact that we are right in the middle of planting season?

Secretary VENEMAN. We did begin sign-up on May 5 and it is going through the month of May. One of the difficulties, frankly, with CRP sign-up was that we had the Farm bill sign-up through the end of April, we have the disaster assistance sign-up starting June 6, so the CRP sign-up was, in terms of time, strategically placed so that our Farm Service Agency employees would be able to accommodate the farmers coming in and signing up, so that they would not get backed up.

We were trying to make sure that we could actually conclude the sign-up for all of these programs, so the timing was set so that we could adjust the workload for our Farm Service Agency employees because we were implementing the Farm bill, we did have the CRP sign-up, and then we did have the disaster assistance to implement, as well.

Senator DASCHLE. I want to again thank my colleague Senator Conrad, and Mr. Chairman, thank you very much.

The CHAIRMAN. Thank you, Senator.

Senator DASCHLE. Thank you, Madam Secretary.

Secretary VENEMAN. Thank you.

The CHAIRMAN. I am going to go to this side of the aisle now. Senator Crapo.

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

Madam Secretary, in the interest of time I will just say I have been making a list here of issues being raised by other members

of the committee and on a number of them I just want to say I agree; for example, concerns that have been raised on the sugar interest rate loan, which I assume Senator Conrad may go into further during his questioning, concerns about the technical assistance funding, on the conservation programs, the country of origin labeling issues and the dairy program concerns raised by Senator Coleman, and others, and again the minority leader's concern about country of origin labeling.

Each of those is also a concern of mine and I just wanted to be sure that I made that point to you. With the time I have I am going to go into some other questions.

The first one is that I have a strong interest in Continuous CRP and CREP programs. The conservation for working lands was a large theme in the Farm bill's conservation title. Continuous CRP and CREP provide the type of targeted enrollments that address the needs of working lands and frankly, do a lot to enhance our natural environment. Do you know how many acres will be held back for these programs?

Mr. PENN. I do not have the number right on the top of my head but we have made allowance for that.

Mr. KNIGHT. Two million.

Mr. PENN. Two million acres.

Senator CRAPO. Two million?

Secretary VENEMAN. Two million acres.

Mr. PENN. We have made an allowance.

Senator CRAPO. Do you feel that that is going to be adequate to meet the needs of the purposes of this part of the conservation programs?

Mr. PENN. I believe so.

Senator CRAPO. The interim rule on CRP indicates that while the FSA state committees, in consultation with FSA state technical committees, have been granted the authority to determine the beginning of primary nesting and brooding seasons during which managed haying and grazing can occur, that the ending dates are still those that are set nationally by the FSA and the Fish and Wildlife Service in the 1990's. Initially it was my understanding and frankly the understanding of the grazers in Idaho that both the beginning and the ending dates would be allowed to be set locally, which makes much more sense. Frankly, the state technical committees do have the more precise understanding of just how all of the grazing conditions come together to justify the timing of both going on and leaving the ground.

The question I have is frankly, there is a little bit of surprise that it is now understood that the termination dates are still going to be the nationally set dates that were set back in the 1990's. Are there any efforts under way to review the national ending dates and return to the policy that at least I thought we had been discussing earlier?

Secretary VENEMAN. I have not heard of your concern. I am not sure that any of us have. We will be certainly happy to look into the issue you are raising and to work with you and your staff in trying to look at the various concerns that you are asking about.

Senator CRAPO. Thank you. I apologize for not giving you a heads-up on that. This is just something that came up after we talked the other day and I did want to raise that issue.

Mr. Chairman, I have a number of other questions here and because of time, I will not be able to ask them and may not be able to be here at the committee when we have another round. Are we going to be able to submit questions?

The CHAIRMAN. Yes, Senator, we would be glad to have you submit your questions and ask the Secretary to respond within a reasonable time for the record.

Senator CRAPO. With that understanding, Mr. Chairman, I will forego the rest of these questions because some of them are quite lengthy. I appreciate the chair and the Secretary's accommodation.

The CHAIRMAN. Thank you, Senator.

Senator Conrad.

Senator CONRAD. Thank you, Mr. Chairman. Thank you very much. I want to thank my colleague Senator Crapo and thank my colleague Senator Coleman for wading in on this sugar surcharge issue.

Madam Secretary, would you acknowledge that Congress did repeal the surcharge, the interest rate surcharge on sugar?

Secretary VENEMAN. Senator, my understanding is that the Congress repealed the requirement for the interest rate surcharge. However, in so doing—and we talked about this just yesterday and I told you I would talk to our lawyers and try to understand it better. My understanding from our lawyers is that in repealing the requirement for it, it left it as a discretionary matter for the department to decide.

In addition to what the language said, this surcharge was initially put on, it is my understanding, during the 1996 Farm bill as a way to establish some additional funding for the farm programs. In the scoring of this particular provision it was scored at zero in the Farm bill, which because it was, in the opinion of our lawyers, then a discretionary matter with no scoring, in the discretion of the department they decided to leave the surcharge in place because their opinion is that we did have the discretion to do that.

Senator CONRAD. You know, I hope you get some new lawyers. This is what the department itself said. "The 2002 act eliminates the requirement that CCC add 1 percentage point to the interest rate as calculated by the procedure in place in 1996 but does not establish a sugar loan interest rate."

Now why ever would we have repealed it if we did not intend for that to actually be implemented? You know, as the author of this provision, I can confirm that we got scored for it. In the internal scoring this cost us $5 million over the 10 years, and that had to be accommodated as we put together the entire package.

We got charged for it and what I find disturbing is this kind of trend. We had this on the loan rate for minor oilseeds. Congressional intent was clear, you all did not follow it, we had to go through a harangue to get it fixed. We had the same thing on the pulse crops. On the pulse crops we actually had to go back on a bipartisan basis and legislate because you all were not implementing the clear intent of Congress.

Now this is the third case where we think it is abundantly clear and the department has acknowledged itself that we repealed the surcharge and yet you turn around and reimpose it. I just think you are hurting yourself in terms of your relations here. You are hurting yourself in terms of the constituency out there who had a clear understanding that we had repealed that surcharge, and yet USDA reimposes it.

I would just ask you to go back and give this another look. It is not a big deal but it is a fly in the ointment and it is easily resolved. It is not a costly measure but it does rankle and I would hope that you would do that. I would ask that you get back to us in some reasonable amount of time, if you could reconsult not only the lawyers but maybe some outside counsel.

Let me say, because you and I have had many back-and-forths on some of these issues, I do appreciate the work of the department in getting the sign-up completed. This was an enormous task and people worked very hard in the department, out in your field offices, and they are to be commended and you are to be commended. We appreciate the work that was done to get that complete or virtually complete. I know it is never complete but enormous progress has been made. I would just hope that there would be a review of this issue and see if we cannot resolve that, as well. Then we would have really cleared the decks.

One other thing I wanted to mention to you is this trade fight. You mentioned to me the other day that you and the trade Ambassador had announced a case with our European competitors. Thank you for doing that. Our friends in Europe are fighting tooth and nail to preserve the enormous benefits that they have and they are trying to preserve a playing field that is tilted heavily to their advantage.

In many talks with the Europeans they have made clear to me that their long-term game plan is to continue to insist on equal percentage reductions in these unequal levels of support. We cannot let them succeed in that game plan. The French, the Germans and other Europeans are incredibly determined to maintain these unfair advantages. We cannot permit that and it is very important that we fight back. I thank you.

The CHAIRMAN. Thank you, Senator.

Senator Nelson.

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

Senator NELSON. Thank you, Mr. Chairman and thank you, Madam Secretary. I appreciate the courtesy call the other day to give me an opportunity to think about what I might ask.

I would concur with what my colleague from North Dakota just said in terms of trade. Everywhere I go I encounter this one way or the other from businesses that produce products in Nebraska, agriculture products, manufacture products. We encounter difficulties in trade. It is not as though Nebraska is not trading. Nebraska, I have to point out, it happened during my watch and I do not take full credit for it but during the 8 years I was Governor we nearly tripled our international exports and at that point in time, we were helping reduce the imbalance of trade because we

were exporting more than we were importing. The imports and the exports do not balance today and part of the reason they do not balance is because of unfair trade practices that we encounter in other parts of the world.

I spoke to one of the ministers, Ivanoff in July about the chicken wars; that is the way I described it. He was not very pleased with the fact that I brought it up and had a different point of view about what Russia was doing with respect to poultry but the bottom line is that they are imposing restrictions and it is making it very difficult.

The biogenetic issue. If we do not solve that internationally and support biogenetics here in the United States, the next thing you know, there will be local folks starting to put in opposition programs to that effort. As a matter of fact, I hear one of the fast food chains now is saying that they are not going to buy any kind of biogenetic food for sale.

The whole area needs to be dealt with, particularly as it relates to food, from my perspective. I appreciate very much joining together with Ambassador Zoellick to bring this action. I wonder if we might consider and the department would consider certainly as it relates to agriculture products the suggestion of a process to deal with these trade issues in a prompt manner. We will all be a lot older when the WTO issue is resolved. I do not think that will be soon. I remember with the Canadian free wheat issue, filed a Section 20. I do not know if that has ever been resolved, but by the time it was resolved, many of the Nebraska wheat farmers were already tremendously disadvantaged and never really got an opportunity to recover from it fully.

Is it possible to create a provision that we could support that would permit for the timely consideration and determination of trade disputes almost on the spot? Put them into two different levels, one that has to go through the WTO the way that we may be doing it there, but go back to other trade treaties or other future trade treaties that permits the equivalent of an umpire on the scene who rules immediately. I can tell you right now if those unfair trade practices can be stopped in a brief period of time you will see fewer of them, but everybody knows that you will have exhausted your remedies by the time you get to the end of it, whether it is the Canadian molasses debacle or whatever it is.

I just wonder. I would like to get your thoughts on what we might be able to do together to be able to have quick resolution, a quick resolution provision that we can go back and try to sell to these trade agreements.

Secretary VENEMAN. Well, Senator, I appreciate your comments and your concerns about trade because it is an issue we worked very hard on. Senator Conrad has left but I appreciate the support from both of you and so many other Members of Congress for the action that was taken yesterday in beginning the process against the European Union for their actions to not approve any more biotech varieties.

It is obviously something we lost patience on. We had been trying for almost 5 years to work with the European Union on this.

Senator NELSON. Excuse me. Which is my point. If you cannot get a quick resolution you can be dragged on and on and on and on.

Secretary VENEMAN. I understand. Obviously we are taking action. One of the reasons that we have filed this action with the EU is also because we do not want to see the rest of the world go down this track of causing disruptions to our trade because of unjustified and unscientific regulations. It is very important.

On the issue, for example, of poultry with Russia, we just recently had the Russian agriculture minster in. We have made excellent progress on that issue in terms of the sanitary issues and the inspection issues but again we could not take Russia to the WTO on this issue because they are not a member.

We now have issues with regard to our poultry and meat with Russia because they are imposing quotas. We continue to work with them on that issue but Russia remains our largest export market for poultry and that is our largest export to Russia of any product, not just agriculture products. We have worked very hard on that.

I sense the frustration and understand because we have the same frustration. We call them market maintenance issues. It is areas where we have had access to markets, we have been exporting product, and we now see restrictions. We spend a lot of time maintaining the markets that we have, in addition to trying to open up new ones through the WTO negotiations, new free trade negotiations.

I appreciate your concept of putting together a process. However, we have dispute settlement processes through the NAFTA. That is part of the consultation process that the WTO and the NAFTA provisions provide.

Senator NELSON. Excuse me. It does not seem to be timely. That is my point. Our frustration would be reduced dramatically if when one of these issues is raised you could have a quicker resolution.

Now in an athletic event if you had to go as long to get something resolved, you would never finish a game, but there are dispute resolutions on the spot. A foul is called. Sometimes there is a replay in some athletic events. If there was a way to do something like that where you would agree maybe to make it a two- or three-tiered process, I can assure you that if it could get resolved quickly there would not be the kind of what I consider dislocations that we have right now with the European Union and with others, and with NAFTA.

The CHAIRMAN. The time of the senator has expired. The game is over.

Senator Talent.

STATEMENT OF HON. JAMES TALENT, A U.S. SENATOR FORM MISSOURI

Senator TALENT. Thank you, Mr. Chairman. I am a little reluctant now because I was just going to open up by echoing what Senator Nelson said; I could not agree more.

Let me congratulate you on filing the suit. As you can tell, all of us are so frustrated with them and their refusal to take biotech food. It is as thinly disguised a protectionist maneuver as I have

ever seen. When they went so far then as to actually try to convince the European countries that have famine not to take the food so that people starve, that is just the last straw. The message is we are ready to support you in any way we possibly can to go after them and it just comes down to that.

I also want to thank you for your efforts in the sign-up and that is so important in Missouri because we are just so diverse. We have midwestern farms in the north part of the state in terms of commodities and then really southern-type commodities in the southern part of the state. I like to say in Missouri we have a lot of some things and a little bit of everything and that is true in counties. We just had some counties who have really struggled but I want to say our Missouri FSA people have done a great job and I wanted to say that and congratulate you.

Then there is an issue I want to raise and it is a Missouri-specific issue, so I am not going to put you on the spot and ask you for an answer now, but I do want to submit it for the record and emphasize to you how important it is to us, not just to Missouri but everywhere because it has to do with rural development loan processing.

You are probably aware we do all of that really for the country in two centers in Kansas City and St. Louis and typically there have been proposals to privatize that function and that is stirring again, because of the President's initiative, which I support, to look for ways to privatize functions. I want you to consider as you consider this whether this is not an inherently government function because of the difference between governmental attitudes and standards regarding loans and private standards.

Also, it is always my big fear with this that if it is done right, fine, but we can end up with a situation where we privatize this, we lose the pool of labor that has done it and has the expertise and then we find out that it is not working and we cannot put it back together and we have a real problem. I am going to submit to you some questions for the record, with the chairman's permission, just to find out what your plans are and how we can work with you to make certain that if anything does go forward it goes forward in a way that is good for agriculture and good for the taxpayer, as well. I thank you for being here, Madam Secretary.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

Senator Stabenow.

STATEMENT OF HON. DEBBIE STABENOW, A U.S. SENATOR FROM MICHIGAN

Senator STABENOW. Thank you, Mr. Chairman.

Welcome, Madam Secretary and to all of you. I mentioned to you when we had a chance to talk on the phone that I had asked all of those who had testified at two field hearings in Michigan in 2001 prior to the Farm bill's completion to respond to how things are going and I do have a number of issues and would like to respond in writing so that you can have a chance to give me some feedback in writing, as well.

First of all, the overall feeling is that there has been a great positive reaction to the technology that the department uses, to the

website, to the efforts to get information out in a timely manner. There are universal compliments coming as a result of that. Also, the nutrition title, a great deal of positive feedback on that, as well.

There is also positive feedback regarding the FSA employees. We have understaffed offices and people working overtime, as well as the regular department employees, but still concern about the initial sign-ups for a lot of the program crops being complicated and cumbersome in spite of that, but realizing people are working hard in that process.

Our Michigan dairy producers have raised some of the concerns that have been raised before by Senator Coleman and also the executive director of Monitor Sugar Beet Growers Association, while indicating that the overall sugar program is going well, he did have concerns that were raised, similar to what Senator Conrad raised, as well, very concerned, assuming that this was not discretionary to eliminate the surcharge but that, in fact, it would be eliminated. We have heard that, as well, across Michigan, and I share that concern, as well.

The major two areas though where we heard a lot of comments related to the Commodity Purchase Program, which I have spoken to you about, and also the question of conservation. We heard from many different people a concern about the slow advancement of conservation programs—from the Michigan pork producers, the Michigan corn growers, the Farm Bureau, Farmers Union, Michigan milk producers, all raising concerns about the technical aspects of EQIP but in the broader sense concerned about the security program, the Conservation Security Program. In fact, I heard comments like producers are skeptical about the government's commitment to the Conservation Security Program.

I wondered first, my two questions, if you would respond to what is a message that they are feeling that there is not a commitment to fully implement the CSP, and I also have letters from a number of groups that were sent to you just, I believe, yesterday indicating a real concern about not delaying or reducing the funding, not delaying the implementation of CSP. I wonder if you might tell us what is happening there.

[The letters can be found in the appendix on page 66.]

[The prepared statement of Senator Stabenow can be found in the appendix on page 93.]

Secretary VENEMAN. I would be happy, too, and Senator Harkin and I discussed this issue quite extensively last week at the Appropriations hearing.

First of all, let me just say that we have an absolute commitment to implement these programs. It is important to point out there has been a lot of recognition among us, as well as the members that are here today, that our folks have done Herculean tasks to get as far as we have in the Farm bill. We had to set some priorities and we had to start with the commodity title of this farm bill and get the sign-up done but we are in the process of making very good progress on the conservation title.

We should have the final EQIP rule out I would say at the latest by the end of next week. The final rule is prepared. It is a matter of getting it in the Federal Register. That is good news. Same with the grasslands and the farm and ranchland protection. Those are

three that are just in the final stages of being published as the final regulations and that shows some good progress in terms of these programs.

As Senator Harkin and I discussed the other day, the Conservation Security Program has been an enormously difficult one to implement because there was so much discretion left in the regulatory process that we have been trying to work out the best way to implement this. We went out with an advanced notice of proposed rulemaking and we got 4,500 comments. That is extraordinary. It is one of the highest we have ever gotten on any kind of request for public comment.

We are in the process of putting together a proposed rule now. We will review all of these comments and try to incorporate them into this process and we certainly want to do this right. That is the most important thing. It is a brand new program. We feel strongly about doing the right thing and that is why we have taken the time to get this kind of public input through public meetings, and so forth.

Let me just say on the Commodity Purchase Program—you expressed to me the other day, interest and thanks for the apple purchases. You also expressed interest in the asparagus purchase. I wanted to tell you that we have purchased asparagus this year, $6.3 million worth, so I just thought you would like to know that.

Senator STABENOW. That is great and that would lead to my one other question, and I appreciate that, that you are doing that. When we look at specialty crops, fruits and vegetables, they are not covered by much in the Farm bill and the Commodity Purchase Program was something that we fought very hard to get in, the additional $200 million, not $200 million in total being spent every year but the additional $200 million, plus I might say the Conservation Security Program, which covers farmers on working lands and would cover specialty crops because they have not been covered in other areas. These are very important things for our fruit and vegetable growers.

While we appreciate the recent purchases, overall I am very concerned that we have seen purchases go down. We are seeing that despite the fact that the Farm bill says at least $200 million per year and in the actual report language it says, "The managers intend that the funds made available under this section are to be used for additional purchases of fruits and vegetables over and above the purchases made under current law and that might otherwise be made without this authority," in fact, that is not happening.

When we look at it, the 2002 USDA purchase was $189 million in fruits and vegetables through section 32 and it devoted, of course, $50 million to the DOD Project Fresh Program, which I support, which is very positive. When you added those numbers together, which barely met the goals of the Farm bill, but then went on to look at section 32 fruits and vegetables purchases in 2002 independent of the DOD $50 million, were far below the purchases from 2001 and from 2000. The total section 32 bonus and entitlement spending in 2001 was $263 million and $232 million in the year 2000 and, in fact, again we are seeing these, in fact, go down.

The purpose of the bonus program is to look at where the surpluses are. It is an effort to not only provide fruits and vegetables but to support those crops where they need the assistance in terms of surpluses.

I am very concerned that we are not seeing the intent of this completed. There is a great deal of support and enthusiasm and, in fact, tremendous need in this area and this is the one area in the Farm bill, outside of the CSP, where we are really talking about helping specialty crops. I am very disappointed that this has not yet been fully implemented and I would like to know what your plan is to do that.

Secretary VENEMAN. Well, let me first say that as of April of this year for the 2003 year, we have purchased—well, approved or pending approval of $135.9 million, which is well ahead of this time last year at $44.9 million. That is the significant difference from last year. Another $50 million has been approved for the DOD Fresh Program and we have an additional $251 million still available.

We probably are much more on target than your numbers may have indicated and we are very aggressive in this program in terms of what we have available for spending in 2003 and the pace at which we are spending it.

Senator STABENOW. You anticipate $251 million additional?

Secretary VENEMAN. Is available for 2003.

Senator STABENOW. You intend to——

Secretary VENEMAN. Well, as you say, we have to have the surplus determinations and the demand for the purchase, and so forth, but that what remains available.

Senator STABENOW. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

Senator Lugar.

STATEMNET OF HON. RICHARD LUGAR, A U.S. SENATOR FROM INDIANA

Senator LUGAR. Thank you, Mr. Chairman.

Madam Secretary, I join all those in complimenting the department and your leadership in the sign-up situation. Our situation in the Lugar farm business is anecdotal. We have 15 family members who are stockholders of a subchapter 5 corporation, not an unusual thing with two generations of people and passing along the farm.

What we have found are some unusual requirements; for instance, a power of attorney from each of the 15 people required so the farm manager can be designated to participate in various aspects of the program. Not an unusual requirement, I suppose, but as I take a look at all the farmers in Indiana, people have not been involved really in getting powers of attorney and going through these affidavits in this fashion, but they are doing so. It simply is another layer of difficulty for people there.

Likewise, an affirmation on the part of all 15 of us that we do not have incomes of $2.5 million over a 3-year period of time. I was startled that this was a requirement of the Farm bill but nevertheless, we are all swearing that we have not had that kind of income in the last 3 years or historically ever, collectively.

I mention this because here around the committee we bear responsibility for passing the bill that you have to implement and there is a staggering amount of this type of thing but eventually it will be worked through and we compliment those in the field who have that responsibility finally.

What I want to know is at the end of the day as you are working through the conservation, the EQIP situation—I know Senator Harkin has already had these queries today and before, and others—what kind of back-up in terms of demand do you perceive? In other words, most people have not had at it yet in terms of getting into new conservation efforts or EQIP and I am wondering how many times the funds are spoken for. Do you have any idea of the backlog, the line there that after the rule happens and the window is open, what can you anticipate?

Secretary VENEMAN. Senator, I appreciate your questions. Let me just say on some of the difficulties of implementation and sign-up of this farm bill. I know there was a tremendous amount of frustration on a number of issues, not the least of which was power of attorney because when I traveled around the country and I heard that. The fact of the matter is the power of attorney had not been updated since the 1980's.

We were strongly advised that we needed, given the tremendous changes in this farm bill, to have powers of attorney updated because the landowners needed to have the opportunity to make decisions based upon what the new Farm bill did, and that is why the new power of attorney was required.

My previous response to Senator Stabenow talked about how we are about to put out final regs on some of these conservation programs. Those are ready to be published in the Federal Register now and we continue to work on the CSP, but I am going to have our chief of the NRCS, Bruce Knight, address the backlog issue that you raised.

Mr. KNIGHT. Senator, specifically on EQIP, our latest estimates have about a $1.4 billion backlog for a program that we are announcing today will be a little over $600 million in available funding.

Senator LUGAR. About two and a half years at least as you look at it, at the same level of funding.

Mr. KNIGHT. Yes, that is correct. We will, however, no decisions will be made. Each of these applications will be ranked independently based on the environmental needs of that particular application and its success, so the wait list does not change the rank on how these determinations are made.

Similar backlogs exist on the Farm and Ranchland Protection Program, the WHIP program. Nearly every one of these conservation programs have a backlog capacity behind them.

Senator LUGAR. You have a point scale depending upon the environmental circumstances, so you have a backlog but the candidates are rated according to the criteria that is in the legislation?

Mr. KNIGHT. That is correct. Those ranking processes look a little bit different from state to state. For this year, in the spirit of openness, we are going to be publishing the ranking processes for each of the states on the web so that every farmer and rancher who is actually applying for EQIP can look at the ranking and know pre-

cisely how best to fill out that application in order to be able to score as best as they can in the ranking process.

Senator LUGAR. Very good. How about the conservation backlog? Do you have any feeling on those programs?

Mr. KNIGHT. We do not have as much of a backlog in the Farm and Ranchland Protection Program. We are just about a week from closing the notice for applications. We expect tens of millions of dollars in backlogs on that one from the preliminary things, and the applications will be closing very quickly. We will have the same situation in the Wetlands Reserve Program, as well.

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

The CHAIRMAN. Thank you, Senator Lugar.

Senator Dayton.

Senator DAYTON. Thank you, Mr. Chairman.

I will join with the others, Madam Secretary, in thanking you for your actions on the trade issues.

Regarding EQIP, $600 million if I understood correctly, Mr. Knight, is that the amount for the entire fiscal year and you have $1.4 billion in backlog applications already? That means somebody making a current application would be considered in three fiscal years from now?

Mr. KNIGHT. Each one will be considered in this particular year and ranked accordingly.

Senator DAYTON. Those in the backlog, as well as the current applications?

Mr. KNIGHT. Those in the backlog, as well as the current applicants.

Senator DAYTON. That is the full amount of funding appropriated for this purpose on a pro rata basis, authorized for this purpose?

Mr. KNIGHT. The allocations were recently sent out to the states. Because of some of the technical assistance issues that were discussed there was a need to hold some of that back in order to be able to provide for the technical assistance for all the conservation programs.

Senator DAYTON. How much are you holding back?

Mr. KNIGHT. The amounts that are going out in total in technical assistance for EQIP is $145 million in technical assistance for that program.

Senator DAYTON. That is 20 percent of the amount for the fiscal years, $143 million? That is just under 20 percent. That is the amount that is necessary to be held back?

Mr. KNIGHT. The technical assistance for EQIP will run a little bit higher than 20 percent. It will be around 23 percent.

Senator DAYTON. Is that typical?

Mr. KNIGHT. That has historically run a little higher than that and we are driving that down very rapidly, sir.

Senator DAYTON. If that is the amount, given the demand, if you are going to set aside 20 percent of it for technical assistance, that is an awful lot of money taken out of the program for advice. How much advice can people need? $4 for every dollar of technical assistance?

Mr. KNIGHT. The technical assistance involves a fairly lengthy list of work. It is the planning associated behind all of those con-

tracts. Then on an individual contract it is the work associated with lay-out, design, all of those types of things.

We are working as rapidly as we can to be able to bring those costs down. The advancement of today's technology and utilization of computers have helped a great deal in that. That is one of the reasons why we have been able to make any advancements——

Senator DAYTON. Is what you are calling technical assistance, is this administrative? This $143 million, to whom does that go? USDA?

Mr. KNIGHT. That is what is used under the direction in the statute for the technical assistance either for the assistance costs for running the agency in the implementation of these or to be able to utilize private consultants as deliverers of that technical assistance.

Senator DAYTON. You are taking 20 percent off the top of the program for your administrative costs and then the other 80 percent goes to the program, to the farmers, and you are going to try to bring that down? When are you going to bring that down to something that is reasonable? That is an awfully high percentage to take away from the program.

Mr. KNIGHT. We are working as rapidly as we can and——

Senator DAYTON. Define to me as rapidly as you can. Is that something we should hold our breath about or are we talking about 10 years from now?

Mr. KNIGHT. We are moving very rapidly on that.

Senator DAYTON. What is very rapidly?

Mr. KNIGHT. Last year the technical assistance costs for the EQIP program hovered between 25 and 26 percent. This year we have that down to 23 percent and we will keep on driving those things down.

Senator DAYTON. Good. Thank you.

One point I will just make, let me go on to the country of origin labeling, Madam Secretary. I am concerned and I want to echo Senator Daschle's comments and concerns. I hear from my producers that they are talking about—they think they are going to have to have an affidavit verified by three onsite inspectors and signed by the U.S. Attorney General that they are in this category or another, and the like.

Also, as Senator Daschle said, some of these packers and the like are making this sound as draconian as possible and they are even trying to actually use, under the pretext of the program and whatever regulations you issue, to make it that way so that they can essentially punish farmers and probably punish some of us who supported it or whatever else.

I just ask that you be explicit in your regulations as you formulate them what you are going to require and not, and that you not compromise the intent of it in any way but allow for some assumptions of good faith because if these kinds of documentation and verification in triplicate and the like that sometimes is foisted not by you but just by government in general, it is going to be crushingly unbearable for a lot of our producers.

Secretary VENEMAN. Well, Senator, I really appreciate your concerns on this. The issues you are raising are exactly the kinds of issues that have come up in the process of trying to write the regu-

lations for the mandatory program. That is why we decided to go out and get as much public comment as we possibly can.

Senator DAYTON. I commend you for doing so.

Secretary VENEMAN. The statute is written in a way that puts the burden of proof onto the retailers and the packers, so it is the retailers and the packers that are now talking about what kinds of records they are going to require in order to meet that burden of proof. That is inherent in the statute. It is one of the issues that we need to discuss within the context of the statute. As I understand the law, it would not allow USDA to go in and verify the producers. That is a process that we would be verifying through the retailers and the packers according to the statute.

Senator DAYTON. Well, if they are going to interpret that as requiring the kind of proof that I indicated, they are going to—maybe they are out to destroy the program. If they are allowed to accept somebody's assertion even in writing that their product meets whatever those specifications, then if somebody is going to lie on that, that is another matter.

Quickly because I am probably short of time here, we are taking up an energy bill right now and we are trying to get the rest of the country to understand what the potential is for ethanol and biofuels. I have a Ford Explorer now with an engine right out of the factory that can use E85, 85 percent ethanol.

The president talked about hydrogen fuel and I respect that as a possibility for the future but we have something right before us now. It seems to me we have a chance to raise market prices so we can reduce the subsidies and increase the prices in the marketplace for these products.

I guess I am asking is USDA taking a position on promoting these uses or what is your view on them?

Secretary VENEMAN. Well, absolutely USDA has been very supportive of renewable fuels and the administration has been very supportive of renewable fuels.

The President put together an energy task force very, very early in his term. One of the things that was explicitly talked about was the opportunities for renewal energy and the need to produce more sources of energy here at home. The President has been very supportive of ethanol. He did not grant the requested waiver for California, which was certainly giving the ethanol industry many more opportunities.

In addition, the administration does support the renewal fuel standard that was proposed in the Senate energy bill. We have been very explicit about the administration's support for that provision.

I might add that we continue to see increases in ethanol production. We expect to see about 10 percent of our corn produced this year going into ethanol production, which is very significant. We are very supportive of renewal energy and industrial opportunities for our farmers to get new ways to get access to the marketplace.

Let me just say in response to your question about country of origin, we do have on the USDA Agriculture Marketing Service website some examples of some kinds of things that AMS has put together in terms of some of the documentation that can be considered for proving country of origin. I would invite people who have

concerns to look the what has been listed there as some possible suggestions and certainly still open to public comment.

Senator DAYTON. Thank you, Madam Secretary.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

Senator Leahy.

Senator LEAHY. Thank you, Mr. Chairman. I thank you and Senator Harkin for having this hearing.

Secretary Veneman, I am glad to see you here. It has been sometime to be able to meet to discuss the Farm bill, so it is good to have you back and I know you tried reaching me. I tried reaching you back. I was down at Senator Long's funeral yesterday.

It is not a very good year in Vermont for our Vermont dairy farmers. The price is something like $1.11 on milk. We had some relief by the MILC program, the Milk Income Loss Compensation Program so I would be interested in knowing what you are going to do on that.

I am, as I notified you before, disappointed that the department has failed to implement the regional equity provisions of the Farm bill. That is one that provides a minimum level of conservation funding for every state.

I will put my full statement in the record if I might, Mr. Chairman, but I would like to ask these questions.

Now that the department is fully implemented the MILC program do you believe this program is a critical component of our response to crises in the dairy markets? What is your plan for improving the price of milk? I say that because the price of milk is now at a 25-year low.

Secretary VENEMAN. Senator, we have, I believe, implemented the milk provisions as was designed by the Congress in the Farm bill. Dr. Collins addressed some of the dairy income issues earlier but I would ask him now to just repeat some of the economic conditions with regard to dairy and some of the things that we are looking at in the department.

Mr. COLLINS. Senator Leahy, I agree with you that we looked at the April price of milk and indeed it is at a 25-year low for milk, so for right now we would certainly say that the Milk Income Loss Contract Program has been an incredibly important source of income for producers. The milk payment rate right now is running about $1.80 a hundredweight if you are eligible to get the full payment. That certainly helps restore some of the purchasing power for dairy producers.

Regarding what we are doing to help the price of milk, it is simply trying to use to the best advantage the portfolio of tools we have available to us, which would include, of course, the MILC program, and we would expect that to continue for its life and that will provide a lot of income support to producers. We also have the on-going Milk Marketing Order Program, which helps about 70 percent of the nation's milk. We have the Dairy Export Incentive Program and we have used that to the fullest available for cheese and nonfat dry milk and for the first time since 1999 we have initiated it for butter this year.

As I mentioned to an earlier question, we are also looking right now at our purchase prices for dairy products. We, of course, have

established those prices but we are looking at those to ensure that we are taking account of perhaps any unique costs that manufacturers encounter when they have to produce a product to meet our specifications to make sure we are paying them enough to cover those perhaps additional things that they may have to do.

We are trying to use all those tools to the best available advantage and the way Congress intended them.

Senator LEAHY. Well, doctor, I will look at the earlier testimony on this, too.

If I might, Mr. Chairman, I may have a couple of questions for the record on this issue.

The CHAIRMAN. I would be happy for you to submit those, Senator, and we will ask the Secretary to respond in a reasonable time.

Senator LEAHY. Thank you. I also note the Farm bill, when we wrote that, and this was a matter of some discussion both with the administration and among members, we put a strong regional equity provision for conservation funding in it. That was something worked out over a long-time negotiation. As part of that negotiation it was Senator Harkin and Senator Cochran, Senator Lugar and others. Under that, Vermont should have—and I realize it is almost unique for a parochial issue to be raised at a meeting of the Senate Agriculture Committee, but we should have received $12 million in conservation funding. We received only $8.6 million.

Now I say this notwithstanding that is an increase of $100,000 over last year, but we increased nationally hundreds of millions of dollars in this program. We have been able to fund only 20 percent of our conservation applications, most notably EQIP in the past years, due to insufficient funds. The EPA regulations on large farms are coming. States like Vermont that have stepped up the provisions need it.

Why can't we implement the regional equity provisions? We have all the applications and everything else. Can you use nonallocated conservation funds and immediately implement the regional equity language?

Mr. KNIGHT. One of the biggest challenges we face with putting more of this information up on the web and being more open on this is you are able to see exactly how the money has gone in your particular state and I knew full well you would be asking this question today, sir.

The regional equity provision, as it was written in law, quite specifically asks us to look to ensure that we are implementing all these provisions in an equitable manner throughout the aspects of the bill and stated further that it had to apply to the provisions prior to April 1, and we are in the very difficult situation of this year, which will be very unusual, in that having had the late appropriations process, compounded by the late allocations process, we are very late in the year for being able to make those out, to be able to get at that program to be able to do as you had designed with the $12 million.

The program allocations are all constructed and designed by formula that attempt to be able to gather the resource needs for each of the programs. We have a different allocation formula that is

used to design EQIP. That one, as a matter of fact, takes 29 different factors and it combines everything from acreage to——

Senator LEAHY. Before you get too far out there, the provision, as I understood it, required each state to receive at least $12 million in conservation funds by April 1. Now what is so difficult to understand that? I realize you may have applications and everything else, but why does not each state just get their $12 million to begin with? That money is there.

Mr. KNIGHT. The provision actually, sir, states that before April 1 of each fiscal year the Secretary shall give priority for funding on the conservation provisions of subtitle D—it goes on with those things—for approved applications if not received for the fiscal year in aggregate amount of at least $12 million for these conservation programs.

There have been lawyers on each side of the issues who have advised whether it does, in fact, require that a minimum of $12 million be spent on each of these states and this gets to some of the provisions we have had before—the debate of the differing legal interpretations.

Senator LEAHY. The interpretation seems to be that if you are in the so-called farm belt, you are going to get the money; if you are in the Northeast, you do not get the money. The flip side is if you are in the Northeast you pay the taxes to fund the programs.

I am not trying to set up regional battles. I have supported those programs in the Midwest. It seems to me that any time we have something that seems to affect us, the Northeast, we are going to be asked for the tax dollars to pay for it but we do not get it.

I am looking at the AMA funds, the Agriculture Management Assistance Programs. We all worked together to put that in because current crop insurance policies do not cover crops grown in the Northeast, could use these risk management funds, but now you have taken the AMA money for a new crop insurance subsidy. That is not going to benefit producers. We do not grow crops that you insure.

We get a number of reasons. Penn here says that the regional equity language, he cited that as justification for redirecting it, the AMA funds. Now you do not implement it. We had 24 of the 30 senators who would be affected by it ask you to reinstate the old program. Are you going to reinstate the previous innovative program? You invested the money in traditional risk management programs.

Again it is a case like you guys in the Northeast pay the bills but no matter how you write the Farm bill, no matter how many things you put in there to get a response into your part of the country, forget about it. I can't quite say it like my New York senators might say "forget about it," but that is basically what happens. We get the bill, we send the check and wait for delivery.

What are we going to do here? How many times do we have to rewrite the law?

Secretary VENEMAN. Senator, I appreciate the concerns that——

Senator LEAHY. You know, I am a strong supporter of yours, Madam Secretary. I do not know what is happening here.

Secretary VENEMAN. As I said, I appreciate your concerns and as Bruce Knight said, there have been some differing legal interpreta-

tions and I would be happy to have appropriate staff come and work with your staff to determine if we can work out some of these issues that are raising today, to determine how we can best address them.

Senator LEAHY. I wish you would because it not just a parochial thing to Vermont, although we are really getting shafted by it. Again it is a Northeast issue, and I am not trying to pit one region against the other. My record is such for 30 years that I have strongly supported other parts of the country, but this was specifically to balance some of the equities and I do not think we are getting it.

With that, Mr. Chairman, I know you are pressed for time, too, and I will submit my other questions if I might for the record and I will take the Secretary up on her offer to have her folks meet with mine.

Secretary VENEMAN. We will do that.

Senator LEAHY. I do appreciate your trying to reach me and am sorry we missed.

The CHAIRMAN. Thank you, Senator.

[The prepared statement of Senator Leahy can be found in the appendix on page 99.]

Madam Secretary, the record is clear that you have led a gallant effort at the Department of Agriculture to expeditiously and with a degree of sensitivity that is very important implement this new writing of a farm bill and this hearing, as you observed in your statement, comes on the first year anniversary of the passage of that bill, the signing of the bill by the president, as a matter of fact.

You had to hire temporary employees, over 2,000, to help staff the Farm Service Agency offices and undergo training to be sure they understood what their duties would be and how to carry those duties out in a responsible and sensitive way. It has been a massive undertaking and you have risen to the occasion and demonstrated a great deal of competence and good judgment in the process.

I do not have any other questions. You have answered all the questions that have been put to you in a responsible way and the team you have with you—Dr. Penn, Mr. Knight, Dr. Collins—have done a commendable job, as well.

Senator Harkin.

Senator HARKIN. Thank you, Mr. Chairman. I have some other questions which I will submit in writing. It has to do again with the Venture Capital Fund and why we cannot move in a more timely manner on that.

The CRP was covered in terms of a possible—I appreciate your getting back to me on that—a possible extension of time on that. We have covered the other things here.

There is one issue, Madam Secretary, that I want to bring up because I have been asked about it and it is important that we air it a little bit publicly here. That has to do with the reports that are coming out that the press somehow is being locked out of doing their job at the Department of Agriculture.

President Lincoln called the Department of Agriculture the people's department and there a story that appeared in Feedstuffs and

then there is another story that appeared in Congress Daily and there is another story that appeared in Agriculture about this and it has to do with obviously your press secretary, Alisa Harrison, advising three reporters, this one included—this is Sally Shift; I have not talked to her, Feedstuffs Washington editor—that the days of staking out closed press meetings in USDA buildings were over. She says in her report, "It went like this. The three of us were in the lobby of USDA's Whitten Building on a stake-out of a closed door session"—I have a little problem with this I will tell you about—"a closed door session between high-ranking USDA, White House and U.S. Trade Representative officials and agriculture lobbyists on the thorny agricultural trade issues with Mexico. Stake-outs are reporters' traditional way to seek hallway interviews," as well we know up here, "as participants emerge from government meetings." She went on to say that Harrison charged that our building passes only allowed us access to our offices.

Now the report said here that she was standing out there and Harrison, "Just as reporters finished talking with the lobbyist"—oh, I know. The lobbyists came out, evidently, of the meeting. Lobbyists were meeting with your people. It is reported that Under Secretaries J.B. Penn and Bill Hawks and Chief U.S. Trade Representative Allen Johnson had no problem answering her questions but just as reporters finished talking with the lobbyists Veneman and her press secretary Alisa Harrison talked in the front door of the building. The reporters said Harrison walked over to them and told them they must never stake out a meeting at USDA again. The reporters said Harrison threatened that if they do, she would revoke their building passes or call their editors.

I am wondering what is the policy at the Department of Agriculture in terms of letting reporters stand outside of doors and go ahead and question people when they come out?

Secretary VENEMAN. Well, Senator, let me first say that we try very hard to have a very open and accessible relationship with the press. We have done numerous press briefings. We try to be available to the press. We answer their questions when they call. We have a very unique situation in USDA in that we have a radio studio and a TV studio. We try to do as much as we can so that people can all listen in.

Yesterday when we did the announcement on the EU biotech case we had that webstreamed on our web so that anybody anywhere that had access to the web could actually watch the entire press conference. Just first of all, I want to make it clear that we try to have a very open press relationship.

The difficulty, as I understand it, that our press people have been trying to deal with is we are one of the few departments of government that has press actually in our building. Defense and State and the White House have press in the building. They are all relegated to certain areas. They do not have free access to the White House or to the State Department or the Defense Department in those cases. The concern is that we need some reasonable guidelines for the press access. They are invited to every public event. I certainly talk to them and others do in any public event setting. The issue is really private meetings.

In the meeting you talk about it was with people interested in trade issues with Mexico. I would not necessarily have termed them all lobbyists, although I am sure some of them are registered. My understanding of that meeting was it was a briefing with the private sector with interests in some of the trade disputes we have with Mexico to get a direct briefing from Dr. Penn and Mr. Hawks and Ambassador Johnson following the meeting that they had in Mexico. We often brief private sector interested parties. We think that is an important thing to do.

We also brief the press often and they certainly had access to our people to talk about the trip after Mexico, to talk about the issues that were discussed.

Senator HARKIN. Is this a departure? Is this a departure from past practice?

Secretary VENEMAN. I have to tell you in all honesty until I read about this in the press, I did not know it had happened. My understanding of it is that it is an attempt to simply restate what the policy of the department has been, and that is we provide access at public meetings, we provide access that we think is responsible.

Senator HARKIN. I understand that but this has to be cleared up for your benefit and for ours, too.

Secretary VENEMAN. I agree, Senator. I agree.

Senator HARKIN. Up here, because there is a concern here and we have to clear up one thing that was said in this story. I do not know. It said here that since you had just come in the door with Miss Harrison and she left from you to go to meet with these people, there is some thought that—oh, yes. "The fact that Harrison was observed entering the lobby with Agriculture Secretary Ann Veneman moments before she confronted us only added to suspicions that her instructions came from the top."

Did you instruct Miss Harrison to go over and tell the reporters that they could not stake out any longer?

Secretary VENEMAN. No, I did not. I did not even know she was going to talk to them. We walked in talking about something else.

Senator HARKIN. She did this on her own volition?

Secretary VENEMAN. She did.

Senator HARKIN. Well, Madam Secretary, you really ought to review this. I have been around the department now for 28 years, I guess, in and out, and I aware that reporters have been down there in the past, that they have access, which I have always thought was a very good thing.

Again I am told that it is a departure from past practice on the access of these reporters with desks at USDA to the hallways, et cetera, that this is a departure. Again I would like to know why at this point in time are we making a departure from practices that have been going on for as long as I have been here and maybe longer? Why is there that departure? What happened?

Secretary VENEMAN. Well, Senator, my understanding is that our press shop had tried to make reasonable guidelines, which generally are followed by representatives of the press. As I said, we have press people in the department, we have very good relationships with them and normally we do not have issues that arise coming out of these kinds of meetings.

I have asked for a full review of this situation. I have asked for our folks to meet with the various members of the press to talk about exactly what the ground rules are. Obviously we need some ground rules in terms of the press accessibility since they do have access to the building and it is a unique situation in government. Most of the members of the press would agree that we need to have a common understanding of what the ground rules are, and that is what I have asked my people to do following this incident.

Senator HARKIN. Well, I hope you will keep us apprised of that. I have no problem. Obviously we have meetings up here, too, that are not open to the press. The press accepts that. As soon as you walk out the door, there they are and we have that all the time up here—in the hallways out here, the hallways in the Capitol building. We may have a meeting, a closed door meeting to discuss things for whatever reason now and then but as soon as we walk out into the hallway the reporters are there to ask us questions.

I believe it is a legitimate function of theirs to be there, to get immediate responses from people that were in the meeting, to ask them questions. Obviously if I come out of a meeting and the press asks me a question I can demur; I can say I do not want to answer that, but then they get a report that I refuse to answer it, too. The public has a right to know these things and the press, no matter how much we praise them or despise them, they are our link to the public and we have to make sure that they have that kind of accessibility.

I hope you do review this because I have been asked about this a couple or three times and the more I looked into it, the more I thought we had to air it here and get it out and hopefully you will review that and get back to us with what your policy would be down there.

Secretary VENEMAN. Well, Senator, I absolutely agree with you about the important role of the press. One of the things that we try to do at the department, and as we discuss the Farm bill here today we could not have gotten the information out to the recipients of the programs without the farm broadcasters and the ag meeting writing the stories about the message that we were all trying to give about the dates for sign-up, what you need to do, where to get information, how to get on the website.

I absolutely agree with you that our relationship and our dependence on particularly the ag media is very important.

Senator HARKIN. I appreciate that. I can only speak for myself, I would not propose to speak for any other senator, but look, we all have experience with stake-outs. The press is there and you come out of a meeting and we all have experience with that. Maybe it does make us uncomfortable once in a while but maybe that is the press's job, to make us uncomfortable once in a while, too. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

Madam Secretary, thank you again for your cooperation with our committee and the attendance at this hearing. I commend you and your staff for the excellent job you have done.

[The prepared statement by Secretary Veneman can be found in the appendix on page 42.]

The CHAIRMAN. There is no further business to come before the hearing. The hearing is adjourned.

[Whereupon, at 4:22 p.m., the committee was adjourned.]

APPENDIX

MAY 14, 2003

Statement by
Ann M. Veneman
Secretary of Agriculture
Before the Committee on Agriculture, Nutrition and Forestry
United States Senate
May 14, 2003

Mr. Chairman, Senator Harkin and distinguished members, we are very appreciative of the opportunity to appear before you today to discuss the implementation of the Farm Security and Rural Investment Act of 2002 (Farm Bill). This hearing coincides with the one-year anniversary of the Farm Bill, which was signed into law by the President on May 13, 2002.

I would first like to make some general remarks about the challenges the Department has met in implementing this Farm Bill, then discuss the accomplishments of the past year, and conclude with some comments on the status of implementation of the Agricultural Assistance Act of 2003.

Our number one goal over the past year has been to implement all Farm Bill provisions as quickly and efficiently as possible. Overall, I am pleased and proud of the progress the Department has made so far. This was a major challenge given the late passage of the bill. Fortunately, the Department had been actively engaged in preparing for a new bill well before passage, so that as soon as the bill was enacted, we were able to go into high gear to implement it. Our staff throughout the country has been working tirelessly and aggressively to implement the new provisions and to get the benefits flowing to producers and other program participants. I know you would want to

join me in expressing our great appreciation to all the hardworking USDA employees in State and local offices all over the country, as well as at Headquarters, who have put forth so much time and effort to implement the provisions of this bill. Literally thousands of USDA employees throughout the country have played a part in these efforts by conducting all sorts of analyses; developing decision documents; writing record numbers of regulations; developing software and websites; preparing reports, studies, correspondence and press releases; convening outreach conferences; signing-up participants; and issuing program benefits.

As you know, Farm Bill implementation was and continues to be a massive undertaking. The bill includes ten titles and over 400 pages with numerous sections and provisions.

As soon as the bill was enacted, we moved quickly to set up an internal structure for implementation to coordinate department-wide implementation of nearly 500 separate actions we identified that needed to be carried out. We are monitoring our progress very closely.

We have made extensive efforts to keep Congress, the general public and stakeholders informed at every step of the way. Through issuing press releases, holding Congressional and press briefings, and providing extensive up-to-date information about the Farm Bill on USDA's website, the Department has been able to address most of the issues and questions as they have arisen. The Department has

also held 11 outreach sessions across the country, and in Puerto Rico, to ensure constituent groups were fully informed about the provisions of the Farm Bill. These sessions were an important part of the implementation of the bill and reflected the Department's commitment to reach out to the full spectrum of USDA customers, including under-served customers, minorities and women to ensure they benefit from USDA programs and services. Based on Congressional and stakeholder input we have received over the past year, we were able to make some fine-tune adjustments in some of the things we were doing in order to meet constituent needs and the intent of Congress. Throughout the implementation effort, USDA has focused on customer service and a commitment to ensuring that all customers are treated equally and fairly.

We also want to thank Congress for its support by providing $55 million for implementation funding in the bill. Last fall, the President requested an additional $60 million in funding from the Appropriations Committees to cover the Farm Bill workload, and we are pleased that $70 million was provided in February in the Agricultural Assistance Act of 2003 (2003 Act) to help with the Farm Bill, as well as to implement the new disaster assistance programs. We are making good use of the funds to hire over 2,200 temporary employees to help with signups and other activities in our service centers across the country. We are also using the funds to develop newly authorized programs and program application software, as well as improving program delivery through additional staff training and third party technical service providers. In this regard, the Farm Service Agency (FSA) conducted the largest personnel training exercise in its history.

To date, over $8.0 billion in new commodity program payments have been issued so far during the first year of the Farm Bill. Partly due to these payments, net farm income prospects look reasonably good for 2003. Net farm income is forecast at $44.9 billion for 2003. This is up over $12 billion from the depressed 2002 level and is near the average for the past 10 years. With the help of the Farm Bill, net farm income is expected to remain near the average level of the past decade for the near term. In addition, the 2003 Act will provide over $3.0 billion for the agricultural sector. Thus, the Farm Bill, the 2003 Act and other USDA programs are providing immediate relief to producers dealing with financial stress and will continue to do so.

Other parts of the President's agenda will also have a positive impact on agriculture. The Administration is working closely with Congress to pass an economic stimulus package, which would give tax relief and create jobs. The outlook for the farm economy would be enhanced if an economic stimulus package were enacted soon.

Also, the Administration has an aggressive trade agenda that will benefit agriculture over the long term. We are engaged in efforts to improve access to overseas markets and expand trade through a vigorous trade negotiation agenda -- both multilaterally as well as bilaterally. All of these efforts are designed to expand U.S. agricultural exports and, thereby, enhance farm sector income.

I would now like to focus in more detail in some of the key accomplishments for the various titles of the 2002 Farm Bill.

Commodity Programs

The 2002 Farm Bill made significant changes in the commodity programs and the Department has done a great deal of work to put these new programs in place. The core programs for direct and countercyclical payments are on track and payments are flowing to producers.

The new program gave farmers the option to update their production history for the first time in many years. They could choose to update their planted acreage bases and to partially update their crop yields for countercyclical payments to reflect the most recent four years (1998-2001). Signup began in October 2002, and within six months from enactment of the legislation producers began to receive payments. The signup has been a massive effort with over 2.1 million eligible farms and many complex determinations required by producers and the FSA. Acreage and yield selections were substantially completed by April 1, with special arrangements to complete the process for those who could not be serviced by April 1. Annual contracts must be signed by June 2, and that process is going well.

Producers had received over $3.3 billion in direct payments by early May and over $1.1 billion in countercyclical payments on the 2002 crop. Countercyclical

payments are being made on cotton, rice, and peanuts but not for other crops because market prices are above the level needed to trigger countercyclical payment.

Another historic change made by the 2002 Farm Bill was the termination of the old peanut quota and price support program. Peanut producers are now eligible for direct and countercyclical payments and for a marketing loan program nearly identical to the programs for other commodities. The Farm Bill also provided quota buyout payments for peanut producers to compensate them for the loss of the long established peanut marketing quotas. Over $1.2 billion in quota buyout payments have been issued.

A major new program for dairy producers, the Milk Income Loss Contract program (MILC) was added by the Farm Bill. This program is designed to compensate for low milk prices and it complements the traditional dairy price support program. MILC payments, which vary with milk prices, have been substantial. This has attracted many dairy producers to FSA offices for the first time ever and has been another big factor in FSA's workload. Since last September, nearly $1.4 billion in payments to dairy producers have been made under this program. Continued low milk prices make this program's role important.

The traditional commodity marketing loan programs were continued by the Farm Bill and were extended to additional commodities including pulse crops, wool and mohair. The Farm Bill established new national loan rates for nearly all program crops

and included loan rates for some new crops. In all cases, we have announced loan rate decisions earlier than ever to provide farmers more time to make planting decisions. We also attempted to respond to producer concerns about geographic and other inequities and have made many adjustments.

Other important changes made in the commodity programs included the establishment of a sugar marketing allotment program and changes in the sugar loan program, which have been implemented for fiscal year (FY) 2003.

A final rule to implement the adjusted gross income limitations on eligibility for farm program benefits is nearly ready. The Farm Bill limits eligibility for most commodity and conservation program payments to producers with adjusted gross incomes of $2.5 million or less, unless 75 percent or more of the producer's adjusted gross income was derived from farming, ranching or forestry.

Payment limitation issues are being assessed by the Commission on Application of Payment Limitations in accordance with its mandate. However, due to the late start in getting all of the members appointed, the Commission will not be able to submit its final report by the May 13 due date.

In summary, the Commodity Program provisions in Title I are fully operational. They have essentially been implemented on time and producers are receiving the benefits of these programs.

Conservation

We are pleased with the strong conservation programs contained in the Farm Bill. The changes in the conservation policy support this Administration's commitment to a voluntary approach and provide the Nation's producers with a comprehensive portfolio of conservation options including cost-share, incentive, land retirement, and easement programs. I am very happy to report that rulemaking has been completed for those conservation programs reauthorized in the Farm Bill, including the Wetlands Reserve Program (WRP), the Wildlife Habitat Incentive Program (WHIP), the Farm and Ranchland Protection Program (FPP), and the Agricultural Management Assistance Program. We have also finalized the rule for the Conservation Reserve Program (CRP) and began the general sign up for the program on May 5, which will run through May 30.

We also will be announcing very soon the release of the final rule for the Environmental Quality Incentives Program (EQIP) that was reauthorized and amended by the Farm Bill. EQIP is one of the largest Farm Bill programs that promotes environmental quality and assists producers in meeting local, State and Federal environmental regulations. EQIP cost-share funds help farmers and ranchers install conservation practices that help reduce soil erosion, improve water use efficiencies and air quality, and protect grazing lands. A total of $562 million will be allocated to the States for EQIP for FY 2003. We also announced the release of $53 million through the

Ground and Surface Water Conservation provision under EQIP as authorized in the Farm Bill. These funds will provide cost-share and incentive payments to producers in 17 States, including the Klamath River Basin area of Oregon and California that have had their operations ravaged by the effects of drought.

We will soon be initiating the first signup for the Grasslands Reserve Program (GRP). A Notice of Funding Availability (NOFA) will be issued shortly that will get a limited program up and running for 2003, given that we are more than half way through the fiscal year. We will then go through the rulemaking process for developing the program in time for FY 2004. Through GRP, landowners can grant an easement or enter into a long-term agreement to restore, preserve, and protect grassland, rangeland, pastureland and certain other lands. The Farm Bill authorizes a two million acre program through 2007.

The rulemaking effort needed to implement these programs was a major challenge and I believe we have succeeded on all fronts. Our focus recently has been on getting the FY 2003 funding authorized by the Farm Bill into the system and out to producers and program participants. So far, we have allocated to States more than $1.8 billion in financial and technical assistance funding for Farm Bill programs and other ongoing, non-Farm Bill conservation programs.

One of the key provisions in the new Farm Bill is the authority to use third-party, technical service providers (TSP) in delivering the technical assistance needed to

support the implementation of conservation programs. We are moving aggressively ahead with the expansion of direct technical assistance to producers from the private sector, non-profit sector, and State and local government sources. The TSP system will facilitate technical assistance delivery and will ensure that producers have the maximum flexibility for choosing a third-party provider. We also anticipate that this will have a positive impact on rural employment levels and thereby significantly benefit local economies. This will be further enhanced by our efforts to accelerate deployment of the Customer Service Toolkit and the rollout of various web-based tools such as the electronic field office technical guide, e-forms including applications for the 2003 programs, and program specific public information products.

The comment period for the TSP interim rule ended on April 30, and comments on the TSP amendment will be received until June 30. While rulemaking is underway, the certification process will continue through the on-line Technical Service Provider Registry. So far, more than 400 technical service providers have been registered.

As we look ahead, we are also making steady progress toward the proposed rule for the Conservation Security Program (CSP). The Farm Bill authorized this new program and granted the Secretary broad discretion to establish program requirements. In order to determine how best to design and implement CSP, the Department issued an advance notice of proposed rulemaking (ANPR) in the Federal Register on February 18, 2003, to solicit public input on a number of key issues. The comment period closed on April 3, and nearly 4,500 comments from more than 700 individuals

were received. We are now involved in reviewing and evaluating these comments, as well as working on the rule.

Trade

The Farm Bill recognizes the importance of export markets for the long-term health and vitality of the American food and agricultural sector. It reauthorized many of the Department's export promotion and trade development programs; made a number of modifications designed to bolster their effectiveness; and in a number of cases authorized increased annual funding levels. Taken together, these changes will enhance our ability to assist America's farmers and ranchers take advantage of emerging global market opportunities now and in future years.

The Department has worked diligently to ensure that the new authorizations and funding provided by the Farm Bill are fully utilized. For example, funding levels were increased for both of the Department's longstanding market development programs, the Foreign Market Development Cooperator Program and Market Access Program (MAP). The Department worked to ensure that the additional funding provided for 2002 was fully allocated by the end of the fiscal year. Equally important, the Commodity Credit Corporation (CCC) baseline program estimates prepared in conjunction with the President's 2004 budget, provide funding for these activities at their fully authorized levels which will ensure that our market development objectives can be realized. In the

case of MAP, this is particularly significant as annual funding will more than double from its previously authorized level to $200 million per year by 2006.

The Farm Bill also authorized a new market development activity, the Technical Assistance for Specialty Crops Program, which is designed to address unique barriers that prohibit or threaten exports of U.S. fruits, vegetables, and other specialty crops. The program is funded through CCC at $2 million per year through 2007. An interim final rule necessary to establish the program was published on September 10 of last year, and that action allowed 2002 program funding to be allocated completely. A final rule for the program has now been drafted and is undergoing review within the Executive Branch. Once it is published, we will move forward with implementing the 2003 program.

The Farm Bill also made a number of significant changes in the Department's foreign food aid activities. For example, annual CCC funding of the Food for Progress program was increased. As a result, Food for Progress programming was boosted last year and will continue at the expanded level in future years.

Another notable change in the Department's food aid programs was the authorization of the new McGovern-Dole International Food for Education and Child Nutrition (IFE) Program. The IFE builds upon the Global Food for Education Initiative the Department implemented during 2001 and 2002. The new authority provides for the donation of U.S. agricultural commodities and financial and technical assistance to carry

out preschool and school feeding programs and maternal, infant, and child nutrition programs in foreign countries.

The Farm Bill provides a program level of $100 million for the IFE program during 2003, with funding provided through CCC. Beginning in 2004, the program is to be funded through annual appropriations, and the 2004 President's budget requests $50 million to carry out the program next year. The requested level of funding will provide a stable level of assistance because many of the programs approved in 2003 will carry over and be implemented during 2004.

Because separate statutory authority was provided for the IFE, program regulations must be promulgated before it can be implemented. A proposed rule was published on March 26, and the public comment period ended on April 25. The Foreign Agricultural Service (FAS) is now reviewing those comments and expects to have a final rule ready for interagency review in the near future. FAS is optimistic the final rule will be published in early summer, which will allow the 2003 program to be implemented fully by the end of the year.

Rural Development

The Rural Development title included a wide range of new authorities and a major commitment of funding for improving the economic opportunities and quality of life for rural America. One of the most important features of this title was to provide funding

to reduce the backlog of loan and grant requests for water and waste disposal projects. Because most of the preparatory work to ensure the quality of these projects had already been done at the time the Farm Bill was enacted, USDA was able to act quickly in selecting the projects and obligating this funding. On August 20, 2002, we announced awards totaling more than $700 million in loan and grant assistance for 377 projects in 47 States and Puerto Rico.

Another important action occurred on January 29, 2003, when USDA launched the program established under the Farm Bill for expanding broadband telecommunications. This program has sufficient funding to support $1.4 billion in direct and guaranteed loans to rural telecommunication providers. This funding is critical to building an infrastructure to help rural residents and rural businesses share in the benefits of e-commerce and other applications of high-speed telecommunications. The Department is currently accepting applications for the new program. In addition, the Department expects to be able to publish, within the very near future, proposed regulations for operating the local television access program for which the Farm Bill provided sufficient funding to support almost $1 billion in loan guarantees.

A smaller, but equally important program for making grants to producers for value-added production and marketing of agricultural commodities was also implemented. This program has substantial potential for creating new income opportunities for producers of agricultural commodities, as well as new job opportunities for rural residents. The first round of awards of grants was made on October 22, 2002.

A total of $37 million was awarded to 231 recipients in 43 States. Regulations are being developed for establishing the program on a permanent basis.

Other Titles

We are also making good progress with respect to other titles of the Farm Bill. These other titles often do not get as much attention as the commodities and conservation titles do, but they are nonetheless important and deserve comment. Here are some of the significant actions we are undertaking with respect to the other titles of the bill.

Nutrition

The Nutrition title reauthorized food stamps and other nutrition assistance programs and funded Seniors Farmers' Market and the WIC Farmers' Market Nutrition programs. Program changes enacted, and now implemented, improve access to food stamps by allowing eligibility for legal immigrants who have lived in the U.S. for at least five years, increasing benefits for larger low-income families, and allowing simplifications that will enable States to improve program efficiency and customer service. Penalties were targeted to States with persistently high rates of erroneous payments. Financial incentives for good performance were also provided. Since USDA and the States had reduced error rates to historical lows prior to this change, we are hopeful that States will maintain or increase their commitment to low error rates even in

the face of State funding shortfalls and rising caseloads. Finally, the fruit and vegetable pilots for the school food programs have been very successful, and are popular. We are working to extend use of current funding and hoping to expand these pilots if additional funds can be found.

Research

Within the Research title, we have implemented the Senior Scientific Research Service, which will allow the Department to attract and retain the highest caliber scientists in the fields of agriculture and forestry. At the present time, we are using this new tool to actively recruit top notch scientists to the Department's research agencies. Additionally, FAS and the Cooperative State Research, Education, and Extension Service have teamed up to expand the International Internship Program, which allows students from U.S. colleges and universities to intern at FAS field offices overseas and gives USDA another avenue to make the public more aware of the work we do every day representing U.S. agriculture's interests abroad. The Department has awarded $8 million in grants for rural youth development to establish pilot projects to expand programs in rural areas and small towns throughout the United States. Finally, we are continuing our efforts to publish rules e.g., increased matching fund requirements for the 1890 institutions, and to finalize a number of Farm Bill reports and studies.

Forestry

The Department has been working with our partners to implement the Forestry Title of the Farm Bill. The Forest Land Enhancement Program (FLEP) interim rule is undergoing final review within the Administration and is expected to be published soon. This program will provide technical, educational, and cost-share assistance to promote sustainability of nonindustrial private forest lands and is authorized at $100 million through FY 2006.

Energy

The Energy Title of the Farm Bill supports the President's energy policy, by providing new opportunities for USDA to foster the development and use of bioenergy, biobased products and renewable energy, and by assisting farmers, ranchers and small rural businesses in becoming more energy efficient. In developing regulations for implementing these new authorities, we have made special efforts to solicit input from the public. For example, USDA hosted a public hearing on December 2, 2002, to obtain input for implementing the Renewable Energy and Energy Efficiency Program. We also encourage public comments on the proposed rule for Federal Procurement of Biobased Products, due to be published this summer, which would establish guidelines requiring Federal agencies to give preferences to biobased products for their procurement needs.

Recently, the final rule that continues the Bioenergy Program, which reimburses participating commercial fuel grade ethanol and commercial biodiesel producers for part of their production costs, was published. For FY 2003, $115.5 million is available under this program. For the Biomass Research and Development initiative, which provides funding for joint USDA-Department of Energy research and development projects, $21 million in grant funding has been made available for this fiscal year, after $2.7 million in grants was awarded for FY 2002. For the Renewable Energy Systems and Energy Efficiency Improvement program, which authorizes grants, loans, and loan guarantees to farmers, ranchers, and rural small businesses for the development of energy conservation improvements, $23 million in grant funding for FY 2003 has been made available. During FY 2003, the program will be administered under a Notice of Funds Availability (NOFA). The NOFA was published in the Federal Register on April 8.

Miscellaneous

Under the Miscellaneous Title we are working on the following items:

As required by the Farm Bill, we are pleased to report that Vernon Parker was recently confirmed as the Department's first Assistant Secretary for Civil Rights. He is working closely with agencies and officials of the Department to help ensure that Farm Bill and other USDA programs are delivered fairly and are readily accessible to all who are eligible.

Under the Apple Market Loss Assistance Program, over $92 million in apple market loss assistance payments have been made to apple producers for losses associated with the 2000 crop in addition to about $75 million in payments provided by the appropriations act.

In July 2002, $5 million in CCC funds was transferred to the Agricultural Marketing Service to implement the Organic Cost Share Certification Program, of which $3.3 million has been allocated to 44 state organic programs to date.

On October 8, 2002, Voluntary Country of Origin Labeling Guidelines were issued. Over 75 comments were received in response to a notice published in the *Federal Register* on November 21, 2002 regarding the potential paperwork burden for mandatory country of origin labeling. On March 4, 2003, a press release announced plans to hold 12 listening sessions nationwide. The sessions began on April 29, 2003, and will conclude on June 26, 2003.

USDA is making steady progress in the implementation of the Animal Health Protection Act, which updates and consolidates previous laws. Work on most sections of the Act have been completed and we are in various stages of the regulatory process to implement remaining sections. Of note, the comment period recently closed on a proposed rule to improve detection of animal diseases.

Disaster Assistance

I would also like to take this opportunity to update the Committee on where the Department stands in implementing the 2003 Act. The Department has been working diligently over the past months to provide assistance to the many producers affected by drought and related conditions in 2001 and 2002. The Federal Crop Insurance Program has paid indemnities of nearly $4 billion for losses incurred during the 2002 crop year.

USDA has utilized all available resources to address the most severe drought situations over the past year. Emergency haying and grazing of selected Conservation Reserve Acreage was authorized and a new Cattle Feed Program utilizing surplus non-fat dry milk was implemented last fall. A new 2003 Livestock Feed Assistance Non-Fat Milk Program was implemented on April 8 to provide further relief. Last fall, USDA also developed the Livestock Compensation Program (LCP), which provided $855 million to producers in 1825 declared disaster areas. Currently, the Department is engaged in implementing the over $3.0 billion package of disaster assistance authorized by the 2003 Act enacted on February 20 as part of the Consolidated Appropriations Resolution, 2003. A Disaster Assistance Working Group has been coordinating the implementation of this Act and many of the procedures which proved useful in implementing the new Farm Bill are being applied to getting the disaster assistance implemented quickly.

The 2003 Act extends the LCP to additional counties and could result in as much as $350 million to over $400 million in additional assistance. Signup for LCP began April 1 and ends in early June. A separate program to assist catfish producers is also under development. Signup for two other programs is underway as well. The Tobacco Payment Program signup began on March 17, and ends on May 16. This will provide nearly $55 million to tobacco producers. The Cottonseed Payment Program signup began on May 2, and will end on May 23. This program will provide $50 million in assistance.

The major component of the 2003 Act is the Crop Disaster Program, which is estimated to provide over $2.1 billion in assistance to producers with qualifying losses in 2001 or 2002. This is also a complex program which required considerable effort to develop. Signup is scheduled to begin June 6. The program has been designed so as to not discourage producers from purchasing adequate crop insurance coverage.

Work is progressing rapidly on other major components of the 2003 Act. Assistance programs for sugar beet producers and separate assistance for sugar cane growers with hurricane damage are being developed and should be ready soon. The Livestock Assistance Program which will provide $250 million in assistance for grazing losses will require a signup later this summer. Procedures are being developed to make adjustments for LCP and Cattle Feed Program Payments already received by producers. Other aid is on a faster track, for example, refunds of the Conservation

Reserve Program grazing deductions are already being issued with about $11 million already made.

Unfortunately, the drought persists into this year in some parts of the country, particularly the Northern Plains and northwest States. In this regard, we have established a Drought Coordinating Council at USDA to closely monitor drought conditions in order to be able to develop timely responses as problems arise and resources permit.

Mr. Chairman, this concludes my statement. The staff at USDA is working very hard to get the job done of implementing the Farm Bill, as well as the disaster assistance legislation so that all program participants can receive the benefits they are entitled to under the legislation. We are committed to do the best job we can do. We are also committed to working with Congress and stakeholders to ensure the legislation is implemented properly and fairly. I would be glad to answer your questions.

THE SECRETARY OF AGRICULTURE
WASHINGTON, D.C.
20250-0100

May 13, 2003

Dear USDA Employees:

One year ago, President Bush signed into law the *Farm Security and Rural Investment Act of 2002*. The law not only made sweeping changes in many USDA programs, but created new ones as well. Our team at USDA has worked hard to implement the new farm law efficiently and responsibly to best help our producers and other program participants receive their intended benefits. On behalf of President Bush, as we mark this one-year anniversary, thank you for your dedication, persistence and professionalism in successfully delivering the programs.

Because of your efforts, our progress in the first year of this seven-year legislation is impressive. We conducted numerous analyses, wrote many regulations, developed software and websites, and facilitated the sign-up of thousands of participants. As a result, among many other accomplishments, we have:

- Implemented all key commodity program provisions quickly and efficiently;
- Provided more than $8 billion in program payments for agricultural producers;
- Released more than $1.8 billion for conservation assistance on working lands, including funding for Farm Bill and appropriated programs;
- Implemented revisions to the Conservation Reserve Program with general sign-up in process between May 5 and May 30, 2003;
- Provided an additional $10 million for the Market Access Program and other additional funds for market-development activities;
- Implemented the Technical Assistance for Specialty Crops Program, announcing $2 million in funding;
- Launched the new McGovern-Dole International Food for Education and Child Nutrition Program;
- Implemented a successful and popular pilot program to increase fruit and vegetable consumption in schools;

- Provided access to Food Stamp Program benefits for newly qualified legal immigrants;
- Awarded hundreds of millions of dollars in Rural Development assistance, including value-added grants, and water and waste disposal funds;
- Published final regulations and solicitation of applications for an anticipated $1.4 billion in rural broadband loans and loan guarantees;
- Implemented the Senior Scientific Research Service, which allows USDA to attract and retain the highest-caliber scientists;
- Implemented the Renewable Energy Systems and Energy Efficiency Improvement Program and announced the availability of $23 million in grants;
- Implemented the Biomass Research and Development Program and announced the availability of $21 million in grants;
- Made key revisions to the Bioenergy Program, which provides up to $115.5 million in funding for Fiscal Year 2003 and up to $150 million over the next three fiscal years;
- Held 11 sessions across the country and in Puerto Rico to reach out to the full spectrum of USDA customers; and
- Vernon Parker became USDA's first Assistant Secretary for Civil Rights, as authorized under the Farm Bill.

These achievements are remarkable. But our work is not done. Many programs have yet to be fully implemented, and your diligence and hard work will continue to be needed and appreciated as we move forward.

Thank you for going the extra mile to deliver programs and resources to farm and ranch families across the country as well as to the many program participants who rely on USDA programs. I am incredibly proud of everyone on our USDA team.

Sincerely,

Ann M. Veneman

May 12, 2003

Senator Debbie Stabenow
702 Hart
Washington, D.C. 20510-2204

Reference: Farm Bill Implementation

Dear Senator Stabenow:

Thank you for this opportunity to address the Farm Bill Implementation, and how it has affected agriculture and dry beans in particular.

Situation: While the overall situation for agriculture has changed little in the last two years, the specific situation on dry beans continues to deteriorate. Dry bean production in North America continues to move west and north, with Manitoba being the biggest recipient of the acres. World wide competition continues to increase as well, with those countries with inexpensive labor and lack of government controls in food production taking a larger share of the United States and world market. Acres continue to slide in Michigan with the lowest expected planted acres in over 50 years. The one bright star this year has been the disaster program for the years 2001/02 that was lead by your office and the Senate Agricultural Committee. This was a much needed program for the U. S. farmer who had faced weather disasters over those two years and the agricultural industry of Michigan and U.S. thanks you.

Dry Beans and the government program: Dry beans have not been a program crop since the mid 1960's. We are beginning to ask why? Bean acres must compete for the same ground as soybeans and corn, both of which are eligible for Loan Deficiency Payments (LDP) with the minimum guaranteed price. Our dry bean competitors, Canada and China for example, do not have a LDP program, so the dry bean must only compete on the open market.

In August of 2001, you held a briefing in Grand Rapids where I discussed several areas that concerned the Michigan and United States dry bean industry. I will give you an update on some of those issues.

Export Enhancements: I discussed the strong U.S. dollar and how that was affecting our ability to compete for sales around the world with other countries. NO program was put into place to help us compete. Over the last two years, as the dollar strengthens even more, our sales ability continues to dwindle. Recently, the dollar has weakened, and while it has not weakened enough to make us competitive, it is at least going in the right direction.

Food and Education program inclusion: Non program crops (Specialty crops) start with some basic disadvantages. They have no government subsidies or payments. The opportunity to be included, AND USED, in the Kansas City Commodity Corporation (KCCC) purchases for food aid should be a given. Dry beans, of which several classes (navy and black beans) are in excess supply, have seen very little attention from KCCC. Lentils, which are in short supply for quality, continued to be used in large volumes this year. The market has virtually doubled from last year, and with the United States being one of the few "Quality" producers this year, why lentils were purchased over and over again begs an answer. Meanwhile, navy and black beans continue to be available at nearly half the price of lentils.

Open up existing markets: This is by far the most pressing single issue that Michigan and the United States Bean industries have presently. We have an existing agreement with Mexico (NAFTA) that is not being adhered to. Mexico has closed its borders to dry bean shipments, using an ever changing set of reasons to try to justify their actions. This is an illegal and unwarranted action that is really the result of unrest by the grower segment in Mexico. We would expect our government to take the lead in this issue and push for Mexico to fulfill their NAFTA requirements. At the same time, the import of Mexican beans into the United States continues to grow. From 2001 to 2002, imports of dry beans into the U.S. increased 156% during the period of January through November for both years. Mexico continues to have free access to the U.S. dry bean market at a time we are locked out of the Mexican bean market. We continue to have competitive disadvantages with this market as U.S. growers are subject to the rules and laws of Food Quality Protection Act (FQPA) and are limited in their use of crop inputs. Yet, even with the FQPA limiting those inputs, and with labor in the U.S. being at least 10 times higher than labor in Mexico, the U.S. grower is receiving 50% of what the Mexican bean grower is receiving for the same type beans. And bean growers in Mexico are eligible for crop assistance!

The Michigan Dry Bean Industry believes that farming and the production of food in this country is a national security issue. We must protect our agricultural industry in this country to insure that all U.S. citizens can continue to enjoy the inexpensive, high quality food that is available to them. Our agricultural industries across the United States can compete, but only if our competitors are made to follow the same rules.

The Michigan Bean Commission and the Michigan Growers it represents appreciate the opportunity to discuss these issues with you and again wants to thank you for your leadership in the disaster bill that was passed this year.

Thank you.

Best Regards,

Robert S. Green
Executive Director

Michigan Milk Producers Association

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May 12, 2003

The Honorable Debbie Stabenow
U.S. Senate
702 Hart Building
Washington, DC 20510

Dear Senator Stabenow:

In response to your request for input regarding the implementation of the 2002 Farm Bill, we are submitting the following observations of the various provisions:

1. **Extension of the dairy price support program at the current $9.90/cwt. for six years.** The dairy price support program is critical to the dairy industry especially during these current depressed economic times for dairy farmers. However, we urge that the CCC commodity purchase prices for cheese, butter and powder be adjusted to more accurately reflect the true cost of selling surplus product to the government. The current CCC purchase prices for dairy products do not reflect any additional costs beyond those for commercial sales. In the last few years there have been consistent occasions where the average block cheddar cheese price on the Chicago Mercantile Exchange has been below the CCC purchase price. This indicates that manufacturers have chosen to sell their surplus product at a lower price on the commercial market instead of choosing to sell surplus product to the CCC, which is the reverse of what the price support program was intended for when it was developed. The Farm Bill requires that the CCC price support purchase prices for dairy products "shall be sufficient to enable plants of average efficiency to pay producers, on average, a price that is not less than the rate of price support."

2. **Authorization for a new national Johne's disease control program.** This program will be beneficial to the dairy industry once it is fully funded. We appreciate the $22 million that was allocated to get the Johne's program underway. Since the amount allocated for the program is well below what was needed, we urge for the additional $27 million to be appropriated to properly fund the program.

3. **Promotion Assessment imposed on imported dairy products equivalent to what producers pay domestically.** This is a much-needed provision in the 2002 Farm Bill. However, we have not seen the import assessment levied yet and urge for the assessment to begin as soon as possible.

4. **Increased funding for the dairy and livestock producers through the Environmental Quality Incentives Program (EQIP).** This program will assist a larger number of producers in their environmental planning and implementation needs. Several of our members have indicated that there has been a long delay in the release of these funds. We urge that the EQIP funds be made available in a timely and efficient manner.

5. **Milk Income Loss Contract (MILC) program.** Because of the extremely low milk prices, these payments have been helpful to dairy producers.

6. **Extension of the Dairy Export Incentive Program (DEIP).** This program is greatly needed to assist the dairy industry in marketing our product internationally. We urge USDA to utilize this program to its full extent.

We appreciate your request for our input on the 2002 Farm Bill implementation. If you have any questions or need further information, please contact me or John Dilland at (248) 474-6672.

Sincerely,

Elwood Kirkpatrick

Elwood Kirkpatrick
President

MICHIGAN STATE
UNIVERSITY

12 May 2003

The Honorable Debbie Stabenow
702 Hart Senate Office Building
Washington, DC 20510

Dear Senator Stabenow:

I am writing in response to your request for comments concerning the impact of the current farm bill on the College of Veterinary Medicine at Michigan State University, as well as agriculture as a whole. I have referred back to the testimony I presented to the Senate Agricultural Committee Field Hearing in August of 2001 in Frankenmuth, Michigan. At that time, I pointed out the importance of increasing federal funding in agricultural research over the next five years. I proposed the goal of doubling the amount of funding during this time period. The current farm bill does not meet these goals.

The USDA competitive grants program, the National Research Initiative (NRI), has never been funded to the level originally planned by Congress and the USDA, and thus this program has failed to address the critical research needs of agriculture, which range from sociological issues to basic sciences.

It is critically important to fully reinstate the USDA Initiative for Future Agricultural and Food Systems. This program served a major role in establishing a collaborative culture to address the needs of agriculture in the United States. The strength of this program was the establishment of collaborative multistate, multi-institutional, and multidisciplinary approaches to addressing critical need areas in agriculture.

USDA Formula Funds, in particular the Animal Health Formula Funds (1433), have been an important mechanism to address emerging disease and welfare issues related to food-producing animals. Failure to increase funding for this program has resulted in a very limited means to address these important developing animal health issues.

In summary, the College of Veterinary Medicine at Michigan State University appreciates the support given by the Senate Agriculture Committee for agricultural-based research. However, failure to increase the federal support for food and agricultural research will result in profound losses broadly across society. I encourage the Senate Agriculture Committee to double the federal funding in support of agriculture research as the current farm bill and federal budgets are being re-examined.

Sincerely,

Lonnie J. King

Lonnie J. King
Dean

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MSU is an affirmative-action, equal-opportunity institution.

MICHIGAN STATE
UNIVERSITY

May 9, 2003

Honorable Senator Stabenow
702 Hart Senate Building
Washington DC 20510-2204

Dear Senator Stabenow,

In response to your request concerning the impact of the current Farm Bill on the Michigan Agricultural Experiment Station (MAES), I have gone back to my testimony on August 13, 2001 at the Senate Agricultural Committee Field Hearing in Grand Rapids, Michigan where I stressed the critical national need to double the federal investments in food and agricultural research over the next five years. This message was consistent with those of several national organizations such as National C-FAR and Experiment Station Committee on Operations and Procedures. Unfortunately, the current Farm Bill has resulted in a mixture of modest successes and deep disappointments in achieving this goal.

The USDA National Research Initiative (NRI) which is the Department of Agriculture's competitive research grant program that addresses critical agriculturally related societal issues through advances in fundamental science has received a modest increase in funds but continues to be under funded in comparison to peer federal research programs. The focus of the NRI is unfortunately narrow as the result of the lack of adequate funding.

The USDA Initiative for Future Agriculture and Food Systems (IFAFS) that encouraged multistate, multi-institutional, and multidisciplinary approaches to addressing agricultural issues in a manner that ensured integration of research, teaching, and extension programs in partnership with industry leaders has been essentially discontinued. This program served a critical role in establishing a collaborative culture of addressing agricultural issues on a regional basis ensuring that producers and processors of agricultural products and commodities assimilated research advances in to their daily operations.

The USDA formula funds, such as Hatch, Smith-Lever, MacIntire-Stennis, and Animal Health appropriations, have remained constant. Thus, the value of these limited funds continues to be eroded in real dollars as the value of the dollar decreases and the cost of research operations increases.

In summary, the Michigan Agricultural Experiment Station is appreciative of the investments the Senate Agricultural Committee has made in food and agricultural research. However, the cost of missed opportunities and economic, environmental and social losses to agricultural industries and related communities is high as a result of under funding food and agricultural research. Combined, these costs are limiting the potential

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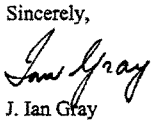
of our nation and continue to leave agriculturally related industries and communities the most vulnerable in our country. I encourage the Senate Agriculture Committee to take efforts to double the federal investments in food and agricultural research as you consider future adjustments to the current Farm Bill and federal budgets.

Please contact me if I can be of further assistance to you in your efforts to support Michigan agriculture and citizens.

Sincerely,



J. Ian Gray
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cc: Kim Love
Howard Gobstein
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May 12, 2003

The Honorable Debbie A. Stabenow
United States Senate
702 Hart Senate Office Building
Washington, DC 20510

Dear Senator Stabenow:

On behalf of the Michigan Corn Growers Association, I appreciate this opportunity to share with you our perspective on the U.S. Department of Agriculture's (USDA) implementation of the new Farm Bill. Recalling that the Farm Security and Rural Investment Act was enacted just one year ago, we first want to recognize the tremendous efforts of our Farm Service Agency (FSA) employees who have worked diligently to provide producers as timely assistance as possible. Despite the new farm safety net's complexity and in some cases, insufficient staffing, our FSA county offices have successfully processed producers' sign-up for the direct and counter cyclical payment program. And while some producers were unable to complete sign-up before the April 1st deadline, we are pleased to report that producers with prior appointments are being accommodated.

Although many of the concerns expressed by the Michigan Corn Growers Association regarding the initial regulations and policy guidelines have been addressed by the FSA, some questions remain on implementation of the direct and counter cyclical payment program. Because of some inconsistency between states on the production evidence required by FSA offices during the sign-up process, producers are interested in having greater clarification on the records that will be acceptable for audits. Moreover, we would like to know how the Department determined that crop insurance records would be valid only when crop losses occurred. Our producers are hopeful that some farmer-friendly policy changes can be adopted with the implementation of this Farm Bill that cannot only ensure more consistency between FSA farm records and crop insurance policies, but also enhance greater integrity in the federal crop insurance program.

In addition, we have received reports from a number of our members who have experienced delays in the processing of checks for program benefits, direct payments in particular, following the completion of their sign-up for the Farm Bill. Given the financial difficulty that many Michigan farmers confront today in this transition to the new farm programs, we urge the FSA to ensure these payments are made as promptly as possible.

USDA has also moved forward with significant adjustments to the marketing loan program, more specifically, county loan rates to address disparities across state and county lines. While progress has been made, we believe that USDA's calculations of posted county prices for loan deficiency payments still require some adjustments to better reflect local markets. One example is changes in the market that reflect flows of grain to the new ethanol plants coming on line throughout the Midwest.

One of Congress' signature achievements in the new Farm Bill is the investment in innovative conservation programs, including the Environmental Quality Incentives Program. Implementing (EQIP) initiatives in a balanced manner will require sound oversight and effective communication with interested stakeholders. As one example, Michigan's EQIP program places a high priority on protection of wildlife. While this is one of several objectives for EQIP, the program is being implemented in such a way that farmers are having to compete against their non-farming neighbors and losing.

Farmers are finding that their needs, especially if they have livestock, do not qualify for assistance. This is especially troubling to corn growers since the proposed EQIP rule NRCS appears to be ready to take EQIP one step farther—to promoting at-risk species recovery as a national priority. Corn growers support the protection of threatened and endangered species, but they do not believe it should be a national priority. Endangered species protection, while potentially a side benefit of EQIP, is a separate and distinct activity. EQIP was not created for endangered species protection, but for farmers to help address environmental concerns on their farms. Corn growers are very concerned EQIP may be hijacked as a funding source for endangered species protection.

Finally, USDA established the CCC Bioenergy Program in FY01. Under the program, the Secretary makes payments to eligible bioenergy producers to encourage increased purchases of agricultural commodities for the purpose of expanding production of bioenergy (i.e., ethanol) and encourage construction of new production capacity. The 2002 Farm Bill continued the program through FY06, providing $150 million annually.

This program has encouraged the increased production of bioenergy and the construction of new production capacity. Profitability is difficult in the first year of production for any company, and the margins in the first few years of production for new ethanol facilities are exceedingly tight. This key program provides valuable financial assistance to ensure the success of these companies, most of which are farmer-owned.

MCGA has become aware that this program may be used as an offset by the Administration. We believe this is the wrong time to transform this program into one that undermines producers' ability to add value to their corn. It is imperative that we maintain our commitments to producers if we expect to further develop additional bioenergy projects and the accompanying economic development opportunities in our rural communities in Michigan.

We appreciate your leadership and strong commitment to production agriculture. MCGA looks forward to continuing to work with you as the U.S. Department of Agriculture progresses toward full implementation of the 2002 Farm Bill.

If you have any questions, please contact me at 517-323-6600.

Sincerely,

Jody E. Pollok

Jody E. Pollok
Executive Director

Implementation of the 2002 Farm Bill

United States Senate

Committee on Agriculture, Nutrition and Forestry

14 May 2003

Written testimony submitted by:

CENTER FOR CIVIL JUSTICE
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Fighting poverty through advocacy, education, and empowerment.

Introduction

The Center for Civil Justice is a nonprofit law firm located in Saginaw, Michigan. CCJ provides legal representation to low-income clients in 14 counties of Eastern Michigan and technical assistance to human services organizations that serve these clients. CCJ also conducts anti-hunger education and advocacy work across Michigan. In January 2003, CCJ completed a two-year, USDA-funded research project to test different models for increasing access to Food Stamps. Through this project, CCJ developed a Food Stamp hotline that was tested first in six Michigan counties. Based on the success of its hotline in the six test counties, CCJ received USDA funding to operate the hotline statewide through a sub-grant from Michigan State University Cooperative Extension's Food and Nutrition Program. Over the past few years, our staff has talked about Food Stamps with thousands of low-income persons. CCJ also maintains a Food Stamp information website that includes a calculator which individuals can use to receive an estimate of their eligibility for Food Stamps. [1] CCJ closely followed the Food Stamp Reauthorization process and testified at Senator Stabenow's field hearing prior to the passage of the 2002 Farm Bill. We thank you for this opportunity to comment on the implementation of the bill.

USDA's Food and Nutrition Service has provided very complete and timely guidance to states regarding the implementation of the 2002 Farm Bill. In addition, we have been very pleased with FNS's inclusion of advocacy groups in the implementation process through regional meetings that include both state Food Stamp agencies and advocates. These types of strategies for participation help state agencies and advocates to build working relationships, which in turn can improve the effectiveness and implementation of state options in the Food Stamp program.

The 2002 Farm Bill includes some provisions that states are required to implement, along with a number of state options. The Farm Bill also made important changes to the Quality Control (QC) system. The previous QC system measured states' error rates against the national average and penalized states whose error rates exceeded the average. Michigan, along with many other states, incurred millions of dollars of fines under this system. As a result, the financial risk of increasing its error rate - even temporarily - severely limited Michigan's ability to innovate. The reformed QC system, by contrast, will warn states that have error rates above the national average for two years. The system will financially penalize only those states that have high error rates for three years consecutively. This new system will reduce the risk of innovating and will allow more states to adopt the positive options that the bill makes available to the states.

We are very pleased with the impact that the provisions in the 2002 Farm Bill are likely to have on the Food Stamp program. The impacts can be divided into three categories: those that

[1] The website address is www.foodstamphelp.org.

improve access to the Food Stamp program; those that simplify states' administration of the program; and those that improve the benefits of Food Stamps to families.

Provisions that improve access to the Food Stamp program

The 2002 Farm Bill requires states to make their applications for Food Stamps available online by November 2003. Although the legislation only requires states to make the application printable, many states are taking this opportunity to develop interactive applications that individuals can complete online, and some states have even looked into allowing individuals to submit the application electronically. Michigan, for example, plans to post an application on its website that individuals can fill out electronically, print, then mail to the Family Independence Agency (FIA). An online application will make applying for Food Stamps more convenient for individuals who visit public libraries, for parents who are attending classes while working, and for other individuals who have access to the Internet. On-line applications will also protect the privacy of the application process, which can be especially important to people who have never sought assistance in the past, like workers who have recently lost hours or been laid off.

The 2002 Farm Bill also allows states to simplify the reporting requirements for Food Stamp recipients. Under this "Simplified Reporting" option, states are allowed to certify households for up to six months, while requiring these households to report only if their income exceeds 130 percent of the poverty level. Prior to the passage of the 2002 Farm Bill, states could implement Simplified Reporting only for households that had earned income. The Farm Bill allows states to offer Simplified Reporting to households that do not have earned income, such as those who have unemployment benefits, child support, work-related disability benefits, etc. Michigan adopted Simplified Reporting for households with earned income in August 2001 and plans to expand to households without earned income during fiscal year 2004. This option has reduced the paperwork burden on households and caseworkers alike. Because households are not required to report most changes during their six-month certification period, caseworkers are not required to act on any changes. This reduces the potential for errors. In February, USDA reported that 26 states had implemented Simplified Reporting and that 19 states were seriously considering implementing Simplified Reporting. Clearly states are interested in simplifying the reporting requirements for Food Stamp applicants and improving access to the program.

Provisions that simplify state administration of the Food Stamp program

The 2002 Farm Bill includes many optional provisions that would simplify the administration of the Food Stamp program for states. All of these provisions can reduce a state's potential for error, and some allow states to align aspects of their Food Stamp programs with other assistance programs they administer. These options are significant because they allow states to tailor their own simplification plans. By mixing and matching these options, states determine to what extent they simplify their programs as well as which aspects of their programs are affected.

States may choose to simplify their programs by freezing certain deductions between certification periods, which would reduce the potential for errors by reducing reporting requirements between certification periods. States may also implement a Simplified Utility Allowance. Along with many other states, Michigan implemented a Simplified Utility Allowance prior to the 2002 Farm Bill. The Farm Bill takes the Simplified Utility Allowance one step further by removing the requirement that states pro-rate the utility allowance for households that share utility expenses. Michigan has implemented this option, which has further reduced the paperwork burden on both applicants and caseworkers.

Two other simplification options allow states to align aspects of their Food Stamp programs with other assistance programs they administer. First, states may exclude certain types of income for Food Stamp purposes that are not counted for other assistance programs, like Medicaid and Temporary Assistance to Needy Families (TANF). Michigan already has a waiver in place to exclude certain types of income to align the treatment of income across programs, and this alignment has simplified the Food Stamp program for caseworkers. We are pleased that this simplification option is now available to states more broadly, without requiring a waiver.

The 2002 Farm Bill also gives states the option to align certain aspects of their resource (asset) policies in the Food Stamp program with those of other assistance programs. Michigan will not adopt this option since the state implemented the Categorical Eligibility option in July 2000, which makes virtually all applicants for Food Stamps exempt from asset requirements. Categorical Eligibility has been extremely beneficial to Michigan by simplifying the eligibility determination process and improving access to the Food Stamp program. Categorical Eligibility has been especially helpful to Michigan's low-income working families and those who are temporarily between jobs. These households previously were unable to receive Food Stamps if they had purchased more reliable (but more expensive) vehicles to make sure they could get to their jobs. Although the resource simplification option in the Farm Bill does not apply to vehicles, any options that allow states to ease up on asset policies improve the program and indicate progress toward meeting the food needs of all low-income families, including the working poor.

Provisions that improve the Food Stamp program for families

By requiring states to restructure the Standard Deduction from income to account for household size, the 2002 Farm Bill improves the Food Stamp program by more accurately reflecting families' true financial circumstances. In addition, the Farm Bill increases the resource limit for households that include a disabled person to make that limit consistent with the limit for households that include an elderly person. This change also improves the program by recognizing the higher financial needs of persons with disabilities.

One of the most significant provisions of the Farm Bill requires states to restore Food Stamp eligibility to certain legal immigrants. In addition to supporting legal immigrants who are in

financial need, this change will improve access to Food Stamps for citizen children who live with their noncitizen parents. Although these citizen children have always been allowed to receive Food Stamps, their noncitizen parents may be more likely to apply for assistance when the difference in treatment of immigrants versus citizens is reduced in the Food Stamp program.

Some additional state options in the Farm Bill that can help states to improve the Food Stamp program for families include:

- The Simplified Homeless Shelter Deduction, which allows states to give homeless households a flat shelter deduction upon verification that they incur shelter expenses rather than requiring verification of the households actual expenses, which inevitably vary for homeless families;
- The Child Support Income Exclusion, which would make some non-custodial parents eligible for Food Stamps when they might not otherwise qualify and would support responsible parents; and
- Transitional Food Stamps, which allows states to offer additional support to families making the transition from welfare to work.

Conclusion

In addition to improving access to Food Stamps and reducing administrative burdens on states, the 2002 Farm Bill also increased each state's ability to craft a Food Stamp program that both meets the needs in that state, and that makes administrative sense for the state's Food Stamp agency. Further, the Farm Bill managed to make these improvements to the program and increase state flexibility while maintaining the integrity of this basic entitlement program that responds to changes in demand for services.

Since the Farm Bill was signed into law in May 2002, FNS has been providing states with excellent support and guidance throughout the implementation process, which appears to be going smoothly thus far. Because most states are still in the process of implementing the various provisions of the 2002 Farm Bill, the full impacts and benefits of the legislation will not be evident for several years. We are confident, however, that the mandatory provisions and the state options of the 2002 Farm Bill have the potential to improve the Food Stamp program significantly.

Respectfully submitted by:

Cate Beekman
Policy Analyst

4966 South Broadway Hastings, MI 49058 (616) 945-4775

May 9, 2003

The Honorable Debbie A. Stabenow
United States Senate
Washington, DC 20510

Dear Senator Stabenow:

As a member of the Senate Agriculture Committee with oversight responsibilities over the activities of the United States Department of Agriculture (USDA) you will have the opportunity during the coming days to discuss the policy agenda of the department with Secretary Veneman and other high ranking USDA officials. On behalf of the farmer and rancher members of the Michigan Farmers Union I suggest that as part of these discussions you seek information concerning the following issues.

2002 Farm Bill –

The farm bill was signed into law nearly a year ago, however key conservation provisions, such as the Conservation Security Program, that are of great interest to Michigan farmers who are less reliant on traditional farm program crop supports, have yet to be implemented.

When will producers be able to avail themselves of this important conservation initiative for working farms?

Will adequate funding be available to provide the level of incentives proposed by the program sponsors?

Dairy –

The farm bill provided for counter-cyclical economic assistance for dairy through the Market Income Loss Contract program. However, dairy prices and total returns to diary farmers are extremely depressed while imports of dairy products and in particular dairy proteins, such as Milk Protein Concentrates, are increasingly displacing domestic production in the marketplace and driving U.S. producers out of business.

What actions are being undertaken by USDA and the administration to stabilize and improve the dairy production sector of agriculture?

Risk Management/Disaster Assistance –

As a result of adverse weather, many Michigan specialty crop producers have suffered production and quality losses to their fruit and vegetable crops in recent years.

When will those eligible for disaster payments be receiving the assistance provided in the appropriations act?

The Agricultural Risk Protection Act of 2000 (ARPA) promised specialty crop producers that new risk management programs would become available for those crops in all regions of the country and that the crop insurance delivery system would be improved for producers in the many under-served regions of the country.

What progress has USDA made in fulfilling the commitments of ARPA in terms of program expansion and delivery for specialty crop producers?

Genetically Modified Organisms –

USDA has been generally supportive of the introduction of genetically modified crops once they have been cleared by the appropriate regulatory authorities. Without offering an opinion as to the individual producer value of these crops, their introduction poses significant market and liability problems for those who choose not to raise GMO crops. Currently it appears that non-GMO producers are being forced to take the responsibility for losses suffered do to the actions of others.

What action is USDA taking to ensure producers who choose to producer non-GMO crops, including the rapidly expanding organic food production sector, that their production will not be contaminated by cross-pollination, co-mingling, or contaminated storage and transportation systems?

How effective are the regulatory and voluntary protocols that apply to the research and development of GMO crops, particularly in the case of field trials, in guaranteeing that other crops or production systems are not contaminated?

What is USDA's role in ensuring market acceptance of GMO crops prior to allowing their commercial production in the U.S.?

Section 32-

Food purchases and distribution under Section 32 are extremely important to fruit and vegetable producers. Last year USDA transferred millions of dollars dedicated to this program in order to fund its livestock compensation program. This potentially harms producers, but more importantly puts the individuals in the country who are most in need at a far greater risk of being unable to provide an adequate diet for themselves and their families if Section 32 funding falls short of the needs.

What is the status of the Section 32 funding account?

Will USDA be able to maintain and during this time of great economic stress, enhance the nutrition assistance provided under this program with the available funds?

On behalf of the Michigan Farmers Union, I thank you for your attention to these issues and for your strong support of Michigan's farm families in addressing the many production, economic and market challenges we face.

Sincerely,

Carl McIlvain
President

May 12, 2003

The Honorable Debbie Stabenow
United States Senate
Washington D.C. 20010

Dear Senator Stabenow:

Michigan Farm Bureau offers the following comments as an update on how our members perceive the implementation of the farm bill progressing.

As of today, 82.23 percent of the eligible farms in Michigan have completed sign-up, compared to 94.16 nationwide. Most farmers have reported that it has taken a minimum of three trips to the local FSA office to get all the necessary paperwork in order. Initially, the paperwork needed for power of attorney did delay many producers from getting their sign-up completed quicker. Additionally, we have heard concerns as well about workload of county staff and the delays in processing the advanced direct payment.

Michigan Farm Bureau was unaware that the legislation called for an annual sign-up. There is concern about the effect this will have on traditional fruit and vegetable producers who view the fruit and vegetable planting restriction as their primary benefit from the legislation. We believe there is plenty of planting flexibility already built-in the legislation, and an annual sign up will only further reduce the protection provided to the fruit and vegetable industry as traditional producers may attempt to enter the market.

The Milk Income Loss Contract (MILC) program has proved to provide necessary economic stability for some dairy producers. The volume limit, however, does discriminate against those producers who are struggling from the same low prices by disproportionately reducing their support. We support continuation of this program and removal of the volume cap

There continues to be significant confusion by producers over what will be the available funding for conservation programs. The farm bill allowed 75 percent cost share on conservation programs yet USDA is urging only a 50 percent cost share.

Current regulations regarding EQIP have caused additional concerns. Currently, USDA is requiring that any practice that exceeds 50 percent cost share must be signed off by the state conservationist. In addition, any practice over $100,000 must be signed off at the regional level. There is concern over the delay and backlog this additional clearance may take. Michigan alone had over 200 applications that represented $6.8 billion in FY 2002. In FY 2003, there is already a $9 million backlog. This indicates that the farm bill is working as it was intended, and participation in conservation programs is growing. However, USDA must be able to deliver in a timely fashion.

The quality of technical service providers is also a concern, given the new regulation from USDA that took the certification power away from the states. The Michigan NRCS has developed a rigid set of

guidelines that will ensure the quality of technical service providers. With the new USDA interpretation, however, it will now be significantly easier for someone to become certified, which poses many concerns for producers about expertise level and potential liability issues.

In one additional area of the Conservation Title, producers are skeptical about the government's commitment to the Conservation Security Program as a long term entitlement program. With recent funding cuts, it is now being promoted only as a pilot program that will only serve a select few.

We do complement USDA and specifically FSA for their use of technology and the internet to communicate important information, deadlines and changes to programs. Their willingness to work cooperatively with the industry sectors and the Extension Service has eased the transition period and greatly enhanced the initial implementation stages.

USDA should also be complemented on the implementation and distribution of AMLAP III, the apple market loss assistance program authorized by the farm bill. The sign-up and distribution of funds was completed in an orderly and timely manner.

Lastly, Michigan Farm Bureau has received many positive comments regarding the minimum level of funding for supplemental commodity purchases by USDA. This is an important provision for a state like Michigan that has so many crops that are not covered by the farm bill. This will continue to be a critical program that needs to be funded and utilized to its maximum extent.

Thank you for the opportunity to provide some feedback on the progress of the implementation of the Farm Security and Rural Investment Act in Michigan.

Sincerely,

Sarah A. Black
National Legislative Counsel

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517-318-2290 (ph) www.farmcredit.com

May 12, 2003

Honorable Debbie Stabenow
United States Senate
Washington, D.C., 20515

Dear Senator Stabenow,

Thank you for the opportunity to present testimony regarding implementation of the 2002 Farm Bill, particularly the credit title.

GreenStone Farm Credit Services is a lender and provider of financial services, serving rural America and part of the farm credit system. We serve 15,500 customers in the State of Michigan and 11 counties in Northeast Wisconsin with a loan volume exceeding 2.6 billion dollars. Financial services include AgriSolutions products (farm accounting, farm software, tax consulting, tax preparation, farm business consulting), risk management insurance products including life and crop insurance, and agricultural and rural appraisals.

My comments will cover a few general items and then discuss further the credit title and rural development.

General Comments

Overall, implementation of the 2002 farm bill has gone pretty well considering the size of the legislation and the short timeframe that USDA had to write the rules. The biggest hurdle was getting producers into the FSA offices to update their base acres and yields. That was perhaps the most confusing part of the process to date but now that the deadline has passed USDA can move forward with implementing the rest of the farm bill. One thing that has seemed to work is that direct and counter-cyclical payments have been made without much of a hitch.

Credit Title

The Credit Title primarily reauthorizes United States Department of Agriculture (USDA) farm lending programs and provides greater access to USDA farm credit programs for young, beginning and socially disadvantaged farmers. There are also a number of Farm Credit and USDA Farm Service Agency (FSA) provisions that are of interest to the Farm Credit System (FCS) and GreenStone FCS.

There are essentially three provisions under this title that directly impact FCS. The territorial concurrence requirement for all System lenders purchasing participations in loans to similar entities is eliminated, the Farm Credit System Insurance Corporation is authorized to lower premiums on loans guaranteed by another Government Sponsored Enterprise, and the requirement that export sales of farm machinery and other farm-related products financed by CoBank to be used "on farm" is removed.

There are also a number of FSA-related provisions that are of interest to the Farm Credit System and GreenStone FCS. Authorization levels for FSA loans and guarantees are set at up to $3.796 billion annually for FY 2002-2007, with $770 million for direct loans and $3.026 billion for guaranteed loans.

A fair number of other changes have also been included in the new farm bill. For example, the limit on "low documentation" guarantee loans is increased from $50,000 to $125,000 and an authorization of not less than $750 million per year through 2011 is included for reduction of interest rates on FSA guaranteed loans by 3% and 4% for beginning farmers and ranchers. Not less than 15% of such financing is to be received for beginning farmers until March 1st of each fiscal year.

In addition, eligibility for FSA loans is redefined. Previously, a person was required to "operate" a farm or ranch for at least three years. Under the new legislation, persons who have "participated in the business operations of a farm" are eligible. It expands eligibility for emergency loans to include plant or animal quarantines and it extends USDA loan eligibility to trusts and limited liability companies engaged in the farming and that are controlled by farmers. Other FSA provisions of interest to Farm Credit borrowers, directors and managers include:

Allowing USDA to make direct operating loans to "beginning farmers" who have operated a farm for more than five years.

Allowing a one time waiver of two years for a beginning farmer receiving a direct operating loan.

Reserving 35% of loans for beginning farmers for FY 2002-2007.

Allowing USDA to guarantee loans made under state beginning farm programs.

Increasing the amount USDA can lend beginning farmers for down payments on farm ownership loans from 30% to 40% of the farm's value and extending the maturity of such loans from 10 to 15 years.

Authorizing USDA to refinance a bridge loan made by FCS or a commercial lender to a borrower who has been approved for a direct FSA ownership loan, but for which funds are unavailable.

Suspending from FY 2002 to FY 2006 the requirement that a FSA borrower must graduate to commercial sources of credit after 15 years.

Deleting USDA's authority to contract with private entities to collect or service loans.

Extending eligibility for FSA operating loans to a borrower who has received debt forgiveness on not more than one occasion that was directly and primarily a consequence of a natural disaster (as designated by the President).

Allowing for Socially Disadvantaged Loan Funds not used within a state to become available to other states and then reallocated within the state.

In considering the magnitude of the changes and the amount of the legislative activity, we consider the implementation of all of these items progressing well.

Rural Development

Of special interest in the Rural Development Title are provisions which create the Rural Business Investment Program for the purpose of encouraging "developmental venture capital investments in smaller enterprises primarily located in rural areas." To accomplish this objective, USDA is authorized to enter into agreements with Rural Business Investment Companies (RBICs). RBICs are for-profit equity investment entities approved by USDA to carry out the purposes of the program.

GreenStone FCS, and other lenders are authorized to establish or invest in RBICs. Investments are limited to 5% of a lender's capital and surplus. However, when one or more FCS institutions holds more than 15% of the voting stock in a rural business investment company, the RBIC is prohibited from providing equity investments or other financial assistance to any entity not otherwise eligible to receive financing from the FCS.

USDA is authorized to guarantee up to $280 million in RBIC debentures for terms up to 15 years and for up to 300% of the company's private capital. The legislation also provides the Department of Agriculture with $44 million to make grants of up to $1 million to RBICs to provide technical assistance to businesses in which they invest.

An issue of note regarding RBIC's is that the rule writing process for this portion has been slow at best so anything you can do to move the process along would be appreciated by GreenStone and the Farm Credit System.

Overall, the 2002 farm bill provides stability for America's farmers and the lending community. We urge your continued support and ask that Congress not change the rules "mid-stream" via the appropriations process. We ask you to be a continuous advocate.

Thank you for the opportunity to discuss the implementation of the 2002 Farm Bill. Please feel free to contact me if you have questions or would like to discuss my views in further detail. (517-318-2290 –e-mail address, Jschill@greenstonefcs.com)

Very truly yours,

James F. Schiller
Chief Executive Officer

cc: Dave Armstrong, Senior Vice President

Committee on Agriculture, Nutrition and Forestry
United States Senate

Statement Regarding Implementation of Farm Bill Programs

By

Sam Hines
Executive Vice President
Michigan Pork Producers Association

Michigan Pork Producers Association (MPPA) is pleased to submit this brief statement regarding the implementation of Farm Bill programs.

MPPA represents Michigan's 3,000 pork producers and pork producers are particularly interested in the conservation provisions of the Bill. In that respect, MPPA was pleased with the United States Department of Agriculture's (USDA) announcement on April 22 that $1.8 billion in conservation funds had been released. MPPA looks forward to working with USDA officials in getting these program dollars on the ground. The $1.8 billion released through USDA's Natural Resources Conservation Service (NRCS) will help pork producers with conservation planning and voluntary conservation programs, such as the Environmental Quality Incentive Program (EQIP). These conservation dollars will help producers comply with mounting environmental regulations at local, state and federal levels.

MPPA has been actively involved as a member of the State Technical Committee in developing recommendations to NRCS for administering the EQIP program and the other Conservation Title Programs. MPPA has been represented on the Michigan Technical Committee since its inception following the 1995 Farm Bill. MPPA is pleased this body was formed as it provides an excellent vehicle for input on the Conversation Title Programs.

Currently, the greatest concern expressed by pork producers regarding the implementation of Conservation Title Programs is the confusion that appears to exist among county NRCS and Farm Service Agency Offices on the provisions of the EQIP program. It is hoped that once the final rule is issued this confusion will be clarified.

MPPA would like to covey its support for the establishment of the Technical Service Provider (TSP) Program. The Farm Security and Rural Investment Act of 2002 allowed NRCS to establish a national program for certifying individuals and organizations to provide the additional technical assistance needed to carry out the Farm Bill programs. Although the TSP program needs some refinements regarding the establishment of qualifications and credentials of TSP providers, the concept is good and utilization of qualified TSP providers will be imperative in addressing the Farm Bill workload.

MPPA appreciated the opportunity to offer this brief statement on the implementation of the Farm Bill's Conservation Title Programs. MPPA limited its comments to Conservation Title Programs as this is the area of paramount interest to pork producers.

In summary, pork producers are pleased that dollars have been released for conservation programs and, in general, are supportive of the greater scope and comprehensiveness of the Farm Bill's conservation programs. Hopefully, the confusion among county offices regarding the provisions of the EQIP program will be eliminated when the Final Rule is released.

May 8, 2003

The Honorable Debbie Stabenow
United States Senate
702 Hart Building
Washington, D.C. 20510

Dear Senator Stabenow:

On behalf of Michigan sugarbeet and our processors, I would like to take this opportunity to thank you for your past and continued support of our industry. This industry is vital to over 2,100 farm families who produce more than 180,000 acres of sugarbeets that are processed by five processing facilities in Caro, Carrollton, Croswell, and Sebewing (Michigan Sugar Company) and Bay City (Monitor Sugar Company). It is also extremely important to the almost 30,000 jobs that rely on our industry in Michigan.

I would also like to thank you for the opportunity to comment on the implementation of the sugar policy in the 2002 Farm Bill.

1. We believe that the sugar program is working well.

2 The domestic sugar market is back in balance.

3 Prices for growers have started to recover.

4. We have domestic marketing allocations in place to keep the market in balance, avoid forfeitures, and comply with the United States commitments under the WTO and NAFTA agreements. The cost of storing excess production has been shifted from the government to the industry. When allotments are in place, processors who have expanded marketings in excess of the rate of growth in domestic sugar demand will have to postpone sale of some sugar, and either store it at their own expense or sell it for other than domestic food use.

5. The non-recourse loan program allows our processors to pay their growers and sell into the market on a timely basis.

6. The no-cost provision directs the Secretary to operate the policy, to the maximum extent practicable, at no cost to the U.S. Treasury by avoiding sugar loan forfeitures and by imposing limits on marketings. This relates to producers getting their income from the marketplace.

7. Marketing assessments were eliminated. This special tax on sugar producers was costing producers about $40 million per year, and its elimination in the 2002 Farm Bill removed an economic burden for our growers.

8. The sugar program allows our consumers to have a reliable supply of sugar at prices that are 22% lower than most developed countries around the world.

We still have some issues of concern however:

1. During the Farm Bill deliberations, the Industry sought to eliminate the 100-point surcharge on sugar loans, and the language to do so was included in the Farm Bill. USDA, however, interprets it to be discretionary, and has not implemented it. The Industry continues to ask to Secretary Veneman to resolve this **issue.**

2. Trade agreements pose the greatest threat to our industry and our policy at this time. At a time when the President and the Congress want to forge ahead with new trade initiatives, our producers are still feeling the effects from the unresolved problems of current agreements, such as our sweetener dispute with Mexico. Our industry continues to work aggressively to work with USTR and Mexico to work out a balanced resolution.

3. To achieve a proper supply and demand balance in the market, the government must not oversupply the market by granting access beyond our domestic consumption needs, either through annual import allocations or commitments in future negotiated trade agreements.

4. Sugar is a global commodity and it should not be negotiated in bilateral or regional trade agreements. Sugar should be dealt with in the World Trade Organization, where transparent and non-transparent trade-distorting practices and subsidies can be dealt with multilaterally.

As a family farmer, I want to take the opportunity to thank you again for your continued support, and I look forward to working with you in the future.

Sincerely

Ray VanDriessche
Executive Director
Monitor Sugar Beet Growers Assn.
1470 S. Scheurman Rd.
Bay City, Michigan 48708

SENATOR DEBBIE STABENOW
OPENING STATEMENT
U.S. Senate Committee on Agriculture, Nutrition and Forestry
May 14, 2003
Hearing on Implementation of the Farm Bill

Chairman Cochran and Senator Lugar, thank you for convening today's hearing on the implementation of the Farm Bill. This is the second such hearing, and I imagine it is not the last on this topic. I welcome Secretary Veneman to the committee as our lone witness. I commend her for her fine work in progressing forward on the implementation of the Farm Bill.

In preparation for today's hearing, I took the opportunity to make contact with the witnesses who testified at field hearings I convened on the Farm Bill in Michigan back in the summer of 2001. These were the first field hearings of the Senate Agriculture Committee held in Michigan in 86 years. The witnesses provided excellent testimony on behalf of my state's very diverse agricultural economy and contributed greatly to the work I did on the Farm Bill. At the field hearings we had folks representing dairy producers, fruit and vegetable growers, agricultural research, conservation interests, food stamp recipients, corn growers, and many other interests testify. Over the past week, most of the witnesses were able to provide me with comments on the implementation of the Farm Bill programs they helped shape through their testimony at the field hearings. I value their input now as I did then, and I ask that all of the recent letters and testimony I have received from the field hearing witnesses be included in today's committee record.

Before I share some of the highlights from their comments, I would like to raise one issue that I have discussed with the

Agency's decision to use the account to provide livestock assistance last fall.

I heard from Dr. Lonnie King, Dean of the School of Vetenary Medicine at Michigan State University (MSU) and Dr. Ian Gray, Director of the Agriculture Experiment Station at MSU. Both expressed regret that more mandatory funding was not provided for research. While our great land grant institutions are able to continue their mission with the passage of the Farm Bill, both esteemed men argued that we need to begin thinking about replicating the investment made in the National Institutes of Health for agriculture research as well. In short, our nation should consider doubling its investment in agriculture research.

Many of the contributors expressed dismay with the slow the advancement of conservation programs. Sam Hines of the Michigan Pork Producers, Jody Pollack of the Michigan Corn Growers, Sarah Black of the Michigan Farm Bureau, Carl McIlvain of the Michigan Farmer's Union, and Elwood Kirkpatrick of the Michigan Milk Producers all shared a common concern with technical aspects of EQIP. More importantly, however, they all conveyed concern that USDA is seemingly preventing full implementation of the Conservation Security Program. I strongly supported the creation of CSP, as it will benefit all growers and producers in Michigan, but I share the concerns expressed by the witnesses that USDA is not committed to implementing this program according to Congressional intent. Sarah Black of the Michigan Farm Bureau expresses in her letter to me that because of delays at USDA, "producers are skeptical about the government's commitment to the Conservation Security Program...."

On a more positive note, the Michigan Farm Bureau and Michigan Milk Producers praised the quick implementation of the Milk Income Loss Contract (MILC) program and asserted it has

provided necessary economic stability for dairy producers who, as we know, are currently suffering from very low prices.

The credit title of the Farm Bill expanded access particularly for minority and new farmers and Jim Schiller, the CEO of GreenStone Farm Credit Services, praised the title and its implementation for providing more stability for our nation's farmers and for the lending community. He urged Congress not to make any changes to disrupt our success between now and the next Farm Bill. Finally, Mr. Schiller expressed a concern that the rule for the Rural Business Investment Program has been slow and encourages the Agency to propose one soon.

Bob Green, Director of the Michigan Bean Commission, reiterated his testimony from the field hearing that dry beans benefit from few USDA programs. After his growers suffered two bad years marked by record natural disasters and continued trade problems, particularly with Mexico, Mr. Green has sent an early signal that the bean industry may be asking for far more assistance in the next Farm Bill. He expressed another concern that I want to raise with USDA and investigate further. While lentils have been in short supply, USDA has been making significant purchases of this commodity. In contrast, navy and dry beans are available at half the price and are not being purchased in sufficient quantities.

Ray Van Driessche, Executive Director of the Monitor Sugar Beet Growers Association, asserted that overall the sugar program, as updated by the Farm Bill, is working well. He states that the domestic sugar market is back in balance and thanked Congress in particular for eliminating market assessments that were costing sugar producers $40 million per year. Sugar growers do take issue, however, with the Agency's decision to view Farm Bill language eliminating the 100 point surcharge on sugar loans as discretionary rather than mandatory. I am hopeful we can clarify Congressional intent on this provision.

Secretary before. The Farm Bill requires that USDA use at least $200 million per year of Section 32 funds to purchase fruit and vegetables. In fact, the conference report states that "the Managers intend that the funds made available under this section are to be used for additional purchases of fruits and vegetables, over and above the purchases made under current law or that might otherwise be made without this authority." Of course, I am very disappointed that USDA has not complied with the report language.

I know that in 2002, USDA purchased a total of $189.7 million in fruits and vegetables through Section 32 and devoted and additional $50 million of Section 32 to the Department of Defense Project Fresh Program that provides fruits and vegetables to schools. The Agency has added these numbers together create a total of $239.7 million for Section 32 expenditures on Section 32, which complies with the bare minimum requirements of the Farm Bill.

I have several concerns about this. Section 32 fruit and vegetable purchases in 2002 -- independent of the Section 32 funding used for the DOD Fresh Program -- are far below fruit and vegetable purchases for 2001 and 2000 – before the Farm Bill was ever implemented! Total Section 32 bonus and entitlement spending on fruits and vegetables in 2001 was $263.2 million and $232.5 million in 2000. The intent of the Farm bill was never to reduce bonus and entitlement purchases of fruits and vegetables through the Section 32 program.

Furthermore, Section 32 (C) spending on fruits and vegetables, otherwise known as bonus buys, has dropped dramatically since enactment of the Farm Bill. Section 32 (C) expenditures on fruits and vegetables in 2001 totaled nearly $190 million. Last year, after the Farm Bill was implemented, these purchases dropped to $140.8 billion – a reduction of $50 million.

It is clear what is happening here, and I have discovered an unintended consequence of the Farm Bill language. While DOD Fresh is an important program, and I know that the Farm Bill statute is clear that $50 million be devoted to the DOD fresh program, the shifting of Section 32 spending priorities is counter intuitive to the purpose of the Specialty Crop Provision included in the Farm Bill. That provision was strongly supported because many recognized that fruits and vegetables do not get support, as many program crops do, through the Farm Bill. Commodity purchases are the only way that the USDA can relieve supply problems and help fruit and vegetable growers get a better price. Section 32 (C) bonus purchases are specifically intended to help growers with supply and other price problems. USDA conducts a thorough analysis before making any bonus buys. The DOD program is very important and should continue to be funded, but fruit and vegetable purchases for this program are not based on economic needs of growers. We need to work to guarantee that the Section 32 funding devoted in the Farm Bill to Specialty Crop purchases be dedicated to helping growers as it was intended. Perhaps this is something we need to correct through the child nutrition reauthorization.

While on the subject of fruits and vegetables, I would like to comment that the fruit and vegetable pilot in my state is a tremendous success and I would like to thank Secretary Veneman and her agency for their hard work on this important program that I hope will be expanded in the child nutrition reauthorization.

Now, let me share some highlights of the comments presented to me from my field hearing witnesses who continue to play such an important role in the progress of the Farm Bill.

Carl McIlvain, President of the Michigan Farmers Union reiterated my concerns about Section 32 and expressed his opposition to the

Both the Michigan Corn Growers and the Michigan Farm Bureau expressed concern that the initial sign-up was complicated and cumbersome for many program crop growers. As of this month, 82.23 percent of all eligible farms in Michigan have completed sign-up, compared to 94.16 percent nationwide. Nonetheless, both praised Farm Service Agency (FSA) employees for working hard under difficult circumstance. We all know that FSA offices are understaffed and are doing their best to serve farmers.

Finally, Cate Beekman of the Center for Civil Justice in Saginaw, Michigan, provided praise of the Farm Bill's nutrition title. Changes in eligibility rules for Food Stamps and changes in the way that states implement the Food Stamp Program have improved access, simplified state administration, and improved the benefit for families.

One compliment that was universal from all of my witnesses was praise for the Agency's use of technology both to deliver information quickly and to speed program administration. I would like to underscore that praise. The USDA website on the Farm Bill is an excellent resource and I have encouraged my constituents to visit the site often.

Thank you for this opportunity to present my views and the views of important representatives of the Michigan agriculture and nutrition community on the implementation of the Farm Bill.

Statement of Senator Patrick Leahy
At the Senate Agriculture Committee Farm Bill Implementation Hearing
May 14, 2003

I want to thank the distinguished Chairman, Senator Cochran, and the distinguished ranking member, Senator Harkin, for holding this important hearing.

I also want to thank Secretary Veneman and her colleagues for coming here to report on the progress that has been made in implementing the 2002 Farm Bill. It has been eight months since the last time the Secretary joined us to discuss Farm Bill implementation and one year since the Farm Bill became law.

The past year has not been a good one for most Vermont farmers. Dairy prices are at 25-year lows without even taking into account inflation. With farm gate milk prices hovering around $1.11 a gallon, well below the cost of production, Vermont farmers are losing money with every drop of milk they sell.

Some relief has been provided by the Milk Income Loss Compensation Program (MILC). Modeled on the price support system developed by the Northeast Dairy Compact, the MILC program has provided critical support. I continue to be concerned that the Department has developed overly strict rules for the MILC program which unduly penalize multi-family farms. I will be interested to hear the Secretary's views on this critical program which is virtually the only lifeline for many small family farms. I also want to know what plans the Department has for increasing milk prices which remain disastrously low.

Secretary Veneman, at an Appropriations hearing last week, you said that the Department will need to focus this year on getting the Conservation Title of the Farm Bill fully implemented. I agree. The Conservation Title presents great opportunities for both our farmers and for the environment.

I am disappointed, however, that the Department seems to have begun its work on the wrong foot. In your Earth Day press release, you announced conservation funding levels for each state, but you did not note that the Department had failed to fulfill its requirements under the regional equity provision of the Farm Bill. This provision provided a minimum level of conservation funding for every state. It was needed because the Department has historically created conservation programs which work well in some regions of the country, but not in others, particularly the Northeast. This year seems no different. Vermont received only $100,000 more in conservation funding, despite hundreds of millions of additional dollars Congress put into conservation programs this year. Despite huge conservation backlogs and new requirements from EPA on large farms, all of New England lost out when it came to funding for conservation projects.

Unfortunately, this is not the only major funding setback for Vermont and the rest of the Northeast. Earlier this year, the Department transferred the vast majority of funds for the Agriculture Management Assistance from the Natural Resources Conservation Service to the Risk Management Agency. In so doing, the Department killed an innovative program which had funded conservation and farm viability efforts, and instead created a crop insurance subsidy program which does very little for our farmers.

There is still time to change. Funding can be shifted to revive the Agricultural Management Assistance program and comply with the regional equity language found in the Farm Bill, but it will take a good faith effort by USDA that has so far been lacking.

I have been disappointed with the Department's lack of commitment to fully fund rural development initiatives included in the Farm Bill. The Committee, and ultimately the full Congress, included significant increases for rural development programs because we recognized the need to invest in our nation's rural areas. Instead of following that lead, the proposed budget for FY 2004 would eliminate the Rural Broadband Access program, cut $40 million from the value-added development grant program and cut $23 million from the renewable energy grant program.

All of these programs were created to help improve economic conditions and create new opportunities in rural areas. Your Department has issued press releases over the last year announcing these initiatives and applauding the importance of the funds for rural communities across the county. In that light I have to question why the Department would choose make these cuts now. It is short-sighted to hamstring these programs before they demonstrate their full potential.

Madam Secretary, we have come a long way in the last year but there is still much to do. I look forward to hearing your testimony on all of these matters.

DOCUMENTS SUBMITTED FOR THE RECORD

MAY 14, 2003

Statement by Senator Max Baucus
Agriculture Committee Hearing
Farm Bill Implementation Hearing
May 14, 2003

Secretary Veneman, thank you for joining us today. I appreciate the hard work that you and your staff at the USDA have done in implementing Disaster Assistance and the Farm Bill.

I would like to start out by telling you that I am pleased with the USDA's quick implementation of the Bioenergy Program in the Farm Bill. It is important that we continue to support this program. Energy is an important issue to all of America and its importance to rural America was emphasized by the inclusion of a separate Energy Title in the last Farm Bill. We are making progress and we must remain steadfast in our commitment to exploring and supporting alternative energy sources.

I do, however, have concerns about the implementation of other programs. I am particularly concerned about the implementation of the Crop Disaster Program in the 2003 Disaster Assistance Act.

There is a wheat producer in Chester, Montana--right in the center of Montana's drought. He has suffered from 6 years of drought and in 2001 he had nearly a complete crop loss. He played by the rules, did what is right and took Congress and USDA's signals to purchase higher levels of crop insurance--he has 75% Crop Revenue Coverage insurance coverage. He is a good producer, but his premiums get higher each year because of the drought. He has paid these high premiums for the past several years, but he continues to purchase one of the highest levels of crop insurance available.

He had disastrous years in both 2001 and 2002, but the Disaster Assistance Package that passed only covers one year. His worst year was 2001, and when he calculated his disaster payment for 2001, he realized that he would have received a higher disaster payment if he would have had a lower level of crop insurance. He has neighbors who had the same loss as him but had lower levels of coverage. They paid substantially less in premiums over the years and received a disaster payment that was three times as much as his.

He is being penalized for being responsible in managing his risk and holding a high level of crop insurance. That's just not right. There were some decisions that could have been made during the implementation of disaster assistance that could alleviate some of this penalty. I understand that Secretary Veneman was under enormous budget pressures, but I don't understand why more wasn't done to help our agricultural producers who were hit the hardest by the drought and followed the rules. The recent tornadoes that devastated the Midwest left tremendous damage behind. We aren't, and shouldn't, be asking, them to accept partial assistance. There is no reason we should ask people who are devastated by drought to accept partial assistance either.

Changing gears a bit, I would also like to comment on a few issues in the implementation of the Farm Bill. I am quite concerned about the guidelines and cost estimate that were released by the USDA for Country-of-Origin Labeling and the manner in which they were developed. I am pleased that the USDA will be holding listening sessions throughout the country with one in Montana and I hope that Secretary Veneman will go into these sessions with an open mind.

If implemented in a simple and cost-effective manner, as was the original intent of Congress, Country-of-Origin will give consumers important information about the origin of their food and provide a premium for United States agricultural products.

There are methods of implementation that can be both simple and cost-effective and we need to gather as much information as we can from the listening sessions to implement country-of-origin labeling in a way that will provide benefits to both consumers and agricultural producers while not overburdening the retailers.

I am also curious as to why the USDA continues to impose a 1 percent interest rate surcharge on loans to sugar producers even though Congress repealed the surcharge in the Farm Bill. Congress intended that the USDA repeal the surcharge and I just don't understand why the department has continued to ignore that intent.

I would also like to comment on the conservation title of the Farm Bill. Our agricultural producers are the best stewards of our land. Important provisions in the Farm Bill assist farmers and ranchers in conserving their land for future generations. It is imperative that the conservation programs that were authorized by Congress be fully funded.

Getting even more specific, I hope that the USDA's final rules on the Environmental Quality Incentives Program (EQIP) keep cost-sharing at 75% and do not reduce it to 50% as the proposed rules suggest.

EQIP is an important program that provides important technical assistance to my state's agricultural producers. Agriculture is Montana's largest industry, and after consecutive years of drought in Montana, there is much work to be done. It is unreasonable for USDA to change the rules now. Many agricultural producers would be forced to abandon the practices supported by the EQIP program, and much of the progress made in land management in the state would be thrown out the window.

Secretary, as you can see, we continue to have much work ahead of us and I look forward to working with you on these and many other important issues impacting agriculture and Montana.

Thank you.

QUESTIONS AND ANSWERS

MAY 14, 2003

SENATOR CHAMBLISS

When farmers redeem peanuts from the peanut loan program, as much as 3.5% gross weight is deducted from total poundage originally placed in storage. The deduction is referred to as shrinkage. Would the USDA take a look at how we can prevent farmers from losing this value of their peanuts?

SECRETARY VENEMAN: When peanuts or any other type of crop is received into a warehouse for storage, the warehouse operator makes a commitment to its storage customers to redeliver an amount of commodity at the end of the storage period. While in storage, the commodity is subject to many factors that affect the weight and quality of the commodity. Dust, changes in moisture content, losses in handling all reduce the weight of the commodity available for redelivery. Each warehouse is expected to establish a reasonable shrink policy to estimate what the warehouse will be able to deliver when called on. This shrink policy used by a warehouse operator is a reasonable business practice between the warehouse and the depositor. A producer can and should clearly understand a warehouse operators shrink policy and deal with those warehouse operators whose policy is reasonable to both parties. Because shrink is a common trade practice in the warehouse industry, the United States Department of Agriculture (USDA) does not establish or regulate these practices.

SENATOR CHAMBLISS

Some county offices in Georgia have made adjustments to balance the workload of implementing farm programs while other offices have not. I occasionally hear about the need for additional permanent staff in some of our county FSA offices. We know that all of these offices turn in workload figures to the Department. Will the Department please provide this cumulative information to the Committee?

SECRETARY VENEMAN: FSA has a national workload reporting system that is used by each county office to report program and other work-related activities. There are various output reports generated from the system and they are used for management activities including program analysis, budget projection and distribution of staffing. The following table provides a national summary by major program area for fiscal year (FY) 2002 actual and FY 2003 and FY 2004 projected workload.

FARM SERVICE AGENCY
COUNTY LEVEL WORKLOAD DISBRIBUTION

PROGRAM/FUNCTION:	FY 2002 ACTUAL	CHANGE (+or-)	FY 2003 REVISED	CHANGE (+or-)	FY 2(REVI
Conservation and Related Programs	872	170	1,042	251	1,293
Commodity Loan Activity	502	111	613	(15)	598
Compliance	1,190	316	1,506	(104)	1,402
FCIC Program Integrity	126	16	142	6	148
Commodity Program Payments (Includes LDP)	1,633	450	2,083	(619)	1,462
Basic Farm Records (Includes Bases and Yields)	1,936	1,010	2,946	(1,763)	1,183
Peanut Quotas and Marketings	35	(35)	0	0	0
Tobacco Allotment and Marketings	192	5	197	0	197
Administration	2,504	(46)	2,457	(64)	2,393
Committee Elections	58	0	58	0	58
Miscellaneous (Largely Disaster)	892	70	961	(163)	798
County Automation Activities	881	3	884	(7)	877
Non-Insured Assistance Program	388	29	417	(189)	228
Measurement Services	219	(7)	212	(24)	188
SUBTOTAL	11,427	2,092	13,519	(2,692)	10,82
Farm Loan Activity	2,130	83	2,213	0	2,213
TOTAL	13,557	2,175	15,732	(2,692)	13,04
STAFF YEARS:					
Federal Staff Years	2,256	0	2,256	0	2,256
Non-Federal Staff Years	11,301	2,175	13,476	(2,692)	10,78
TOTAL STAFF YEARS	13,557	2,175	15,732	(2,692)	13,04

SENATOR COCHRAN

Please provide the Committee with a copy of the most recent annual survey of county farm and ranch land values for the following counties in Mississippi:

Bolivar, Carroll, Coahoma, DeSoto, Holmes, Humphreys, Issaquena, Leflore, Panola, Quitman, Sharkey, Sunflower, Tallahatchie, Tate, Tunica, Warren, Washington, and Yazoo

SECRETARY VENEMAN: The estimated cropland, pastureland, and woodland values are provided in the table below. As the committee knows agricultural value has a range of values depending on the productivity of the land. The values reported below are from the 2002 Land Value Survey (LVS). This survey is conducted by the Farm Service Agency (FSA) annually. Although LVS is not a statistically based estimate, it is the County Executive Director's (CED) best estimate of the average value of agricultural land. Because the CED is familiar with agriculture in their county, these estimates are believed to be generally reliable.

Mississippi Agricultural Land Values: Estimated Average Values

County Name	2002 Irrigated cropland value	2002 Non-Irrigated cropland value	2002 Pastureland Value	2002 Woodland Value
BOLIVAR	1,215	855	495	495
CARROLL	1,125	935	925	1,100
COAHOMA	1,500	900	-	720
DE SOTO	1,500	900	900	900
HOLMES	1,600	960	650	630
HUMPHREYS	1,000	825	500	500
ISSAQUENA	1,170	990	400	300
LEFLORE	1,300	850	800	700
PANOLA	1,000	720	675	560
QUITMAN	1,050	713	675	338
SHARKEY	1,170	990	400	300
SUNFLOWER	1,500	760	500	375
TALLAHATCHIE	1,100	560	480	480
TATE	-	840	644	518
TUNICA	1,140	720	-	375
WARREN	1,013	828	519	563
WASHINGTON	1,350	800	592	600
YAZOO	1,200	825	550	550

SENATOR COCHRAN

A last minute FSA handbook change May 5th, the same day signup for the Conservation Reserve Program (CRP) began, changed the eligibility rules of considered conservation use for hay and pasture land. The decision stipulates for land to qualify for enrollment must have been planted between 1996 and 2001. It is my understanding that in many states, much of the grassland was planted several years previous to these dates and the recent rule would make these acres ineligible even though the acres may have been planted and maintained in the same manner as land planted between 1996 and 2001. Although this decision is similar to CRP qualification in the past, many farmers expected that their hay and pasture land would be eligible under the new farm bill.

How many acres will be disqualified as a result of this decision?

SECRETARY VENEMAN: For the 1985 and 1990 Farm Bills, the statute did not define "conserving use" but FSA issued regulations generally defining conserving use as cropland not planted to a crop, not enrolled in certain other programs, or prevented from being planted to a crop. There was no cropping history credit for land devoted to a conserving use for the 1996 Farm Bill.

The 2002 Farm Bill had the effect of changing the cropping history requirement from 2 out of 5 years prior to enrollment to 4 out of 6 years from 1996 through 2001 and authorized land devoted to a conserving use as contributing toward meeting the CRP cropping history requirement.

Under the criteria discussed in FSA training, all 455 million acres currently defined as cropland by FSA would have been eligible to be offered for enrollment provided specific environmental criteria were met. Any land that did not meet the 4 of 6-year criteria would be considered conserving use. Based on a comparison with acreage estimated to meet the 4 of 6-year criteria, including cropland in small grain fallow rotations and cropland in long-term hay rotations, an estimated 70 million acres were excluded by limiting eligibility to land that had been planted between 1996 and 2001.

SENATOR CRAPO

The Wool Loan Deficiency Payment program is working well for sheep producers. What other actions are the agency taking to assist sheep producers under its authority in the farm bill and otherwise? Specifically, do you intend to provide a one-year extension of the Lamb Market Adjustment Assistance Program as supported by twenty-two Senators who wrote you on May 8, 2003?

SECRETARY VENEMAN: The Lamb Meat Adjustment Assistance Program (LMAAP) was implemented to help sheep and lamb producers improve their production efficiencies and the marketability of lamb meat during the 3 year period from July 22, 1999, through July 31, 2002, and to also provide immediate financial assistance to sheep and lamb producers who were experiencing low prices and poor market conditions. In May 2001, a World Trade Organization (WTO) ruling instructed the U.S. to bring its safeguard measure into conformity with its WTO obligations with respect to the sheep and lamb industry. As a result, additional assistance was provided to the program through increased funding and a one year extension, through July 31, 2003, at which time the program will end. As a result of the program, U.S. market prices for lamb meat have stabilized and USDA believes that the overall intent of the program has been accomplished. Therefore, at this time, additional funds for the LMAAP will not be authorized to extend the program for an additional year. However, FSA has several other disaster related programs, such as the Livestock Compensation Program, that are beneficial to U.S. sheep producers.

SENATOR CRAPO

Idaho growers are anxious to participate in the agricultural programs that support working lands. Can you provide any indication of when the Conservation Security Program might be available to Idaho producers?

SECRETARY VENEMAN: USDA has begun the process of preparing the proposed rule and hopes to have it out soon for public comment. Based on the comments received, the final rule will be developed. Thus, it could take several months before a final rule could be issued and sign-up is begun.

SENATOR CRAPO

CRP signup began on May 5th. It has generated a great deal of interest in my state. Do you have an expectation of how many acres will be placed under contract under Signup 26?

SECRETARY VENEMAN: The general signup started on May 5 and has been extended to June 13, 2003. The President's Budget projected a 2.8 million acre signup, but acceptance will be based on the benefits and costs of the actual offers.

SENATOR CRAPO

Continuous CRP and CREP provide the type of targeted enrollments that address the needs of working lands and do much to enhance our natural environments. How many acres will be held back for the continuous signup program?

SECRETARY VENEMAN: Updated budget projections allow for enrollment of up to 2.4 million acres through 2007. This includes up to 500,000 acres devoted to hardwood trees.

SENATOR CRAPO

The enrollment of land that would facilitate a savings in ground or surface water resources was made an eligible in the 2002 farm bill. In February, the Idaho delegation sent you a letter expressing concerns about the effect of enrollment of irrigated lands on water rights; the need to adjust rental rates to reflect irrigated cropland rates; and the need to modify the Environmental Benefits Index to include water and energy conservation in the ranking for irrigated ground. I did not see language regarding these concerns in the interim rule. In USDA's response to the delegation letter it indicated FSA will be entering into negotiations with states regarding water rights. Can you provide me with an update on FSA's discussions with state governments regarding the water rights issue?

SECRETARY VENEMAN: FSA is working to draft policy and sign Memoranda of Agreement with states, including Idaho, on irrigated land. This MOA will address the issue on ensuring an instream pubic use of the irrigation water saving that CRP would pay. It is important to note that FSA will not buy, hold or acquire individual water rights.

SENATOR CRAPO

Can you also provide assurances that you will work with me to address factors related to enrollment of irrigated cropland in the next signup?

SECRETARY VENEMAN: FSA is currently reviewing Section 1231 of the 2002 Act that makes irrigated cropland eligible for enrollment in CRP under certain conditions. We will be happy to work with you on this and other issues.

SENATOR CRAPO

The interim rule on CRP indicates that while the FSA State committees, in consultation with the NRCS State technical committees, have been granted the authority to determine the beginning of the primary nesting and brood rearing season during which managed haying and gazing will not be performed, the ending dates are still those set nationally by the national FSA and Fish and Wildlife Service in the 1990s. This seems contrary to earlier that USDA recognized a national standard does not make sense and that state technical committees should have increased authority.

Idaho ranchers had commended USDA for allowing state technical committees to begin working on emergency grazing on June 1 and emergency haying on July 1, but are now resentful of the misrepresentation. Idaho ranchers believe, and I agree, that U.S. Fish and Wildlife Service in Idaho and the Idaho Department of Fish and Game are in a better position to determine where and when haying and grazing would be safe for nesting and brood rearing concerns than a national standard.

Are there efforts underway to review the national ending dates and return to the policy identified in the earlier training?

SECRETARY VENEMAN: FSA delegated authority to State committees in consultation with Natural Resources Conservation Service (NRCS) State Technical Committees to set the beginning primary nesting season dates. FSA set the ending dates for each State in consultation with the U.S. Fish and Wildlife Service. The ending dates ensure that wildlife species are protected during their nesting and brood rearing season while providing States with the ability to determine beginning dates allowing flexibility in each State.

USDA is reviewing policy to determine impacts on wildlife if ending dates are allowed to be changed.

SENATOR CRAPO

Overall, dairy and livestock producers have been pleased with USDA's use of CCC nonfat dry milk stocks to assist beef cattle, buffalo, sheep, and goats. However, there is concern that in administering the 2003 Livestock Feed Assistance Non-Fat Dry Milk Program some states are allowing feed processors to sell the non-fat dry milk powder on the open market, which could fail to direct the assistance to the targeted herds, fail to create new uses for non-fat dry milk, and could increase the non-fat dry milk surplus.

Will the Department consider putting the limitations on the use of non-fat dry milk that were in place for the 2002 Livestock Feed Assistance Non-Fat Dry Milk Program?

SECRETARY VENEMAN: As a result of input from the dairy industry, USDA changed the sales agreements for the 2003 Livestock Nonfat Dry Milk Assistance Program. The sales agreements between the Commodity Credit Corporation (CCC) and the State Departments of Agriculture or tribal organizations contain several restrictions on the use of the nonfat dry milk. The sales agreements require that the nonfat dry milk be used for feeding foundation livestock herds and must not be sold or exchanged for human consumption. While the sales agreements permit the barter or exchange of the nonfat dry milk, the nonfat dry milk cannot be used as a replacement for whey or whey products. These changes were implemented to reduce the negative impact of the nonfat dry milk sales on the dairy products market. In addition, USDA has developed and implemented a compliance plan to enforce the restrictions on the use of the nonfat dry milk.

SENATOR CRAPO

CR-9:

I understand that USDA's Agricultural Marketing Service has not met the one year completion date as required by the Farm Bill for the proposed regulations for exempting 100% organic producers from the federal generic promotion programs.

When do you expect proposed regulations to be published for public comment?

SECRETARY VENEMAN: The 2002 Farm Bill amended Section 501 of the 1996 Farm Bill to exempt organic producers and marketers from paying assessments to a commodity research and promotion program if they "produce and market solely 100 percent organic products… and not produce any conventional or nonorganic products." The Department is now drafting amendments to regulations governing most research and promotion programs and certain marketing order programs to allow for this exemption. A proposed rule is expected to be published in the near future.

SENATOR LEAHY

Dairy

Dairy prices are at a twenty-five year low, without even taking into account inflation. Many of Vermont's farmers are in deep debt and deep trouble. Vermont farmers are receiving $1.11 per gallon, well below the cost of production.

The Department has now fully implemented the Milk Income Loss Compensation program, which was created in the Farm Bill. Do you believe the MILC program is a critical component of our response to this crisis in the dairy markets?

SECRETARY VENEMAN: The MILC Program has provided average benefits of over $1.25 per hundredweight for the first 2.4 million pounds of production per dairy operation. This has been an important income supplement for many dairy producers.

SENATOR LEAHY

Dairy

Dairy prices are at a twenty-five year low, without even taking into account inflation. Many of Vermont's farmers are in deep debt and deep trouble. Vermont farmers are receiving $1.11 per gallon, well below the cost of production.

When the MILC program was implemented, USDA did not create standard criteria for determining the definition of a dairy operation. Has the Department found disparities in the definitions of dairy operations, specifically in terms of the MILC payment cap? If so, to what extent?

SECRETARY VENEMAN: The payment quantity for all producers on a single dairy operation is limited to a 2.4 million pound maximum per dairy operation per fiscal year. The Farm Bill instructs the Secretary to "apply the same standards as were applied in implementing the Dairy Market Loss Assistance (DMLA) program under section 805 of the 2001 Appropriations Act" (Pub. L. 106-387). According to the Managers Report, this means that it is their intent that the program shall be administered on an operation by operation basis.

The definition used under the previous DMLA programs is as follows:

Dairy operation means any person or group of persons who as a single unit as determined by CCC, produce and market milk commercially produced from cows and whose production facilities are located in the United States.

State and County Offices have been instructed to apply this same definition to the MILC Program in the same manner the definition was applied for the DMLA-III Program and in accordance to what the statutory language has once again explicitly stated. The strict statutory language precluded FSA from altering, expanding, or clarifying the definition in any manner other than what was prescribed by the statute. As a result, there is some slight variation throughout the nation in how the definition is applied, however, the administration of the program is consistent with the statute.

USDA is following the dairy operation guidelines according to section 805 of the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act of 2001, as instructed by the drafters of the statutory language provided in Section 1502 of the Farm Security and Rural Investment Act of 2002.

SENATOR LEAHY

Dairy

Dairy prices are at a twenty-five year low, without even taking into account inflation. Many of Vermont's farmers are in deep debt and deep trouble. Vermont farmers are receiving $1.11 per gallon, well below the cost of production.

With milk prices so disastrously low, what is the Department's plan for improving the price of milk?

SECRETARY VENEMAN: Over the past year, USDA has announced several actions to help bring balance to dairy markets and help stabilize the incomes of dairy producers. Specifically, USDA announced actions affecting imports of American-type cheese, the Milk Price Support Program, the use of surplus nonfat dry milk for humanitarian foreign assistance, allocations under the Dairy Export Incentive Program (DEIP), the MILC Program, and the Cattle Feed and Livestock Feed Programs.

The Farm Security and Rural Investment Act of 2002 extended the Milk Price Support Program and authorized a new payment program for dairy producers, the MILC Program. In 2002, the average payment rate under the MILC Program was $1.21 per cwt. Payments as of early May 2003, had reached nearly $1.4 billion. Payments are expected to reach $2.4 billion by the end of this fiscal year. These payments offset about 40 percent of the 2002 decline in milk prices from 2001 for dairy operations producing less than 2.4 million pounds and offset, on average, about 25 percent of the decline in milk prices across all producers nationwide. For 2003, if the payment under the MILC Program is added to the projected all-milk price, dairy operations producing less than 2.4 million pounds could receive over $12.85 per cwt. for their milk in 2003, which is about 6 percent below the ten-year average all-milk price.

Under the Milk Price Support Program, USDA supports the price of milk at the mandated level of $9.90 per cwt. by purchasing cheese, butter, and nonfat dry milk. Under the support program and through DEIP, USDA expects to remove from the domestic market 35 million pounds of butter during 2002/03, 50 million pounds of cheese and 730 million pounds of nonfat dry milk.

To help reduce inventory of nonfat dry milk, USDA has undertaken several initiatives. In August 2002, USDA implemented the Cattle Feed Program using nonfat dry milk as a protein source in supplemental feed to assist livestock operators in the states most severely stricken by drought. This program used about 250 million pounds of nonfat dry milk. In recent months, USDA has made nonfat dry milk held in storage available for domestic production of casein, which is not currently produced in the U.S. but imported in large quantities. USDA is also accepting proposals from U.S. private voluntary organizations and the World Food Program that will use nonfat dry milk for foreign humanitarian assistance. About 80,000 tons of nonfat dry milk are expected to be used for humanitarian assistance this year. USDA also initiated in April 2003, a Livestock Feed Program to provide nonfat dry milk to livestock producers in 9 states most seriously affected by drought in 2003. Potentially up to 220 million pounds of nonfat dry milk are expected to be used in this program. Lastly, USDA reduced the purchase price of nonfat dry milk and raised the purchase price of butter to better balance the markets for these two products.

USDA has been very attentive to the situation in milk markets and has taken aggressive actions using our full range of authority provided by Congress. We have been mindful to the effect these actions have on commercial purchasers and taxpayers as well as producers. While farm-level milk prices are down sharply, programs administered through USDA have offset much of the drop in milk prices and producer incomes.

SENATOR LEAHY

Dairy prices are at a twenty-five year low, without even taking into account inflation. Many of Vermont's farmers are in deep debt and deep trouble. Vermont farmers are receiving $1.11 per gallon, well below the cost of production.

Chief Economist Keith Collins mentioned that the Department is considering making changes in the Dairy Price Support Program to take into account additional market factors, such as transportation. Does the Department have any timetable for making these changes? Please also detail the extent of the Department's proposal.

SECRETARY VENEMAN: Concern has been expressed that cheese has sold on the Chicago Mercantile Exchange at below the CCC purchase price for cheese. Some have argued that such sales at below the support price indicate that the support program is not functioning properly. USDA has no specific proposal to make at this time but is evaluating why such sales occur and whether such sales represent a problem with the support program. We are currently reviewing information provided to USDA by dairy producers organizations and information developed internally. This information examines the different costs and other factors associated with selling cheese to the CCC and on the Chicago Exchange.

SENATOR LEAHY

Regional Equity

Why has USDA failed to implement the regional equity provision?

SECRETARY VENEMAN: The allocations for conservation programs provided to the states represent a fair and equitable distribution of resources, based upon resource needs and opportunities.

Our data displays that areas in the Northeast, which have been the subject of debate over the Regional Equity provision, actually receive more conservation funding based upon acreage of private agricultural lands than other parts of the nation.

With respect to implementation of Section 1241(c) as amended in the 2002 Farm Bill, the legislative language clearly provides a directive with a specified time frame. The language states:

"Before April 1 of each fiscal year, the Secretary shall give priority for funding under the conservation programs under subtitle D (excluding CRP under subchapter B of chapter 1, the wetlands reserve programs under subchapter C of chapter 1, and the conservation security program under subchapter A of chapter 2) to approved applications in any State that has not received, for the fiscal year, an aggregate amount of at least $12,000,000 for those conservation programs."

This language was included to ensure that states that could not expend regional equity funds, would not jeopardize obligation of program dollars by the close of the fiscal year. Unfortunately, due to the tardiness of the FY 2003 appropriations bill, apportionment of funds is coming more than half way through the fiscal year. USDA needs to ensure that all projects funded are deserving of funding. Our allocations process for FY 2003 achieves this goal.

As was noted during the hearing, we appreciate the concern that you have raised, and are open to suggestions, and USDA staff are beginning to meet with your staff on this very issue.

SENATOR LEAHY

Will you use any non-allocated conservation funds to immediately implement the regional equity language in the Farm Bill?

SECRETARY VENEMAN: Your question expresses concern that Vermont received a smaller increase in conservation program funding allocations for FY 2003 than was expected. The Consolidated Appropriations Resolution of 2003 (Omnibus Appropriations Bill) redirected funding from programs and has hampered our flexibility, and limited fund availability.

However, later in this Fiscal Year we will be assessing the technical assistance funding utilized by each state in order to convert any unused technical assistance funding back into financial assistance. Some states who are in a position to utilize this funding for priority conservation objectives may receive additional funding.

SENATOR LEAHY

Did the Department request estimates from State NRCS Offices of the projected demand for each of these programs as it was determining allocations for Fiscal year 2003, and if so when?

SECRETARY VENEMAN: NRCS assesses program backlog on a regular basis, and has current data on each state's program demand. In the interest of transparency and openness, most of this data is made available on the NRCS website. The Regional Equity provision only covers a few selected programs and in many cases, program needs do not match the selected programs covered under Regional Equity. Further, the Regional Equity provision would result in the transfer of scarce program dollars for some states with larger backlogs to states with smaller or negligible backlogs.

SENATOR LEAHY

Regional Equity

The Farm Bill contained a strong regional equity provision for conservation funding, which USDA has failed to implement for FY2003. Despite a national increase in the hundreds of millions of dollars, Vermont received only $8.6 million, an increase of only $100,000 over last year's funding.

Were State Departments of Agriculture, State NRCS Offices, or any other New England officials, whether Federal or state, consulted about the implementation of the regional equity language found in the Farm Bill?

SECRETARY VENEMAN: Implementation of Section 1241(c) as amended in the 2002 Farm Bill was moot for FY 2003, since the late passage of the 2003 Omnibus Appropriations Bill resulted in the funding apportionments coming well after the point in the fiscal year where the provision would apply. NRCS performs its allocations based upon quantitative assessment of resource needs and opportunities. In order to keep this process from becoming politicized, outside organizations do not participate in allocation decisions. However, State Departments of Agriculture along with hundreds of other groups participate in State Technical Committees and other advisory bodies to provide input on prioritization of funds.

SENATOR LEAHY

EQIP

The 2002 Farm Bill established the importance of "locally-led conservation" in the implementation of conservation programs. In light of the four "National Priorities and Measures" that NRCS intends to use as a framework for allocating EQIP funds to each state, how will EQIP allocations reflect "locally-led conservation?" What process is NRCS using to establish local priorities?

SECRETARY VENEMAN: State allocations reflect the optimization of environmental benefits for resources concerns from a national perspective. The NRCS Chief allocates Environmental Quality Incentives Program (EQIP) funds to the State Conservationists to implement EQIP at the state and local level based on an EQIP fund allocation formula that reflects National priorities and measures using available natural resource and resource concerns data to distribute those funds. This procedure will be updated periodically to reflect adjustments to National priorities and information about resource concerns and program performance with input from the State Conservationists. The data used in the allocation formula will be updated as it becomes available.

The State Conservationist is authorized to determine how funds will be used and how the program will be administered to achieve National priorities and measures in each state with advice from the State Technical Committee and Local Work Groups. State Technical Committee and Local Work Groups provide advice regarding specific practices to be implemented in their area, the cost-share rate or incentive payment levels for those practices, and the criteria used to rank the applications using information locally. This bottoms-up approach ensures that the most effective methods of achieving optimal conservation performance are taken into consideration including local cultural, climatic, economic and other considerations.

SENATOR LEAHY

EQIP

The EQIP program is intended to provide assistance in a manner that will promote agricultural production and environmental quality as compatible goals. How is this being accomplished for specialty crops in the Northeast?

SECRETARY VENEMAN: NRCS has expanded its outreach to specialty crop growers over the last year or so. As one example, NRCS signed a Memorandum of Understanding with the Organics Growers association at the national level. NRCS has encouraged State Conservationists to work with their state and local level organizations to get the word out regarding opportunities for specialty crops and organic growers within not only EQIP but other conservation programs including basic conservation planning assistance under the Conservation Technical Assistance Program. Specialty crop producers utilize most of the same conservation practices as other growers all of which are ranked, selected, and coordinated at the local level. We encourage all growers to actively participate at the local and state level to impact the locally-led decision process.

SENATOR LEAHY

Conservation Reserve Program

When the 2002 farm bill passed, both Congress and the Administration touted the conservation programs as a way to expand assistance to producers nationwide and making USDA programs accessible to a variety of producers. Unfortunately, with the current limits on technical assistance, the Department's plans to have a large, general signup for CRP this year could undermine both of these goals. An unlimited enrollment will drain funds from working lands conservation programs like the Environmental Quality Incentives Program, the Wildlife Habitat Incentives Program, the Grasslands Reserve Program, and the Farmland and Ranchland Protection Program to pay for the cost of CRP technical assistance. Your estimates show that $107 million and $27 million, respectively, will be diverted from EQIP and FRPP to help pay for CRP administrative costs. I have several questions about the impact of the CRP signup on these programs and how the Department plans on covering the cost of technical assistance:

How do you plan to pay for the cost of technical assistance for a CRP enrollment above 2.8 million acres?

SECRETARY VENEMAN: The current statute provides for CRP and WRP technical assistance costs to be funded from working lands conservation programs (EQIP, WHIP, GRP, and FRPP) program funds as provided for in the Consolidated Appropriations Resolution, 2003. Estimates shown in the President's 2004 budget for CRP indicated 2.8 million acres would be enrolled in the general sign up and 700,000 acres would be enrolled in continuous sign up during FY 2003. The associated technical assistance costs for CRP were estimated at $107 million for FY 2003 and an apportionment request of $107 million was approved by OMB. However, given the timing of the sign up as well as the stage of the fiscal year, both FSA and NRCS have been working to re-estimate the technical assistance costs. The technical assistance costs incurred in FY-2003 are now expected to be lower than the initial estimate due to a number of recent developments. Improved efficiencies in technical assistance including use by FSA of a new computerized process for determining eligibility and Environmental Benefits Index (EBI) scoring may allow the Department to accommodate more acreage at less cost than assumed in the budget estimates. Of course, acreage will be accepted only if the benefits (EBI) and bid levels justify it. Also, given the limited time left in FY 2003, it is likely that some of the technical assistance work (and associated costs) for acreage accepted in FY 2003 will actually occur next year. And, the pace of continuous sign up appears slower in FY 2003 than assumed in the budget.

SENATOR LEAHY

Conservation Reserve Program

When the 2002 farm bill passed, both Congress and the Administration touted the conservation programs as a way to expand assistance to producers nationwide and making USDA programs accessible to a variety of producers. Unfortunately, with the current limits on technical assistance, the Department's plans to have a large, general signup for CRP this year could undermine both of these goals. An unlimited enrollment will drain funds from working lands conservation programs like the Environmental Quality Incentives Program, the Wildlife Habitat Incentives Program, the Grasslands Reserve Program, and the Farmland and Ranchland Protection Program to pay for the cost of CRP technical assistance. Your estimates show that $107 million and $27 million, respectively, will be diverted from EQIP and FRPP to help pay for CRP administrative costs. I have several questions about the impact of the CRP signup on these programs and how the Department plans on covering the cost of technical assistance:

Have you explored using Section 4 of the CCC to pay third parties to cover the cost of CRP technical assistance?

SECRETARY VENEMAN: We have not explored the use of CCC Section 4 funds for technical assistance. Section 4 funds would only be available to pay private sector technical service providers (TSPs). OMB would also have to approve the use of Section 4 funding for this purpose before the funds could be obligated.

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How many CRP acres would you have to convert from FA to TA to pay for CRP TA? If acres were cut, would you support reserving 5 million acres for continuous enrollment?

SECRETARY VENEMAN: We are currently operating under the Consolidated Appropriations Resolution, 2003. A change in legislation would be required to authorize the use of CRP funds to pay CRP technical assistance provided by NRCS or other government entities. It would be impossible to write such legislation to have a neutral budget effect on a year-to-year basis. This is because technical assistance costs are usually incurred well in advance of the fiscal year that the CRP rental payments begin. The savings would, therefore, not occur until the first or second year after the technical assistance costs were incurred. It might be possible to write legislation that would be budget neutral over a period of years. However, the impact on the CRP could be substantial. The Administration's projections anticipate the growth of CRP acreage from 34.3 million acres at the end of fiscal year 2003 to the authorized level of 39.2 million acres by the end of fiscal year 2007. This is a net addition of 4.9 million acres. The additional acreage may add $200 to $300 million to the annual cost of the program for financial assistance. CRP technical assistance estimates for the same period exceed $400 million. This is because a very large amount of acreage expires in 2007 which must be replaced. In fact, over 16 million acres would need to be signed up in 2007 to keep the program on target and the technical assistance costs for this would not be readily offset unless savings from years beyond 2007 could be drawn on. I have asked FSA and NRCS to work together to reduce CRP technical assistance to the lowest possible levels. However, it seems clear that a decision by the Congress to require the CRP to finance its own technical assistance costs would likely negate any program growth. The disposition of the continuous sign up in such a situation cannot be predicted. Because the continuous sign up involves very high technical assistance costs, it would be extremely vulnerable to reduction. This is why we feel the Administration's proposal for an appropriations account to fund technical assistance remains the best way to address this problem.

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What limits, if any, would there be on doing the entire CRP enrollment through third parties?

SECRETARY VENEMAN: In many States, there appears to be few third party vendors who can implement the workload. With proper support of the private sector, we believe that over time the number of vendors will rise. The number of certified vendor is the major stumbling block in conducting the entire CRP enrollment through third parties.

SENATOR LEAHY

Agriculture Management Assistance Program

When the Agriculture Management Assistance program was created, the intention was that since current crop insurance policies do not cover crops grown in the Northeast, risk management funds should be available for alternative strategies. USDA, the states, and our farmers worked together to create new risk management tools with AMA funds, from better irrigation to farm viability (financial management) programs to transitioning to organic.

USDA has now taken the AMA money for a new crop insurance subsidy. The Under-Secretary for Risk Management, J.B. Penn, specifically cited the regional equity language as justification for redirecting Agriculture Management Assistance funds. Yet the Department failed to implement regional equity.

Earlier this year, twenty-four out of a possible thirty senators wrote to the Department to ask that the old program be reinstated.

Why has the Department invested Agriculture Management Assistance funds in traditional risk management programs?

SECRETARY VENEMAN: The Agriculture Management Assistance (AMA) program has traditionally included funds for risk management. This year was no different. Section 524(b) of the Federal Crop Insurance Act provides USDA broad discretionary authority in using AMA funding for the 15 underserved states; 9 of these states from the Northeast. As for USDA's conservation activities, the Farm Security and Rural Investment Act of 2002 greatly expanded conservation funding, and this increase benefits the underserved states included in AMA. Accordingly, USDA focused AMA's limited funding on risk management. Providing this additional financial assistance has encouraged many producers to purchase crop insurance for the first time and has allowed many producers to purchase the maximum coverage level available.

SENATOR LEAHY

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Will the Department reinstate the previous innovative program?

SECRETARY VENEMAN: USDA has placed priority on making sure that crop insurance is available, affordable and tailored to meet the needs of producers in underserved states. New England producers have been reluctant to purchase crop insurance due to the high cost. The use of AMA funds to supplement existing subsidies and the strong, positive response by producers demonstrates that, if affordable, crop insurance can and will play a greater role in risk management for New England's producers. Risk Management Agency (RMA) funded several programs last year to develop additional risk management tools and is doing so again this year with an Request For Application (RFA) that will shortly be released. RMA is also moving to formalize this function within its management structure and to collaborate with other USDA agencies in the development of such products and services.

SENATOR LEAHY

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What is the state-by-state allocation for funds under the new AMA crop insurance program?

SECRETARY VENEMAN: USDA did not use a pre-determined state-by-state funding allocation for the AMA program. Rather, USDA implemented an "across-the-board" program. All producers in each of the 15 states purchasing eligible crop insurance policies would receive AMA financial assistance. The crop insurance purchases of producers in each state will determine the allocation by state.

SENATOR LEAHY

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Will any new crops be insured because of this new crop insurance subsidy?

SECRETARY VENEMAN: USDA's Risk Management Agency (RMA) currently has 21 specialty crop insurance programs, 8 of which are pilot programs. RMA has nearly 30 feasibility studies and product developments currently underway including a recently announced livestock risk protection program. In addition, new coverage for specialty crops and whole farm coverage, such as Adjusted Gross Revenue (AGR) and AGR-Lite products, will provide coverage not previously available in New England states. When this new coverage is combined with the additional subsidy and aggressive education programs in the underserved states, I expect that the use of crop insurance as an effective risk management tool will grow dramatically.

SENATOR LEAHY

Agriculture Management Assistance Program

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For each of the states that participate in AMA, what percentage of total agriculture receipts come from crops insured with the help of Risk Management Agency programs? How does this compare to the national average?

SECRETARY VENEMAN: The table below includes RMA's total liabilities for all insurance policies sold in 2001, the 2001 crop cash receipts, and all commodity cash receipts. It also shows the total liability as a percent of cash receipts (crop and all) for each of the 15 States and the U.S.

Comparisons to all cash receipts were included since some of these States have Adjusted Gross Revenue (AGR) insurance. The AGR includes coverage of revenue for crops and livestock. The RMA total liabilities as a percentage of cash receipts represents the combined impact of insurance availability and whether producers chose to buy the insurance.

RMA policies usually cover a crop in certain counties, but generally do not cover all counties in a State. It would be necessary to have cash receipts by crop at the county level, which is not available for most crops, and a list of counties that have RMA policies available to generate the maximum percentage of that crop's cash receipts that would be covered if all producers bought a policy.

RMA Total Liabiliteis, Cash receipts and Comparisons, Selected States and U.S., 2001

State	USPS	RMA Total Liabilities	Crop cash receipts	RMA Total Liabilities as % of Crop Cash Receipts	Total cash receipts for all commodities	RMA Total Liabilities as % of Totl Cash Receipts
		1,000 dollars	*1,000 dollars*	*Percent*	*1,000 dollars*	*Percent*
Connecticut	CT	67,916	298,829	22.7%	476,150	14.3%
Delaware	DE	29,982	185,719	16.1%	847,718	3.5%
Maine	ME	52,215	210,774	24.8%	485,064	10.8%
Maryland	MD	104,505	646,712	16.2%	1,596,085	6.5%
Massachusetts	MA	41,648	272,925	15.3%	366,611	11.4%
Nevada	NV	3,559	153,300	2.3%	424,596	0.8%
New Hampshire	NH	7,937	89,644	8.9%	155,478	5.1%
New Jersey	NJ	62,204	617,316	10.1%	821,070	7.6%
New York	NY	174,263	1,199,163	14.5%	3,419,790	5.1%
Pennsylvania	PA	186,824	1,308,750	14.3%	4,454,979	4.2%
Rhode Island	RI	1,385	39,735	3.5%	47,438	2.9%
Utah	UT	7,485	263,082	2.8%	1,116,343	0.7%
Vermont	VT	8,402	66,719	12.6%	556,779	1.5%
West Virginia	WV	12,328	59,315	20.8%	407,570	3.0%
Wyoming	WY	44,984	145,086	31.0%	982,545	4.6%
United States	US	36,725,471	96,418,236	38.1%	202,849,408	18.1%

SENATOR LEAHY

Organic

In response to my question from the September 2003 farm implementation hearing regarding USDA's progress on the Section 7407 Organic Production and Market Data Initiatives (question number 42), you stated that "precise data on production and marketing of organic crops will not be collected and will need to be inferred from harvested acreage."

I have several questions and requests related to that response:

Please explain more fully the methods that USDA intends to use to infer the data required.

SECRETARY VENEMAN: The 2002 Census of Agriculture, scheduled for release in February 2004, will provide an estimate of the acreage of certified organically produced crops. These data will be published by value of sales, size of operation, and various operator characteristics. Data users will be able to use these cross tabulations of data to make inferences about the population of organic crop producers.

The 2002 Census of Agriculture data will also help develop a statistical sampling frame of organic crop producers for additional data collection activities. More work is necessary to identify organic livestock producers and enhance the overall sampling frame. With adequate funding, a more detailed survey of certified organic producers could be conducted beginning in 2005.

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I have several questions and requests related to that response:

As part of this inference process, will organic production and marketing data be specifically identified and segregated within the boarder data publications of Agricultural Marketing Service (AMS) and NASS, as required by Section 7407 of the farm bill?

SECRETARY VENEMAN: Current data dissemination plans for organic agriculture include the scheduled release of the 2002 Census of Agriculture in February 2004. These data will be specifically identified within the various tables of the census publications and include breakdowns of organically certified crop producers by value of sales, size of operation, and various operator characteristics.

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I have several questions and requests related to that response:

Which USDA agency will be taking the lead on the section 7407 requirements for USDA, and who is the appropriate contract person in that agency for this effort?

SECRETARY VENEMAN: NASS has been delegated responsibility for section 7407 of the 2002 Farm Bill. Until funding is available to create an operational program, the contact should be Jay Johnson, Executive Assistant to the Administrator. He may be reached at jay_johnson@nass.usda.gov or (202) 720-5141.

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I have several questions and requests related to that response:

I would also like an update on the progress of the National Organic Certification Cost-Share Program (Section 10606 of the farm bill).

How much funding remains for the Program for FY 2004?

SECRETARY VENEMAN: The current cooperative agreements cover FY 2003 and 2004. Under the agreements we have committed $3,370,000 and are holding $1,630,000 in reserve. We anticipate that the reserve will be obligated during FY 2004 for use in FY 2004.

SENATOR LEAHY

Organic

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I would also like an update on the progress of the National Organic Certification Cost-Share Program (Section 10606 of the farm bill).

How does this compare to the funding level for FY 2003?

SECRETARY VENEMAN: The current cooperative agreements cover FY 2003 and 2004. Under the agreements we have committed $3,370,000 and are holding $1,630,000 in reserve. We anticipate that the reserve will be obligated during FY 2004 for use in FY 2004.

SENATOR LEAHY

Conservation Technical Assistance

To cover technical assistance for other programs, FPP was cut by 27 percent, WHIP was 29 percent and EQIP was cut by 15 percent. How did the Department arrive at these levels and why were FPP and WHIP disproportionately cut?

SECRETARY VENEMAN: The provisions of the Consolidated Appropriations Resolution of FY 2003 (Omnibus Appropriations Bill) necessitated difficult decisions regarding how much technical assistance funding to redirect. In assessing the funding options and developing a plan we followed the three guiding principles:

Maintain integrity of historic funding levels for each program
Minimize contribution support of EQIP, since that program addresses multiple resource concerns, assists producers meet regulatory burdens, and has an unfunded project backlog of more than $1.4 billion.
WHIP funding can be utilized to support both WRP and CRP technical assistance needs, since the programs share wildlife as a priority resource concern.

The decision on how to cover technical assistance reflects these principles and was rigorously reviewed before it was implemented.

SENATOR LEAHY

Conservation Technical Assistance

SENATOR LEAHY: To cover technical assistance for other programs, FPP was cut by 27 percent, WHIP was 29 percent and EQIP was cut by 15 percent.

How will these program cuts affect the backlog of applications for each program?

SECRETARY VENEMAN: Funding for these programs was not technically "cut." The 2003 Omnibus appropriations Bill authorizes USDA to use program funds to pay for technical assistance to deliver the programs, as has been done in the past for programs, under the 1996 farm bill. However, because the Omnibus Bill also prohibits the use of NRCS's Conservation Operations account to help deliver the farm bill programs, the Administration elected the only option made available to it by the Congress which was to redirect program funds for technical assistance. This resulted in less funding available to perform projects, leading to fewer projects in the backlog receiving funding.

SENATOR LEAHY: Please provide a total number of applications received for these programs by state and how many were funded.

SECRETARY VENEMAN: A table showing the project requests for each of the three programs follows (Note that the number funded will not be known until the close of the Fiscal Year):

FY-2002 EQIP Unfunded Applications

State Unfunded Applications

Alabama	1135
Alaska	26
Arizona	582
Arkansas	2788
California	979
Colorado	2778
Connecticut	144
Delaware	220
Florida	1494
Georgia	1612
Hawaii	49
Idaho	274
Illinois	948
Indiana	448
Iowa	1790

Kansas	3757
Kentucky	338
Louisana	1378
Maine	272
Maryland	177
Massachusetts	60
Michigan	199
Minnesota	508
Mississippi	1119
Missouri	5621
Montana	1860
Nebraska	8692
Nevada	53
New Hampshire	100
New Jersey	371
New Mexico	1144
New York	673
North Carolina	1731
North Dakota	718
Ohio	927
Oklahoma	2534
Oregon	403
Pacific Basin	1
Pennsylvania	271
Puerto Rico	132
Rhode Island	9
South Carolina	949
South Dakota	450
Tennessee	2059
Texas	15259
Utah	224
Vermont	265
Virginia	316
Washington	216
West Virginia	782
Wisconsin	1210
Wyoming	450
Total	70495

FY 2002 WHIP
Unfunded Applications (Numbers)
State Unfunded Applications

Alabama	17
Alaska	7

Arizona	21
Arkansas	300
California	26
Colorado	124
Connecticut	36
Delaware	1
Florida	158
Georgia	4
Hawaii	40
Idaho	20
Illinois	28
Indiana	14
Iowa	151
Kansas	20
Kentucky	62
Louisana	13
Maine	0
Maryland	0
Massachusetts	35
Michigan	10
Minnesota	38
Mississippi	31
Missouri	79
Montana	0
Nebraska	41
Nevada	2
New Hampshire	2
New Jersey	21
New Mexico	14
New York	160
North Carolina	14
North Dakota	17
Ohio	54
Oklahoma	563
Oregon	40
Pacific Basin	0
Pennsylvania	35
Puerto Rico	0
Rhode Island	0
South Carolina	10
South Dakota	1
Tennessee	16
Texas	49
Utah	1

Vermont	8
Virginia	16
Washington	36
West Virginia	4
Wisconsin	57
Wyoming	10
Total	2406

Farm and Ranch Lands Protection Program	
2003 Requests By State October 2002	
State	2003 State Plan FA Request
Alabama	9,500,000
Alaska	-
Arizona	8,000,000
Arkansas	-
California	15,000,000
Colorado	36,955,965
Connecticut	6,303,900
Delaware	8,000,000
Florida	10,000,000
Georgia	14,300,000
Hawaii	-
Idaho	2,800,000
Illinois	2,600,000
Indiana	1,719,500
Iowa	1,366,500
Kansas	1,049,375
Kentucky	14,625,000
Louisiana	250,000
Maine	1,220,000
Maryland	18,817,000
Massachusetts	7,000,000
Michigan	9,332,050
Minnesota	5,000,000
Mississippi	-
Missouri	5,864,725
Montana	9,351,100

Nebraska	550,000
Nevada	-
New Hampshire	13,316,750
New Jersey	25,000,000
New Mexico	5,300,000
New York	25,892,497
North Carolina	7,104,620
North Dakota	750,000
Ohio	11,985,000
Oklahoma	1,570,800
Oregon	1,500,000
Pennsylvania	10,000,000
Rhode Island	2,500,000
South Carolina	6,800,000
South Dakota	500,000
Tennessee	2,000,000
Texas	8,211,500
Utah	10,500,000
Vermont	3,500,000
Virginia	5,000,000
Washington	10,100,000
West Virginia	1,140,000
Wisconsin	3,200,000
Wyoming	2,090,000
Pacific Basin	-
Puerto Rico	-
Total	347,566,282

SENATOR LEAHY: How many additional applications would have been funded if the cuts were not made for technical assistance?

SECRETARY VENEMAN:

Farm and Ranch Land Protection Program: We estimate that the $27,591,000 contributed to other programs would have protected approximately 250 farms, i.e., 9 farms for every $1 million in funding.

Environmental Quality Incentive Program: We estimate that the $107,904,000 contributed to other programs would have completed 6,636 contracts, i.e., 66 projects for every $1 million in funding.

Wildlife Habitat Incentives Program: We estimate that the $8,596,000 contributed to other program would have completed 1,719 contracts, i.e., 199 projects for every $1 million in funding.

SENATOR ROBERTS

The new enrollment for CRP is taking place this month. I have heard from producers and several state farm and wildlife organizations regarding the pace of the sign-up. Specifically, I have heard concerns that all counties may not have the necessary software for conducting sign-ups. In addition, most of our producers are in the filed planting their spring crops. Do all counties now have the required software, and have you considered extending the CRP sign-up deadline to give more producers the opportunity to first get through spring planting?

SECRETARY VENEMAN: All county offices received the software to conduct signup by close of business Wednesday of the first week. We have extended the signup until June 13 and will have registers for any producer whose applications cannot be completed by June 13th.

SENATOR ROBERTS

Last year was one of the driest years we ever experienced in Kansas. As a result, we saw devastating crop losses and significant drops in farm income. In addition, these severe crop losses resulted in increased prices leading to little, if any, counter-cyclical payment under the new Farm Bill. When I voted against the bill, this was exactly what I said would happen. Are you still projecting no counter-cyclical payment for wheat, corn, soybeans, and sorghum? Also, after experiencing the serious flaws of this new program, what recommendations will you be making for improving the counter-cyclical program and making it one that is not based on price?

SECRETARY VENEMAN: Based on current USDA estimates of crop prices and market conditions in May producers of almost all 2003 program crops (corn, soybeans, sorghum, barley, oats, cotton, rice, and peanuts) are projected to receive counter-cyclical payments. For the 2002 crop, corn, cotton, rice, and peanuts producers are projected to receive counter-cyclical payments based on current conditions. However, changes in market conditions could change the crops receiving counter-cyclical payments and the amounts. At this time we have no recommendation for changes in the farm bill.

SENATOR ROBERTS

Country-of-Origin labeling is one of the most contentious agriculture issues I have ever experienced. I do not want to discuss the merits of this concept. However, I have received many questions from Kansas producers. Thus, I have the following questions:

Cattle and hog producers are concerned as to what documentation will be needed to show the origin of cattle and hogs born in the U.S. USDA officials have indicated that self certification will not be allowed. What provisions of the law prohibit self-certification? If the law does prohibit self-certification, will you please provide me with recommended changes to the law that will allow producers to self certify?

SECRETARY VENEMAN: The law requires retail suppliers to supply information indicating the country of origin. This information must address the production steps included in the origin definition (born, raised, and slaughtered). The law does not prescribe the method for conveying this information through the marketplace. Although self-certification documents or affidavits may be a part of the chain of custody, records of the production steps are required to verify the origin claims. Examples of records and documentation that may be useful for verification can be found on the Agricultural Marketing Service's country of origin labeling website.

SENATOR ROBERTS

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Will you consider developing regulations that allow groups of cattle and hogs to be certified so that order buyers or auction markets can continue to group and sell livestock?

SECRETARY VENEMAN: We do not anticipate issuing regulations relating to this issue. There are existing user-fee programs administered by USDA that address this issue, such as the Process Verified Program. Under this program, individuals can request that USDA verify the source of their animals and thus meet the requirements of COOL.

SENATOR ROBERTS

Country-of-Origin labeling is one of the most contentious agriculture issues I have ever experienced. I do not want to discuss the merits of this concept. However, I have received many questions from Kansas producers. Thus, I have the following questions:

USDA has issued at least one report regarding the total costs of country-of-origin labeling. Do you plan to do any other studies? Specifically, studies detailing the costs to producers, processors and retailers? In addition, has USDA conducted any research relative to consumer preferences on meat that is labeled with the country-of-origin. Are there any references where research indicates that consumers may actually prefer the foreign product?

SECRETARY VENEMAN: We have heard from many interested parties about the $2 billion cost estimate, which was just that – an estimate on our part. Due to the significant nature of the mandatory country of origin labeling (COOL) regulation, we will be conducting a comprehensive economic impact analysis to more fully evaluate all costs and benefits associated with implementing this mandate. The economic analysis will consider economic benefits that may be associated with COOL, such as consumer demand for country of origin information and the distribution of benefits throughout the production and marketing claims. The analysis will also consider costs of product segregation, inventory management, process verification and other costs throughout the industry beyond just record keeping. We hope to publish the proposed rule in the *Federal Register* this fall.

Over the past few years, the Department has conducted two additional studies on country of origin labeling. In 1998, the Foreign Agricultural Service, at the request of the Congressional Research Service, published a survey of key U.S. trading partners and their country of origin labeling requirements, if any. In 2000, the Food Safety and Inspection Service, responding to a directive included in the FY 1999 Agriculture Appropriations Conference Report conducted a study on the potential effects of mandatory country of origin labeling of imported fresh muscle cuts of beef and lamb.

SENATOR ROBERTS

Can you tell us where you are at in terms of being prepared to implement the disaster program sign-up beginning in June? Will county offices have all the necessary software, and will they be able to immediately begin issuing assistance checks to producers?

SECRETARY VENEMAN: The county offices have the ability to load the software required to take applications from producers. We are in the final stages of having regulations published. After regulations have been published payments may begin.

SENATOR ROBERTS

I appreciate your work and that of your able staff in attempting to find a resolution to our trade difficulties with our neighbors to the south. Kansas agriculture has felt the impact from our pinto bean growers to our pork producers. Mexico's failure to adhere to the North American Free Trade Agreement is jeopardizing U.S. agriculture's ability to support future trade negotiations. Does the Administration intend to make Mexico live up to their commitments under NAFTA?

SECRETARY VENEMAN: The USG has been engaged at the highest levels working to resolve issues related to our bilateral trade disputes with Mexico. During these discussions we have worked to ensure that the Mexican market, our third largest agricultural export market, remains open and that Mexico abides by its North American Free Trade Agreement (NAFTA) commitments.

As I am sure you are aware, we have recently made progress on a number of our outstanding agricultural trade issues, including dry beans. Despite remaining bilateral trade disputes with Mexico, the U.S. Government remains confident that as the NAFTA trading relationship matures, U.S. farmers and ranchers will continue to realize the benefits of a more fully integrated North American market.

When we reach impasses with our trading partners we will take the necessary steps to ensure that trade agreements are fully enforced. Unfortunately, we have not been able to make satisfactory progress with Mexico on World Trade Organization obligations involving certain antidumping and countervailing issues. As a result, on June 16, 2003, the Bush Administration filed a WTO case against Mexico in connection with Mexico's antidumping orders on U.S. beef and white long grain rice. The case also covers aspects of Mexico's recently amended antidumping and countervailing duty laws. The action initiated a 60-day consultation period, which is required in WTO disputes. If the consultations fail to resolve the dispute, the United States could proceed to request the establishment of a panel to consider the U.S. complaints on these or related issues discussed in the consultations.

SENATOR ROBERTS

Returning to the issue of the CRP, there were rumors earlier this year that you were considering allowing the enrollment of center pivot corners into the program. This is an issue of interest to many Kansas producers. Is this an option you intend to allow for enrollment in the program?

SECRETARY VENEMAN: FSA allows field margins that are incidental to the planting of crops, such as center pivot corners, to be offered as part of otherwise eligible practice provided the land is designated as cropland and is otherwise eligible. The land must be physically and legally capable of being planted in a normal manner to an agriculture commodity, as determined by the county committee. The county committee bases their eligibility determination in part on whether the cropland could be planted to an agriculture commodity in a normal manner during a normal cropping season.

FSA intends to continue allowing land around center pilot corners as part of an otherwise eligible practice for general signup. We considered making this area eligible for continuous signup, however, it would make 7-8 million acres eligible which would exceed our total enrollment authority through 2007 so that other CRP operations would cease.

SENATOR CONRAD

Crop Acreage Bases and Conservation Programs. The 2002 Farm Bill provides in Section 1101(g)(2)(B) that acres currently enrolled in the Conservation Reserve Program and the Wetlands Reserve Program shall not be included in determining a farm's base acres. That is as it should be.

However, Section1101(g)(2)(C) also provides that a farm's base acres should not include "Any other acreage on the farm enrolled in a conservation program for which payments are made in exchange for not producing an agricultural commodity on the acreage." The intent of this "catchall" provision, I believe, was to ensure that acres enrolled under other federal conservation programs not be included in a farm's acreage base, in order to prevent the same acres from receiving significant payments under two separate federal programs.

Unfortunately, USDA in some states has apparently interpreted this provision to mean that acres enrolled under various state conservation programs will also be excluded from a farm's acreage base. For example, in North Dakota, farms enrolled in a state program designed to improve wildlife habitat and provide access to hunters are finding that the acres enrolled in the state program are ineligible for federal farm program payments. Generally, the payments received under the state programs are much less than the federal farm program benefits lost as a result of the acres being excluded from a farm's base acres. Farmers affected by this interpretation believe they have been severely and unjustly penalized by USDA for their participation in state conservation programs.

In my view, as a Senate conferee on the 2002 Farm Bill, Congress did not intend to apply Section 1101(g)(2)(C) apply to any state conservation program. I would therefore respectively ask the Department to review this matter and issue a clarification stating that Sec. 1101(g)(2)(C) does not apply any acres enrolled under state conservation programs.

Thank you for your consideration.

SECRETARY VENEMAN: The statute does not limit the easements to Federal easements. The regulation was written to include any easements that prohibit the land from being planted to a crop—regardless of who prohibited it.

SENATOR DASCHLE

Madam Secretary, I have had several members of rural electric cooperatives ask me if USDA is considering any changes to the Rural Utilities Service (RUS) programs for rural electric cooperatives. As you know, the Rural Electrification Act allowed for rural America to be electrified. It is one of the most successful programs in our nation's history – operating for more than 55 years. It ensured that people who lived in rural areas have the same electric infrastructure as those in urban or suburban areas of our nation. The loan and loan guarantee programs that were so important then, are just as important today – some would say even more so. In the 1980's and early 1990s, there were several proposals to block grant certain rural development programs. The RUS electric programs were one area that such block-granting was proposed. I, and a large number of members of the House and Senate, strongly rejected those proposals.

Can you assure me that the Bush Administration will not propose significant changes to the RUS electric programs?

SECRETARY VENEMAN: The Rural Utilities Service (RUS) electric program has been, and continues to be, enormously successful in ensuring adequate electric energy is available to rural residents and businesses at affordable rates. The USDA FY 2004 budget does not reflect significant changes to the program, nor are we developing plans for significant changes. However, the electric program, and all USDA programs, are continuously reviewed to determine opportunities for increased efficiencies and service that can be provided to rural America.

SENATOR DASCHLE

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Can you assure the members of this Committee that the Bush Administration will not propose reductions to these important RUS electric programs?

SECRETARY VENEMAN: In the formulation of the Administration's budget, consideration is given to the needs and anticipated demands for all programs, subject to overall budget constraints. Budget formulation always involves difficult choices concerning the allocation of our scarce budget resources. Over the last two years, about $5.2 billion was requested while a total of $9 billion was appropriated. Those extra funds went a long way toward addressing outstanding demands for electric program assistance. We are seeking $2.6 billion for FY 2004. Future year requests will reflect demands, overall budget limitations, Administration priorities, and the continued effectiveness of the program.

SENATOR DASCHLE

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Can, you assure us that the Bush Administration will not propose block granting any rural development programs?

SECRETARY VENEMAN: The President's budget reflects no such changes in Rural Development programs, nor are we now working on such changes to be submitted in the future.

SENATOR DASCHLE

Madam Secretary, I think there was some confusion in answering my question about assistance to livestock producers dealing with some of the myriad programs USDA is operating. Last fall, producers received two disaster assistance payments. The Feed Assistance Program, which consisted of non-fat dry milk and the Livestock Compensation Program (LCP), which provided $18 per head. Currently, when newly-eligible producers sign-up for LCP, USDA is deducting any money they have previously received through the Feed Assistance Program. USDA is not required by law to reduce payment for this assistance program. In fact, I suspect that the reductions are more budget driven.

Many South Dakota producers have complained about this inequity, because last fall both forms of assistance were provided to producers. It doesn't seem fair to them or to me, and I think it dramatizes how a jumble of programs can cause inequities among producers. Now that we are moving into a new crop year, I am hopeful that USDA will be better prepared to address any natural disasters that may occur.

How do you respond to this inequity that ranchers are now faced with as their LCPs are reduced, when last year, many of their neighbors received both LCP and feed assistance? Can you fix this?

SECRETARY VENEMAN: Under the 2002 Cattle Feed Program (CFP), all counties in four States (Colorado, Wyoming, South Dakota, and Nebraska) were eligible for assistance. This assistance consisted of a feed credit in the amount of $23 for each head of eligible foundation beef cattle. Under this program participating feed processors were required to use CCC surplus stocks of non-fat dry milk in the feed used to honor the feed credits from participating producers.

Also, in October of 2002 USDA implemented the Livestock Compensation Program (LCP) in counties that were named under a Secretarial disaster declaration for drought, declared after January 1, 2001. The Federal Register Notice announcing the LCP provided that any assistance received under CFP would not be deducted from the LCP payment.

The Agriculture Assistance Act of 2003 authorized an additional LCP, named LCP-II. LCP-II added additional counties through eligibility requirements. Instead of only requiring a Secretarial designation for drought, counties could receive either a Secretarial designation for any natural disaster or a Presidential designation for any natural disaster, in the prescribed time frame.

In South Dakota, an additional 8 counties were declared eligible under LCP-II, the Agriculture Assistance Act of 2003. The following counties were made eligible:

Brookings and Clay - February 14, 2003
Turner - October 9, 2002
Union - February 19, 2003
Codington County - September 27, 2002.

Also, in South Dakota, the following counties were made eligible for LCP-II due to a Presidential declaration:

Moody - Presidential - May 30, 2001
Grant/Roberts - Presidential - May 17, 2001

Section 203 of the Agriculture Assistance Act of 2003, Section 203(c) mandates that:

"...the amount of assistance that the producers would otherwise receive for a loss under a livestock assistance program described in paragraph (2) shall be reduced by the amount of the assistance that the producers receive under any other livestock assistance program described in such paragraph."

According to the above, USDA had no choice but to reduce the LCP-II payments to producers in the applicable 8 South Dakota counties by the amount of assistance received under the 2002 Cattle Feed Program. The statutory language in the Agriculture Assistance Act of 2003 provided no other choice.

SENATOR DASCHLE

Madam Secretary, I understand that the Domestic Origin Verification Program (Program) administered by USDA-AMS, and which provides origin verification for meat products supplied to the USDA for the National School Lunch Program and other purposes, employs a "Presumption of domestic origin" as the means for verification.

This Program mandates that only products manufactured from livestock raised in the United States may be used in the Program. Program products are required to be marked with the label, "DOMESTIC ONLY PRODUCT." The verification procedure employed by USDA to ensure the integrity of this label is to identify only the meats that are ineligible for the Program. These ineligible meats fall in two categories: 1) imported meat [and] 2) livestock imported for direct slaughter.

The Program is replete with a certification system and audit verification system. These two systems do not impose any certification, record keeping, or verification requirements on producers of livestock. These verification systems begin with the "Supplier."

It appears that there is no need to impose new burdens on livestock producers under the COOL Act. The COOL Act, like the Program, provides a criteria for determining origin. The COOL Act, like the Program, places a duty on the Secretary to ensure the accuracy and truthfulness of the resulting labels. The COOL Act, like the Program, requires the Secretary to verify compliance. The only substantive difference between the COOL Act and the Program appears to be the eligibility criteria for the COOL Act's domestic label which expands the Program's exclusions. The expanded criteria under the COOL Act would exclude all imported meat and all livestock imported into the United States from eligibility for the U.S. label. In addition, the COOL Act requires imported meat to be labeled as well as domestic.

Unless the National School Lunch Program [is] broken, it appears to me that maintaining the integrity of the new label requirements would not require any radical departure from the means presently employed to administer the National School Lunch Program. Do you agree that no radical changes are needed?

SECRETARY VENEMAN: There are several reasons why the systems will be different. The system for verifying compliance with the National School Lunch Program is a "command and control" type system. USDA, through various certification or audit programs, confirms the applicable claim at the beginning of the process, then tracks and controls the movement of the product throughout the rest of the marketing chain.

A similar system for COOL would require USDA to verify that the livestock was born in the U.S., then track and control the movement of the livestock and resulting meat products through the marketing chain to retail. The law specifically precludes USDA from imposing this type of control. In fact, maintaining the identity of the livestock and resulting product is a key component of a system like this and is specifically precluded. The law states "The Secretary shall not use a mandatory identification system to verify the country of origin of a covered commodity."

SENATOR TALENT

Do you believe it is good federal policy to have big private banks conducting activities such as determining eligibility, disbursement, collection or accounting for Government subsidies provided under any of the direct or guaranteed loan programs of the Rural Development mission or the Farm Service Agency?

SECRETARY VENEMAN: Rural Development and the Farm Service Agency are following the A-76 competition process as mandated by the Office of Management and Budget in support of the President's Management Agenda to improve the federal government's strategic management of human capital, competitive sourcing, financial management, expansion of electronic government, and budget and performance integration. Rural Development and the Farm Service Agency do not have functions being studied or involved in the competitive sourcing process which determine eligibility, disbursement, or accounting for Government subsidies provided under any direct or guaranteed loan programs.

SENATOR TALENT

On behalf of the USDA employees in Missouri, can you please tell me what your plans are for the St. Louis and Kansas City USDA offices? I think the Administration is very busy with this process and there is very little understanding in the Congress of what you are up to and who is in charge and what the consequences are and whether money is being saved or lost and what is happening to morale and whether we have private people doing what are "inherently governmental" functions such as determining loan eligibility requirements and counseling poor people on public loans and grants available for low-income housing?

SECRETARY VENEMAN: The Department is currently studying 171 positions in St. Louis, MO, and 86 positions in Kansas City, MO, that have been identified as commercial in nature. The study is being conducted in compliance with the requirements of OMB Circular A-76 on competitive sourcing to determine if cost savings can be achieved by competing these positions with the private sector. Of the 171 positions in St. Louis, 49 of the positions are with the Farm Service Agency. The remaining 122 positions are with Rural Development and are further categorized as 95 positions with the Centralized Service Center and 27 positions with the Deputy Chief Financial Officer. All 86 positions in Kansas City are with the Farm Service Agency. In all cases, the positions have been classified as not being "inherently governmental" and do not directly interact with program participants. The goal of the competitive sourcing process is to provide high quality service in the most productive, efficient and effective manner available.

SENATOR TALENT

Under current law, it is clear that there is latitude to administratively establish an early food safety assessment process for biotechnology derived food and feed products, which is often referred to as the Adventitious Presence issue. It is also clear that USDA would have a lead role to play in coordinating this process with EPA and FDA. Could you elaborate upon the progress that the three agencies have made to move forward on the OSTP notice, which was issued in the summer of 2002?

SECRETARY VENEMAN: In August 2002, the White House's Office of Science and Technology Policy (OSTP) published a notice in the *Federal Register* relating to adventitious presence of unapproved varieties that are being developed for food and feed purposes. The USDA, EPA, and FDA have received comments regarding the *Federal Register* notice and are in the process of developing or revising policies and regulations. OSTP will be helping to coordinate the changes in policy and regulation of the three agencies.

SENATOR TALENT

Expanding agricultural exports is critical to the viability of the American farmer and to a robust economy. It appears to me that it is critical to establish an early food safety assessment process in a timely manner to leverage greater access for U.S. agricultural products in international markets while simultaneously protecting our credibility with trading partners. I would appreciate your view on this and what plans the Agencies have to address this issue in international markets.

SECRETARY VENEMAN: The expansion of biotechnology-derived crops is expected to result in net benefits to producers, consumers, and the environment. The federal regulatory agencies – the USDA Animal and Plant Health Inspection Service (APHIS), FDA, and EPA – must maintain appropriate regulatory oversight, adjusting its requirements based on scientific developments and industry trends.

The Office of Science and Technology Policy has requested public comment on proposed federal actions. In anticipation of the expansion of the development and commercialization of agricultural biotechnology, these proposed federal actions would establish a coordinated regulatory approach to update field testing requirements of biotechnology-derived plants and to establish early food assessments for new proteins produced by plants intended for food and feed use. The comment period ended September 30, 2002. The comments are still under review.

SENATOR HARKIN

Renewable energy and energy efficiency (Section 9006)

I commend USDA for publishing the notice of funding availability (NOFA) for section 9006 of the farm bill's energy title: renewable energy systems and energy efficiency improvements. Please keep me and my staff well informed of your progress on the NOFA, and in the development of the final regulations for this exciting new program. However, the NOFA may be overly burdensome for average farmers in my home state of Iowa, and elsewhere, to apply and receive funding. A number of organizations, including those in Iowa, have written to you directly to ask for some modifications to the NOFA, including a modest extension of the deadline to submit a funding request. I agree with the general tenor of these comments. Will you make any changes to the NOFA, and/or the final regulations, in response to these concerns?

SECRETARY VENEMAN: On May 19, 2003, the Rural Business-Cooperative Service published a notice in the Federal Register announcing the deadline for applying for grants under Section 9006 has been extended from the original date of June 6, 2003 to June 27, 2003.

The deadline was extended to allow additional time for applications to be developed and submitted for the $23 million in grant funds. Also included in the Federal Register notice is information clarifying financial and other requirements for the grants, along with information on how to access useful resources to assist in the applicant's preparation of the application. Such resources include the Department of Energy and the Agriculture Market Resource Center, funded by Rural Development in July of 2001. Resource information is also available on Rural Development website at www.rurdev.usda.gov

The original Notice of Funding Availability for the grant program, including detailed information about program requirements and how to apply, was posted in the Federal Register on April 8, 2003.

SENATOR HARKIN

Conservation Technical Assistance:

Last month the Administration announced fiscal 2003 allocations for farm bill conservation programs that were far less than was expected after passage of the farm bill. That shortfall in funding - which totals almost $160 million this year - stems from the Administration's interpretation last year to prohibit technical assistance to be paid from each program's funds as provided in the farm bill. That interpretation was incorrect, according to the General Accounting Office, but the Administration refused to budge. The omnibus appropriations bill partially fixed the TA problem, but did so in a way that causes net reductions in funding for conservation programs. The Administration's fiscal 2004 budget would also require a net reduction in conservation funding. We need to find a solution that does not continue to chip away at this farm bill's historic investment in conservation.

Will you commit to working with me and other Members of Congress to find a way to fix the technical assistance funding problem that does not involve continued cutting of funding for conservation from expected farm bill levels?

SECRETARY VENEMAN: Yes, we are willing to work with you to establish technical assistance funding for implementation of the CRP in accordance with the 2002 Act. We believe that the President's Budget proposal for a dedicated technical assistance account for Farm Bill implementation would be the best approach and are willing to work with Congress to ensure that this issue is resolved.

SENATOR HARKIN

Rural Development Programs: Venture capital

The farm bill established and provided mandatory funding to establish Rural Business Investment Companies to provide capital using the successful Small Business Administration model.

This was a carefully worked provision developed in a bipartisan manner in the Senate and accepted by the House.

Yet, at this first anniversary of the farm bill, I understand that we have not moved to first base in getting this provision implemented. Why can't USDA move in a more timely manner to move to implement this program? When will this program be available?

SECRETARY VENEMAN: Since the farm bill was signed, USDA has worked jointly and diligently with the Small Business Administration (SBA) to develop a Rural Business Investment Program (RBIP) implementation and management plan that is based on the Program model, as envisioned and expressed by Congress in the statute. USDA and SBA have identified some next steps needed to continue moving forward, including getting an agreement between the agencies in place.

SENATOR HARKIN

Rural Development Programs: Rural Economic Development Loan and Grant Program

The Rural Economic Development Loan and Grant (REDL&G) Program provides funds to rural electric cooperatives that are used for business development in rural areas. In the farm bill, a mechanism for financing the program was developed. Fees are collected for guaranteeing bonds issued for Rural Utilities Service (RUS) eligible activities. The government gets the fees and reduces its risk on the bonds at the same time.

I understand that the regulations implementing this program only moved to OMB last week. When can we expect to see these regulations finalized? And, what restrictions do you expect to see placed on the program, if any, that would reduce the rural development funds available under the REDL&G Program?

SECRETARY VENEMAN: Section 6101 of the Farm Bill was a brand new program for the Rural Utilities Service (RUS). This program is significantly different from other RUS loan guarantee programs in that the normal collateral associated with our loans (electric plant) does not apply. Since this is a new program and a program that is substantially different from our other loan guarantee programs we felt that it was important to hire an outside contractor to assist us in assuring that the Federal Government and the taxpayers are properly protected.

A draft of a regulation is being reviewed within the Administration and we are moving forward and expect to have a proposed regulation published in the Federal Register for public comment in the near future.

SENATOR HARKIN

Trade

SENATOR HARKIN: With respect to the McGovern-Dole food for education program we established in the farm bill what progress has been made thus far in allocating the $100 million in mandatory funds provided for the program for FY03?

SECRETARY VENEMAN: Final regulations are anticipated in June. Once the regulations are published, solicitation of proposals will begin. All proposals from the World Food Programme, private voluntary organizations, and foreign governments will be considered concurrently. USDA anticipates full allocation of the $100 million provided for FY 2003.

SENATOR HARKIN: What steps has the Administration taken to encourage other countries and the private sector to provide resources for the McGovern-Dole program?

SECRETARY VENEMAN: The final regulations prioritize private sector and other country donations in the proposal evaluation process. Additionally, since enactment of the McGovern-Dole International School Feeding and Child Nutrition Program, other donor countries and private sector industries have begun making more permanent contributions to international school feeding projects. Below are a few examples:

Canada has committed to provide $75 million over three years in support of five-country school feeding projects.

The American Food Services Association (AFSA), the U.S.-based school meal association, is assisting in the development of a Latin America based school feeding association.

WFP has received a commitment from a large private Dutch based firm, TPG, which partners each of their employees to provide a year's worth of school meals to a hungry child.

Italy's football (soccer) league dedicated game matches during the week of March 9th to WFP's global fight against child hunger. This event included pictures and slogans displaying WFP's school feeding initiative as well as the auctioning of autographed shirts worn by the players to raise additional funds for the WFP school feeding unit.

SENATOR HARKIN

Technical Service Providers

The farm bill authorized the use of third-party technical service providers to assist in the effective, efficient delivery of the technical assistance needed to implement the conservation programs. The goal of the technical service provider (TSP) provision was to help the Department meet the increased need for technical assistance as financial assistance increases significantly over the life of the farm bill. This provision was not intended as an alternative to increases in NRCS personnel that may also be needed in the coming years as the agency's workload increases with the significant expansion of conservation programs included in the farm bill. I am concerned that in implementing this provision, the Department is placing too great an emphasis on out-sourcing services without requiring sufficient oversight of TSPs by NRCS to ensure that program effectiveness and integrity are maintained. Please provide a detailed explanation as to how NRCS is: (1) ensuring that TSPs have the appropriate expertise and training before they are certified; (2) ensuring that TSPs provide high quality services to program participants that are consistent with all NRCS standards and specifications and program goals.

SECRETARY VENEMAN: The Farm Security and Rural Investment Act of 2002 (the "2002 Farm Bill"), Public Law 107-171, expanded the availability of financial and technical assistance funds for the implementation of conservation programs. Section 2701 of the 2002 Farm Bill amended section 1242 of the Food Security Act of 1985 to require the Secretary of Agriculture to provide technical assistance, under the Food Security Act conservation programs, to a producer eligible for that assistance directly, or at the option of the producer, through a payment to the producer for an approved third party, if available.

USDA published an Interim Final Rule in the Federal Register on Technical Service Provider Assistance on November 21, 2002, at 7 CFR Part 652. The rule became effective on March 1, 2003. Individuals, private sector entities, and public agencies may obtain e-government accounts and be certified through the TechReg web site to provide specific technical services to USDA conservation program participants and the USDA. As of Tuesday, June 3, 2003, 598 individuals and 56 businesses/agencies are certified as TSPs, while another 615 individuals and another 98 businesses/agencies are in the process of registering and becoming certified through the TechReg web site.

USDA is implementing the rule through the e-government process on the Internet at http://techreg.usda.gov.

(1) In order to be certified as Technical Service Providers, applicants must meet the requirements for certification including possessing any required state licenses or state certifications. Applicants must also include their education and training on the certification application, their relevant work experience, and their professional references. They must also meet the specific certification criteria for the technical services they desire to perform. Finally, applicants must sign a comprehensive certification agreement covering the terms and conditions of their certification, such as meeting USDA standards and specifications, compliance with applicable laws and regulations, warranty of work quality, liability and indemnification, quality assurance, reporting and documentation, licensing requirements, and civil rights.

USDA is also entering into Memorandums of Understanding with recommending organizations that USDA determines has an adequate accreditation program to train, test, and evaluate candidates for competency in a particular area or areas of technical service delivery and whose accreditation program NRCS determines meets the certification criteria as set forth for the technical services to be provided. Those organizations recommend members to USDA who meet the certification criteria for consideration by USDA for USDA certification as Technical Service Providers. Eight MOUs have been signed and a similar number are in the development process at this time.

(2) USDA ensures that the technical services provided are of an acceptable quality by requiring that only certified or approved individuals, entities, and agencies are eligible to be Technical Service Providers. Additionally, the Technical Service Providers are responsible for the quality of the technical services they provide in accordance with their certification agreement and are subject to USDA's ongoing quality assurance process. NRCS has national quality assurance policy that is currently being updated to include technical services completed by TSPs. State Conservationists are responsible for including TSP quality assurance in their State Quality Assurance Plan.

Technical Service Providers may be decertified for (a) failure to meet NRCS standards and specifications in the provision of technical services, (b) violation of the terms and conditions of their certification agreement, or (c) any other cause of a serious or compelling nature that demonstrates the technical service provider's inability to fulfill the terms of the certification agreement in providing technical services.

SENATOR HARKIN

Partnerships and Cooperation Initiative

Section 2003 of the farm bill established the Partnerships and Cooperation initiative. This authority allows the Secretary to designate special projects and enter into stewardship agreements with nonfederal entities, including state and local agencies and non-governmental organizations, to provide enhanced technical and financial assistance through the integrated application of conservation programs.

When will farmers and organizations be able to submit P&C proposals? It had been our hope that this would be available in FY 03. If that is not going to be the case, can you provide assurances that it will be available at the start of FY 04?

SECRETARY VENEMAN: Due to added pressures and constraints resulting from the Omnibus Appropriations Bill on funding available for programs we have decided to defer deployment of the Partnerships and Cooperation Section of the Farm Bill until FY 2004. Since funding was redirected from EQIP and several other conservation programs to pay the cost of technical assistance for the CRP and WRP as directed by the Omnibus Bill, we didn't feel that we had needed flexibility under those programs to launch these two initiatives this year.

SENATOR HARKIN: In crafting this initiative, we anticipated that if the project was totally within a state's boundaries decisions would be made by the State Conservationist in consultation with the State Technical Committee, with sign off by headquarters. If several states were to be involved in a single proposal then a regional supervisor would coordinate decision-making, with final sign-off by headquarters. What are the Department's plans on the decision-making process?

Has consideration been given to how this initiative will best mesh with your ongoing efforts with Technical Service Providers and your standard cooperative agreements?

Has the Department worked out the process for funding these special partnership projects? Will funding be drawn from a state's underlying allocation for the conservation programs involved in a given P&C project?

SECRETARY VENEMAN: Thank you for the input on program design and your vision for implementation of Partnerships and Cooperation. As was stated in response to the previous question, we have deferred deployment of the Partnerships and Cooperation Section of the Farm Bill until FY 2004. Many of the issues you raise are under policy development by USDA staff. The input you have offered is of great value and will certainly be considered as program guidance is developed. In addition, there will likely be future opportunities for public comment in order to solicit additional ideas and concepts on how Partnerships and Cooperation might function.

SENATOR HARKIN

Water Conservation Program

Could you please provide a detailed explanation why the Department awarded funds under this program to only a few states in fiscal 2002 and again to only a third of all states in fiscal 2003 to the exclusion of many states and in contradiction to the spirit of the program?

SECRETARY VENEMAN: Page 495 of the Conference Report Accompanying the Farm Security and Rural Investment Act of 2002 (H. Rpt. 107-424) provides guidance on the implementation of Ground and Surface Water Conservation. The Report states, "In providing funding for water conservation incentives, the Managers recognize that the High Plains Aquifer underlying the states of Texas, New Mexico, Oklahoma, Kansas, Colorado, South Dakota, Wyoming, and Nebraska is a critical source of groundwater for agricultural and municipal uses. The Managers encourage the Secretary to give producers in the High Plains Aquifer the highest priority for funding under this program." The Report language then proceeded to provide compelling rationale for use of Ground and Surface Water Conservation funding in this aquifer.

Our targeted approach to Ground and Surface Water funding for FY 2002 is consistent with direction provided in the 2002 Farm Bill Conference Report. As we have explained to your staff on several occasions, our plan has been to build upon our experience with the program in the High Plains Aquifer and begin to expand the program for FY 2003 and beyond. In fact, for FY 2003, we have expanded the program to 17 states, which have experienced the most significant impacts from drought. The program's authorization is focused on making improvements to agricultural operations in order to conserve water. We believe that targeting G&SW funding to States with the most severe drought conditions presents the greatest opportunity to make environmental gains and also mitigate further drought impacts and spur drought recovery. While other states have experienced drought in the past, current conditions do not present widespread potential for long-term natural resource degradation. Our goal with G&SW funding is to avert any long term impacts on the resources from droughts.

Please note that all of the practices funded within G&SWC are fully eligible for funding within EQIP provided the State Conservationist in consultation with the State Technical Committee consider it to be of sufficient priority.

Incidentally, NRCS also is continuing a Rapid Assessment process in states to determine conservation needs and opportunities for drought recovery. NRCS is also encouraging State Conservationists to utilize flexibility working with their State Technical Committees to direct appropriate program resources toward drought-related natural resource concerns.

SENATOR HARKIN: Will you commit to making WCP available nationwide in fiscal 2004?

SECRETARY VENEMAN: It is not our intention to do that. Making presumptions about the natural resource challenges, climactic conditions, and other factors that American agriculture will face at that point would be ill-advised and irresponsible at this time. When FY 2004 funding is available, we will base our funding allocations upon the situation at that time.

SENATOR HARKIN: Will you commit to giving priority to states left out of funding allocations in fiscal 2002 and 2003?

SECRETARY VENEMAN: As the responses to the previous two questions clearly state, we believe that our present course has reflected sound resource assessment, judicious use of taxpayer dollars, and the priorities provided by the Managers of the 2002 Farm Bill. Additional States may or may not receive funding. But this determination will be based upon the potential for natural resource improvements and protection in those states.

SENATOR HARKIN

Field Testing Genetically Engineered Plants

The incident involving the field testing of plant-made pharmaceutical crops by ProdiGene highlighted concerns about the adequacy of the existing protections and their enforcement to manage the development of plant made pharmaceuticals (PMPs) while maintaining the safety and security of our food and feed supply. USDA responded appropriately to this incident by quickly isolating and destroying the potentially contaminated raw commodities and fining the company. APHIS subsequently announced strengthened permit conditions for field testing of genetically engineered crops including additional inspections by APHIS personnel. A sample inspection plan might be five site visits during the growing season, and another two for assessing volunteers of the regulated crop the following year at the test site.

Can you assure us USDA/APHIS have adequate resources to implement its more restrictive conditions for field testing genetically engineered plants?

SECRETARY VENEMAN: APHIS is increasing its oversight of field tests involving plants engineered to produce pharmaceutical and industrial proteins. As part of this effort, APHIS is increasing the number of field site inspections it conducts from one during the growing season to at least five during the growing season and two in the following season. APHIS will also significantly increase the number of audits it conducts of permit holder records.

Currently, APHIS has at least two inspectors in every state who are available to help with these inspections, in addition to their other duties. In May 2003, APHIS trained 25 inspectors who are now available to conduct inspections of bio-engineered plants to be used in production of pharmaceuticals and industrials, in addition to their other duties. APHIS is also planning to hire several inspection coordinators and compliance specialists to support this effort. Additional hiring of inspectors may be done in the future, depending on workload demands.

Additionally, APHIS is working on a system to track and maintain compliance data in an electronic form. The new database will facilitate our ability to evaluate compliance data and report our findings to the public. We expect that the new employees hired along with our existing workforce will allow us to manage the increased number of inspections, continually improve training for the inspectors, enhance our record keeping system, and audit more permit holders. These outputs should help us to meet our goal of increasing permit holder compliance.

In addition to the funding specified in APHIS' budget request for FY 2004, USDA's budget for the Office of the Secretary also includes $6.6 million for crosscutting trade negotiating efforts and biotechnology activities. As Congress conducts hearings on the President's FY 2004 budget, we will continue to work closely with the Appropriations Committees to ensure the necessary funding to carry out APHIS' programs.

SENATOR HARKIN

Benefits for Qualified Resident Aliens

During the farm bill we worked together to restore food stamp benefits for certain legal immigrants. That provision went into effect on April 1. How has the implementation of this provision proceeded? Have states had any difficulties with the implementation? How many people have come onto the food stamp program in the short time that this provision has been in effect? How many people do you estimate will come onto the program when this benefit is fully implemented?

SECRETARY VENEMAN: The restoration of food stamp benefits for qualified legal immigrants has been very successful. States have implemented the changes timely and without incident and continue to work with local advocates to reach out to their immigrant communities to get the word out about the new changes.

The Food and Nutrition Service (FNS) has moved quickly to prepare States for the immigrant benefits restoration. On June 17, 2002, FNS issued implementation guidance for all Farm Bill provisions. Then, in October 2002, we issued supplementary implementation guidance relating specifically to the April 2003 and October 2003 restoration provisions. Finally, in January 2003, we issued a compilation of all noncitizen eligibility policies to illustrate the interaction of existing policies with the Farm Bill changes.

Although it's too soon to tell how many people have come onto the program, indicators suggest that the number may be substantial. Early on, FNS contracted with the Urban Institute to study the impact of the Farm Bill changes. As part of the study, the Urban Institute surveyed six states with the largest immigrant populations. Those states estimated that up to 160,000 newly eligible immigrants would come onto the program this year.

We expect immigrant eligibility restorations will be fully realized by FY 2006, with over 400,000 legal immigrants receiving benefits, including immigrants from working-poor families, the elderly and disabled, and approximately 60,000 children whose eligibility will be restored on October 1, 2003.

SENATOR HARKIN

Program Simplification

Many of the changes made in the nutrition title of the farm bill, particularly those changes pertaining to program simplification, were state options. What kind of response has USDA been getting from the states on these options? Are there any provisions that states have been more reluctant to adopt than others? If so, why is this the case and what is USDA doing to encourage states to adopt these options?

SECRETARY VENEMAN: The expanded options provided under the Farm Bill make it easier for States to administer the Food Stamp Program and, make it easier for low-income households to participate by reducing the red tape – especially for working households. Within the first month of the Farm Bill's enactment, Under Secretary Eric Bost sent two letters to all State Commissioners informing them about our implementation plans and encouraging them to take full advantage of the flexibility provided with the various options. FNS also provided technical assistance in the form of guidance and training sessions for all States on the major provisions. Implementation of the Farm Bill is one of FNS' three priorities for FY 2003.

As of February 2003, 48 States had implemented one or more of the eight program simplification options available in the Farm Bill. One State, New York, had implemented all eight. Arizona had taken advantage of seven. New Hampshire had adopted five. Georgia, South Carolina, Colorado, and Maine had each elected to take four of the options. The States not having implemented any of the available options at that time were North Carolina, Minnesota, New Mexico, Kansas, and Idaho. The nationwide average of options adopted was 1.8 per State.

Other than the provisions for simplifying shelter cost deductions, the most popular option so far has been the expansion of reduced reporting requirements to more types of households than previously allowed. Of the 25 States that had previously implemented simplified reporting for earned income households, 13 have taken the opportunity afforded in legislation to include additional households in such a system. These thirteen include four of the ten largest States in terms of food stamp program participation: Texas, New York, Tennessee, and Georgia. Almost a third of the approximately 20.7 million people receiving food stamps as of February 2003 lived in States that afford households the advantage of having reduced change reporting requirements while receiving benefits and the convenience of having to make fewer trips to the certification office with less paperwork involved in order to reapply. We are aware that other States intend to implement this option, and we expect to be able to report more extensive use of this provision in the future.

The next most popular program simplification option implemented has been aligning food stamp policy on income with policy in State TANF and/or Medicaid programs. Eleven States had completed such alignments as of February 2003. Nine States had done the same with their policy on resources.

One important option for better serving low-income working households, the Transitional Benefits Alternative, is a refinement of an option in existence prior to the Farm Bill that provides an uninterrupted stable food stamp benefit amount to families leaving TANF for up to five months after their time on public assistance ends. While

before the only State to have adopted this option was New York, a total of six States have elected to provide this type of benefit as structured in the newest legislation.

The least popular options so far have been the ones for simplifying deductions and for treating child support payments made to dependents living outside the household as an exemption from income rather than as a deduction. Only three and four States respectively have tried making these changes. The two measures related to shelter costs, one for standardizing the homeless shelter cost deduction and one for simplifying the standard utility allowance for residents of subsidized housing and for households sharing living quarters, have been adopted by 23 and 16 States respectively.

FNS continues to promote these simplifications. In February FNS published a "State Option Report" for States use in understanding what options all the States have implemented. This spring, FNS has hosted two bi-regional conferences and will soon host a tri-regional gathering of State officials. The simplification options of the Farm Bill are a central topic in these sessions. FNS policy officials and staff routinely promote the Farm Bill options in meetings and conferences.

SENATOR HARKIN

Trade

The trade title of the 2002 farm bill contained provisions requiring USDA to give equal consideration to new proposals for projects under new funding provided for the Market Access Program (MAP) and the Foreign Market Development Program (FMD). How many proposals from groups that have not previously participated in these programs have been received for fiscal 2003, and how many were approved?

SECRETARY VENEMAN: The annual deadline for submitting applications to the MAP and FMD was March 10, 2003. There were no new applicants to the programs.

SENATOR HARKIN

Iraq

In Iraq, while most of the U.S. press reporting is focusing on the slow efforts to rehabilitate the country's oil sector and get basic utilities to work, there is some question about the state of the distribution system for the country's food and agricultural commodities. A May 12 New York Times article suggested that Iraqi farmers nearing the time to harvest their fall-planted crops do not have any idea where to deliver their grain or what price they will receive for it. What steps are being taken by our Department of Agriculture or other U.S. agencies to assist reconstruction of the Iraqi grain procurement and distribution system?

SECRETARY VENEMAN: The highest priority has been given to obtaining fuel for the operating of farm equipment and combines and for cash to pay for the crops at predetermined prices. An abundant crop is being harvested.

The Office of Reconstruction and Humanitarian Assistance (since renamed the Coalition Provisional Authority) set prices at $105.00 for wheat and $65.00 for barley, each significantly higher that Saddam Hussein had announced prior to the war. Cash was made available from Oil For Food funds and farmers have been making deliveries to their customary points and payments are being made.

SENATOR HARKIN: Has any thought been given to setting up school nutrition or farmer-to-farmer programs in Iraq after the security situation is stabilized?

SECRETARY VENEMAN: The Public Distribution System was established with the cooperation of the U.N. World Food Programme and the Iraqi Ministry of Trade for the distribution of the basic monthly rations - rice, flour, vegetable oil and pulses, and other items for families with children -- funded under the Oil-for Food Program. This food aid is geared to entire families, obviously including school age children but not limited to them. This system hopefully can be dismantled in six months with a free market system up and running. If not, some system of food aid will probably have to be maintained. The current food aid is being distributed by 44,000 local Iraqi agents of the Public Distribution System (PDS). Because of the richness of Iraq's natural resources and our confidence that its food production can increase significantly we are hopeful that Iraq's economy will be self-supporting in the relatively near future.

USDA will consider all proposals for the McGovern-Dole International Food for Education and Child Nutrition program, including any for Iraq, during the application period that we expect to begin in June. A major consideration for program allocation will be the cooperating sponsor's ability to carry out effective programs immediately. It is not clear that criteria could be met for Iraq since the economic and political systems are in transition. Also, Iraq will soon return to the status of middle-income countries. Due to the limited budget for the McGovern-Dole International Food for Education and Child Nutrition program, most programming resources are expected to go to low-income countries.

The Farmer-to-Farmer program is not managed within USDA, but rather by USAID's Office of Private and Voluntary Cooperation.

SENATOR HARKIN

Country of Origin Labeling Cost Analysis

Recently, an independent and comprehensive study on the costs and benefits of country of origin labeling was released by the International Agricultural Trade and Policy Center at the University of Florida. It stated that costs for record keeping to comply with the country of origin labeling law was $69 to $193 million, which is about one-tenth of a cent per pound for covered commodities. This is a stark contrast to the $2 billion cost analysis conducted by the Agricultural Marketing Service (AMS). The research also stated that the benefits of labeling "substantially" outweigh the cost. For example, the research states that the aggregate willingness-to-pay for labeling of beef alone is in excess of $3.5 billion.

First and foremost, I urge you to closely examine the research carried out by the University of Florida because it appears to be a well-balanced and comprehensive study of this issue. I believe there is a lot to be gained from it.

Has the Agricultural Marketing Service (AMS) conducted another cost analysis, other than the study that reflected a $2 billion cost to the industry, to gain a more accurate picture of the potential cost of country of origin labeling, and if not, why?

Has AMS made any effort in analyzing the benefits of country of origin labeling, such as the willingness to pay for labeled products and consumer confidence, and if not, why?

SECRETARY VENEMAN: We have heard from many interested parties about the $2 billion cost estimate, which was just that – an estimate on our part. Due to the significant nature of the mandatory country of origin labeling (COOL) regulation, we will be conducting a comprehensive economic impact analysis to more fully evaluate all costs and benefits associated with implementing this mandate. The economic analysis will consider economic benefits that may be associated with COOL, such as consumer demand for country of origin information and the distribution of benefits throughout the production and marketing claims. The analysis will also consider costs of product segregation, inventory management, process verification and other costs throughout the industry beyond just record keeping. We hope to publish the proposed rule in the *Federal Register* this fall.

SENATOR HARKIN

Country of Origin Labeling Third Party Verification

The country of origin labeling law states that a retailer of a covered commodity may designate the covered commodity as having a United States country of origin only if the covered commodity is exclusively born, raised, and slaughtered in the United States. The objective of enforcement, of course, is to ensure that ineligible products do not carry the U.S. origin label.

Comments by Under Secretary Hawks suggest that USDA will focus on careful tracing and third-party verification of animals to make sure any product with the U.S. label is indeed from animals born, raised and slaughtered in the U.S. The issue is live animals, since imported meat is already labeled and its origin can be kept track of. Of the animals slaughtered in the U.S., we know that 95 percent currently satisfy the born, raised and slaughtered in the U.S. requirement. That is because just five percent of hogs and four percent of cattle slaughtered in the U.S. are imported. Further, of those imported animals, a substantial share goes directly to slaughter and the packer knows their origin and can keep track of it. Hence, it is only the live animals imported for further feeding as to which there is really any serious issue of tracing and verification.

It appears that USDA's enforcement approach is exactly backwards. Instead of applying burdensome tracing and verification requirements to the 95 percent of slaughtered animals that fully satisfy U.S. origin labeling requirements, why not focus on the small percentage of animals that do not qualify for the U.S. origin label? That is, why not simply focus on making sure that products from those ineligible feeder cattle and pigs do not receive the U.S. label - rather than impose unnecessary burdens on the 95 percent whose origin is not in question?

SECRETARY VENEMAN: The country of origin labeling law applies to all covered commodities and specifically identifies the criteria that products of U.S. origin must meet. In addition, the law does not provide authority to control the movement of domestic or imported products and prohibits the use of a mandatory identification system, which would be required to track imported product through the entire chain of commerce.

SENATOR HARKIN

Country of Origin Labeling

Over the course of the last few months, I have received letters from constituents concerned about information they have received from meat packers regarding country of origin labeling. Some packers evidently intend to use random private audits of farmers and ranchers for compliance. The law was carefully written to prohibit on-farm, mandatory animal identification, and it was not Congress' intent to require third-party certification. Indeed the law regulates retailers, not farmers since they raise live animals and not covered commodities.

Since the law prohibits mandatory animal identification and does not require third party certification, would USDA's regulation allow packers to impose these requirements? Other programs by USDA do not require third party certification, for example, the USDA grading system or the School Lunch Program.

Do you agree that the law regulates covered commodities and not live animals that are raised by farmers? And if so, what is USDA doing to dispel the false notion that the producer is regulated under the program?

SECRETARY VENEMAN: It is true that the law regulates covered commodities and not live animals. However, records can only be created by the person having first-hand knowledge of the country designation for each production step declared in the country of origin claim. For retailers to comply with the statute, their suppliers must maintain and provide them with records that verify the country of origin of covered commodities. While the covered commodities beef, pork and lamb are produced from cattle, hogs and sheep, which are not covered commodities, records substantiating claims for U.S. born and/or raised livestock would be necessary for the supplier (slaughterer) to provide required country of origin information to the retailer.

In April 2003, USDA began a series of 12 nationwide listening sessions to provide interested parties more information about these new requirements. In addition, USDA has met with over 40 different groups regarding the implementation of COOL to help clarify the requirements of the law.

SENATOR HARKIN

Payment Limitations

Often, program benefits are delivered indirectly through complex business arrangements or through marketing associations. To enable Congress to better understand the complexity of payment limitations, the 2002 farm bill included a requirement to track benefits - both direct and indirect - to individuals and entities.

> Sec. 1614. TRACKING OF BENEFITS.
> As soon as practicable after the date of enactment of this Act, the Secretary shall establish procedures to track the benefits provided, directly or indirectly, to individuals and entities under titles I and II and the amendments made by those titles.

What steps has the Department taken to begin tracking commodity and conservation benefits? When will the tracking system be in full operation?

SECRETARY VENEMAN: FSA personnel have met with NRCS personnel and the report requirements are being developed. However, implementation of other Farm Bill provisions and disaster programs have been given priority. A specific date for the tracking system to be in full operation cannot be provided at this time.

SENATOR HARKIN

Commodity Promotion Assessment Exemption

The farm bill required USDA to write a rule that would exempt farmers who produce 100 percent organic products from generic commodity promotion assessments. This promotion exemption rule was due one year after the passage of the farm bill. Can you provide an update on the status of this rulemaking process?

SECRETARY VENEMAN: The 2002 Farm Bill amended Section 501 of the 1996 Farm Bill to exempt organic producers and marketers from paying assessments to a commodity research and promotion program if they "produce and market solely 100 percent organic products… and not produce any conventional or nonorganic products." The Department is now drafting amendments to regulations governing most research and promotion programs and certain marketing order programs to allow for this exemption. A proposed rule is expected to be published in the near future.

SENATOR HARKIN

Base and Yield Sign-up

Despite a very slow start, nationally, 94 percent of eligible farms have completed their base and yield election. As additional farms complete their paper work, or scheduled meetings with local Farm Service Agencies, the number can be expected to increase modestly.

In Iowa, over 97 percent of eligible farms have completed their base and yield election. Two counties, Clay and Emmet, have 100 percent complete elections.

How much has the Department paid to producers for 2003 direct payments?

SECRETARY VENEMAN: Approximately $2.2 billion.

SENATOR HARKIN

Beginning Farmer Provisions

As you know, the 2002 farm bill included a variety of important provisions to assist beginning farmers and ranchers. If we want to retain a family farm-based agriculture, it is essential that more attention be paid to this issue. I am pleased to hear that most of the revisions to farm credit provisions in the credit title of the farm bill have been implemented.

One provision of the credit title yet to be announced is the Beginning Farmer and Rancher contract land sales pilot program. When will this pilot program be available?

What progress has been made in formulating nationwide, consistent criteria for waivers in the borrower-training program? It is important that the borrower-training for this program be re-energized and for waivers to be brought under control.

SECRETARY VENEMAN: It is projected that the Beginning Farmer and Rancher contract land sales pilot program will be implemented in six states (Indiana, Iowa, North Dakota, Oregon, Pennsylvania, and Wisconsin) in the fall of 2003.

FSA has issued guidelines (as outlined in 7 C.F.R., part 1924.74) which permits a waiver, in select instances, to borrowers who have previously completed a comparable training program or have demonstrated the ability to conduct a successful farming operation. The rules authorizing a waiver of borrower training are very specific. For example, a waiver based upon a borrower having demonstrated the ability to carry out a successful farming operation must be supported by five years of production records. The granting of a waiver based upon completion of previous course work having a similar itinerary requires a certificate of completion or like documents for review by FSA.

SENATOR HARKIN

State and County Farm Data

Please provide the Committee with the following information for each state based on preliminary data from state and county offices:

-2002/2003 DCP base acres for each crop;
-2002/2003 average direct payment yield for each crop; and
-2002/2003 average counter-cyclical payment yield for each crop.

SECRETARY VENEMAN: This information is not readily available, but we anticipate that this information will be able to be obtained in late summer when all Base & Yield elections have been made and all contracts have been signed.

SENATOR BAUCUS

Higher levels of crop insurance receiving less disaster payments

Secretary Veneman, I notice that you stated that the Crop Disaster Program has been "designed so as to **not** discourage producers from purchasing adequate crop insurance coverage." There is a wheat producer in Chester, Montana – right in the center of Montana's drought. He has suffered from 6 years of drought and in 2001 he had nearly a complete crop loss. He has played by the rules, has done what is right and has purchased high levels of crop insurance for the past several years – he has 75% CRC crop insurance coverage. His premiums get higher every year, but he continues to purchase **one** of the highest levels of crop insurance available. This year, when he calculated his disaster payment for 2001, he realized that he would have received a higher disaster payment if he had a lower level of crop insurance. In fact, he would be doing a lot better if he had bought the lower levels of crop insurance over the past several years. He has friends who held the lower level of crop insurance – 65% Multi Peril Crop Insurance – and they laugh at him because they paid less – a lot less – for their premiums over the past several years and they came out a lot better than him this year. I'm pretty sure he's going to be discouraged from purchasing the same high level of crop insurance next year. Secretary, can you explain to me how the crop insurance program has been designed so as to not discourage my producers in Montana – who have suffered from consecutive years of drought and have continuously bought high levels of crop insurance – from purchasing adequate crop insurance coverage?

SECRETARY VENEMAN: We share your concern about the long-term effects of drought driving up the cost of insurance and reducing the level of protection. The Department is currently taking steps to address this important issue, including evaluating possible changes to the law that would allow yield substitutions and holding a series of prevented planting forums to find ways to improve prevented planting coverage. Current crop insurance procedure allows producers who have suffered catastrophic losses to receive a yield guarantee equal to 60 percent of a proxy county yield (transitional yield). Otherwise, procedure limits declines in yield guarantees to no more that 10 percent from year to year.

Concerning the interplay between crop insurance and disaster payments, USDA examined a number of different options for implementation. The approach selected recognizes the concerns that have been raised and maximizes the resources provided under legislation. This approach is also consistent with the recommendation of many of the farm organizations that contacted USDA. Finally, I would simply note that it is not necessarily the design of the crop insurance program, but rather the expectation of *ad hoc* disaster assistance that discourages higher levels of participation.

SENATOR BAUCUS

I was very concerned to learn that the USDA appeared to only consult with opponents of mandatory country-of-origin labeling before developing the guidelines and 2 billion dollar cost estimate. In February, I sent a letter, along with 11 other Senators, asking the USDA whether they will conduct a more objective cost analysis and how that would be done. Will another cost analysis be done? Will it be done after the listening sessions? Also, will the USDA wait until the listening sessions are completed before writing rules for country-of-origin labeling?

SECRETARY VENEMAN: We have heard from many interested parties about the $2 billion cost estimate, which was just that – an estimate on our part. Due to the significant nature of the mandatory country of origin labeling (COOL) regulation, we will be conducting a comprehensive economic impact analysis to more fully evaluate all costs and benefits associated with implementing this mandate. The economic analysis will consider economic benefits that may be associated with COOL, such as consumer demand for country of origin information and the distribution of benefits throughout the production and marketing claims. The analysis will also consider costs of product segregation, inventory management, process verification and other costs throughout the industry beyond just record keeping. This analysis will be prepared after the listening sessions and in conjunction with the proposed rule on country of origin labeling, which we hope to have published in the *Federal Register* this fall. USDA's focus is on implementing the statute in a manner that maximizes benefits with the least possible cost and burden to the Nation's production and marketing infrastructure.

SENATOR MILLER

Farmers are placing peanuts in the loan and are having as much as 3.5% taken off for shrinkage of their product. Would the USDA take a look at how we can prevent farmers from losing this amount of their eligibility that Congress has promised?

SECRETARY VENEMAN: When peanuts or any other type of crop is received into a warehouse for storage, the warehouse operator makes a commitment to its storage customers to redeliver an amount of commodity at the end of the storage period. While in storage, the commodity is subject to many factors that affect the weight and quality of the commodity. Dust, changes in moisture content, losses in handling all reduce the weight of the commodity available for redelivery. Each warehouse is expected to establish a reasonable shrink policy to estimate what the warehouse will be able to deliver when called on. This shrink policy used by a warehouse operator is a reasonable business practice between the warehouse and the depositor. A producer can and should clearly understand a warehouse operators shrink policy and deal with those warehouse operators whose policy is reasonable to both parties. Because shrink is a common trade practice in the warehouse industry, USDA does not establish or regulate these practices.

SENATOR MILLER

The loan repayment rate is too high. My growers do not believe it reflects the world market price or what growers are contracting peanuts for in the domestic market. The University of Georgia's National Center for Peanuts Competitiveness has told us that the number does not accurately reflect either the domestic or the world marketplace, let along both. We are forcing U.S. peanuts into the loan and as one of our country's top peanut exporters, Birdsong Peanuts, has told us, destroying the U.S. peanut export market. The end result will be lost markets and high government costs.

I asked you about this the last time you testified and the rate dropped substantially, that very day. But it is not back to an unrealistic number. Can you get the FSA to reevaluate the methodology for determining the loan repayment rate? Specifically, that they weigh more heavily our competitors prices from around the world, i.e. Argentina and what farmers are contracting peanuts for in the United States.

SECRETARY VENEMAN: The Department has been working with the peanut industry in an effort to refine the process of setting peanut repayment rates at appropriate levels consistent with statutory requirements. As you know, the Farm Bill did give the Department discretion to determine repayment rates which would meet the objectives specified in the statute. These included minimizing potential loan forfeitures, minimizing CCC stock accumulation and storage costs and allowing U.S. peanuts to be marketed freely and competitively, both domestically and internationally. Clearly, this has been a challenge given the dramatic changes in the peanut sector made by the 2002 Farm Bill. Overall, it appears that the objectives are being met. Only 42 percent of the peanuts were put under loan and over 92 percent of the peanuts put under loan have been redeemed. There is little evidence that there will be loan forfeitures. If the loan repayment rate were "too high" producers would keep more peanuts under loan. Also, peanut imports have been low, which is not what would be expected if domestic prices (and the loan repayment rate) were "too high."

SENATOR MILLER

We continue to hear complaints about the need for additional permanent staff in our county FSA offices. Neither county FSA directors, committeemen nor farmers want more temporary employees. We know that these offices turn in workload figures for their particular offices. Does the Department have this cumulative information and can that be shared with our Committee?

SECRETARY VENEMAN: The FSA has a national workload reporting system that is used by each county office to report program and other work-related activities. There are various output reports generated from the system and they are used for management activities including program analysis, budget projection and distribution of staffing. The following table provides a national summary by major program area for fiscal year (FY) 2002 actual and FY 2003 and FY 2004 projected workload.

FARM SERVICE AGENCY
COUNTY LEVEL WORKLOAD DISBRIBUTION

PROGRAM/FUNCTION:	FY 2002 ACTUAL	CHANGE (+or-)	FY 2003 REVISED	CHANGE (+or-)	F R
Conservation and Related Programs	872	170	1,042	251	1
Commodity Loan Activity	502	111	613	(15)	5
Compliance	1,190	316	1,506	(104)	1
FCIC Program Integrity	126	16	142	6	1
Commodity Program Payments (Includes LDP)	1,633	450	2,083	(619)	1
Basic Farm Records (Includes Bases and Yields)	1,936	1,010	2,946	(1,763)	1
Peanut Quotas and Marketings	35	(35)	0	0	0
Tobacco Allotment and Marketings	192	5	197	0	1
Administration	2,504	(46)	2,457	(64)	2
Committee Elections	58	0	58	0	5
Miscellaneous (Largely Disaster)	892	70	961	(163)	7
County Automation Activities	881	3	884	(7)	8
Non-Insured Assistance Program	388	29	417	(189)	2
Measurement Services	219	(7)	212	(24)	1
SUBTOTAL	11,427	2,092	13,519	(2,692)	1
Farm Loan Activity	2,130	83	2,213	0	2
TOTAL	13,557	2,175	15,732	(2,692)	1
STAFF YEARS:					
Federal Staff Years	2,256	0	2,256	0	2
Non-Federal Staff Years	11,301	2,175	13,476	(2,692)	1
TOTAL STAFF YEARS	13,557	2,175	15,732	(2,692)	1

SENATOR GRASSLEY

As you are aware, Section 9002 of the farm Security and Rural Investment Act of 2002 provided for a new procurement regime that mandates purchasing of environmentally friendly bio-based products by Federal agencies. Where is USDA in the process of implementing Section 9002?

SECRETARY VENEMAN: USDA is moving on a number of fronts to implement Section 9002. First, USDA attorneys currently are reviewing proposed draft regulations to implement the preferred procurement of biobased products called for in the statute. We are hopeful that draft regulations will be published in the Federal Register sometime this summer. USDA has provided funding assistance to Department of Commerce's (DOC) National Institute of Standards and Technology (NIST) to develop the ability to use their Building for Environmental and Economic Sustainability (BEES) Analysis in evaluating products with biobased content from eight of the most common biobased sources. This gives NIST the ability to evaluate the environmental and health effects of a biobased product and the life cycle costs associated with its use. This analysis can provide statutorily required information to enable the Secretary to designate biobased items for preferred procurement.

Under a cooperative agreement between USDA's Office of Energy Policy and New Uses and Iowa State University, a web based information system is being developed to provide information to Federal agencies on biobased items that are available in the market place, and that have been designated for preferred procurement under the statute. USDA's Office of Procurement and Property Management is developing a model procurement program that will assure USDA acquires biobased products to the full extent possible under the statute, and that model procurement program will, in cooperation with OMB's Office of Federal Procurement Policy, be used in an outreach and education program to other federal agencies. USDA has worked with ASTM International (ASTM), an international standard setting organization for industry, in developing a quantitative standard for use in determining biobased content.

SENATOR GRASSLEY

The intent of Section 9002 was to stimulate the market development of bio-based products. Is there any way that you can make the regulations more flexible in order to encourage development of bio-based product markets? For instance, instead of creating lists of acceptable products, would it be possible to develop standard formulas for calculating biobased content? This approach would likely give more flexibility to Federal agencies and is completely consistent with both the language and the intent of Section 9002.

SECRETARY VENEMAN: USDA intends to implement Section 9002 in a way that will encourage the development of bio-based product markets. The Secretary is required, under the statute, to consider certain information in designating items for preferred procurement under the statute. USDA currently envisions that when an item, such as 2-cycle engine oils or hydraulic power steering and transmission fluid, is designated, any firm with such a product for sale, if it has the required minimum level of domestically produced biobased content, can certify to Federal agencies, in marketing products to those agencies, that its product qualifies for preferred procurement under the statute. Federal agencies, or USDA, may ask for test results indicating the biobased content in the product. USDA will be developing a web based information system on which companies will be encouraged to voluntarily post information about their product, in order to provide Federal agencies with information about available products with biobased content.

SENATOR GRASSLEY

To date, how has the USDA involved the private sector in the development of the regulations for Section 9002?

SECRETARY VENEMAN: USDA has met with industry, government agencies (such as the Defense Logistics Agency) and other interest group representatives on several occasions to discuss with them the statute, possible strategies for implementation, and to listen to their needs for information and their suggestions. USDA has made presentations on Section 9002 and strategies for its implementation at industry sponsored conferences, and has had discussions with industry and Federal agency representatives at those events.

The guidelines for preferred procurement will be published as a proposed rule with a 60-day public comment period. After the proposed rule has been published in the Federal Register, USDA plans to hold one or two national stakeholder meetings to discuss the draft regulations and to solicit comments from stakeholders.

SENATOR GRASSLEY

I am sure that you are aware that the application of industrial biotechnology promises to revolutionize the way we use agricultural products as feedstocks for manufacturing and energy production. What more can USDA do to help bring these new technologies together with the nation's farmers?

SECRETARY VENEMAN: USDA has a concerted, coordinated effort to stimulate this market opportunity for agricultural materials. At the research, development and demonstration levels, USDA is playing an important role by funding work in each of these areas through Cooperative State Research, Education and Extension Service (CSREES) programs. The Agricultural Research Service continues to play a key role in applied research and demonstration efforts at its national laboratories and at USDA's Beltsville facility. Section 9006 of the 2002 Farm Bill will open the door to a new range of grants, loans and loan guarantees for energy production. The funding available under Section 9008 of the Farm Bill for competitive research, development, and demonstration projects will fill an important need to pursue new research that improves the technical feasibility and economics of using biomass; develops new products; and demonstrates the market feasibility of biobased products, biofuels, and bioenergy. And Section 9010, the CCC Bioenergy Program is stimulating production of ethanol and biodiesel from a range of products. In order to make the most of these efforts, USDA needs to coordinate effectively across USDA agencies and with other Federal agencies such as the Department of Energy and the Environmental Protection Agency and to ensure the knowledge of the private sector is solicited and used in program development. We are committed to ensuring such actions take place.

SENATOR GRASSLEY

I note that you are funding a new round of biorefinery and biomass-to energy projects. Industrial biotechnology can convert corn or corn stover to sugars that can be made into ethanol, green plastics or chemicals. Is USDA funding biorefineries that produce multiple products or only ethanol projects?

SECRETARY VENEMAN: Starch and cellulosic materials can be converted into a multitude of products as you suggest. A key element for funding from Section 9006 of the 2002 Farm Bill, the new Renewable Energy Systems and Energy Efficiency Improvements Program is commercial viability. Multiple products from a biorefinery are more likely to ensure commercial viability than simply producing one product like ethanol. Even large and small ethanol plants today must produce coproducts to be profitable. The Farm Bill also funds the Biomass Research and Development Act, conducted jointly with the Department of Energy that is also contributing funds. Both Departments will carefully examine proposals for research, development and demonstration that can enhance the economics for biorefineries from biomass, since bioproducts, biopower and biofuels are all covered in the solicitation. Project selection for both solicitations is expected to occur in the summer.

Potential funding for biorefineries for FY 2003 could also come from the Rural Development Value Added Program or the Rural Development Business and Industry Loan Program.

SENATOR GRASSLEY

Do you have an estimate, or could you provide an estimate, on the market potential and market value for corn and corn stover that can be transformed by biotechnology into consumer products? It seems to me that this could be a multibillion dollar industry and I would be interest in any USDA estimates.

SECRETARY VENEMAN: I agree there may be some potential. I will have some analysis done for insertion in the record.

Analysis of Economic Potential of Crop Biomass

A preliminary analysis in the Department of Energy's (DOE) "PLANT/CROP-BASED RENEWABLE RESOURCES 2020" report estimates the corn and soybean prices and farm income through 2010 that would result if corn feedstock captured10 percent of the basic chemical building blocks market by 2020. According to DOE, 2 percent of basic chemical building blocks came from plant-derived renewables in 1996. However, the analysis assumes, for simplification, that corn is the exclusive feedstock used in achieving this 10-percent goal. According to the analysis, corn demand would increase over this time period, as it is used in increasing quantity by the basic chemical building block market.

The analysis was conducted using two scenarios. The first scenario assumes that there are proteins and fiber byproducts left over from corn processing that must be marketed. In this scenario, corn prices would rise by an annual average of 17 cents per bushel over the 1997-2010 period, in response to rising corn demand for chemical building blocks usage. As the corn-processing byproducts enter the livestock feed markets and compete with soybeans, soybean prices would decline by an annual average of 3.3 cents per bushel over the same period. Net farm income would rise by an annual average of $2.1 billion per year over this timeframe.

The second scenario assumes a breakthrough in the conversion of protein and fiber to biobased building blocks for which there is a market demand, utilizing all of the corn kernel in the production of biobased feedstocks and leaving no byproducts that would affect soybean or other crop commodity markets. In this scenario, corn prices would rise by an annual average of 15.4 cents per bushel from1997 to 2010, with net farm income rising by an annual average of $2.5 billion over the same period.

In a separate analysis funded by USDA, "Some New Ethanol Technology: Cost Competition and Adoptions Effects in the Petroleum Market" (The Energy Journal, Volume 20, Number 2, IAAE, pp. 89-120, 1999), Paul Gallagher and Donald Johnson examine the effects of using corn stover in the production of basic chemical building blocks. Should this process prove commercially successful, the authors estimate the benefits to stover producers and processors to be about $1.2 billion annually.

Furthermore, a recently-released USDA study, "Biomass from Crop Residues: Cost and Supply Estimates", concludes that the biomass supply from crop residues like corn stover can increase producer profits while still maintaining soil quality, provided that reduced tillage and partial residue harvests are used appropriately. Corn Belt and Great Plains residues are probably the lowest cost form

of biomass supply, but there is a wider range of costs in the Great Plains than in the Corn Belt. The remaining regions--the West Coast, the Delta, and the Southeast--also have pockets with residue supplies and a wide variation in costs.

Crop residues have the potential to displace 12.5 percent of petroleum imports or 5 percent of electricity consumption in today's markets. Residues also have growth potential, as crop productivity improves and livestock demands for forage declines. When residue supplies are included with some other agricultural sources, biomass supply from crop agriculture could account for an important share of our energy consumption. However, further development of processing technology is still needed.

SENATOR GRASSLEY

Value-Added Producer Grants

The Farm Security and Rural Investment Act of 2002 provides $40 million in mandatory spending over six years for the Value Added Development Grants program bringing total funding for the program to $240 million over the life of the farm bill. What is the timeline for publishing a proposed rule and a Notice of Funding Availability this fiscal year for the Value-Added Producer Grant program? I am concerned that further delay in publishing a final rule and going forward with a round of producer grants will jeopardize the program's funding for fiscal year 2004.

SECRETARY VENEMAN: The Administrative Procedures Act requires that new programs such as the Value-Added Producer Grant program undergo formal rulemaking giving the public the opportunity to comment. This is a time consuming process that includes drafting and publishing a proposed rule for public comment, then drafting and publishing a final rule incorporating those comments. A proposed rule has been drafted for the Value-Added Producer Grant program. It has completed Department clearance and is currently being reviewed by the Office of Management and Budget (OMB). After OMB completes its review, there will be a 60 day public comment period. Then, the final rule will be drafted and cleared.

The final rule and the Notice of Funding Availability (NOFA) will be published simultaneously. We expect this to occur this Fall, with funds obligated in early Winter. Since this program is no-year money, there is no problem carrying over fiscal year 2003 funds into fiscal year 2004. We expect to publish the NOFA for the fiscal year 2004 program soon after obligating fiscal year 2003 funds.

SENATOR GRASSLEY

I was pleased to be a supporter along with many of my colleagues of the 2002 farm bill's Beginning Farmer and Rancher Development Program. The agriculture community and the nation as a while needs to ratchet up the attention paid to fostering a new generation of independent family farmers and finding innovative ways to get beginning farmers and ranchers started in agriculture. The BFRDP 9section 7405 of the farm bill) will make an important contribution in this effort. I am interested in learning what the Department and the Cooperative State Research Education and Extension Service has accomplished to date in the developing this program. Obviously, Congress must respond with appropriations before grants may e awarded and it is my hope that money will be included in the FY 04 appropriations bill. In the meantime, it is important that the Department assign responsibilities develop guidelines, collaborate with colleagues, universities and non-governmental organizations with expertise on beginning farmer programs, and begin to draft requests for proposals so the program can begin as soon as appropriations are made available. For the record, please inform me and the Committee of progress made to date on this important initiative.

SECRETARY VENEMAN: Thank you for your question Senator Grassley. As you point out the Farm Security and Rural Investment Act of 2002 does authorize the Beginning Farmer and Rancher Development Program (section 7405). As you also note, the Fiscal Year 2003 Agriculture Appropriations Act does not provide any funding to this program. Therefore the Cooperative State Research Education and Extension Service is unable to administer this section's provisions. However, CSREES does work through the Sustainable Agriculture Research and Education program to address the needs of beginning farmers. The Cooperative Extension System, supported through Smith-Lever formula funds administered by CSREES, has a growing program in farm financial education and succession planning. In addition CSREES contributes expertise to the Small Farms Program of USDA which, among other issues, seeks to address the needs of beginning farmers. As we prepare the Fiscal Year 2005 President's budget we will consider the Beginning Farmer and Rancher Development Program as we seek to balance the many priorities of the Department.

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