AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

HEARING TO REVIEW U.S. FARM SAFETY NET PROGRAMS IN ADVANCE OF THE 2012 FARM BILL

HEARINGS

BEFORE THE

SUBCOMMITTEE ON
GENERAL FARM COMMODITIES
AND RISK MANAGEMENT

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

SECOND SESSION

JUNE 17, 24, 2010

Serial No. 111–52

Printed for the use of the Committee on Agriculture
agriculture.house.gov

U.S. GOVERNMENT PRINTING OFFICE

58–016 PDF WASHINGTON : 2010

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

COMMITTEE ON AGRICULTURE

COLLIN C. PETERSON, Minnesota, *Chairman*

TIM HOLDEN, Pennsylvania, *Vice Chairman*
MIKE McINTYRE, North Carolina
LEONARD L. BOSWELL, Iowa
JOE BACA, California
DENNIS A. CARDOZA, California
DAVID SCOTT, Georgia
JIM MARSHALL, Georgia
STEPHANIE HERSETH SANDLIN, South Dakota
HENRY CUELLAR, Texas
JIM COSTA, California
BRAD ELLSWORTH, Indiana
TIMOTHY J. WALZ, Minnesota
STEVE KAGEN, Wisconsin
KURT SCHRADER, Oregon
DEBORAH L. HALVORSON, Illinois
KATHLEEN A. DAHLKEMPER, Pennsylvania
BOBBY BRIGHT, Alabama
BETSY MARKEY, Colorado
FRANK KRATOVIL, JR., Maryland
MARK H. SCHAUER, Michigan
LARRY KISSELL, North Carolina
JOHN A. BOCCIERI, Ohio
SCOTT MURPHY, New York
WILLIAM L. OWENS, New York
EARL POMEROY, North Dakota
TRAVIS W. CHILDERS, Mississippi
WALT MINNICK, Idaho

FRANK D. LUCAS, Oklahoma, *Ranking Minority Member*
BOB GOODLATTE, Virginia
JERRY MORAN, Kansas
TIMOTHY V. JOHNSON, Illinois
SAM GRAVES, Missouri
MIKE ROGERS, Alabama
STEVE KING, Iowa
RANDY NEUGEBAUER, Texas
K. MICHAEL CONAWAY, Texas
JEFF FORTENBERRY, Nebraska
JEAN SCHMIDT, Ohio
ADRIAN SMITH, Nebraska
DAVID P. ROE, Tennessee
BLAINE LUETKEMEYER, Missouri
GLENN THOMPSON, Pennsylvania
BILL CASSIDY, Louisiana
CYNTHIA M. LUMMIS, Wyoming
THOMAS J. ROONEY, Florida

PROFESSIONAL STAFF

ROBERT L. LAREW, *Chief of Staff*
ANDREW W. BAKER, *Chief Counsel*
APRIL SLAYTON, *Communications Director*
NICOLE SCOTT, *Minority Staff Director*

SUBCOMMITTEE ON GENERAL FARM COMMODITIES AND RISK MANAGEMENT

LEONARD L. BOSWELL, Iowa, *Chairman*

JIM MARSHALL, Georgia
BRAD ELLSWORTH, Indiana
TIMOTHY J. WALZ, Minnesota
KURT SCHRADER, Oregon
STEPHANIE HERSETH SANDLIN, South Dakota
BETSY MARKEY, Colorado
LARRY KISSELL, North Carolina
DEBORAH L. HALVORSON, Illinois
EARL POMEROY, North Dakota
TRAVIS W. CHILDERS, Mississippi

JERRY MORAN, Kansas, *Ranking Minority Member*
TIMOTHY V. JOHNSON, Illinois
SAM GRAVES, Missouri
STEVE KING, Iowa
K. MICHAEL CONAWAY, Texas
BLAINE LUETKEMEYER, Missouri
THOMAS J. ROONEY, Florida

ALETA BOTTS, *Subcommittee Staff Director*

CONTENTS

Page

Thursday, June 17, 2010

Boswell, Hon. Leonard L., a Representative in Congress from Iowa, opening statement 1
Moran, Hon. Jerry, a Representative in Congress from Kansas, opening statement 2
Prepared statement 3
Peterson, Hon. Collin C., a Representative in Congress from Minnesota, prepared statement 4

WITNESS

Miller, Hon. James W. "Jim", Under Secretary for Farm and Foreign Agricultural Services, U.S. Department of Agriculture; accompanied by Jonathan W. Coppess, J.D., Administrator, Farm Service Agency; William J. "Bill" Murphy, Administrator, Risk Management Agency, Washington, D.C. 5
Prepared statement 8

SUBMITTED QUESTIONS

Submitted questions 35

Thursday, June 24, 2010

Boswell, Hon. Leonard L., a Representative in Congress from Iowa, opening statement 112
Prepared statement 42
Marshall, Hon. Jim, a Representative in Congress from Georgia, opening statement 41
Moran, Hon. Jerry, a Representative in Congress from Kansas, opening statement 55
Peterson, Hon. Collin C., a Representative in Congress from Minnesota, opening statement 54

WITNESSES

Nelson, Philip, President, Illinois Farm Bureau Federation; Board Member, American Farm Bureau Federation, Seneca, IL 43
Prepared statement 45
Peppler, Kent, President, Rocky Mountain Farmers Union; Treasurer, National Farmers Union, Denver, CO 49
Prepared statement 51
Bush, Anthony, Chairman, Public Policy Action Team, National Corn Growers Association, Mt. Gilead, OH 55
Prepared statement 56
Henderson, David L., President, National Barley Growers Association, Cut Bank, MT 60
Prepared statement 61
Joslin, Robinson W., President, American Soybean Association, Sidney, OH 64
Prepared statement 65
Murphy, Gary, Chairman of the Board, U.S. Rice Producers Association, Bernie, MO; on behalf of USA Rice Federation 76
Prepared statement 78
Simonsen, Gerald, Chairman, Board of Directors, National Sorghum Producers, Ruskin, NE 84

Page

Simonsen, Gerald, Chairman, Board of Directors, National Sorghum Producers, Ruskin, NE—Continued
Prepared statement 86
Smith, Eddie, Chairman, National Cotton Council; Cotton Producer, Floydada, TX 89
Prepared statement 91
Thompson, James "Jim", Chairman, USA Dry Pea & Lentil Council, Farmington, WA 99
Prepared statement 100
Younggren, Erik, Second Vice President, National Association of Wheat Growers, Hallock, MN 102
Prepared statement 104

SUBMITTED QUESTIONS

Submitted questions 121

HEARING TO REVIEW U.S. FARM SAFETY NET PROGRAMS IN ADVANCE OF THE 2012 FARM BILL

THURSDAY, JUNE 17, 2010

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GENERAL FARM COMMODITIES AND RISK MANAGEMENT,
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The Subcommittee met, pursuant to call, at 10:03 a.m., in Room 1300 of the Longworth House Office Building, Hon. Leonard L. Boswell [Chairman of the Subcommittee] presiding.

Members present: Representatives Boswell, Herseth Sandlin, Kissell, Pomeroy, Moran, Conaway, Luetkemeyer, and Rooney.

Staff present: Aleta Botts, Liz Friedlander, John Konya, Clark Ogilvie, James Ryder, Anne Simmons, Rebekah Solem, Pelham Straughn, Jamie Mitchell, and Sangina Wright.

OPENING STATEMENT OF HON. LEONARD L. BOSWELL, A REPRESENTATIVE IN CONGRESS FROM IOWA

The CHAIRMAN. Okay. We would like to call the Subcommittee on General Farm Commodities and Risk Management hearing to review U.S. farm safety net programs in advance of the 2012 Farm Bill to come to order. I would like to thank everyone for joining us here today as we review the farm safety net programs established in the 2008 Farm Bill. I would especially like to thank our witness today, Under Secretary Miller, who will provide valuable insight into this issue and help us move forward in developing the 2012 Farm Bill. I very much look forward to hearing your testimony.

Being from Iowa, a state with over 92,000 farms and over 30 million acres in production, I understand the challenges that farmers and those in the agriculture business are facing today. With Iowa ranking number one in the nation in pork, egg, corn and soybean production, the farm bill affects a great deal of the state. Much of Iowa's economy is directly or indirectly tied to agriculture in some fashion, and we are proud of our strong tradition of feeding and now fueling the world. That is why it is so important for us to construct a bill that will not only help Iowa move forward, but the rest of the country, or world, for that matter.

Those of us involved in agriculture are facing unprecedented times. In the past 5 years, many have reaped record high prices for their products only to have the bottom fall out and stay out for years. Input costs continue to rise even as commodity prices do not.

Now more than ever, an adequate safety net is essential to ensure that we have the safest, most plentiful and most affordable food supply in the world.

With 90 million people being added to the world population each year, we need to find ways to do more on less. We are beginning to see the positive effects of farm safety net programs that were established in the 2008 Farm Bill. Take, for example, the ACRE Program, which established a new revenue guarantee for farmers in states that fall short of its revenue-per-acre mark. Thus far, the program has not reached the enrollment we had hoped for. I am interested to find out today how many Iowans have enrolled in ACRE, how the USDA plans to encourage interest for this program, and what we in Congress can do to improve and simplify the program in the next farm bill.

Disaster programs have been essential to our nation's farmers. In the last farm bill, Congress established the SURE Program to protect crop producers from incurring significant losses from natural disasters. Farmers in Iowa have taken advantage of this program. Now Iowa stands as one of the major recipients of SURE Program funds for the last 2 years. However, because the SURE Program is so complicated and is based on so many different variables, it has faced many challenges in its implementation. I look forward to hearing more on this program from Under Secretary Miller and next week from the commodity groups.

A discussion of the farm safety net would be incomplete without a mention of crop insurance. Sign-up and buy-up levels for crop insurance products are at high levels, demonstrating that farmers appreciate having additional options to help them manage their risk. However, certain regions and certain crops are underrepresented. Looking ahead, we need to see how we can make this program work for more producers. Additionally, I have to say that pulling funding out of the program makes the task much more difficult. Budgets are tight, but tight budgets do not mean we must jeopardize the risk management tools that we have today, or put in question what improvements we can make in the future. We are making great strides to help the American farmer, and I look forward to hearing more about these valuable programs from our witness today.

Thank you again, Under Secretary Miller, for your leadership in agriculture and for speaking before the Committee. Your testimony will be essential to us as we continue to move forward with the 2012 Farm Bill.

At this time I would like to recognize my friend and Ranking Member, Mr. Moran.

OPENING STATEMENT OF HON. JERRY MORAN, A REPRESENTATIVE IN CONGRESS FROM KANSAS

Mr. MORAN. Mr. Chairman, thank you. Thank you for calling this hearing to review farm policy in advance of the next farm bill, and I look forward to hearing from Under Secretary Miller and his colleagues about the current farm bill implementation and any suggestions that the Department of Agriculture may have for the new farm bill.

I do want to express my concern that this Subcommittee, or the full Committee, is not having a hearing to review what we are told is the final draft of the standard reinsurance agreement. According to USDA, it would like to proceed with the crop insurance companies to sign this document within 30 days, and while I realize that new reinsurance year is almost upon us, I am troubled that the Department is rushing to finalize the process at a time in which they have advanced some new ideas and further extended some of their thoughts in previous drafts into this third draft. I am particularly concerned about the new method of determining administrative and operating, A&O, subsidies, a new and more rigid cap on agent commissions, and they have inserted other miscellaneous provisions that have never appeared in previous drafts. I had hoped that the House Agriculture Committee, or this Subcommittee, would hold a hearing so that we could get an update on the specifics of this third draft. It does not appear that that is going to happen.

The Agriculture Committee has sat by quietly, as I think it should, and let the negotiations proceed, but I now think it is an appropriate time for us to review what they tell us is the final draft. I hope that my colleagues on this Committee will ask questions and make comments regarding crop insurance and the SRA agreement and that the Department of Agriculture will take our opinions and comments seriously. So I would again encourage my colleagues today to make certain that if you have concerns with the presumed final draft of the SRA that those concerns are expressed.

It is my understanding that the companies are being briefed on this third draft in Kansas City tomorrow, and we should have little fear that we would be prejudicing the process by expressing our concerns.

More related perhaps to the hearing before us, I would be interested in hearing from the Department about how this final draft will affect the baseline for the next farm bill. We have received assurances from the Department that whatever the results are that the baseline will be protected, and I can't tell from what I have seen in the draft that that is the case.

So Mr. Chairman, I am happy to be here and participate in this hearing. I look forward to the testimony of our witnesses and I thank you again for the manner in which you always treat me and appreciate the way you conduct this Committee.

[The prepared statement of Mr. Moran follows:]

PREPARED STATEMENT OF HON. JERRY MORAN, A REPRESENTATIVE IN CONGRESS FROM KANSAS

Thank you Mr. Chairman for calling this hearing to continue our review of farm policy in advance of the next farm bill. I look forward to hearing from Under Secretary Miller about implementation of current farm bill programs and any suggestions the Department might have to aid us in crafting the next farm bill.

However, I am concerned that the Subcommittee is not having a hearing to review what we are told is the final draft of the Standard Reinsurance Agreement (SRA). According to USDA, it would like Approved Insurance Providers (AIP's) to sign this document within thirty days—that means by July 10, 2010. While I realize that the new reinsurance year is almost upon us, I am troubled by the Department's rush to finalize this process, especially considering some of the new concepts and provisions that have been sprung on the companies in this draft. For instance, USDA has proposed a new method to determine the Administrative and Operating (A&O) subsidy, a new and more rigid cap on agent commissions, and inserted other miscellaneous provisions that never appeared in prior drafts.

The House Agriculture Committee has sat quietly, as it should, and let USDA and AIP's negotiate this document. Now that it appears we have reached a final draft, I think it is important that this Subcommittee publicly scrutinize its provisions before AIP's are forced to sign the document. Given that no other hearing is scheduled for this purpose, I encourage all Members of the Subcommittee to make your opinions heard. If you have concerns, now is the time to publicly voice them because this process could be over in a few short days.

Today is an appropriate time to voice concerns because at this point no AIP has signed this draft of the SRA. It is my understanding that the AIP's are being briefed on the third draft of the SRA in Kansas City tomorrow. Given this fact, Members should have little fear that voicing their concerns will prejudice any particular company. I hope USDA will listen to Member's concerns, and as a result, make changes to this final document.

I also have concerns about the effect this draft of the SRA will have on the farm bill baseline. I am concerned that despite assurances from Secretary Vilsack, this will do little to preserve the farm safety net baseline as determined by the Congressional Budget Office (CBO) and leave this Committee with an even more difficult task of writing the next farm bill.

Again, Mr. Chairman, I appreciate you calling this hearing, I look forward to Under Secretary Miller's testimony, and a spirited round of questions.

The CHAIRMAN. Well, thank you very much. I am going to request that other Members according to our policy, if you will, submit their opening statements for the record so the witness may begin shortly.

[The prepared statement of Mr. Peterson follows:]

PREPARED STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

Good morning and thank you, Mr. Boswell, for holding today's hearing of the Subcommittee on General Farm Commodities and Risk Management.

The Agriculture Committee has really started to lay the ground work for the 2012 Farm Bill. We've heard from USDA Secretary Vilsack and agricultural academics and economists here in Washington. We've heard from producers across the country at field hearings in eight states. Now, it's time for the Subcommittees to begin to dig deeper and take the next step in writing a new farm bill.

The farm bill's safety net is necessary for our farmers to produce a safe, secure and reliable food supply for the United States and the world. The farm bill also covers nutrition, conservation, renewable energy, rural development and specialty crop programs. Because this is such a large piece of legislation, it's important that we take the time to get it right. That is why we are here today.

Considering today's economic reality, we need to decide if the existing farm programs are providing adequate protection and look for new ways of doing things that will make better use of the money we have. We heard a lot at the field hearings about continuing the *status quo.* Unfortunately, with the budget situation we have, I do not think that will be possible. I hope these hearings shed light on what program structures might work better than the one we have now using the same or less money. Too often, we focus on the all-important funding question without spending enough time looking at the structure of what we are funding. I hope we are starting early enough in this farm bill process to change that.

I want to welcome USDA Under Secretary for Farm and Foreign Agricultural Services Jim Miller to the Committee today. I appreciate the good relationship and open communication we have with USDA and look forward to continuing that relationship as the farm bill process proceeds.

I'm particularly interested in what Mr. Miller has to say regarding implementation of the SURE and ACRE programs, both new programs that were part of the 2008 Farm Bill. I think the lessons learned from the implementation process will help us better proceed with 2012 Farm Bill programs.

I am committed to writing the next farm bill in an open, transparent and bipartisan fashion and I look forward to working with my colleagues on both sides of the aisle and from all regions of the country to ensure that we write a bill that meets our food, fiber, conservation, energy and rural development needs.

For those that are not able to testify at one of our hearings, we are collecting feedback on the Agriculture Committee website. I hope that everyone will take the time to share their thoughts with us online.

We have a lot of ground to cover so lets get started.

The CHAIRMAN. We have a new Member on the Committee that has joined us. Mr. Moran, would you like to introduce him?

Mr. MORAN. Mr. Chairman, thank you very much. I am honored to introduce to my colleagues on the Committee, and the folks who have joined us for this hearing, our newest Committee Member and a new Subcommittee Member, Mr. Rooney from Florida. Recognizing that Florida's agriculture is significantly different from Kansas or Iowa, I very much appreciate the point of view and diversity that Mr. Rooney will bring to our Committee, and I would welcome him. I look forward to working with him and again appreciate the way this Subcommittee, and, generally, our full House Agriculture Committee works together to see that we develop quality farm policy for agriculture across the country, and I welcome Mr. Rooney to this Subcommittee.

The CHAIRMAN. Okay. Well, thank you. We would like to welcome our witness to the table, the Hon. James Miller, Under Secretary for Farm and Foreign Agriculture Services, U.S. Department of Agriculture, Washington, D.C. That is quite a title. We are anxious to hear what you have to share with us. Please begin.

STATEMENT OF HON. JAMES W. "JIM" MILLER, UNDER SECRETARY FOR FARM AND FOREIGN AGRICULTURAL SERVICES, U.S. DEPARTMENT OF AGRICULTURE; ACCOMPANIED BY JONATHAN W. COPPESS, J.D., ADMINISTRATOR, FARM SERVICE AGENCY; AND WILLIAM J. "BILL" MURPHY, ADMINISTRATOR, RISK MANAGEMENT AGENCY, WASHINGTON, D.C.

Mr. MILLER. Thank you, Chairman Boswell, Ranking Member Moran, Members of the Subcommittee. Thank you once again for the invitation to appear before this Subcommittee, and for the opportunity to discuss the implementation of the farm safety net programs of the 2008 Farm Bill.

Joining me today are Bill Murphy, the Administrator of the Risk Management Agency, and Jonathan Coppess, the Administrator of the Farm Service Agency.

The Department of Agriculture has implemented the majority of the farm safety net programs authorized under the farm bill since its enactment. In addition to the $12.5 billion paid to farmers through direct and countercyclical payments and marketing loan benefits, we have also disbursed more than $1.1 billion under the five new permanent disaster programs.

Also, on June 10th USDA released the final draft of a new standard reinsurance agreement to ensure the crop insurance program remains accessible, affordable and sustainable.

Today I will focus on a few of the farm bill's safety net programs, USDA's support of the dairy industry and the Federal Crop Insurance Program.

So turning first to the farm bill programs, at Secretary's Vilsack's direction when he first took over the position of Secretary of Agriculture, he asked USDA to prioritize the implementation of the farm bill programs to allow for the most rapid distribution of benefits to the largest number of producers. The remaining regulations that have yet to be implemented are moving through the process relatively quickly, and we are close to having the Title I

and Title XII programs of the 2008 Farm Bill fully available to our stakeholders.

In terms of the 2008 Farm Bill, the Average Crop Revenue Election Program, or ACRE, as the Chairman mentioned, is a new program based on revenue risk as opposed to commodity price risk. It provides an alternative to traditional farm programs and depends on both a state and farm-level trigger. In 2009, eight percent of the eligible farms representing about 13 percent of base acres enrolled in ACRE. For the 2009 crop year, we expect about $400 million in ACRE payments to be made, of which about ¾ will be paid to wheat producers across the country.

The Supplemental Revenue Assistance Program provides assistance to producers for losses due to natural disasters. SURE is significantly different from previous disaster programs in that losses and revenues are calculated based on all of a producer's cropland compared to *ad hoc* disaster programs of the past that were made on a crop-by-crop basis. The SURE program also encourages producers to purchase crop insurance and provides additional protection to producers for quality losses. As of June 1st, payments for 2008 crop losses totaled more than $800 million including about $284 million in additional payments under the Recovery Act. For 2009 crop losses, SURE sign-up and payments will occur later this year, and for the 2010 crop losses, SURE sign-up and payments will occur in 2011.

In addition to the Crop Disaster Assistance Program, we have implemented the Livestock Indemnity Program, Livestock Forage Program and Emergency Livestock Assistance Program, ELAP. Upon sign-up, both the indemnity program and the forage program payments can be delivered relatively quickly to assist our livestock producers. FSA has already made about $87 million in LIP payments and $258 million in ELAP payments to date. FSA is also compiling ELAP applications so the $50 million in annual funding can be prorated among the eligible producers. Payments for both the 2008 and the 2009 eligible losses will be issued later this summer under that program.

Turning briefly to dairy, since late 2008 USDA has spent or committed more than $1.5 billion to aid our struggling dairy producers. This includes more than $900 million paid under the Milk Income Loss Contract Program and emergency payments totaling $290 million provided in the 2010 Agriculture Appropriations Act. We have also expedited the $60 million cheese purchase authorized under that same legislation. In addition, USDA temporarily increased the purchase prices under the Dairy Product Price Support Program during the August to October 2009 period, and reactivated the Dairy Export Incentive Program.

This spring, Secretary Vilsack established the Dairy Industry Advisory Committee to examine the dairy market and explore new program ideas and other ways to assist our dairy producers. The Committee held its second meeting in Washington on June 3rd and 4th, and is continuing its work through the coming months.

In addition to our FSA programs, Federal crop insurance administered by the Risk Management Agency is a vital component of the farm economic safety net. As I mentioned, on June 10th USDA released the final draft of the new standard reinsurance agreement

and announced $6 billion in savings over 10 years from the modifications contained in that agreement. Two-thirds of this saving will go toward paying down the Federal deficit, and the remaining ⅓ will support high-priority risk management and conservation programs.

In 2009, the Federal Crop Insurance Program provided about $80 billion in protection on over 264 million acres. The Risk Management Agency projects indemnity payments to producers for their 2009 crop losses will be about $5.1 billion, and we expect the level of coverage for 2010's crop year will be about $79 billion, or comparable to the level of coverage that we have seen in recent years.

Since the enactment of the Agriculture Risk Protection Act of 2000, participation in the Federal Crop Insurance Program has grown, and it has become a key component in ensuring the ability of many producers to finance their operations. More producers are purchasing buy-up policies with lower deductibles along with a tremendous increase in the purchase of revenue coverage. RMA has been able to accomplish this growth in participation and in the implementation of new policy options for both traditional and specialty crop farmers in an actuarially sound manner.

Mr. Chairman, let me conclude by stating how proud I am of our staff in both the Risk Management Agency and the Farm Service Agency. Their hard work and dedication to agriculture in our national office, as well as service centers throughout the states, truly epitomize the level of service and professionalism that represents the best of public service. In particular, I want to thank the FSA personnel in our county offices throughout the country. As one who has spent many hours in my own county FSA office in the past, and now as part of the management team of the Farm Service Agency, I can attest to the work ethic, the commitment to our producers and the outstanding contribution to the successful implementation of these programs that have been made by these men and women throughout the United States. This has often occurred in the face of some pretty significant obstacles, and some of those obstacles, I have to admit I need to take full responsibility for. But nonetheless, they have done just a tremendous job in implementing a very complex and difficult 2008 Farm Bill.

As we work toward the beginnings of developing 2012 farm legislation, I look forward to working with you, Mr. Chairman, with Ranking Member Moran and all the Members of your Committee in order to find a way that we can strengthen production agriculture through the various elements of the farm economic safety net, while also working to build a much brighter future for all of our rural communities. This is going to be a tremendous challenge, but one for which I believe we can be well prepared and one that I pledge the support of the agencies that I oversee, and on behalf of the Secretary, the support of USDA in working in a collaborative fashion to develop the best possible 2012 Farm Bill, while recognizing the many challenges as well as opportunities that we will have the opportunity to discuss over the next weeks and months.

Thank you once again for the opportunity to appear before the Subcommittee today. I and my colleagues will be pleased to respond to any questions that you may have. Thank you.

[The prepared statement of Mr. Miller follows:]

PREPARED STATEMENT OF HON. JAMES W. "JIM" MILLER, UNDER SECRETARY FOR FARM AND FOREIGN AGRICULTURAL SERVICES, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, D.C.

Mr. Chairman, Ranking Member, and Members of the Subcommittee, thank you for the opportunity to discuss implementation of the farm safety net programs of the Food, Conservation, and Energy Act of 2008 (2008 Farm Bill). This hearing provides an opportunity to reflect on implementation of the 2008 Farm Bill while thinking ahead to the next farm bill.

The Department of Agriculture (USDA) has expedited vital farm safety net programs authorized under the farm bill, and has worked diligently to ensure proper administration of other non-farm bill programs. USDA has disbursed more than $1.1 billion under the five new permanent disaster programs authorized by the farm bill; in addition to payments under these new 2008 Farm Bill safety net programs, $12.5 billion has been paid under the Farm Service Agency (FSA) administered safety net programs that include direct payments, countercyclical payments, and marketing loan benefits (including loan deficiency payments, marketing loan gains and certificate exchange gains for crop years 2008 and 2009.) Direct payments, countercyclical payments, and marketing loan benefits account for 80 percent, 11 percent, and nine percent, respectively of payments made under the FSA administered safety net programs. To aid the struggling dairy industry, USDA has spent or committed more than $1.5 billion since March 2009, including $900 million through the Milk Income Loss Contract Program and $290 million through last fall's Dairy Economic Loss Assistance Program.

At the same time, the Federal crop insurance program, administered by the Risk Management Agency (RMA), is the primary risk management program available to our nation's agricultural producers, and a vital component of the farm safety net. It provides risk management tools that are compatible with international trade commitments, creates products and services that are actuarially sound and market driven, harnesses the strengths of both the public and private sectors, and reflects the diversity of the agricultural sector.

On June 10, 2010 USDA released the final draft of a new crop reinsurance agreement and announced that $6 billion in savings has been created through this action. Two-thirds of this savings will go toward paying down the Federal deficit, and the remaining ⅓ will support high priority risk management and conservation programs. By containing program costs, these changes will also ensure the sustainability of the crop insurance program for America's farmers and ranchers for years to come.

In 2009, the Federal crop insurance program provided about $80 billion in protection on over 264 million acres. Our current projection is that indemnity payments to producers for their 2009 crops will be about $5.1 billion on a premium volume (producer paid plus subsidy) of over $8.9 billion. Our current projection for 2010 shows the value of protection will remain relatively steady at about $79 billion. This projection is based on USDA's latest estimates of planted acreage and expected changes in market prices for the major agricultural crops.

Today, I will focus on the major new provisions of Title I farm bill programs (in particular, ACRE) and the disaster-related provisions of Title XII; I will also provide you with an update on the Federal Crop Insurance Program. Together, these programs complement existing farm support programs, and ultimately form the backbone of the farm safety net.

2008 Farm Bill Implementation

Twenty regulations are associated with Title I and disaster-related programs in the 2008 Farm Bill, of which fourteen have been published to date. In 2008, for example, regulations were published in the *Federal Register* related to cotton, the Milk Income Loss Contract Program, the Direct/Counter-Cyclical Payment Program, the Average Crop Revenue Election Program, and payment limitation reform. In 2009, USDA published regulations regarding Title I sugar provisions, Marketing Assistance Loans and Loan Deficiency Payments, the Livestock Indemnity Program, the Emergency Assistance for Livestock, Honeybees, and Farm-Raised Fish Program, the Livestock Forage Disaster Program, and the Supplemental Revenue Assistance Payments Program. In 2010, USDA published regulations for the Tree Assistance Program, clarifying amendments to a variety of Title I and disaster program rules, and a final rule on payment eligibility and limits.

USDA elected to pursue some of the more complex and difficult programs early in the implementation process. Doing so allowed the most rapid distribution of assistance, particularly under the disaster programs, to the largest number of producers. The remaining regulations are moving faster, as they tend to be more nar-

rowly-defined, less-complicated, and less decision-intensive programs. We anticipate publication of the final Title I regulations later this summer. In fact, publication of two regulations—one on various dairy provisions (including the Dairy Indemnity Payment Program), and one implementing the Geographically Disadvantaged Producers program—is expected imminently. The Durum Wheat Quality Program and the regulations including changes to the Noninsured Crop Disaster Assistance Program (NAP) will be published shortly thereafter.

Much work has gone into including the voices of farmers, ranchers, and other constituents in the development of these regulations. In addition, economic analyses and environmental impact considerations, as well as an assessment of civil rights and business impacts, have been thoroughly considered. Through all of this, we are nearing completion in the implementation of the 2008 Farm Bill.

I would like to share with you some of our experiences in crafting and implementing these programs, along with some data on the response we have seen on these programs in the field.

Average Crop Revenue Election (ACRE) Program

ACRE is a new program based on revenue risk, as opposed only to price risk. It provides an alternative to traditional farm programs and depends on both state- and farm-level triggers. Both the state-level and farm-level triggers—which are in turn based on historical average yields and national average market prices—must be met before a producer receives a payment. Because it is an alternative to traditional programs, an ACRE participant forgoes countercyclical payments and realizes a 20 percent reduction in direct payments and a 30 percent reduction in marketing assistance loan rates for all commodities on the ACRE-enrolled farm. Once a farm is enrolled in ACRE, that farm is required to stay enrolled in ACRE throughout the duration of the 2008 Farm Bill (through 2012).

USDA projected in its 2010 President's Budget baseline that about 25 percent of base acres would enroll in the program in 2009. Projections by the Congressional Budget Office (CBO) and the Food and Agricultural Policy Research Institute were even more optimistic, at about double USDA's forecast. In 2009, the first year of the program, eight percent of eligible farms—representing 13 percent of base acres, or about 34 million acres—enrolled in ACRE. Preliminary data indicate that an additional 1.2 million acres of new base and 4,000 new farms (not in the program last year) are enrolled in ACRE in 2010.

Several reasons likely explain the modest interest in the program relative to earlier expectations. ACRE requires producers to do a significant amount of "homework" to understand how it would work for their farms. This was further complicated by operators' having to explain to landlords and, at times, bankers, how ACRE payments compared to payments under the traditional programs.

In addition, the ACRE revenue guarantee for several crops dropped dramatically between the time the program was passed into law and the summer of 2009, when the first ACRE sign-up ended. For corn, soybeans, and other crops, prices declined significantly between 2008 and mid-2009, reducing guarantees and the likelihood of expected ACRE payments. For example, during this time, ACRE guarantee levels dropped about $50 per acre (eight percent) for corn and $23 per acre (six percent) for soybeans. According to statute, ACRE participation is locked in for a farm throughout the remainder of the 2008 Farm Bill once that farm is enrolled in ACRE. Because of market uncertainties and without a clear understanding of this new program, most producers hesitated to commit their farms to a multi-year ACRE agreement. Basically, producers found themselves trading off the certainty of a portion of direct payments for an uncertain amount of ACRE pay-outs over a 4 year period.

Overall, ACRE participation has been strongest for corn, soybeans and wheat. In 2009, about 13 million acres of corn base were enrolled, with over half that total in Illinois, Iowa, and Nebraska, and about 7.6 million acres of soybean base (Illinois and Iowa were again top states). More than 9 million acres of wheat base were enrolled in ACRE, about 13 percent of the total enrolled wheat base (participating either in ACRE or the traditional direct/countercyclical programs). For wheat, declining prices, combined with strong educational efforts, improved ACRE participation for the crop, particularly in Oklahoma (2.5 million acres enrolled) and North Dakota (1.6 million acres).

For the 2009 crop year, we expect about $400 million in ACRE payments to be made (based on the May 2010 *World Agricultural Supply and Demand Estimates* report). Wheat accounts for about ¾ of the total, largely due to the decline in the national average price in 2009 as well as yield issues in some states. Of the approximately $400 million in ACRE payments, about $300 million are expected for wheat, $65 million for corn, $14 million for barley, $11 million for sunflower seed, and

small amounts for several other crops. These estimates are preliminary because not all 2009 ACRE yields and ACRE prices have been finalized; and because they are calculated under the assumption that farm triggers will be met. Across all ACRE commodities, participants in Oklahoma, Washington, Illinois, South Dakota, Idaho, and Montana are expected to receive about 80 percent of total ACRE payments paid on 2009 crops.

Next, I would like to turn to other key safety net programs, including the Supplemental Revenue Assistance Payments Program (SURE).

Supplemental Revenue Assistance Payments (SURE) Program

Title XII of the 2008 Farm Bill authorized the SURE program, which provides assistance to crop producers for eligible losses in times of natural disasters. To be eligible for SURE, producers must have Federal crop insurance or NAP coverage and be located in a county included in the geographic area covered by a natural disaster declaration issued by the Secretary of Agriculture. The Secretarial disaster designation is not required if, in a county without a Secretarial disaster designation, a farmer can prove a whole farm loss of more than 50 percent of normal.

As of June 1, 2010, payments for 2008 crop losses totaled more than $800 million (about $516 million under the SURE program, and $284 million under the Recovery Act supplement to the SURE program). Major recipient states include Iowa ($174 million), North Dakota ($98 million), and Texas ($77 million). The large payments to Iowa in part reflect the speed at which payments were processed in that state; other states may, in the end, realize higher totals.

SURE's whole-farm nature and the number of variables used in the calculations makes the program quite complex. SURE is significantly different from previous disaster programs in that SURE losses and revenues are calculated based on all of a producer's cropland, including multiple farms combined, compared to *ad hoc* disaster program calculations made on a crop-by-crop basis. As a result of the whole-farm focus, a county may receive a Secretarial disaster designation, but few producers may receive SURE payments.

For 2009 crop losses, SURE sign up and payments will occur later this year in 2010; and for 2010 crop losses, SURE sign up and payments will occur in 2011. This lag between the timing of crop loss and disaster payment is due to a statutory requirement regarding the calculation of actual farm revenue. Farm revenue depends on the National Agricultural Statistics Service's season average prices, which are usually released 13 months after the start of the crop year. It also depends on other revenue data which are not available until well after a crop loss occurs, including marketing loan benefits, ACRE payments, crop insurance indemnities, and other government payments received by the producer.

Other Disaster Programs

In addition to SURE, the 2008 Farm Bill authorizes disaster assistance programs for livestock losses and tree losses. These programs include the Livestock Indemnity Program (LIP), which provides assistance to producers who lose livestock due to natural disaster; the Livestock Forage Disaster Program (LFP), which compensates livestock producers for grazing losses due to drought; and the Emergency Assistance for Livestock, Honeybees, and Farm-Raised Fish Program (ELAP), which provides assistance for qualifying losses not covered by other disaster programs.

For 2008–2010 losses, more than $87 million has been paid out under LIP and more than $258 million for LFP as of June 1, 2010. Both LIP and LFP payments can be processed and made quickly, and are providing a major boost to livestock producers and rural communities alike across the United States. Major LIP recipient states include South Dakota and North Dakota; the major LFP recipient states are those that have suffered significant drought losses such as Texas, Georgia, California, and North Dakota.

FSA is currently compiling applications for both 2008 and 2009 ELAP losses. Once total loss assistance is calculated for each year, payments may need to be factored, as ELAP funding is limited to $50 million per calendar year. FSA plans to issue payments for both 2008 and 2009 losses this summer.

The Tree Assistance Program (TAP), which provides assistance for losses of trees, vines and shrubs due to natural disaster, completes the 2008 Farm Bill disaster assistance program portfolio. FSA began accepting TAP applications for calendar year 2008, calendar year 2009, and calendar year 2010 losses on May 10, 2010.

Dairy

Since the beginning of the dairy crisis in late 2008, USDA has spent or committed more than $1.5 billion to aid dairy producers struggling with low prices and high feed costs. USDA has paid dairy producers more than $900 million under the Milk Income Loss Contract Program (MILC), authorized under the 2008 Farm Bill. Most

of these payments occurred in calendar year 2009, although a small payment was made for April production in early June, 2010, totaling about $15 million ($0.2115 per cwt on 7 billion pounds of milk). Although the 2008 Farm Bill kept the same basic structure to as the MILC program authorized prior to enactment of the 2008 Farm Bill, it also included a "feed cost adjuster," which increases the size of the payment depending on ration costs. Of the 11 months payments have been triggered under the MILC program since February 2009, the feed cost adjuster had an impact on the payment in 5 of those months.

USDA has also expedited emergency non-farm bill action to aid producers. In addition to MILC payments, the Fiscal Year 2010 Agriculture Appropriations Act authorized $290 million in additional direct payments to dairy producers, as well as $60 million for the purchase of cheese and other products. The $290 million was paid in near-record time—with payments beginning within 60 days of the bill being signed into law. USDA also has expedited the purchase of cheese and cheese products authorized under the Agriculture Appropriations Act, to assist dairy producers and provide food banks across the country with high-protein cheese. Cheese purchases were contracted in January and February 2010 with deliveries beginning in March and scheduled to go through December 2010. USDA also temporarily increased the purchase prices for cheddar blocks, cheddar barrels, and nonfat dry milk under the Dairy Product Price Support Program (DPPSP) during August–October 2009 and re-activated the Dairy Export Incentive Program (DEIP).

DEIP has remaining volumes allocated but has not awarded DEIP bonuses in recent months because world prices are currently above U.S. prices and the U.S. is competitive in world dairy markets. Awarding DEIP bonuses at this time runs the risk of displacing commercial exports. DEIP remains available and USDA stands ready to award DEIP bonuses should the U.S. become uncompetitive in world dairy markets. We have also used our full administrative flexibility to make alternative loan servicing options available to dairy producers under Farm Service Agency loan programs.

USDA has received numerous requests recently to increase the DPPSP purchase prices to the heightened levels of August–October 2009. Doing so, however, would have little, if any, impact at current cheese and non-fat dry milk price levels. The all-milk price for calendar year 2010 is projected at $15.95 per cwt. and $16.30 per cwt. for 2011, compared to $12.81 in 2009. When USDA took action to increase the purchase prices for cheddar cheese and nonfat dry milk last year, the July 2009 all-milk price was $11.30 per cwt., compared to $15.00 per cwt. in May 2010. We need to be cautious when some producers are expanding production based on current prices and given the projections for improved prices in 2010 and 2011 relative to 2009.

Given the complexity of current dairy policy and the search for new directions, I am pleased by the progress of the Dairy Industry Advisory Committee as they search for policy recommendations regarding ways to reduce dairy price volatility and improve profitability. This Committee, under the leadership of Dr. Andrew Novakovic of Cornell University, is carefully examining several options that would improve the safety net for dairy producers. USDA eagerly awaits the recommendations and insights of this Committee as we move into the 2012 Farm Bill debate.

Sugar

Compared to expectations at the time the 2008 Farm Bill was enacted, the sugar market has been far more favorable for sugar beet and sugarcane farmers. The sugar market outlook back in 2008 was fairly bleak: U.S. sugar surpluses and low prices were expected as supplies outran demand due to the expected influx of low-priced Mexican sugar. This imbalance was expected to lead to Federal costs under the sugar price support program as low prices led to forfeitures of sugar to the Commodity Credit Corporation (CCC). The 2008 Farm Bill's Feedstock Flexibility Program, was designed to utilize the expected surplus sugar for biofuel production.

However, since the 2008 Farm Bill was developed, domestic sugar production has fallen and demand has increased. The domestic market was also severely disrupted by the loss of refining capacity due to the disaster at the Savannah refinery and the world sugar price spike in Fiscal Year (FY) 2010. The U.S. need for sugar grew faster than Mexican imports and, as a result, we increased the FY 2010 sugar import tariff-rate quota this spring.

Despite the almost doubling of sugar prices since 2008, sugar users in the U.S. are increasingly using sugar to replace other sweeteners in their products. The sugar market outlook is now much tighter than in 2008 and USDA does not anticipate the need for the use of the Feedstock Flexibility Program in the near term.

The Federal Crop Insurance Program

Crop insurance is a vital part of the farm safety net. Producers purchase crop or livestock insurance from private insurance agents who sell the insurance for private insurance companies. All Federal crop insurance is delivered to producers through seventeen private insurance companies. These companies sell and service crop insurance under a standard reinsurance agreement with the Federal Crop Insurance Corporation.

Producers generally have a choice of crop or livestock policies, with coverage they can tailor to best fit their risk management needs. In many cases, producers can buy insurance coverage for a yield loss, or revenue protection to provide coverage for a decline in yield or price. Today, most producers "buy up" to higher levels of coverage ranging up to 85 percent coverage (smaller deductibles), although a low level of catastrophic coverage (CAT) is available for a nominal fee. Upon incurring a loss, producers notify their insurance company who assigns loss adjusters to determine the cause and amount of loss, with indemnity payments usually made within 30 days after the producer signs the claim form.

Crop insurance has been quite successful (see *Attachment 1*), particularly for the major row crops in the primary growing areas. Participation has been consistently high (see *Attachment 2*) and has become a foundation for the farm banking system. Lenders often accept, or even require, crop insurance as collateral for loans.

The crop insurance program has seen sustained growth as demonstrated by the increasing proportion of acres insured at buy up levels over the last decade (see *Attachment 3*). In 2009, 92 percent of insured acres for the ten staple crops had buy up coverage, compared to just 73 percent in 1999. Not only are buy up levels increasing, but the type of coverage being purchased is shifting to the more comprehensive revenue coverage (see *Attachment 4*). In 2009, revenue coverage accounted for 57 percent of the insured acres, compared to just 27 percent in 1999. In addition, the average coverage level (percent of the total crop covered) for buy up insurance has increased. In 2009, the average coverage level rose to a record-high of 73 percent. In 1999, the average was 67 percent.

This growth has been accomplished in an actuarially sound manner. Over the last 2 decades, premiums (including premium subsidy) have been sufficient to cover the indemnities paid to producers plus a reasonable reserve, as directed by the Federal Crop Insurance Act.

Despite the significant increases in crop insurance participation, there is still room for improvement in some areas. One such area is the South, especially Arkansas and Mississippi, where a disproportionate number of growers either purchase CAT-level coverage or choose not to purchase any coverage at all. A market study commissioned by RMA indicates that the low participation is due to producers opting to reduce their risk through investments in irrigation systems rather than through crop insurance. There is also a perception that, given these investments, premium rates are too high. To address this, RMA is reviewing the rating methodology for irrigated *versus* non-irrigated practices. Based on that analysis, a range of adjustments may be considered, including adjustments by practice which may reduce rates for irrigated crops.

Another opportunity for growth in the crop insurance program is with specialty crops (see *Attachment 5*). So far, participation among the specialty crops has tended to not be as high as for the major row crops. RMA has been making adjustments to existing products and developing new ones that are intended to better meet the unique risk management needs of specialty crop producers. For example, in California, RMA recently redesigned a yield coverage policy for avocados; made changes in the grape crop insurance program giving producers greater insurance choices; and implemented a new policy, Actual Revenue History, for cherries, navel oranges, and strawberries. Crop insurance programs currently being developed include one for pistachio nuts, the second largest nut crop produced in California.

One of the most important considerations for the crop insurance program is the premium cost for producers. If premium rates are too high, producers will not participate in the crop insurance program. If premium rates are too low, actuarial performance will deteriorate. RMA continually seeks to improve its premium rating methodology and maintain actuarial balance. RMA recently commissioned a comprehensive review of it rating methodology by a panel of outside experts. The review supported RMA's overall approach to generating premium rates based on historical loss experience, but also provided a number of recommendations for potential improvements that RMA is pursuing. The most critical of these recommendations is for RMA to determine if all historical losses should be given the same weight in determining current premium rates. This could potentially result in lower premium rates in several parts of the country, especially the Corn Belt.

The 2008 Farm Bill provided an alternative for producers and private entities to work with RMA to develop insurance coverage for crops not traditionally served, or to improve current insurance coverage. Producers or producer groups that are not currently eligible for coverage or find a currently reinsured plan of insurance unsuitable for their needs may develop a plan of insurance tailored to their specific crop or region and submit it to the Federal Crop Insurance Corporation (FCIC) Board of Directors (Board) for review. Private entities are authorized to submit Concept Proposals for plans of insurance to the Board for approval of an advance payment of up to half of their estimated research and development costs to assist them in researching and developing a completed insurance product. Completed products receive reimbursement of the balance of their research and development costs and up to 4 years of maintenance expenses. To date, the FCIC Board has received 16 Concept Proposals and approved eight for advance payments totaling approximately $925,000. Recently approved plans of insurance provide coverage for apiculture (bees), cottonseed, fresh market beans, oysters, and processing pumpkins.

A central challenge in certain areas involves addressing declining yields when a number of consecutive poor crop producing years can negatively impact a producers yield history, and thus lead to lower insurance guarantees. Considering repeated loss experience, providing producers with a reasonable production guarantee at a reasonable cost has proven difficult. While the crop insurance program does employ various yield adjustments, a significant shortcoming of the current yield adjustments is that they are not equitable across producers, as they generally rely on the average yield for the county. This makes them less effective for the more productive producers with above-average yields and potentially overly generous for the less-productive producers with below-average yields. RMA continues to seek viable and effective solutions to this issue working with all interested parties to address concerns regarding Actual Production History databases, and to assure that any solutions or alternatives provide consistency in program delivery, address the needs of policyholders and assure actuarial sufficiency in accordance with the Federal Crop Insurance Act.

One pilot program available in North Dakota, the Personal T-Yield (PTY) allows for mitigation of the impact of declining yields on an insured's insurance guarantee by using the insured's own production history average in lieu of the county T-Yield. While holding some promise, a contracted assessment on the feasibility of national expansion of the PTY pilot program is due in August 2010.

RMA continues to move forward in improving crop insurance coverage for organic producers so they will have viable and effective risk management options like many of the conventional crop programs. Consistent with the 2008 Farm Bill, RMA contracted for research into whether or not sufficient data exists upon which RMA could determine a price election for organic crops, and if such data exists, to develop a pricing methodology using that data. Also included in the contract was research into the underwriting, risk and loss experience of organic crops as compared with the same crops produced in the same counties during the same crop years using nonorganic methods. Three reports have been completed from this study.

The first report outlined research into data that exists today that could support price elections for various organic crops. The second report outlined a proposed methodology for development of a price election for organic cotton, corn and soybeans. The third report presented the results of the contractor's comparative analysis of loss experience for organic crops and conventional crops that were produced in the same counties during the same crop years.

RMA intends to establish dedicated price elections for organic crops where supported by data and sound economic pricing principles. The first of these organic price elections may become available for the 2011 crop year. In addition, RMA will continue to capitalize on improved data collection and sharing of organic production and price data occurring throughout USDA, an initiative to better leverage the resources of all of our agencies to address this important segment of agriculture.

RMA will also continue to evaluate the loss experience of both organic and conventional practices to ensure that premium rating is commensurate with the level of risk for each. This includes revising surcharges for those areas or situations that merit such consideration.

Another area of continued challenge to the program involves providing coverage for quality losses. RMA provides quality adjustment for many crops that is based primarily on standards contained in the Official United States Standards for Grain, such as test weight, kernel damage, *etc.* Wheat, for example, is eligible for quality adjustment when poor quality results in a grade worse than U.S. #4. While insureds and the Approved Insurance Providers have been generally supportive of RMA's quality adjustment provisions, producers would like to see a higher level threshold for when quality adjustment begins. Additionally, producers contend that quality

adjustment does not always reflect what they are personally discounted at the market place. This is often heard earlier in the harvest season when the extent of poor quality is not fully known and grain buyers tend to have more severe discounts.

USDA is ensuring that $2 billion in savings from the new SRA will be used to strengthen successful, targeted risk management and conservation programs. The $2 billion investments in farm bill programs include: Releasing approved risk management products, such as the expansion of the Pasture, Rangeland, and Forage program; Providing a performance based discount or refund, which will reduce the cost of crop insurance for certain producers; increasing Conservation Reserve Program (CRP) acreage to the maximum authorized level; investing in new and amended Conservation Reserve Enhancement Program initiatives, and invest in CRP monitoring. In the near future, USDA will release detailed information describing the investments that will be made using savings generated from a restructured SRA.

One of the challenges for RMA is to assure market conditions, such as market timing or over-supply of a commodity that may influence discounts is not allowed to occur within the insurance program thus inappropriately increasing losses and thereby increasing producer premiums. RMA continually strives to provide standard quality discounts that apply to all producers nationwide so everyone is treated equitably and the crop insurance program does not become subject to market influence and abuse. RMA has continued to work with grower associations and others to continually improve the effectiveness of its quality adjustment provisions.

Working Toward the Next Farm Bill

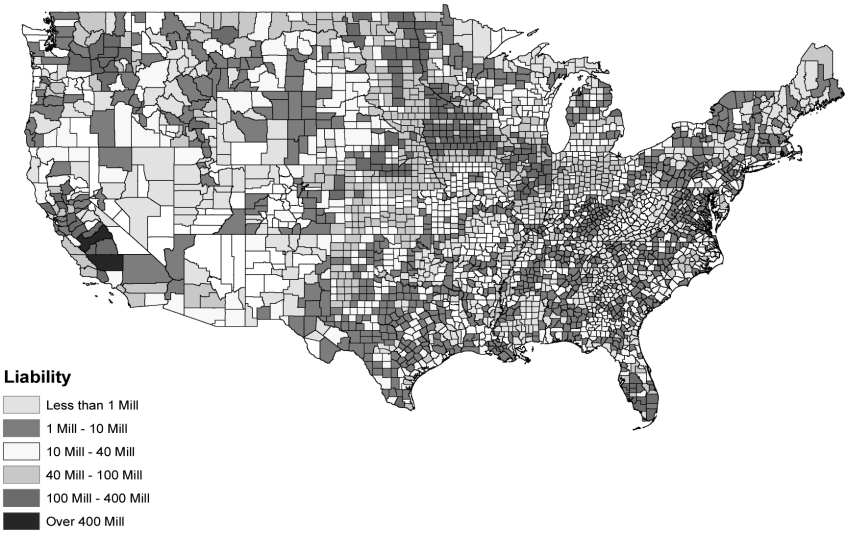
Mr. Chairman, as we move forward toward development of the next farm bill, it is important that we approach this new legislation with an eye toward truly making a difference in the future of the lives of millions of rural Americans. We can strengthen production agriculture, while also building and reinforcing the future of rural communities. Production agriculture and rural America deserve no less from the next farm bill.

In the coming months, I look forward to bringing the experiences of the many farmers, ranchers, and other rural Americans to the table. I also look forward to offering the insights and expertise of our professional USDA staff, who have had the experience and pleasure of partnering with and learning firsthand about the needs of producers in the field. It is my pledge to assist, provide technical assistance, and help better frame the debate toward the topics and issues that are most important to our constituents.

I look forward to working with you, Mr. Chairman, and every Member of the Committee on that endeavor. I would be happy to respond to any questions that Members might have.

ATTACHMENT 1

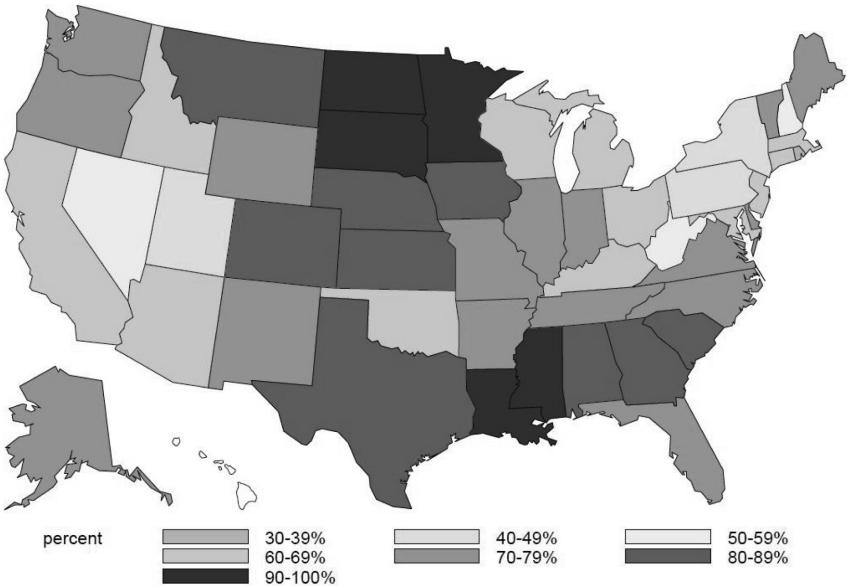
2009 Total Liability All Crops



ATTACHMENT 2

2009 Proportion of Planted Acres Insured

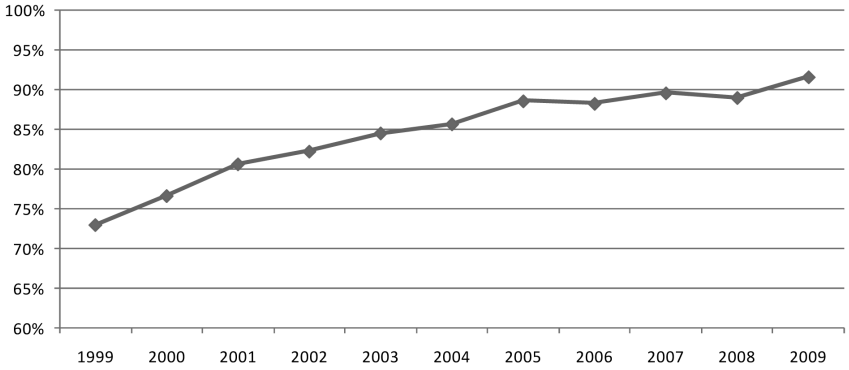
Crops Included: Barley, Grain Corn, Grain Sorghum, Peanuts, Pima Cotton, Potatoes, Rice Soybeans, Tobacco, Upland Cotton, and Wheat



NASS as of: 03/17/2010 Produced: 10JUN10:03:10:50 PM

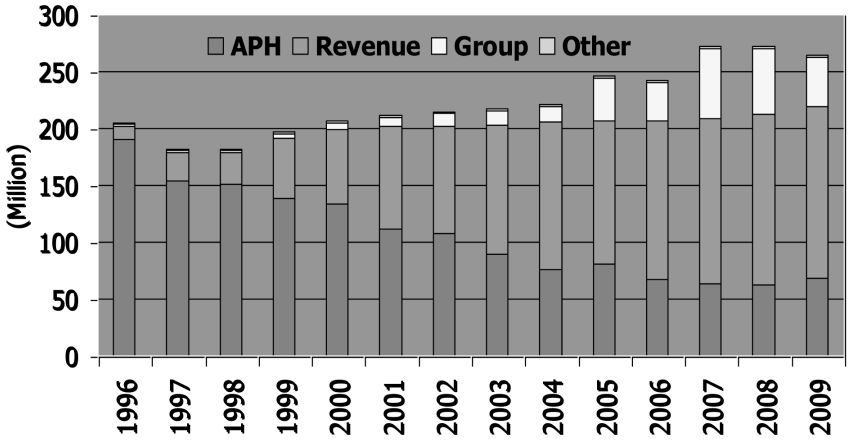
ATTACHMENT 3

Proportion of Insured Acres with Buy Up Coverage in the Federal Crop Insurance Program



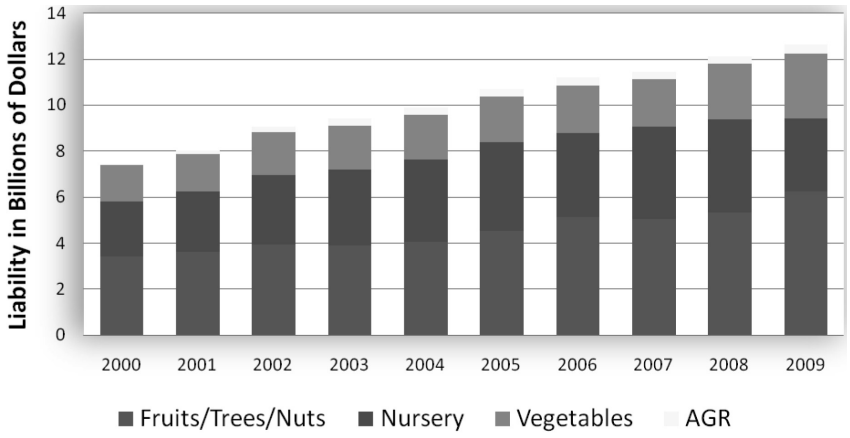
ATTACHMENT 4

Acres By Plan Category



ATTACHMENT 5

FCIC Program Growth for Specialty Crops



The CHAIRMAN. Well, thank you, and I appreciate your strong statement. I do believe that you feel the way you said you feel, that you are absolutely committed to production agriculture and all the things that you have just mentioned. One of the things you mentioned of course is the risk management program for the nation's agriculture producers, the Federal Crop Insurance Program, and there is a lot of concern floating around out there. I can understand why you want Mr. Murphy with you, and Mr. Coppess, you are welcome as well to be here with us. But I guess I will just start off a short point. If that is the case, what you just said, do you believe that removing $6 billion from our farmers and ranchers is in the best interest of the primary risk management program? Question number one.

Mr. MILLER. We believe that the contract proposal that we have submitted to the companies, which does according to OMB analysis save $6 billion over 10 years over the current baseline, is an appropriate approach. Through these negotiations, the Risk Management Agency has been very open, transparent and willing to discuss a number of options with not only the companies who are directly involved in the negotiations, but also with other stakeholders including agents and producer groups. What we have done generally through these negotiations is developed subsequent drafts of a proposed contract in a way that we believe reflects the discussions that we have had with these stakeholders. The third draft, the changes that Mr. Moran identified, which in some ways are significant, really are very reflective of the comments that we have received from the stakeholders, and the adjustments that we were willing and able to make to address concerns that they had expressed about previous drafts.

In terms of the $6 billion in savings, we believe that addressing the Federal deficit is a significant priority, not only for the Administration, but, certainly, a priority for USDA as well as for Congress. Based off of the scores of previous drafts, the Congressional Budget Office had already scored a savings in their last baseline of about $3.9 billion. The remaining $2 billion we believe can be used to protect the baseline by administrative action undertaken by USDA to bolster a number of programs, and provide the opportunity then for Congress to determine what priorities it would have for spending as it develops the 2012 Farm Bill. Basically those priorities fall into two categories: one, improvements to the Federal Crop Insurance Program by offering additional policies or discounts. One key program development that we hope to implement soon is the Pasture, Rangeland and Forage Program that is currently a pilot program, and we hope to expand that nationally. This can have significant benefits to livestock producers, particularly in the Great Plains, where a significant amount of our cattle industry resides.

In addition, we are working on a program to provide a good experience discount in terms of the crop insurance premiums that our producers pay in the future. This program again will provide for an expenditure of a portion of the savings in order to further reduce the premiums that those eligible producers will spend. We are working very hard to develop the program, and as we begin to make significant headway in that process, we are happy to discuss

our ideas with the Subcommittee to determine how best to implement this, going forward.

The other key area for expenditure of a portion of the $2 billion is to bolster our conservation programs, most notably the Conservation Reserve Program, where we hope to have a general sign-up announced for later this summer.

The CHAIRMAN. Well, thank you very much. I think we all agree that the first report, the $8+ billion figure, then down to what, $6.8 billion, I guess we are kind of going in the right direction according to what we hear from our farmers and ranchers and so on, but there is a lot of concern out there, and you know that. I know that you know that so I am not playing that down. Do you feel that, as you explained the $4 billion and then the $2 billion, do you understand that the CBO will maintain that in the baseline? Is that your understanding?

Mr. MILLER. We cannot speak for the Congressional Budget Office. However, we do believe, based on prior action that has been taken by CBO in scoring this program where they did score savings under the prior contract proposals which the Administration had announced but were not in effect, that now we are closer to finalizing this agreement, we believe that they will look very hard at the numbers that we have developed. The numbers have been confirmed by the Office of Management and Budget and CBO should also consider the Administration's announcement in terms of how we would utilize the $2 billion that we are willing to expend to bolster programs, and take that into consideration as they do develop their next baseline.

The CHAIRMAN. Well, thank you. As you know, there is quite a meeting going on in Kansas City today or tomorrow, so we will all have feedback. I am sure we will continue our dialogue at that time, but I appreciate the fact that you are giving us the numbers that we need to work with, and I thank you for that.

At this time I would like to recognize Mr. Moran.

Mr. MORAN. Mr. Chairman, thank you. In consideration of Mr. Conaway's, the gentleman from Texas, other scheduling items, I yield my time to him. Thank you.

Mr. CONAWAY. Thank you, Mr. Chairman. I appreciate it. And Ranking Member, thank you very much.

The keen interest in west and north Texas is the wheat crop this year. It is an abundant crop. We are coming out of inventories from last year that were held over and we are going to have a record crop this year. Export levels in 2009, 2010, the lowest in 25 years, 2010–11, are not expected to be any better. Storage is full, and there is no place to move wheat to. Cash prices are the lowest in memory, so to speak. These are dire circumstances facing these wheat farmers. Export-wise, we have allowed three export free trade agreements with Colombia, Panama, South Korea to languish, now 3 years without action by this Congress to move that forward. All three of these countries would like to buy our wheat, new markets for our wheat producers here in Texas. So I basically have two questions. One, Mr. Miller, besides the distressed loan program that you have announced on a county-by-county basis, how do you see this thing playing out? Is there any kind of a light

at the end of this tunnel that the wheat farmers can look at and deal with?

And then the second piece of that is, from a leadership standpoint, where is the sense of urgency out of the President and out of the Secretary Vilsack to move these agreements? These are all positive agreements that benefit not only ag producers, but manufacturers all across the United States. Panama is expanding the Panama Canal and they are buying bulldozers and heavy equipment. Caterpillar can't compete with international competition because of the tariffs associated with that. So where is the leadership? What are you guys doing to push my colleagues on both sides of the aisle to move these agreements? So those would be the two questions.

Mr. MILLER. Thank you, Mr. Conaway, and let me respond briefly to both of the questions that you raised, and then I would like to ask Jonathan Coppess to respond specifically to the issue concerning programs that might be available for wheat. But we are well aware of the dire situation that is affecting wheat producers nationally as prices have fallen, sales have not been as robust as we would like either domestically or overseas. As you have noted, specifically to Texas as well as parts of Oklahoma, the situation where there is certainly a surplus of wheat as result of large crops last year, another large crop, and now that problem being compounded by wheat that is of much lower quality than would typically be expected in the region. We note that protein levels for this year's crop are unfortunately down significantly, which is also having a significant impact on producer returns. We do have some programs that potentially are available. You mentioned the emergency program. Jonathan can respond to that more directly. But also through crop insurance, as well as through the disaster program, assuming that these areas can be designated as disaster areas, the SURE program does have a quality adjustment provision that allows for a more localized adjustment based on the quality discounts that those producers are facing. That is an option that we and your producers need to look into.

In terms of crop insurance, of course that is the primary risk management program available to those producers. As I indicated in my testimony, we have seen a significant increase in revenue product purchases. That could, certainly, provide some help and some help fairly quickly to producers that have been impacted by this situation.

Turning briefly to the three outstanding free trade agreements that you mentioned, from an agricultural perspective, we fully understand and we support the enactment of those three free trade agreements. While there may be some minor agricultural issues to resolve, particularly concerning South Korea, generally speaking, we view each of those agreements as being very positive for U.S. agriculture and are supportive of their ratification. The Administration has indicated their support for the agreement, assuming that some of the outstanding issues can be satisfactorily resolved, and those issues vary with each agreement, but it is not a long list. You raised the key concern, and that is, generating the level of bipartisan support within the Congress to ensure that Congress will in fact ratify those agreements should they be brought forward.

That is a strategy call that needs to be made between the White House and the Congressional leadership in terms of the timing. But we view them as positive for agriculture and we would like to see those agreements ratified.

I should note, however, that particularly in the case of wheat, when one looks at a country like South Korea, they are still a very significant wheat customer of ours. But let me ask Mr. Coppess if he can respond more specifically to the programs available to your wheat producers.

Mr. COPPESS. Thank you, Under Secretary Miller.

Certainly we are very aware of the problems and have been in discussions with our local officials, our state executive directors in the area in trying to get a good sense of what is going on and how to address it. We do have some difficulties with the programs we have in place for the protein issue. A couple things that jump out, you mentioned the distress loans, which are available for commodities stored on the ground, which comes in about—it is about 75 percent of the eligible quantity and it matures on demand in 90 days. We also have non-recourse loans at 20 percent of the applicable county loan rate when you have low-quality commodities. No other discounts are applied. But as we look at the marketing assistance loans and others, the posted county prices and everything are not calculated on that local market price. And, then of course as Under Secretary Miller mentioned, the SURE program has potential depending on disaster declarations and the ability to use the quality loss adjustment. At this point in time we have a limited set of options that we can use, but we are continuing to explore what we can do. We will continue to be in conversation with our folks on the ground to make sure we are doing everything we can to address it within our authorities.

Mr. CONAWAY. Thank you, gentlemen.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

We would like to recognize the gentleman from Missouri, Mr. Luetkemeyer.

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

Mr. Miller, I just want to go over briefly some of the information you gave us with regards to the Average Crop Revenue Election Program. You indicate in your testimony that the participation level and number of acres is less than you had anticipated originally. I guess in going through some of the testimony here, I am not exactly sure what the reasons were. Can you give me reasons why and if those situations are going to exist in the future, and in the future of the program itself from that standpoint?

Mr. MILLER. I think there are a number of reasons that participation is below, not only what USDA estimated, but far below what the Congressional Budget Office projected when the 2008 Farm Bill was passed. One, it is a brand-new program and it is relatively complex. It took a fair amount of time for producers to understand what the benefits, as well as the risks, are in that program. I think that caused a number of producers to decide that they would wait a year and see how the program operated before they made a firm decision to participate. Also, under the ACRE Program, once you decide to sign up and participate in that program, you are obli-

gated then to participate through the life of the farm bill, through 2012. You cannot go in and out of the ACRE Program. I think again that caused some hesitation on the part of producers, not only in terms of how they might view the program operating in any 1 year, but recognizing that they would be involved in that program for a long time.

Also, as has already been indicated in the case of wheat but also in commodities, particularly the grain commodities generally, we have seen declining prices, which has affected the ACRE guarantee, going forward. I think that has made it again a decision that producers have to individually weigh as to whether they want to enter the program. I think there are a number of factors there. We have seen a modest increase in ACRE sign-up this year, but, again, it is going to fall short of any of the projections that were made at the time the program was approved by Congress.

Mr. LUETKEMEYER. One of the things that is of concern to me is the fact that as we as a society continue to get more generations removed from the farm, we have fewer people understanding the importance of agriculture and where we get our food from and the importance of that not only to ourselves as individuals but to our economy as a whole. We as a Committee here, obviously it is important for us to make sure that there is sound policy in place and sound programs in place to protect that part of our economy and that way of life. As we look to the 2012 Farm Bill, it would seem to me that obviously with the budget deficit that we have, there is going to be a strain on us to be able to afford the programs that we have. Have you undertaken yet, in regard to review of these programs, as to which ones we need to consolidate, how much increase we need, how much decrease we need? Have you started to take a look at where those savings might be, so we can take a proactive approach and say, "Hey, if you are going to continue to support agriculture, this is a must-keep program, this one we can probably minimize or we can reduce. This one we have to have so we can make sure that we can make a good case to sell what we need to sell here to the rest of our Congressional colleagues, as well as the support that we need through the Administration."

Mr. MILLER. Congressman, you have laid out very concisely exactly the view of the Secretary and USDA as we look at the 2012 Farm Bill. We do need to look and analyze each of these programs, and particularly the new programs that were created in 2008 to determine how effective they are, are there ways to streamline those programs, is there the potential that we have overlaps that working together we could resolve in a way that not only saves money, but makes the programs more efficient, more effective and certainly more understandable and easier to deliver. That is exactly a process that we would love to engage in with you and other Members of the Committee as we begin to develop the framework for the 2012 farm legislation.

I also think you made a very important observation concerning the fact that we are finding more and more the U.S. population being further and further removed from the farm, and in some ways from the needs of rural America. We have to look at ways that not only do we bolster the safety net for our producers and make it more effective for crop and livestock producers, but at the

same time we need to work together to find ways to create even better opportunities in rural America. We need to ensure that those that want to live in rural America, whether they are farming or just want to raise their families there have the opportunities that are necessary to reinvigorate the rural communities all around the country, and again, we want to work very closely with you in developing that. We have begun to analyze the impacts of these programs. That analysis is far from complete, but we are certainly happy to share the results of that work when we have it available.

Mr. LUETKEMEYER. Thank you.

Mr. Chairman, I yield back.

The CHAIRMAN. You are welcome.

Mr. Pomeroy, 5 minutes.

Mr. POMEROY. Thank you, Mr. Chairman.

This is one of the better teams I have seen in many years I have been on this Committee relative to really a thoughtful implementation of farm policy. I think it is bolstered by the fact that Mr. Miller played such a role when he was on Senate staff, in terms of the creation of the farm bill. So this can be one instance where there is no doubt about what legislative intent was as the Administration tries to implement the new farm bill.

One area that I think that has proceeded very much along the line of what we had hoped to achieve is this permanent disaster program. Mr. Miller, I would like your assessment in terms of, to date, how this thing has worked.

Mr. MILLER. Thank you, Mr. Pomeroy. First of all, let me make just a brief comment that I have relayed to your colleague, Senator Conrad, that had I known at the time that I was going to be the one in charge of implementing these programs, I may very well have given him different advice.

I certainly think the Permanent Crop Disaster Program is a complex program and a significant departure from the *ad hoc* disaster programs we have had in the past. I believe Congress intended it certainly to be a departure as a way to provide certain amount of guarantee, or certainty, to our producers. But it is complex. It does require both producers, as well as FSA and RMA, to work very closely together to determine how people enroll in the program and what the level of benefits are. I think we have seen some shortcomings in the program. While it has encouraged the use of the crop insurance program, which is a key factor in determining the benefits, we still find areas of the country, even though we do have the SURE program in place, that are not purchasing an adequate level of coverage. In many cases for some crops purchasing either no crop insurance or only the catastrophic level of crop insurance and therefore to the extent that they are eligible for benefits under SURE, those benefits would generally be viewed as minimal or marginal.

Mr. POMEROY. Mr. Miller, my notion on crop insurance is people buy to the extent they perceive risk and value. If they see substantial production risk, they are more inclined to buy it, provided they see value for the premium dollar they are paying. Why is crop insurance faring less well in some areas of the country, or for some commodities produced?

Mr. MILLER. I think you are absolutely right. It is a producer decision concerning the risk that they perceive that they are undertaking and the value that they are getting for the crop that they are insuring, and the SURE program has added to that value. I don't think there is any question about that. But I do believe, and we have and are engaged in analyzing the impact of these programs in a number of areas. Let me mention one commodity specifically, and that is rice, where producers there have generally made a decision that they will reduce risk by employing new production techniques, irrigation, for instance, because their other weather risks are much more limited. That means their costs have probably increased as they have made those investments. Their productivity has improved, and so they are viewing production risk as much lower than we might view it for a typical row crop in North Dakota or Kansas.

Mr. POMEROY. Right.

Mr. MILLER. And so I think that is an issue that as we look at 2012, and we look at how each of these programs interrelates with one another, we need to consider some of these rather unique cropping situations, as well as some of the regional implications of how these programs work. I think the ACRE program also is another case where it probably has differing benefits, depending upon what region of the country you are in and where you are at in terms of prices and production when the program was first implemented.

Mr. POMEROY. I want there to be regional equity in these programs, and it felt like sometimes the upper Midwest did not benefit from programs that had fairness across the regions and across commodities. I have been very unsympathetic to the *ad hoc* disaster bill working its way through the Congress right now, although I will note that is primarily geared to the region that you spoke of, in terms of not being well served by the present program either in structure or initial operation. I will be very interested in looking at basically is the program that these people aren't insuring when they should be insuring over the long term, notwithstanding risk, so that they have this kind of ultimate disaster protection or do we have a program design flaw. It may be just practice with a new program needs to evolve so that they have the—they get the fact that there aren't more *ad hoc* disaster bills coming, this is how they prepare for disaster coverage.

I know my time has run out. I do want to compliment the effort made on the SRA renegotiation. I view the success of the dialogue by the volume of complaints coming into my office. This has been a vigorous undertaking and there are substantial dollars involved, but the complaints coming into my office have been minimal, which means I think that there has been perceived by all parties to the discussions meaning to the dialogue, a substantive discussion, not a deaf ear to industry concerns or private partner concerns. I think you have done a good job.

Thank you. I yield back.

The CHAIRMAN. Well, thank you, Mr. Pomeroy. Are you indicating you would like to have some of my calls that are coming in?

Mr. POMEROY. This might be one of those regional things, Mr. Chairman.

The CHAIRMAN. Okay. Mr. Moran.

Mr. MORAN. Mr. Chairman, thank you. I would not have yielded my time to Mr. Conaway had I known that Mr. Pomeroy was going to intervene by his arrival.

Mr. Under Secretary, you have brought the Administrator of the Farm Service Agency with you today. I assume that is for purposes of answering my question that I asked Mr. Coppess last week, and again, can you now tell us when the general sign-up is going to be for the expiring CRP acres?

Mr. COPPESS. Thank you, Mr. Moran, and I understand your frustration, and we are continuing to push this through. What I can announce for you today is that tomorrow, the 18th, yes, tomorrow, we will formally publish the EIS for the CRP. That institutes a 30 day no-action period. That then puts us later in the summer when we finalize the regulation and get the general sign-up moving. We are looking at in the late summer timeframe, August, mid-August timeframe.

Mr. MORAN. Mr. Miller, Mr. Coppess may recall my question last week was whether or not I could assure my farmers, landowners that by July 1 they would have a date-certain. More important than that is will they have a sign-up before July 1, and the answer to that question is clearly no, which creates significant problems in the Midwest on the high plains, western Kansas and the western United States in which those hundreds of thousands of acres that are expiring. My landowners have to make a decision now, certainly in the next several weeks, about whether or not they are going to remove the cover crop, remove the grass and begin cultivation. Based upon what you are telling me, the answer is, they can have no certainty that they would be able to get their land into CRP before they have to make that decision.

Mr. MILLER. Yes, based on the timeframe that we have for this, there will not be a sign-up before July 1st.

Mr. MORAN. Can you extend that date? Can you tell me there will not be a sign-up before some other date? What is the minimum amount of time that now has to expire?

Mr. MILLER. Once the EIS is formally published tomorrow, we have a 30 day no-action period in which we cannot do anything. We have taken public comment on the EIS. We turn that into the record of decision on the environmental impacts, and then we publish the final regulation for that program. At that time, we can announce and begin a general sign-up.

Mr. MORAN. And that minimum time is how many days or months?

Mr. MILLER. Well, 30 days plus giving a few weeks to at least try and turn around the rules quickly as we can and the record of decision. I don't have any way of telling you, sitting here today, exactly how long it is going to take us to finalize the rule, clear it and get it through, but we are pushing this as fast as we can and working as hard as we can to get this out knowing the significant issues it faces for producers on the ground.

Mr. MORAN. I was going to say I treat you with great respect because you understand Nebraska agriculture and therefore understand the dilemma that we are in, although we are all mad at Nebraska at the moment. So I defer my respect.

I guess what you are telling me is at least 6 weeks from tomorrow is a minimum amount of time.

Mr. MILLER. Without guaranteeing any set time, at least 30 days for the comments, and given the pace of trying to get things through at least a week or 2, maybe more than that, to get it through the system.

Mr. MORAN. I want to go back, Secretary Miller, to the baseline issue, and it is important that we talk about CBO baseline, not OMB baseline. That is the one that matters to us. Everything that I have been able to understand about this topic is that we will get no credit in the CBO baseline for the money that is placed into CRP, and no credit for the money that is placed into expanding programs related to crop insurance. I also think it is an interesting circumstance that you have created by shifting money from crop insurance to CRP, a mandatory program, that sets a dangerous precedent in which we take money out of the safety net dollars to fund mandatory programs. So that was a surprise to me. It doesn't make sense to me. And again, I think that the baseline is going to be deteriorated as a result of this SRA agreement coming to a conclusion.

It seems to me, and you can correct me, and I am sure you will, but I thought we had an understanding, I wouldn't use the word *guarantee*, no one in Washington guarantees anything, that we had an understanding that the Administration in their SRA agreement would ensure that the CBO baseline was not harmed as we enter discussions on a new farm bill. So, my question is, what was the commitment of the Administration with regard to the baseline, and can you tell me today that we will not sign an SRA agreement until we get full protection of the amount that is coming out of crop insurance that it remains in the Agriculture Committee's baseline as we develop a new farm bill?

Mr. MILLER. There were several questions there, Congressman, so let me see if I can work through it. In terms of the Administration's commitment pertaining to the baseline, the Administration had agreed that first of all they understood the baseline issue relative to having funding available to write the 2012 Farm Bill. They agreed to work with Congress in terms of helping identify an appropriate level of baseline that could potentially be protected, recognizing that there are additional priorities out there for both Congress and the Administration and a significant one of those priorities is deficit reduction.

In terms of the CBO numbers generally, as I said, we don't have control over CBO, but I fully understand that those are actually the numbers that you have to work with. It is my understanding that in the spring CBO baseline relative to the SRA negotiations that were occurring at the time, CBO had already assumed $3.9 billion in savings from the SRA negotiation, which was already, in your view, a loss to the baseline. So recovering that whether through administrative action or through actions that Congress might take would have been difficult anyway. If we didn't come to a conclusion to the SRA negotiations or if Congress wanted to intervene, they probably would have their own PAYGO problem in recovering the $3.9 billion. So the Administration has agreed to provide ⅓ of the savings to bolster other programs. That will be

done through administrative effort and those programs will be available for Congress to review during the 2012 Farm Bill. That means you can determine at that point the priority that you would place on the changes that we have implemented administratively, and the additional outlays that we have incurred over the next year or 2 as we make these changes.

You do raise an interesting point concerning the treatment of the Conservation Reserve Program. At least my reading of the statute, and this may have been an unfortunate oversight, is that the statute calls for up to 32 million acres rather than explicitly mandating 32 million acres. But that isn't the sole source of the problem that we confront both in dealing with the Administration PAYGO problems that we face, or the ones that Congress faces. Basically we have ended up in a situation where even going back to the previous Administration there were efforts to make modifications to the CRP program that required offsets, and there were a number of tradeoffs that were made in terms of efforts to pay for programs. The previous Administration wanted an open access initiative applied to CRP, not to be confused with what was included in the 2008 Farm Bill. They were required to pay for that. In order to pay for it, they modified their assumptions concerning CRP participation and that may have been reasonable, given high prices and the fact that there was an assumption, I believe, that land would come out of CRP. They didn't implement the program, and during the transition OMB applied those PAYGO savings to deficit reduction and so we lost it. When we then decided to try to find a way to allow for an extension of expiring CRP contracts last year, we had to pay for it. We went back and made an assumption about future CRP sign-up in order to get the money to pay for the extensions last year. So that meant as we start looking at an open sign-up, an open or period this year with the goal to achieving, to maximizing CRP participation at 32 million acres, we are basically stuck with an offset and that offset is somewhere in the neighborhood of $300 million, Jonathan? About $300 million of administratively required PAYGO offsets. So it is a problem that I think both Congress and the Administration face. I don't want to diminish it. That is a significant amount of money. But we think it is important to get as close as we can to the 32 million acre level on the CRP participation.

Mr. MORAN. So the expectation is that the baseline for the new farm bill is reduced by the amount of the savings, *savings*, in the SRA agreement, which is now, what, six point——

Mr. MILLER. Six billion dollars.

Mr. MORAN. Six billion dollars. Three point nine was already—$3.8 billion was already anticipated, and so a further reduction in the baseline of the difference between $6 billion and $3.8 billion.

Mr. MILLER. That would be the additional reduction, and then by administrative action we are going to increase outlays that we believe CBO should reflect in the baseline as well. As I mentioned, we are going to be expanding the Pasture, Rangeland and Forage Program to make it a national program. That has a significant PAYGO cost as well. We are looking at providing additional good performance discounts to producers in terms of their crop insurance premiums. This should also be scored, we believe, by CBO as an

outlay that would serve to increase the baseline that you all have to work with, and so we are looking at a $4 billion net reduction for deficit reduction and $2 billion that we will be expending through administrative action.

Mr. MORAN. I no longer have any standing to critique the gentleman from North Dakota for going over his time, but I do hope maybe the Chairman will give me the opportunity to ask some additional questions. I want to talk some more about crop insurance if we have the time. Thank you, Mr. Chairman.

The CHAIRMAN. Ms. Herseth Sandlin, you are recognized for 5 minutes.

Ms. HERSETH SANDLIN. Thank you, Mr. Chairman.

Thank you to all of our witnesses today. I appreciate working closely with all of you to address the needs of South Dakota's agricultural producers. As you know, Secretary Vilsack was in South Dakota last fall. Administrator Murphy accompanied him. Yes, you were both there. That is right. And I apologize for—well, it hasn't stopped raining up in northeastern South Dakota, and we have had terrible flooding now in the southeastern part of the state. Before I get to that, I have an important question both for Mr. Coppess and Mr. Murphy based on some discussions that I think have been happening from your state and regional counterparts to think creatively getting ready for the next farm bill, is perhaps a new program to assist some folks when they get caught in these cycles of very wet weather.

But the first question I would have, Secretary Miller, is, we heard at the recent field hearing that the Agriculture Committee had in Sioux Falls, South Dakota, was how complex the ACRE program is. I would like to hear your thoughts on two areas, both ACRE and SURE, and what do you think is working well in ACRE, what is not working well? A common complaint I hear is that to enroll if you are a producer renting or leasing land, you have to get the landowner's approval to enroll in that program. With SURE, I mean, we have some FSA county offices and I know it is taking a long time, manually, to get this done, but we have significant backlogs for producers waiting for 2008 SURE payments. I know with what the Secretary announced this week, with the new MIDAS program, which county offices are going to get that first, how are you going to sort of target that? Will all of them eventually get it? What is the timetable? Because these are delays that are harder and harder to justify and people, especially if they are caught in some of these areas where they have been declared as a disaster, either Presidential disaster declarations or Secretarial disasters, people are really struggling, and so we need to prioritize some of these areas. But if you could comment there, and then the question for Mr. Murphy and Mr. Coppess, to what degree are you two engaged as your state and regional folks are in thinking about new programs to get people a transition program, especially if prevented planting is meeting some restrictions. I think we should push the reset button if there is a declared disaster area in terms of how that is administered. Mr. Miller?

Mr. MILLER. Well, thank you for the question, and you raise a very important point as we look at the 2012 Farm Bill. The two programs that you mentioned were brand new in 2008. Both of

them are complex and yet substantially different, and yet if you look at them, in some ways they are both trying to do the same thing, and that is to provide further help to producers in maintaining their income, particularly during declining market prices or if significant crop losses occur.

I think in terms of ACRE, there were two elements that probably did the most to discourage participation in the first year. One was just understanding how the program worked, and it took some time for USDA and yet we did get a lot of help from the land-grant universities, from the extension service and from a number of farm organizations in getting the word out and developing some templates that farmers could use to pencil in their options and make a comparison between ACRE participation *versus* participating in the traditional program. But, just the complexity of it certainly depressed participation, and now with the change in market price across a lot of commodities, I think that is further depressing participation. But there is no doubt it was complex, it was something new, and then you put the SURE program in on top of that, we may have created a certain amount of overload for producers in trying to understand the 2008 Farm Bill. But the SURE program in its own way is complex because of its attempt to link disaster payments to the other risk management functions in both crop insurance, as well as our countercyclical and marketing loan programs. The SURE program also required that we use an average annual price which meant that payments were going to be delayed by at least a year as we collected the data to calculate what a producer actually received for their production.

I think there are a number of elements that Congress could consider but we have to remember, almost every one of those will come at some sort of budgetary cost as we look at the 2012 Farm Bill. There may very well be a way to consolidate some of these programs and gain, not only some efficiencies, but maybe some improvements for the producer in their operation. We are certainly happy to work with you in an effort to complete an analysis of where we are at, and also to take a look at what the results might be if we looked at some consolidations and some simplification. And I am sure those that implement these programs at the county level as well as our producers, if we could find a way to simplify these programs, would be ecstatic.

Jonathan, do you want to respond to the Congresswoman's other question?

Mr. COPPESS. Sure. Thank you, and just quickly, from what we discussed last fall, and I recall we weren't able to get up in the airplane to see anything because of the rains. You know, one of the things we are finding both with kind of wrapping all three of these together, ACRE, SURE and how we deal with some of the specific issues in South Dakota, is the incredible experience that we are getting now as we run through these and the importance of continuing the discussions with our field offices, understanding what the farmers are dealing with, what the problems are and how we then take that back in and analyze these programs and work with you all in providing that advice back up. I think our best bet right now is to get as many ideas out of the field as we can, get as much

understanding out of the field on these programs as we can, and then look at the ways that we can adjust on that.

Just one quick point on MIDAS you asked about. It is an important effort, an important investment we are making in our capabilities at the field level both on the computer side and to clean up some of the business processes, forms and issues that we have. We need to take some of this complexity of just how we operate all programs as well as providing the IT infrastructure and that system there to, if the program is complex not make it so complex at the countertop. There is a whole lot of that that we want to work in and that we expect to have made significant progress on MIDAS by the time we get the new farm bill through, and again hopefully that will help us as we are able to combine a lot of that learning into the next round.

Mr. MURPHY. From a crop insurance standpoint, I think your growers up there will be covered this year with prevented planting as long as they maintained insurance. We recognize that 2 to 3 years you can have an insurable cause of loss. The coverage continues on with it. As long as the producer maintains his insurance coverage, he will be okay. We have been having some other problems up there, and that is more of availability of acreage for planting. That is a requirement for prevented planting. When we go out there and we see trees on some of this land, you have to wonder when was the last time it was planted. That is sort of the extreme we have been dealing with in other parts of that area. But just a grower who farms year in and year out, there shouldn't be a problem currently.

Now, as far as for the thoughts on perhaps a new farm bill, with the experience that we have, the growers have with our programs, that companies have with our programs, I think we would all be very willing to discuss potential improvements there.

Mr. MILLER. Could I make just one additional comment related to one point that you mentioned? Part of the complexity of SURE and some of the delay, not just in identifying the components and how we would implement those components, really is a result of the lack of computer technology and the ability to come up with a more simplified process. We made the decision, and this is one of the obstacles I take responsibility for creating in our county offices, but we made the decision that it was more important to get SURE payments available to producers even if we had to go through what we consider to be a manual calculation. That is still an electronic calculation but with a different program. And then turn around once we had the programming completed make whatever final adjustments might be necessary, rather than to delay the implementation of the program waiting for our systems to catch up with us. But that did create a significant load that still exists in our county offices, something that is creating some backlog. But, the other choice I viewed as just totally unacceptable and that is to just sit around and wait. It was more important to get as much money as we could delivered to those who needed it and who were eligible for payments, and that was the decision we made. I wish it would have been more efficient than it was, but, unfortunately, we just didn't have that capability.

The CHAIRMAN. Thank you.

Mr. Moran.

Mr. MORAN. Mr. Chairman, thank you. I join Mr. Miller in his comments particularly with Mr. Coppess here about commending our county FSA offices in the implementation process. We create tremendous challenges, and their ability to respond is very much appreciated.

I would like to spend a little bit of time on the SRA agreement, and what I always try to focus on is what does this mean to the availability of crop insurance for farmers, particularly in states like mine where the risks are high, weather is not often our friend. There is a very unusual, an unusual provision if you want to explain to me about the future lawsuits in which if the company is successful in their efforts to get money from RMA, they have to pay it back to RMA, which I guess diminishes the likelihood that any company is going to sue you over the agreement. But beyond that in broader perspective, in the first draft we started out with no restrictions on agent commissions. In the second draft, the RMA introduced an 80 percent cap in direct agent commissions and allowed unlimited profit sharing. And now in this draft, perhaps the final draft, you have kept the 80 percent cap on direct commissions, and then also capped total profit sharing and direct commissions at 100 percent of A&O. I think this is a move in the wrong direction and this provision should be removed from the SRA. In part, it is philosophical. Why is that not a decision between companies and their agents? Why is the Federal Government, why is RMA intruding into this issue? I don't know how you are going to enforce it. I think you are adding a tremendous amount of bureaucracy, and this is just a mess, but just broadly I don't understand why this is an issue for RMA. This is an issue for crop insurance companies to negotiate with their agents, and if you have picked the wrong numbers and placed a cap, then it affects the farmer and the rancher. What we compete for, what my farmers have in making a decision about who their agent is, is who provides the best service. And it seems to me you are headed in a direction in which you are reducing the opportunity for that competition of who provides the best service to our farmers and ranchers.

And I am surprised by those who say there has been no complaints about these issues. My guess is because the agreement was just finalized last Friday, and the discussion will occur in Kansas City tomorrow. But I just see we are dictating how a business should be run, and again, we have enough problems without engaging in that process. Mr. Miller?

Mr. MILLER. Well, let me make a couple of comments and then ask Mr. Murphy to respond as well. First of all, Congressman, if this were purely a private insurance program, I probably would agree with you that the government shouldn't be limiting it, but it is not. This is a partnership between the Federal Government, the companies and then indirectly the agents and the producers that participate in the program. We have a responsibility to ensure, as best we can, that the companies that participate in this program are financially sound and capable of living up to their responsibilities. One of the things that we have seen in the past has been the increased liability to the agents that companies have undertaken by bidding up commissions, putting their financial status in ques-

tion. In one case a company went bankrupt, which put the burden of resolving that issue back on the American taxpayer and also on the State of Nebraska. So this is a way, we believe, to control what has been an explosion in agent commissions based on market price movements, still allow commissions to be at a reasonable level through profit sharing, but help ensure also that in that competition for agents which is manifest in some parts of the country and less so in others that we do have some controls to ensure that the companies are able to sustain themselves.

Mr. MORAN. Mr. Miller, before you go to Mr. Murphy, is that not taken care of when you change the A&O? When you create a cap on A&O, you are going to force companies to make decisions about how to spend their money *vis-à-vis* their agents. It just seems to me it is an unnecessary step when you address the issue of A&O.

Mr. MILLER. Well, what we have seen with A&O in the past is that companies will bid up commissions in some parts of the country, and actually shift their underwriting gains and their A&O disproportionately to end up with commission rates in some parts of the country that are significantly higher than they are in other parts of the country. So, just looking at A&O broadly we don't believe adequately addresses that problem. Bill, do you want to respond further?

Mr. MURPHY. Yes, just to support the Under Secretary's statement from a global sort of big picture standpoint. If this was a private market, this would be addressed in a number of ways. One of them is product design. That will put pressure on commissions. Product pricing would put pressure on commissions and bring them into really what the market would bear. But since we control the product, we control the price. The way competition has become manifest in this program is through agent commissions. We are at about 85 percent participation. Growers have very high levels. If I am company A and I want to expand my market share, basically what I am limited to is increasing commissions. Now, within just this last year and certainly in the key farm states, I have had agents tell me they have been offered commission rates of 30 percent. When we are only giving 18 percent A&O, I mean, how do you make that work? The companies continually tell us their expenses are four, five percent above what we are giving in A&O. If we run into a situation like 2002 again where the companies are basically relying on underwriting gains to meet these commitments of commissions, we very well could have another failure. You don't have to have a bad year. Two thousand and two was not that bad of a year. In fact, the company that did default was the only company that year that had an underwriting gain. So unfortunately, I understand your angst and that of the agents but——

Mr. MORAN. Let me ask this question, which is—I am not sure it is a good question to ask, but are you suggesting the kind of underlying thought here is that the companies want the SRA, RMA to protect them from themselves?

Mr. MURPHY. I don't know if they want us to protect them. I feel that we need to do something. If we have another failure in today's environment and the dollars we are talking about, I am sure I would be called up before this Committee and asked to explain why if I knew a potential problem existed, why didn't I react.

Mr. MORAN. Was the failure of the company that you are talking about, was it related to agent commissions?

Mr. MURPHY. Yes.

Mr. MORAN. Can you attribute that to—okay.

Mr. MURPHY. Yes, very definitely so. They were relying on a 10 to 15 percent underwriting gain to meet their commission commitments.

Mr. MORAN. You smiled when I asked about the lawsuit issue. Is there something to that that——

Mr. MURPHY. Basically what that is around, there has been some threats from different areas in the program that they will take us to court over this. We have been to court with the companies on several other provisions of the program. In order to ensure that the savings are maintained, basically what that provision says that if you overturn the new financial aspects of the agreement, we will utilize net book quota share to recoup them. Now, you are correct, this is the first time the companies have seen this. We are meeting with them tomorrow. Our attorneys are meeting next week and we will go through some of these concerns, and perhaps we have to state it differently. I am not too sure. But that is basically what that provision was for.

And if I could just expand a little bit on the hard cap, the company's financial stability really has more to do with the soft cap. The hard cap came about as more of an equity issue. As you know, some of the companies in our program, nationwide, are heavily involved in the Midwest. That is where the profits have traditionally been made. Other companies in other parts of the country don't write at all in the Midwest or very little. They thought with the idea of the 80 percent soft cap and then being able to share commissions or profits freely that they would be at a disadvantage, and they would be forced to move into the Midwest purely to get more underwriting gain so that they could promise additional funds to their agents. They thought their agents would be picked off by other companies. Another one is the agents themselves. The way the companies are paying these high commissions in certain parts of the country is, they are basically taking the A&O from other parts of the country. Agents in Texas, I am sure the commissions are around ten percent *versus* perhaps 20 percent, 18 to 20 percent, in the Midwest. They are doing the same amount of work. Why is one being compensated half of the other? I think that is a legitimate concern for the agents. Again, it is because of the distorted market we have created, unfortunately, in this partnership.

I think it also comes to be a barrier for entry into the program for new companies. I know this has been an issue with Members here. It has been an issue with the companies and agents as well. If you have the super high commission schedules, it makes it difficult for a company to come in, perhaps with a better way, or an approved way to market it, perhaps through some quoting software if they have to match immediately high commissions.

I think it wasn't just one thing, it was actually a number of things we were trying to address in it.

Mr. MORAN. I lean forward to look at my next question. The Chairman leaned forward to grab ahold of his microphone, so I ap-

preciate the Chairman's indulgence, and I thank the witnesses for their testimony.

The CHAIRMAN. I thank you very much for your testimony today and I believe we will ask that we can have questions for the record, and we will bring this to a close.

It goes without saying, we are interested in what happens tomorrow so we will continue to have dialogue. I think you have been forthright. We appreciate it, and we will do our best to see if we can't work our way through this. Nobody said it was going to be easy, and so we understand that.

So therefore, under the rules of the Committee, the record of today's hearing will remain open for 10 calendar days to receive additional material and supplemental written responses from the witness to any questions posed by a Member.

The hearing of the Subcommittee on General Farm Commodities and Risk Management is adjourned, and thank you very much.

Mr. MILLER. Thank you, Mr. Chairman. Mr. Moran, thank you.

[Whereupon, at 11:20 a.m., the Subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUBMITTED QUESTIONS

Questions Submitted by Hon. Leonard L. Boswell, a Representative in Congress from Iowa

Response from Hon. James W. "Jim" Miller, Under Secretary for Farm and Foreign Agricultural Services, U.S. Department of Agriculture

Question 1. I have heard much from folks in Iowa regarding SURE. One recent issue that I am hearing is that producers who have GRIP plans are not receiving SURE payments because USDA has decided to lower the 150% multiplier used by RMA to 100% for the SURE payment calculation. Can you elaborate why USDA has decided to do this? What would have been the impact in a state like Iowa?

Answer. The Group Risk Policy (GRP) and the Group Risk Income Protection Policy (GRIP) is based on a county average yield, not the producer's individual farming operation. Unlike GRP/GRIP, the SURE guarantee is based on the individual producers' actual production history (APH) rather than a county average yield. For crop insurance purposes, the *GRP/GRIP* liabilities are established by taking an expected county yield times a price election times 150 percent (multiplier) to derive a maximum protection per acre. The multiplier serves two purposes: (1) to account for the decreased variability of county-average yields as compared to individual farmer or producer yields; and **(2) to allow growers with above average yields to purchase a higher level of coverage.** Under *GRP/GRIP* covered producers qualify for an indemnity if the county yield/revenue trigger is met regardless of whether the individual producer suffered a loss.

The statutory language for SURE instructs Farm Service Agency (FSA) to calculate the SURE guarantee by considering those elements that a producer elects and is guaranteed by RMA. For example, the payment rate that is equal to the price election for the commodity, the payment acres, and the payment yield for the commodity equal to the percentage of the crop insurance yield elected by the producer.

The 150 percent multiplier is not part of what Risk Management Agency (RMA) guarantees under these types of policies. For GRP, the insurance yield guarantee recognized by RMA is based on the expected county yield and coverage level elected by the producer. For GRIP, the insurance guarantee recognized by RMA is based on the expected county yield multiplied by the RMA established price (defined as county revenue) and coverage level elected by the producer. Only if there is a decrease in the county expected yield (GRP) or county expected revenue (GRIP) would the insured be eligible for an indemnity.

Under a GRP or GRIP policy, the 150 percent multiplier is not elected by the producer. In summary, the 150 percent multiplier is not used in triggering the loss, it is not elected by the producer, and the multiplier is used in a group risk product upon which risk is minimized based on the fact that a group loss must be suffered before an individual becomes eligible for an indemnity. Only if an indemnity is triggered will the grower be able to take advantage of using the multiplier in calculating the indemnity. In comparison, under an APH or Crop Revenue Coverage (CRC) product a producer must elect all aspects of the guarantee, and loss is based on an individual loss.

Question 2. While USDA was deliberating how to move forward from the proposed rule that the Bush Administration published and the changes that the previous Administration made to the actively-engaged rules, there were a lot of concerns that arose about the various structures that farm families had set up to deal with tax and estate planning issues.

- Are there still some issues you feel like you haven't addressed? Such as the use of trusts or LLCs for land or equipment ownership?
- How did USDA end up treating folks who are utilizing this type of structure?

Answer. A change was made in response to the 2008 Farm Bill payment limit provisions for revocable trusts. A revocable trust and the grantor are considered the same for payment eligibility and payment limitation purposes. When land is titled in the name of a revocable trust, the landowner exemption can now be extended to the grantor of the trust for actively engaged in farming determinations. All payments earned by a revocable trust are attributed to the grantor. Before under the "person" rules, the grantor and the revocable trust were combined as one "person" for payment limitation purposes. However, the land owner exemption only applied to the trust, and not the grantor.

With direct attribution and the repeal of the permitted entity rules, payments are limited annually per individual and legal entity regardless of how the business is organized because the payments received directly and indirectly through other legal entities count toward the payment limit. While the agri-business trend reflects in-

creased use of trusts, LLC's and legal entities for liability protection, tax and estate planning purposes, and such entities are the program participants rather than the individuals who make up the entities, the current regulations do not hinder or penalize anyone in regard to the receipt of program payments for choosing whatever business structure is best suited for their farming or ranching operation.

Question 3. There are numerous producers in South Dakota who are seeking wetland determinations and are simply waiting for certification from USDA Natural Resources Conservation Service (NRCS). Unfortunately, NRCS needs more assistance in certifying wetland determinations since only Conservation Technical Assistance Accounts can be used to certify wetlands. As it stands, South Dakota's Conservation Technical Assistance Accounts is used to provide planning before wetland determinations in addition to the salaries for over half of NRCS employees in the state. For this reason, there is not enough funds in the Conservation Technical Assistance Accounts to allow states like South Dakota the proper ability to address wetland determinations. In the eastern part of South Dakota alone, there are over 2,000 determinations waiting for certification:

- What plans does USDA have to allow more technical assistance for NRCS to determine wetlands?
- Would it be possible to allow more flexibility with funds allocated to NRCS so they are able to assess these 2,000 determinations with funds other than just Conservation Technical Assistance Accounts?
- Would it be possible to allow a special increase in Conservation Technical Assistance Accounts for states like South Dakota, North Dakota, Minnesota, *etc.,* who have this lingering problem?

Answer. South Dakota currently has 1,980 pending producer requests for certified wetland determinations (CWD). Each CWD takes NRCS technical specialists an average of 2.5 days to complete. In addition, extreme wet weather in north and east South Dakota could increase the current backlog of CWD determination requests.

South Dakota NRCS has taken actions to streamline the CWD determination process in order to help address the backlog. The process has been changed so staff will no longer automatically go out and stake the set back distances for wetlands in the field. NRCS will provide the distances on a map to the producer which he/she can use with their tile contractor. We will also provide producers with a GIS shape file of the wetland if they have the equipment and the capability to use GPS coordinates. This will free up time to allow staff to concentrate on doing more determinations.

Both South and North Dakota NRCS are in the process of revising their wetland mapping conventions to allow for determinations to be made in the office instead of going out to the field when certain parameters are met. We are estimating that approximately 30 percent of the determinations we have to do will meet these parameters. This will also free up more time for the field to do more determinations.

Additional resources, like Strategic Watershed Assessment Teams (SWAT) in the President's FY 2011 budget, may allow NRCS to exercise additional flexibility for addressing needs in critical areas.

Question 4. It's my understanding that FSA has been meeting with both FSA county office staff and producers around the country about how things are working out in the field. Any feedback that you're able to share with us?

Answer. Since March 2010, the Farm Service Agency and USDA's Office of the Chief Information Officer have organized listening sessions around the country to discuss FSA operations—and, more specifically, IT Modernization—with staff and producers. These listening sessions have been held in North Carolina, Virginia, Wisconsin, Illinois, Iowa, Texas, New Mexico, Minnesota, and Montana. They have been hosted by FSA Administrator Jonathan Coppess, USDA CIO Chris Smith, and senior staff from FSA and USDA.

We continue to hear about the need for modernization of IT systems and business processes in the field offices, both from our staff and the farmers they serve. Field staff are currently administering FSA programs with antiquated IT and computer systems, many of which are not yet web-based. This extends the time it takes to serve a farmer in the office, leads to longer waiting periods for office appointments and sometimes multiple trips to the FSA office.

The listening sessions have been a productive opportunity to outline for our staff and for producers the changes we anticipate as part of FSA's modernization plans. These include the Modernize and Innovate the Delivery of Agriculture Systems (MIDAS) projects, which will improve hardware and business processes for Farm Programs; the Financial Management Modernization Initiative (FMMI) and the Budget and Performance Management System (BPMS), which aim to improve our

financial management systems and better enable FSA to conduct budget assessments; and the Web-Based Supply Chain Management (WBSCM) initiative to better enable commodity handling, bidding, and other aspects of FSA's commodity operations responsibility.

Open and productive communication continues to be a priority for FSA, and we look forward to continuing our dialogue with staff, producers and Congress as these important initiatives to modernize FSA move forward.

Question 5. You mentioned the higher levels of sign-up for ACRE from wheat producers. How much of that is attributable to the dates associated with the program sign-up and the availability of market information around those dates?

Answer. It is difficult to quantify the impact of the change in signup dates on ACRE participation. Despite the fact that ACRE participation was higher for wheat than for other commodities, the majority of producers with wheat base chose to participate in the Direct and Counter-cyclical Program (DCP) rather than enroll in ACRE. Nine million acres of wheat base enrolled in ACRE compared with 63 million acres of wheat base enrolled in the DCP. Producers had to not only consider potential ACRE payments for program years 2009 through 2012, but also the trade-offs of a 20 percent reduction in direct payments, a 30 percent reduction in loan rates, and a loss of countercyclical payments for all program crops. A producer's decision regarding whether to elect ACRE for a farm must also consider the likelihood that both the state- and farm-level trigger will be met.

Question 6. Sign-up generally for the ACRE program was considerably lower than anticipated. To what do you attribute that response? You have indicated there are regional disparities in the signup, but we have also heard of some counties being particularly well represented with ACRE participants due to active county FSA offices generating interest in the program. Do you see many counties in that situation? How can you use this experience to improve consistency across county offices?

Answer. In regard to ACRE participation, forty states do have farms participating in the program to date and enrollment increased from 131,427 farms in 2009 to 134,683 farms in 2010. We have worked with regional and grass roots farm organizations to assist in the educational aspects of the ACRE program, and utilized radio and public meetings at the state and local levels to inform producers about the ACRE program and to ensure a consistent message is provided to all producers. As explained earlier, several factors, many of which are unknown at the time of sign-up, such as farm commodity prices and state and farm crop yields for all program crops grown on the farm through 2012, influence a producer's decision to participate in ACRE. The disparity in signup across program crops and states likely reflects the considerable uncertainty of receiving an ACRE payment in the future and the loss in program benefits incurred by a producer that enrolls in ACRE and may not reflect differences in county FSA offices generating interest in the program.

Question 7. One of the complaints of the SURE program is that a major factor in the calculation is the level of crop insurance coverage purchased, when this type of disaster assistance is often most needed in areas where crop insurance has not typically worked well and therefore where there are not high levels of buy-up coverage. SURE payments have been distributed for 2008. Have you been able to compare the geographic distribution of these payments with where disasters certainly caused crop loss to determine how well targeted this program is to need?

Answer. Yes. To some extent. SURE payments for 2008 crops total nearly $1 billion as of July 2, including $350 million under the Recovery Act, and 2008 SURE sign-up remains open. Attached to this document are two maps; one shows counties which received a Secretarial disaster designation in 2008, and the other shows the distribution thus far of 2008 SURE payments, including both "usual" payments under SURE as well as "additional" payments under the Recovery Act.

There are some limitations, however. SURE is a revenue-based program. The statute requires that SURE eligibility be determined on a whole farm basis. All of an applicant's farming operations and crops, even though they may spread across state and county lines, are considered as one farm for SURE eligibility. This is different from past *ad hoc* disaster programs in which payments were based on losses for an individual crop grown on a particular farm. Consequently, in areas such as the Southeast where rice is grown, a normal or above-normal rice yield may provide enough revenue to eliminate SURE payments even if other crops on the producers' farm suffered a loss.

Question 8. Please explain how the "crop of economic significance" provision works? It's my understanding that some producers are finding themselves not being eligible for payments under SURE because they may have a small patch of alfalfa on their operations.

Answer. A crop of economic significance means any crop that contributed or is expected to contribute five percent or more of the total expected revenue of all crops grown by the producer on that producer's farm. If the crop is not considered of economic significance, then the risk management purchase requirement for that crop is not applicable as a condition for SURE eligibility. To qualify for the SURE program payments, a producer must have one crop of economic significance that suffered a 10 percent loss and be located in a county included in the geographic area covered by a qualifying natural disaster declaration or sustain a loss of 50 percent of normal production. The SURE payment is equal to 60 percent of the difference between the disaster assistance guarantee and the total farm revenue, which by statute equals the value of crops produced plus 15 percent of direct payments, countercyclical payments, loan deficiency payments, marketing loan gains, marketing certificate gains, prevented planting payments, crop insurance indemnities, noninsured crop assistance payments and the any other natural disaster payments. Thus, as the 2008 Farm Bill provides, losses sustained on some crops could be offset by payments or revenues on other crops reducing a producer's SURE payments.

Question 9. You mentioned that the crop insurance program provides risk management tools that are compatible with international trade commitments. However, our commodity support programs are compatible with our commitments provided they come under the caps that we committed to as part of the Uruguay Round and other trade agreements currently in place. What do you mean by the statement specific to crop insurance?

Answer. The United States notifies crop insurance to the WTO as amber box, *i.e.,* trade-distorting support that is non-product-specific. Although under its WTO obligations U.S. amber box support is limited ($19.1 billion annual ceiling), to date non-product-specific amber box support has not been counted against that limit as it has been below the *de minimis* level of five percent of the value of U.S. agricultural production. If non-product-specific support were to exceed five percent of the value of U.S. agricultural production in any year, then it would be counted against our amber box ceiling for that year, which could then mean in such year we might exceed the annual ceiling, depending also on the total amount of product-specific support provided in the same year.

Question 10. You mentioned in your testimony that the Marketing Assistance Loan Program accounts for 9% of the payments going out under the title I safety net. Can you share with us which crops and in which states you're still seeing any significant use of the marketing loan.

Answer. Marketing loan benefits totaled about $1.1 billion for the 2008 and 2009 crops with upland cotton and wheat producers receiving 88 percent and ten percent, respectively, of those payments. The remaining payments were paid to barley, wool, and mohair producers. Most of the upland cotton recipients were located in Texas, Mississippi, Arkansas, Georgia, and Tennessee, while the wheat recipients were located in North Dakota and Montana.

Question 11. For 2010, national average wheat loan rates per bushel by class are $5.75 for durum wheat, $3.81 for hard red spring wheat, $3.16 for soft white wheat, $2.71 for hard red winter wheat, and $1.87 for soft red winter wheat. In Ward County, North Dakota where the durum loan rate is $6.08 per bushel and the hard red spring loan rate is $3.67, posted county prices as of yesterday were $3.12 for durum and $3.53 for hard red spring wheat. While 2010-crop wheat in North Dakota won't be eligible for LDPs until after harvest later this summer, yesterday's effective LDP rates were $2.96 for durum and $0.14 for hard red spring.

These high durum loan rates likely have skewed producer planting decisions not only for durum and HRS wheat but for barley and other competing crops. Since wheat loan rates by class need to weight to the national wheat loan rate set in statute of $2.94, a higher loan rate for one class means lower loan rates for other classes. My understanding is that 2010 wheat loan rates were set using the same procedure as has been used since the 2002 Farm Bill but that a different procedure could be used since it is not specified in statute or regulation.

Were you concerned about the discrepancies in wheat by class loan rates for 2010? If not, why not? Did you consider alternative procedures in setting 2010 wheat by class loan rates?

Answer. Our objective in establishing loan rates is to track recent price relationships among counties, and, in the case of wheat, among classes. As a proxy for county-level prices, we use posted county prices (commonly known as PCPs—which are used in establishing alternative loan repayment rates for the applicable commodities). The methodology that we have used since 2002 is based on the average of the most recent two marketing years' daily PCPs near the time the loan rate calculations for the coming crop year begin. In the case of 2010-crop wheat, we used

PCP data for marketing years 2007 and 2008, *i.e.,* June 1, 2007, through May 31, 2009.

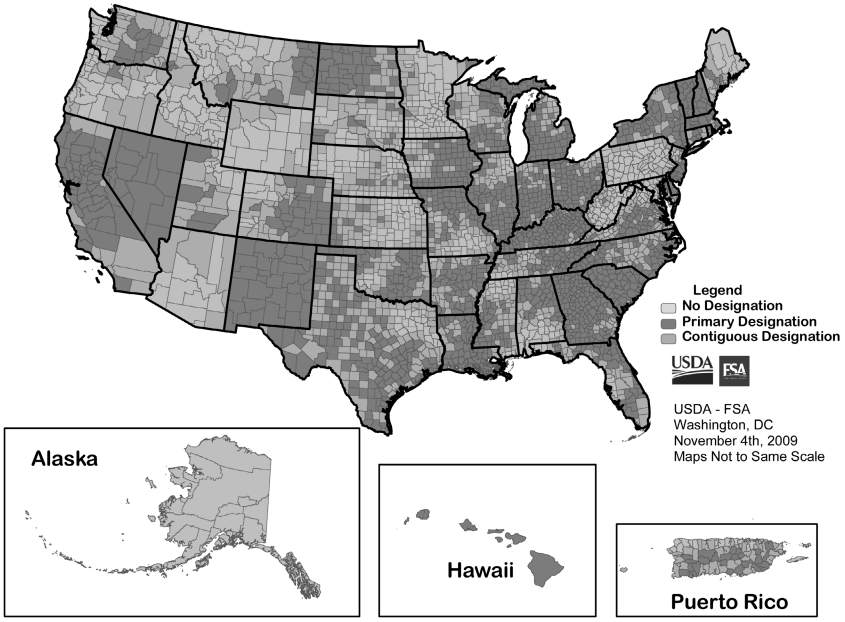
The relative differences between the 2010-crop wheat class national average loan rates indicated above are based on this methodology. When prices for wheat and other commodities rose in 2008 to what were, in many instances, record levels, the price spread between durum and the other major classes of wheat increased substantially. During the January–February period of 2008, the daily spreads between the Minnesota terminal market price for hard amber durum and hard red spring, the next-highest valued class, was as high as $8.10 per bushel. The single-day maximum spreads between durum prices and other class prices for selected terminal markets were in the range of $11.00–$12.90 per bushel. While those spreads narrowed substantially between March 2008 and May 2009, durum versus other class price spreads remained sufficiently large to substantially increase durum county loan rates for both the 2009 and 2010 crops as well as the spreads between the loan rates for durum and other classes of wheat.

Realizing that 2010-crop durum loan rates would be high relative to other wheat classes if the established methodology were used, the Farm Service Agency considered options for calculating wheat county loan rates, including 3 year and 5 year PCP averages. These alternative methods, however, have drawbacks. Although each alternative would have moderated 2010-crop durum loan rates, they would also have prolonged the effect of the large spread between durum and other wheat class prices in determining loan rates for subsequent years.

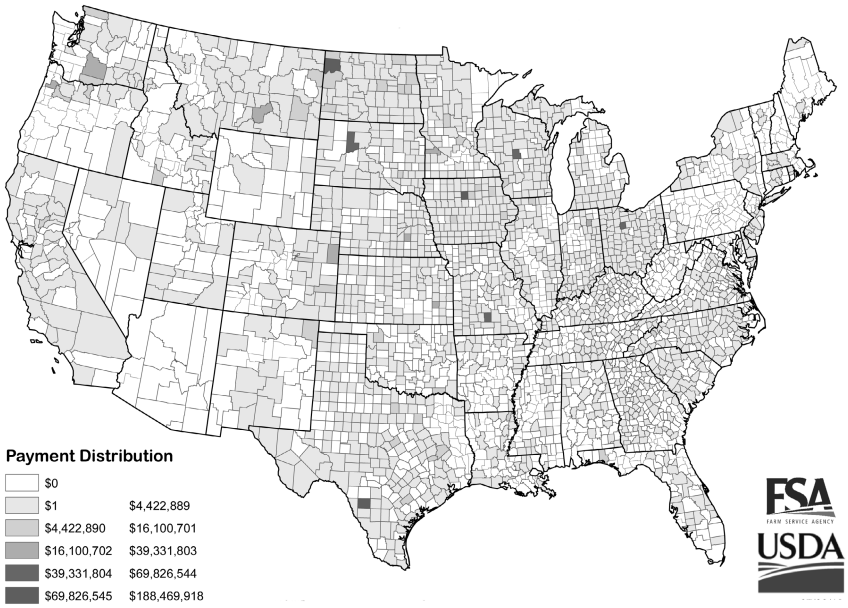
Changing the loan rate methodology is not a course we believe should be considered lightly. For instance, a year-to-year reduction in loan rates for one class could lead to annual calls to change the methodology, and, as you point out, adopting a potential methodology that increases loan rates for one class will result in loan rate reductions for one or more other classes of wheat. Moreover, we need to carefully consider whether a possible alternative methodology, if adopted, will create large loan deficiency payment rate disparities among counties which can also lead to marketing anomalies.

ATTACHMENTS

2008 Secretarial Designations



2008 SURE Recovery Act & Trust Fund Payment Distbution



Note: Payment Distribution Classification Ranges may vary each week. PECD—07/06/10.

HEARING TO REVIEW U.S. FARM SAFETY NET PROGRAMS IN ADVANCE OF THE 2012 FARM BILL

THURSDAY, JUNE 24, 2010

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GENERAL FARM COMMODITIES AND RISK MANAGEMENT,
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The Subcommittee met, pursuant to call, at 9:40 a.m., in Room 1300, Longworth House Office Building, Hon. Jim Marshall [Member of the Subcommittee] presiding.

Members present: Representatives Boswell, Marshall, Schrader, Herseth Sandlin, Markey, Kissell, Halvorson, Pomeroy, Peterson (*ex officio*), Moran, Johnson, Conaway, Luetkemeyer, and Smith.

Staff present: Aleta Botts, Liz Friedlander, James Ryder, Anne Simmons, Rebekah Solem, Pelham Straughn, Jamie Mitchell, and Sangina Wright.

OPENING STATEMENT OF HON. JIM MARSHALL, A REPRESENTATIVE IN CONGRESS FROM GEORGIA

Mr. MARSHALL. This hearing of the Subcommittee on General Farm Commodities and Risk Management to review farm safety net programs in advance of the 2012 Farm Bill will come to order.

I am Jim Marshall, and normally I would be the Vice Chair of the Subcommittee, but Chairman Boswell is one of the Members on the conference committee for the financial regulatory reform bill. There are two Agriculture Members, Democratic, three Agriculture Members total on that conference committee. The conference committee is meeting. That is a big deal for agriculture. I think everybody in the room not only understands why he is not here but appreciates the fact that he is not here; that he is out trying to protect our interests in the financial regulatory reform process.

We have with us today Mr. Smith, the gentleman from Nebraska, my neighbor up there on the fifth floor of Cannon, who is not a Member of this Subcommittee. I have consulted with the Ranking Member, and we are pleased to welcome him to join in the questioning of witnesses. Without objection.

This is an opening statement that would have been given by Mr. Boswell, and let me read it.

"I would like to thank everyone for joining us here today as we review the safety net programs established in the 2008 Farm Bill." The Chairman of the Subcommittee is unable to make it to the be-

ginning of this hearing due to the financial regulatory reform conference. Obviously, this is not what Mr. Boswell would have read; this is intended for me.

"I know how many farmers and producers hedge their risk in the markets, and we want to ensure those end-users are still able to use those markets."

He requested that I chair the hearing, and I am very pleased to be able to do that today, given the important topics we are going to be discussing.

I would like to thank our witnesses today. This Committee looks forward to hearing your valuable insight into this issue as you help us move forward in developing the 2012 Farm Bill. Without a doubt, it does not seem that long ago we enacted the last farm bill. However, this Committee has already held numerous field hearings across the nation, including one in Georgia which I was pleased to attend. It is refreshing and absolutely necessary to hear directly from agricultural producers on the challenges they face day to day.

Last week, this Subcommittee heard from Under Secretary Jim Miller about the current farm programs we passed in the 2008 Farm Bill, such as ACRE and SURE. Both are very complex new programs that are becoming important components of the safety net for some of our producers. However, in Georgia we find that some programs that work well in the Midwest are simply not working for our mix of commodities and our producers' needs. With this next farm bill, we hope to have the opportunity to change that. If we put in place a nationwide program, we need to have a successful nationwide safety net.

Now, more than ever, an adequate safety net is essential to ensure that we have the safest, most plentiful, and most affordable food supply in the world. With 90 million people being added to the world population each year, we need to find ways to do more with less.

Thank you again to the witnesses testifying before the Subcommittee. Your testimony will be an essential means for us to continue to move forward with the 2012 Farm Bill.

[The prepared statement of Mr. Boswell follows:]

PREPARED STATEMENT OF HON. LEONARD L. BOSWELL, A REPRESENTATIVE IN CONGRESS FROM IOWA

I would like to thank everyone for joining us here today as we review the safety net programs established in the 2008 Farm Bill. I would especially like to thank our witnesses today. This Committee looks forward to hearing your valuable insight into this issue as you help us move forward in developing the 2012 Farm Bill.

Last week we heard from Under Secretary Jim Miller about the current farm programs that we passed in the 2008 Farm Bill, such as ACRE and SURE. Both are very complex new programs but are becoming important components of the safety net for many of our producers. I look forward to hearing from the producers who are using these risk management tools. Particularly, I want to hear what is working and what is not.

Being from Iowa, one of the largest agricultural states in the country, I understand the challenges that farmers and those in the agriculture business are facing today. With Iowa ranking number one in the nation in pork, egg, corn and soybean production, the farm bill affects a great deal of the state. Much of Iowa's economy is directly or indirectly tied to agriculture in some fashion and we are proud of our strong tradition of feeding, and fueling, the world.

I believe that is why it is so important for us to construct a bill that will not only help Iowa move forward but the rest of the country as well.

Now more than ever an adequate safety net is essential to ensure that we have the safest, most plentiful and most affordable food supply in the world. With 90 million people being added to the world population each year we need to find ways to do more with less.

A discussion about farm safety nets would not be complete without reviewing the role of crop insurance as a risk management tool. Last week, much of the hearing focused on the new SRA and while many Members on the Committee have concerns I look forward to hearing from the various commodity groups about how well their producers are able to manage their risk for different crops through the crop insurance program.

Thank you again to the witnesses testifying before the Subcommittee. Your testimony will be an essential means for us as we continue to move forward with the 2012 Farm Bill. I would also like to apologize for and explain why I will have to leave early today. As Chairman of this Subcommittee which oversees the CFTC, I am participating in the conference committee for the Wall Street Reform bill that will have important implications for the agricultural industry. I know how many farmers and producers hedge their risk in the markets and we want to ensure those end-users are still able to use those markets as legitimate business practices.

Mr. MARSHALL. I would now like to turn to my friend, the gentleman from Missouri, Mr. Luetkemeyer.

Mr. LUETKEMEYER. Thank you, Mr. Chairman. We will yield back.

Mr. MARSHALL. He just agreed with the opening statement from the majority.

Mr. LUETKEMEYER. We are a substitute, as is the Chairman. So, as a result, we are still working on other things here this morning.

Mr. MARSHALL. I guess I would now like to call the first panel, and the witnesses are at the table.

We have Mr. Philip Nelson, President of the Illinois Farm Bureau, on behalf of the American Farm Bureau Federation; Mr. Kent Peppler, President, Rocky Mountain Farmers Union, on behalf of the National Farmers Union; Mr. Anthony Bush, Chairman of the Public Policy Action Team, National Corn Growers Association; Mr. Dave Henderson, President, National Barley Growers Association; and Mr. Rob Joslin, President, American Soybean Association, in Ohio.

And I guess, Mr. Nelson, you are up first.

STATEMENT OF PHILIP NELSON, PRESIDENT, ILLINOIS FARM BUREAU FEDERATION; BOARD MEMBER, AMERICAN FARM BUREAU FEDERATION, SENECA, IL

Mr. NELSON. Thank you. My name is Philip Nelson, and I am President of the Illinois Farm Bureau and a Member of the Board of Directors of the American Farm Bureau. I am a grain, pork, and cattle producer from Seneca, Illinois. I would like to first of all thank this Committee for holding this hearing, and I appreciate the invitation to share our thoughts.

I would like to start by saying that our farmers can generally point to at least one commodity program included in the 2008 Farm Bill that they utilize on their farm. As you probably heard during the farm bill field hearings, it depends on what kind of farmer you talk to, and in what part of the country they farm, as to what portions of the farm bill producers find most useful. But the vast majority of the farmers in most states rely in some way on the safety net provided in the 2008 Farm Bill.

That said, we know we will face many challenges in the writing of the 2012 Farm Bill, including the budget environment and the need to balance the interests of the multitude of players.

At the Farm Bureau, we have just started the process of evaluating the programs in the 2008 Farm Bill, grappling with budget constraints and considering future policy recommendations. We are here today to present this Subcommittee five general principles that will guide future farm bill proposals from the Farm Bureau.

Number one, the options we support will be fiscally responsible.

Number two, the basic funding structure of the 2008 Farm Bill will not be altered. In other words, money should not be shifted from one title of the farm bill to another.

Number three, the proposals we support will aim to benefit all ag sectors.

Number four, world trade rulings will be considered.

And, number five, consideration will be given to a stable business environment that is critical to the success in agriculture.

While farmers are generally content with the safety net provided in the 2008 Farm Bill, it sometimes feels like you are reading the old children's story *Goldilocks and the Three Bears* when you talk to individual farmers. Some farmers think the safety net coverage provided in the 2008 Farm Bill is just right; but in other cases, for other farmers, the coverage is sometimes too little; and, in some cases, in a small number of cases, the coverage may even be duplicative and too much.

Without fail, farmers that farm different crops in different parts of the country rely most heavily on different pieces of the safety net. For example, a farmer in Illinois might have a multitude of layers of protection for both price and yield risk exposure, first through the ACRE Program, then through the buy-up of crop insurance, and then through the SURE Program. In fact, Illinois has some of the highest levels of ACRE participation. Buy-up insurance coverage is the norm, and farmers in disaster and contiguous counties are expected to benefit from the SURE Program.

But these same programs might not provide a farmer in Mississippi with the same depth of safety net coverage. For example, ACRE has not proven to be a useful program in Mississippi for a variety of reasons. Many farmers in the region, particularly cotton farmers, experienced very low prices in 2007 and 2008, which were the base years for the setting of the support level for ACRE. In Mississippi, the direct payment and marketing loan portions of the traditional safety net are critical, and the cuts required for this portion of the safety net were too steep to attract farmers into the ACRE Program.

The use of buy-up crop insurance is not always as prevalent in Mississippi as it is in my home State of Illinois. Again, there are a lot of reasons a farmer in Mississippi may not purchase buy-up levels of crop insurance. In many cases, the availability of programs is not as robust and sometimes coverage is prohibitively expensive. In other cases, the products offered simply do not align with the types of risk faced by Mississippi farmers. Without the purchase of buy-up crop insurance, the value of SURE as a disaster program is also minimized.

Again, almost all farmers can find at least one component of the commodity title that works on their farm, but it depends on who you ask which programs work best and are utilized most.

Given the great deal of discussion that has already occurred regarding whole farm revenue programs, it would be remiss for me to at least briefly discuss our thoughts on this topic. Both the adjusted gross income insurance product and SURE provide us with case studies of the whole farm revenue programs, and from those cases we have gleaned several watch-outs to consider as this farm policy is being discussed.

Number one, the complexity of these programs makes them unpopular. Number two, such programs can be difficult for USDA to implement, which turns into delayed payments to farmers. Number three, including livestock in such programs adds an additional layer of complexity. And, number four, the paperwork and confidential information that can be required to sign up for a revenue program is daunting to farmers and often discourages them.

In conclusion, we appreciate the hard work of this Subcommittee to ensure that America's farmers have a practical safety net that allows our farmers to continue to produce the safest, most abundant, and least expensive food supply in the world.

I thank you for the opportunity to speak, and I look forward to answering any questions you may have.

[The prepared statement of Mr. Nelson follows:]

PREPARED STATEMENT OF PHILIP NELSON, PRESIDENT, ILLINOIS FARM BUREAU FEDERATION; BOARD MEMBER, AMERICAN FARM BUREAU FEDERATION, SENECA, IL

My name is Philip Nelson. I am President of the Illinois Farm Bureau Federation, a Board Member of the American Farm Bureau, and a grain and cattle producer from Seneca, Illinois. Farm Bureau is the nation's largest general farm organization, representing producers of every commodity, in every state of the nation as well as Puerto Rico, with more than six million member families.

I would like to thank Chairman Leonard Boswell (D-Iowa) and Ranking Member Jerry Moran (R-Kan.) for holding this hearing. I appreciate the invitation to speak this morning to the House Agriculture Subcommittee on General Farm Commodities and Risk Management. The farm bill touches the lives of every agricultural producer in this country. It was a long, hard road to passage of the 2008 Farm Bill, and thanks to the hard work of this Subcommittee and the entire Agriculture Committee, the end product was a fiscally responsible compromise of which we can all be proud. I would like to start by saying that our farmers can generally point to at least one commodity program included in the 2008 Farm Bill that they use on their farm. As you probably heard during your farm bill field hearings, it depends on what kind of farmer you talk to and in what part of the country they farm as to what portions of the farm bill producers find most useful. But most farmers in most states rely in some way on the safety net provided in the 2008 Farm Bill.

That said, we know we will face many challenges in writing the 2012 Farm Bill. The first will be the budget. We have seen the baseline for many farm bill programs decrease since passage of the last farm bill. More than 30 programs included in the last bill do not have any baseline at all, and the standard reinsurance agreement (SRA) currently being negotiated by the Administration threatens to rob even more spending baseline without any serious consideration to capturing that savings. It is going to be a difficult environment in which to re-write farm law, and we look forward to working with this Committee to again ensure that the final product is a fiscally-responsible package that provides taxpayers and America's farmers with maximum bang for their buck.

Even though the purpose of this hearing is to focus on the Commodity Title of the farm bill, we recognize that another challenge for the 2012 Farm Bill will once again be to address the priorities of a wide variety of interests, from farm and ranch groups to conservation groups to nutrition groups. Even within the agricultural community, farm bill priorities and agendas will likely vary by commodity and region. As an agricultural organization that represents all types of farmers and ranchers

in every state, we look forward to working with you to achieve the balance in interests that will be necessary to craft a successful piece of legislation.

At Farm Bureau, we have just started the process of evaluating the programs in the 2008 Farm Bill, grappling with budget constraints, and considering future policy recommendations. We have kicked off our internal Farm Bureau process by outlining five key principles that will guide us in our work on the 2012 Farm Bill and any proposals that we ultimately put forward:

- **The options we put forward will be fiscally responsible.** Proposals that we put forward will work within the budget constraints Congress must use to draft the new bill. Our members are greatly concerned about the deficit and want to be fiscally-responsible in considering farm policy.
- **The basic funding structure of the 2008 Farm Bill should not be altered.** Farm Bureau's proposals for the next farm bill will not shift funding between interest areas. For example, if we suggest an increase in spending for a particular conservation program, we will offset that increase by reducing spending elsewhere in conservation programs.
- **The proposals we put forward will aim to benefit all agricultural sectors.** Again, Farm Bureau is a general farm organization, with members who produce everything from pork to peanuts. As such, the overriding goal of Farm Bureau's proposals will be to maintain balance and benefits for all farm sectors. It can be tempting for a single interest organization to say Congress should allocate more funding for programs that benefit only its producers without worrying about the impact of that funding shift on other commodities. Farm Bureau does not have that luxury and will seek balance for all producers.
- **World trade rulings will be considered.** Farm Bureau's options may include changes to comply with our existing World Trade Organization (WTO) obligations and litigation rulings. However, they will not presuppose the outcome of the Doha round of WTO negotiations, which are far from complete. To do so would reduce our negotiating leverage in the ongoing Doha round.
- **Consideration will be given to the stable business environment critical to success in agriculture.** Abruptly changing the rules of the game on farmers, particularly in a tight credit environment, can be disastrous to a farmer or rancher's operation. Our options will recognize the need for transition periods for major policy changes so that farmers and ranchers will have an opportunity to adjust their business models accordingly.

Current Farm Policy Inequities

While our farmers are generally content with the safety net provided in the 2008 Farm Bill, it can sometimes feel like you're reading the old children's story "Goldilocks and the Three Bears" when you talk to individual farmers about their experiences with farm programs. Some farmers think the safety net coverage provided under the 2008 Farm Bill is "just right." But in other cases and for other farmers the coverage is sometimes too little. In a small number of cases, the coverage may even be duplicative and too much.

To that end, it is instructive to look back over how our two risk management tools—commodity programs and crop insurance—have changed. Historically commodity programs provided price risk protection and crop insurance products covered yield risk. With the advent of a variety of revenue based programs under crop insurance in the 1990s and the Average Crop Revenue Election (ACRE) and Supplemental Revenue Assistance Payments (SURE) programs in the 2008 Farm Bill, those lines have become blurred. Both crop insurance and the farm bill Commodity Title programs now provide the option of support to producers based on revenue losses and not strictly price or yield risk. In some cases, this coverage is complementary. In other cases, it may even be duplicative. Yet, despite this convergence of farm programs and crop insurance, there are still many farmers who fall between the cracks and have little protection from the vagaries of the market and weather.

The complexity of the relationship between crop insurance and Commodity Title programs can best be described by using examples. So for the sake of illustration, I'll talk about two different farming situations: one in my home State of Illinois, and another in Mississippi.

Illinois

About 134,000 U.S. farms are currently signed-up for the ACRE program. Almost 26,000 of these ACRE-enrolled farms are in Illinois (just under 17 percent of all eligible Illinois farms). The ACRE program provides these Illinois farmers with price coverage based on a 2 year historical price average and yield coverage based on a 5 year Olympic average. The same Illinois farmers that signed up for ACRE can

then purchase crop insurance at a level they feel is appropriate for their farm. In Illinois, it is typical to purchase crop insurance that will cover both price and yield. For example, I purchase 85% coverage for my farm, and this level of buy-up is fairly typical for the state. Illinois farmers have generally found that the crop insurance programs available work very well to help manage their risk, and this is reflected by the fact that 95 percent of crop acres in Illinois that have crop insurance are covered by buy-up levels of coverage, not just base protection. Nearly 70 percent of all acres in Illinois have some form of crop insurance coverage.[1]

Some of this crop insurance coverage may overlap with the coverage provided by ACRE. In other words, the same price decrease or yield decrease may be covered by both programs, but the crop insurance coverage can be purchased to cover above and beyond what is covered by ACRE. Also, crop insurance coverage is customized to a specific farm's loss, while the ACRE program has not only a farm-level trigger for a payment, but also a state-level trigger for a payment. The result is that while some of the same losses may be covered in theory, in practice, crop insurance can provide more customized protection for farm-specific losses.

If this particular Illinois farmer also happens to be located in a disaster county and meets the variety of eligibility requirements, then the SURE disaster program is then layered on top of both crop insurance and ACRE. SURE essentially provides a farmer with a "bump-up" in their crop insurance coverage, and the program again covers both price and yield. The SURE program attempts to minimize overlap of programs by deducting part of a producer's ACRE payments and crop insurance indemnities when calculating payments.

The bottom line is that while our farmers in Illinois may have concerns about some of the details of these programs, the fact is that our producers have multiple opportunities to manage their primary risks of price and yield.

Mississippi

Other farmers in other circumstances could face a completely different situation. While I'm not as familiar with Mississippi farms as I am with Illinois farms, I can tell you what I've heard from my counterparts in Mississippi and in other states.

Most farms in Mississippi are not enrolled in the ACRE program. In fact, at last count, only 165 of Mississippi's 22,435 eligible farms (less than one percent) chose to take cuts to their direct payments and marketing loan benefits in order to have the price and yield coverage provided by ACRE. These farms instead chose to continue participation in the traditional farm programs.

There are a variety of logical reasons that my counterparts in Mississippi have chosen not to sign-up for the ACRE program:

- Some farmers in Mississippi, particularly those growing cotton, experienced very low commodity prices in 2007 and 2008—the base years for calculating ACRE benefits. With such a low price baseline, the traditional program offered as much if not more price coverage than the ACRE program. This is a dramatic contrast to corn, soybean and wheat farmers who saw record high prices in 2007 and 2008 and were going to have a high price baseline on which to calculate payments.
- For commodities such as cotton, the 30 percent marketing loan cut required for ACRE coverage would have had a profound negative impact on farmer's operations. Unlike many other commodities in recent years, cotton has seen prices at marketing loan levels and cotton farmers have continued to utilize the marketing loan program.
- The cuts to direct payments were deemed too steep for many farmers. Both farmers and their bankers were wary of giving up a payment that is a "sure thing" for a payment that, according to Food and Agricultural Policy Research Institute (FAPRI) analysis, was highly unlikely to occur on many of the stalwart crops in Mississippi.[2]

The ultimate result is that your average Mississippi farmer has continued to operate under the traditional farm program, which provides only price coverage.

The use of crop insurance is also not as prevalent in Mississippi as it is in my home state of Illinois. Only 41 percent of Mississippi's crop acres are covered by

[1] USDA, Federal Crop Insurance Corporation data and National Agricultural Statistics Service data. Does not include acres that may have Noninsured Crop Disaster Assistance Program (NAP) coverage.

[2] Food and Agricultural Policy Research Institute (FAPRI), University of Missouri, "U.S. Baseline Briefing Book; Projections for Agricultural and Biofuels Markets," March 2009.

buy-up crop insurance.[3] The vast majority of Mississippi farmers only purchase the catastrophic crop insurance coverage (CAT) or the Noninsured Crop Disaster Assistance Program (NAP) coverage required in order to be eligible for the SURE program. Keep in mind that CAT and NAP only cover losses in production greater than 50 percent and only pay on 55 percent of the average market price for the year. Neither program provides meaningful price or yield coverage to farmers.

Once again, there are a variety of reasons that a Mississippi farmer might choose not to purchase buy-up levels of crop insurance. In many cases, the availability of programs is not as robust as back home in Illinois. Many crops grown in quantity in Mississippi don't even have buy-up crop insurance available, and NAP is a farmer's only option. In other cases, coverage is viewed as prohibitively expensive or farmers may choose to use other risk management tools such as diversification. Another challenge to the acceptance of crop insurance in the region has been the significant shift in the types of crops grown. This shift means that many Mississippi farmers who are interested in purchasing buy-up crop insurance don't have their own yield history and would be forced to accept outdated, excessively low county average yields to calculate their farm's yield coverage. These "plug" yields completely negate the value of purchasing coverage.

Still other farmers don't purchase coverage because the types of coverage available don't align with the types of risk the farmer is facing. For example, rice farmers in Mississippi don't typically buy crop insurance because they are an irrigated crop and their risk of production loss is significantly less than for other crops. The risk for rice farmers is the increased input costs that could be required to produce a crop in disaster situations—but crop insurance doesn't offer reasonable coverage for this type of risk.

As long as a Mississippi farmer has purchased at least CAT or NAP coverage, they are eligible for the SURE program. That said, the value of the SURE program is minimized with such low levels of price and yield coverage. Since SURE provides a bump-up on crop insurance, disaster coverage provided to many Mississippi farmers is still minimal.

The 2009 growing season is a good case in point. Many Mississippi farmers faced enormous losses, yet very few farmers expect to receive a SURE payment. Instead, many southern states and commodities have been forced to ask for *ad hoc* disaster assistance to bring relief to farmers in the region. On the other hand, many regions that faced lesser losses in 2009 will likely receive payments because the farmers in those regions purchased high levels of crop insurance coverage. Given this situation, it is difficult to view SURE as a true disaster program, although the program has clearly worked to encourage the use of crop insurance as a risk management tool.

The bottom line is that crop insurance and farm programs have morphed significantly over the past 20 years, and these changes have left different farmers with different safety nets.

Again, I would like to stress that our farmers generally find at least one component of the commodity title that works for their farm. However, given the tight budget constraints that this Committee will face in writing the 2012 Farm Bill, Farm Bureau understands that change may be necessary. We believe that any change should focus on eliminating these gaps and redundancies in the safety net.

Whole-Farm Revenue Programs

Given the great deal of discussion that has already occurred regarding whole-farm revenue programs, we would be remiss if we didn't at least briefly discuss our thoughts on this topic.

There are currently crop insurance products and components of the farm safety net that use the whole-farm revenue concept, and challenges that have arisen with these programs can be very instructive if the concept is further pursued in the context of the 2012 Farm Bill. For example, there are whole-farm revenue insurance programs already in place through USDA's Risk Management Agency, namely the Adjusted Gross Revenue and the Adjusted Gross Revenue Lite plans. While they are both only available in limited areas, the acceptance of these programs has been modest at best. There are limitations on farm size as well as on the proportion of the farm's income that can derive from livestock operations. Producers must submit several years of tax records in order to establish their revenue benchmark, and in many cases, complicated adjustments to the records are required to determine those benchmarks. In addition to submitting tax records, a producer also must file farm plans. These limitations, as well as the complicated paperwork involved, have discouraged sign-up for the programs.

[3] USDA, Federal Crop Insurance Corporation data and National Agricultural Statistics Service data.

The SURE program provides us another case study on whole-farm revenue programs, although SURE only covers crops and not livestock. Yet the complexity of this program still has caused implementation delays and has created technological challenges for USDA. Another issue with the SURE program is that it does not provide support until months, even years, after the disaster event. In true disaster situations, such a delay negates the value of the program.

A whole-farm program that included livestock exponentially increases the complexity of a program and the paperwork involved. Consider a livestock producer who decides to sell cattle every other year. On average, the rancher's income might be constant, but that income would gyrate significantly year over year and thus could be seen as triggering a payment every other year. Even for crop producers, determining appropriate whole-farm revenue guarantees can be complicated. For example, farm size may vary from one year to the next due to changes in rental agreements or real estate purchases or sales. Accounting for these changes over time is essential to having a fair and effective program, but it does increase the complexity of the program.

Moving beyond these examples, a whole-farm revenue safety net raises a number of both pragmatic and philosophical questions. Does the program cover gross or net revenue? Will it require full access to Internal Revenue Service filings? Would it be more appropriately administered by FSA or RMA? How would the protection offered under such a program be viewed by our WTO partners? These represent only a few of the questions that need to be answered.

Understand that Farm Bureau would not necessarily reject a whole-farm revenue option out-of-hand, and in fact would be very interested in continued discussions in this regard. But such a program needs to be easily understood, be straightforward to administer and needs to actually provide producers with risk management tools before we commit to such a path.

In conclusion, we appreciate the hard work of this Subcommittee to ensuring that America's farmers have a practical safety net that provides protection against the vagaries of the market and weather and allows our farmers to continue to produce the safest, most abundant, least expensive food supply in the world. We look forward to working with you toward this goal.

I would like to thank you again for the opportunity to speak this morning, and I look forward to answering any questions you have.

Mr. MARSHALL. Mr. Peppler.

STATEMENT OF KENT PEPPLER, PRESIDENT, ROCKY MOUNTAIN FARMERS UNION; TREASURER, NATIONAL FARMERS UNION, DENVER, CO

Mr. PEPPLER. Chairman Marshall, Ranking Member, and Members of the House Subcommittee on General Farm Commodities and Risk Management, thank you for inviting me to speak with you. My name is Kent Peppler, and I am here on behalf of National Farmers Union. NFU is a national organization that has represented family farmers and ranchers and rural residents for more than 100 years.

Since the last farm bill, farmers have experienced some of the most difficult economic conditions in decades. We must now address the new reality of extreme volatility and commodity prices, high energy costs, and fewer young people and job opportunities from rural areas. The farm bill might not solve all these problems, but it can make a lot of progress.

Some suggestions: According to the Congressional Budget Office, from 2010 to 2020, about $49 billion will be spent on direct payments, $5.5 million on countercyclical payments, $3.2 billion on the new Average Crop Revenue Election program, and $1.7 billion will go to the marketing loan benefits. Crop insurance programs are slated to receive $76.8 billion.

Compared to other options, direct payment programs are the least effective way to smooth the highs and the lows of the market-

place, and are hard to explain to the general public. We would be better off if spending on direct payments was distributed among the other safety net mechanisms such as Federal crop insurance.

The current farm bill provides about nine times more support in direct payments than through countercyclical payments. This needs to change. By providing farmers a boost when commodity prices fall below the cost of production, with effective payment limitations, countercyclical payments are cost effective while helping farmers in tough times.

The World Trade Organization has penalized government assistance for domestic agriculture production; however, in the coming years, changes in the next round of the WTO negotiations will be a prime opportunity to adjust the direction of American farm policy.

On the disaster program, the inclusion of the SURE program in the 2008 Farm Bill was a hard-won victory for family farmers and ranchers. However, SURE is inadequately funded, and administrative changes have delayed implementation of rules and regulations. Back home in the field, some farmers have had claims pending since 2007.

I urge Congress to fully fund the program and adopt partial advance payments so assistance can be quickly provided.

In the next farm bill, we need to continue the progress that was made concerning the SURE program. I welcome more suggestions and discussions on the SURE program. A consistent, predictable, and stable plan for farmers struck by hard luck is the most important aspect of having permanent disaster aid. Crop insurance must remain a cornerstone of farm policy. We remain deeply concerned that reductions in spending for this vital program will cripple crop insurers to the point that some companies may choose to no longer carry it in some areas of the country. In fact, we should be increasing the availability of crop insurance.

When the future of crop insurance is discussed, I ask the Members of this Subcommittee to consider the use of actual production history. And for the situations in which it is not available, the qualified yield for a farm should not be set at a lower level than the county FSA average. We also urge establishment of APH yield floors. These common sense approaches to crop insurance will help to ensure the productive potential of a farm is appropriately represented in risk management contracts.

The Administration's goal to improve child nutrition funding is a move which NFU has supported for decades; however, funds should not come from Federal Crop Insurance Program or other parts of the safety net. Child nutrition is estimated to comprise 80 percent of the current farm bill.

Supply management tools: Counting on trade as the only means of releasing excess supply has proven to be ineffective. Without even a rudimentary system of supply management, our existing farm programs are vulnerable to a very unlikely threat—a bumper crop. At a time when government expenditures are highly scrutinized, excessive safety net payments could spell disaster for the public perception of farm policy.

On behalf of the members of NFU, I thank you for your ongoing attention and diligence. NFU looks forward to this dialogue on the new farm bill. Thank you.

[The prepared statement of Mr. Peppler follows:]

PREPARED STATEMENT OF KENT PEPPLER, PRESIDENT, ROCKY MOUNTAIN FARMERS UNION; TREASURER, NATIONAL FARMERS UNION, DENVER, CO

Introduction

Chairman Boswell, Ranking Member Moran and Members of the House Subcommittee on General Farm Commodities and Risk Management, I am honored to have been invited to speak to you today. It is a privilege to share with you a few ideas and suggestions that could be helpful in the development of the next food and farm policy for our country.

My name is Kent Peppler and I am here today on behalf of the National Farmers Union. NFU is a national organization that has represented family farmers and ranchers and rural residents for more than 100 years. I serve as Treasurer of the NFU Board of Directors and am the President of Rocky Mountain Farmers Union. I farm full-time near Mead, Colo., and grow silage, corn, wheat, sunflowers and alfalfa hay. Until several years ago, I also produced sugarbeets, malting barley and feed livestock. I served on the Colorado Farm Service Agency Board of Directors from 1995 to 2001 and spent a few of those years as Acting State Executive Director and Assistant State Executive Director. I also participate on the U.S. Department of Agriculture (USDA) Agricultural Trade Advisory Committee (ATAC) on Sugars and Sweeteners and the Highland Ditch Company Board of Directors.

Our national farm and food policy is of critical importance to all Americans, even as the number of farmers continues to shrink while the population of our country grows. The public must know that if you eat, you are affected by the farm bill. Fortunately, this Subcommittee and the Agriculture Committee are dedicated to listening to the opinions of family farmers and ranchers. NFU respects your expertise and hard work. As you continue to prioritize issues for the 2012 Farm Bill, we hope you consider the following observations on the needs of future farm programs.

Since the last farm bill was enacted, farmers have endured some of the most difficult economic conditions in decades. The next farm bill must address the new realities we face: extreme volatility in market prices for commodities; extended periods of extraordinarily high energy costs; and the ongoing exodus of young people and job opportunities from our rural areas. While the challenges have become greater, our goals remain the same. We want to ensure that generations of farmers and ranchers can raise their families and live in vibrant rural communities. The farm bill might not solve all those problems, but it can take great strides toward strengthening America's farmers.

The Farm Safety Net Programs

There is no question that the farm bill is a wide-ranging piece of legislation. It helps to put such large undertakings into perspective. According to projections from the Congressional Budget Office for the years 2010 to 2020, about $49 billion will be spent on direct payments; $5.5 billion on countercyclical payments; $3.2 billion to the new Average Crop Revenue Election (ACRE) program; and $1.7 billion to marketing loan benefits.[1] Crop insurance programs were slated to receive $82.8 billion, although after the recent issuance of the 2011 Standard Reinsurance Agreement, this number will be smaller by about $6 billion.[2]

Compared to other farm safety net programs, direct payment programs are the least effective way to smooth the highs and lows of the agricultural marketplace. Farmers and ranchers would be better off if Federal spending on direct payments was reduced and the funds distributed among the other programs, which would bring improved service to these well-designed but under-funded safety net mechanisms. Federal crop insurance programs, for example, could be extended to specialty crop farmers who are not currently eligible for direct payments. With increased funding, target price supports could be strengthened to provide more assistance to commodity producers around the country. Direct payments are difficult to justify to the general public and Federal dollars would be better spent in other farm bill programs.

Countercyclical Payments

As a result of the 1996 Farm Bill's failure to support family farmers, countercyclical payments took on a greater role in the 2002 and 2008 Farm Bills. NFU urges you to place more emphasis on countercyclical payments, crop insurance and

the SURE program than on direct payments. By providing farmers a boost when commodity prices fall below the cost of production—and by not providing subsidies when prices are better—countercyclical payments help provide a stable food supply for consumers. When used in combination with effective payment limitations, countercyclical payments are cost-effective while helping farmers in tough times.

Despite the benefits of countercyclical payments, the current farm bill provides about nine times more support in direct payments than through countercyclical payments.[1] This needs to change. The next farm bill should focus on programs that help to boost prices in tough times, not all the time. The World Trade Organization (WTO) has placed limitations on government assistance for domestic agricultural production and we know that policy makers must consider the implications of our own farm policy on trade. However, in the coming years, changes in the next round of WTO negotiations will be a prime opportunity to adjust the direction of American farm policy toward a system of subsidies coupled to price supports.

Disaster Program

NFU has been long been among the leading proponents of a permanent disaster program. The unpredictability and inefficiencies associated with *ad hoc* disaster programs led to the inclusion of the Supplemental Revenue Assistance Program (SURE) in the 2008 Farm Bill. SURE should make it possible for farmers and ranchers to recover quickly from the devastating setbacks that weather can have on crops and livestock without waiting for piecemeal disaster assistance. However, the current program has been inadequately funded and administrative changes have delayed implementation of rules and regulations.

SURE was a hard-won victory for family farmers and ranchers and it ought to be properly utilized. Back home in the fields, farmers with claims pending since 2007 are still waiting for relief. We urge Congress to fully fund the program and adopt partial advance payments so assistance can be quickly provided in times of desperate need. When your cattle are dying in snowdrifts or your corn crop is flattened by a tornado you need to know the disaster program is there for you, is funded, and responds in a timely manner.

In the next farm bill, we need to make sure that we can continue the work that was done with the SURE program in 2008. The distribution of disaster aid must remain linked to crop insurance participation. NFU members welcome more suggestions and discussions about how to streamline and boost the efficiency of the program but, at the same time, we challenge decision makers to make sure that any improvements in SURE do not come at the expense of program delivery. The county Farm Service Agency (FSA) staff that service these programs are pushed to the limits of their resources as it is, and making their jobs unnecessarily difficult should be avoided. Remember that a consistent, predictable and stable back-up plan for farmers struck by hard luck is the most important aspect of having a permanent disaster aid program—any efforts to improve upon it should not interrupt the positive results SURE provides.

Crop Insurance

Crop insurance must remain a cornerstone of farm policy. While we understand the reasoning behind the recent budget cuts to crop insurance, we remain deeply concerned continued reductions in spending for this vital program will cripple crop insurers to the point that some companies may choose to no longer carry it in some areas of the country. In fact, as other parts of the farm safety net shrink, we should be increasing the availability of crop insurance coverage to more crops and to more parts of the country.

When the future of crop insurance is discussed, I ask the Members of this Subcommittee to consider the use of the actual production history (APH). All risk management programs should be based upon the APH, and for situations in which the APH is not available, the qualified yield for a farm should not be set at a lower level than that of country FSA calculations. In order to protect farmers in the event of successive crop disasters, we also urge the establishment of APH yield floors. These common sense approaches to crop insurance will help to ensure the productive potential of a farm is appropriately represented in risk management contracts.

The Administration's stated goal to make substantial increases in child nutrition funding is a move which NFU has long supported. Even in 1960, NFU called for the expansion of "workable methods needed to close the gap between what persons can afford to pay for food . . . and what they need to maintain an adequate standard of nutrition." We need healthy, well-educated consumers who know more about the origins of their food. To make this possible, funds should not come from crop insurance programs or other parts of the farm safety net, as some have suggested. Child nutrition is estimated to comprise 80 percent of the $1.1 trillion spent on farm

bill programs between 2011 and 2020, while crop insurance makes up less than seven percent of the total expenditures.[3] Investment in a stable food supply does not need come at the expense of healthier diets for young people. Both of these causes should be advanced in tandem.

Supply Management Tools

As a result of policy changes in the 1990 and 1996 Farm Bills, there are very few, if any, functioning farm programs that address the issues of supply management and the agricultural economy has suffered as a result. As Americans, we have been very fortunate throughout the years to have an agriculture industry that, with few exceptions, produces more food than we consume. Agriculture remains one of the few industries in which the United States maintains a consistent trade surplus but counting on trade as the only means of releasing excess supply has proven to be ineffective.[4]

Without even a rudimentary system of supply management, our existing farm programs are vulnerable to a very unlikely threat—a bumper crop. Excess supply could result in huge countercyclical payments or revenue insurance pay-outs. In a time when government expenditures are highly scrutinized, a bumper crop of subsidies could spell disaster for the public's perception of farm policy.

There are many details to be worked out in establishing some sort of mechanism to manage supply, but one aspect of such a system could also serve the interests of national security. I encourage you to explore the possibility of reserves as a strategic and supply management tool. Our nation values energy so much we have a strategic petroleum reserve, which stores enough oil to fuel our country without imports for 75 days.[5] Food is even more important, and an American food or grain reserve would be a powerful tool to provide security as well as smooth the peaks and valleys of agricultural prices. When used in combination with supply management techniques and target loan rates that allow for new farmers to enter the industry without creating price volatility, reserves can bring stability to the market and prosperity to the countryside.

In the 2010 NFU policy, our members called for the establishment of "a farmer-owned strategic national reserve for all storable commodities to ensure consumer food security, livestock feed supplies and national renewable energy needs in times of short supply." To create a functional program, a portion of the national commodity production should be held off the market in times of adequate supply. The reserve would be opened to the market when ending stocks ratios reach a predetermined trigger level and be sold at a value reasonably greater than current market price. Storage rates for these reserve commodities should be paid to the farmer in advance and set at the prevailing commercial storage rate. Proposals for a national reserve, to be used as part of a supply management system, deserve serious consideration in the 2012 Farm Bill.

Conclusion

On behalf of the members of NFU, I urge the Subcommittee to keep in mind the aforementioned concerns as you continue your work on the 2012 Farm Bill. You will hear from thousands of farmers and ranchers across the country in the next 2 years and I thank you for your ongoing attention. NFU looks forward to continuing this dialogue throughout the legislative process to write a bill that allows our nation's family farmers and ranchers to find prosperity in an ever-changing rural economy.

Endnotes

[1] Congressional Budget Office (CBO), *March 2010 Projections for Fiscal Years 2010–2020.*

[2] USDA Risk Management Agency, *2011 Standard Reinsurance Agreement.* June 10, 2010.

[3] Congressional Budget Office, *March 2010 Projections for Fiscal Years 2010–2020.*

[4] USDA Economic Research Service, *Total Value of U.S. Agricultural Trade and Trade Balance, Monthly.* Updated June 10, 2010.

[5] U.S. Department of Energy, Office of Strategic Petroleum Reserves, "Quick Facts and Frequently Asked Questions."

Mr. MARSHALL. Thank you, Mr. Peppler.

I would like to note that the Chairman of the full Committee, Collin Peterson from Minnesota, has joined us. Apparently there has been a little bit of a break from the financial regulatory reform conference committee, and I will just observe we all appreciate the job that Collin does for us. We wouldn't be where we are today,

with the farm bill that we have today, but for a number of people, and that was a key player sitting here today in this room.

Mr. Chairman, do you have any remarks?

OPENING STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

Mr. PETERSON. Well, I don't want to delay things too much. I think people have heard what I have had to say. We are going to be facing a difficult situation. It is unclear exactly what the situation will be, but it clearly will be difficult, given the financial condition of the country and the deficit, and all that. I think that by getting started early, we are giving people a chance to think about this ahead of time, so that we are ready whenever we get against whatever ends up happening, whether there be a reconciliation attempt next year, or getting ready for the next farm bill.

And as you have all heard me say, whatever the outcome of all that, we are not going to have any new money, we will probably have less money. We have to figure out how to make it work so that we have an adequate safety net.

I am concerned about—this is a bad thing to be concerned about, I guess, but that we might have a bumper crop. We could have prices down from what we have experienced the last few years, and that will present challenges in addition to the fiscal challenges that we have.

So we appreciate all of you for the work that is being done. I think all of the commodity groups have developed some kind of a working group within their ranks to look at what is currently being done, looking at the amount of money we are currently spending, and seeing if there is a better way for us to provide the safety net that will be more effective, more efficient, less complicated, and I think we are making good progress.

The dairy industry, NMPF, had a 96 percent vote behind a new type of safety net for dairy. There are still a lot of details to work out through that. But that is the kind of thing I think we need to look at: are the current programs effective? Are they working? Is there a better way to do it?

So we appreciate everybody stepping up to the plate. The Members have been very much engaged in this. And we will probably start next May or June with the actual process of markup of the next farm bill so we can get it done on time.

The last thing is that we haven't had a farm bill that has been done on time for quite a while. The current farm bill ends in September of 2012, and I for one am determined that we get this farm bill done prior to September of 2012; that the winter wheat guys know what the program is when they are planting, the southerners know what the program is when they are planting. So that is the goal, at least of this Member. And I thank all of you for being here today and sharing your thoughts with us.

Thank you, Mr. Chairman.

Mr. MARSHALL. Thank you, Mr. Chairman. I appreciate those remarks. We all appreciate your leadership.

Mr. Moran from Kansas has joined us. He is the Ranking Member of the Subcommittee, and he may have some remarks as well.

OPENING STATEMENT OF HON. JERRY MORAN, A REPRESENTATIVE IN CONGRESS FROM KANSAS

Mr. MORAN. Mr. Chairman, I do not have any remarks other than to express my appreciation to you and Mr. Boswell for hosting this hearing, and I look forward to hearing the testimony of the rest of the witnesses. Thank you.

Mr. MARSHALL. All other Members of the Committee are invited to submit opening statements for the record, and the record will remain open for 10 days.

With that, let's move to our next witness, Mr. Bush.

STATEMENT OF ANTHONY BUSH, CHAIRMAN, PUBLIC POLICY ACTION TEAM, NATIONAL CORN GROWERS ASSOCIATION, MT. GILEAD, OH

Mr. BUSH. Mr. Chairman, Ranking Member Moran, and Members of the Subcommittee, on behalf of the National Corn Growers Association, I appreciate this opportunity to share with you some perspectives on today's farm programs. My name is Anthony Bush. I am currently serving as Chairman of the NCGA's Public Policy Action Team. I am from Mt. Gilead, Ohio, where my wife Teresa and I raise corn, soybeans, and wheat on a fourth-generation family farm.

Knowing the difficult fiscal conditions that our nation must address, NCGA has begun discussions on improving the farm safety net under scenarios that could arise as a result of new budget difficulties. We look forward to making a strong case for our growers to continue to meet the world's increasing demand for food, feed, and renewable fuels, that there will be even more effective risk management tools needed.

The demand for corn has increased demand for farm production inputs. Over the past 10 years, nitrogen and potassium fertilizers have jumped by an estimated 200 and 416 percent, respectively. Farming is typically a capital-intense, thin-margin enterprise, and these higher production costs mean even more is at risk with the planting of each crop. It is no surprise that the Federal crop insurance revenue-based policies have become critically important to today's farm safety net.

NCGA remains very concerned with the current policy premium levels in light of the fact that corn has experienced exceptionally low loss ratios under the existing rating system. Today's Federal Crop Insurance Program is required to operate with a national loss ratio of 1.0, with indemnities paid not to exceed total premiums. From 1990 through 2008, the loss ratio of corn only exceeded that for all other crops in 1993. The loss ratio experience should converge over time if the rating system were performing as intended; however, NCGA sees little evidence of convergence. Even though NCGA disagrees with the recent outside review's endorsement of this system, we agree with the recommendations for more appropriate weighting of early crop-year observations.

In the 2008 Farm Bill, NCGA advocated for a more market-oriented, revenue-based risk management program. The new ACRE Program represents a fundamental reform that provides a more responsive risk management tool for rising input costs, yield trends, and greater market variability.

In ACRE's initial year, the share of farms participating nationwide was around eight percent, comprising almost 13 percent of base acres, well below initial projections by the CBO.

While NCGA expressed its concerns last year with the preparedness of Farm Service Agency employees to adequately explain the ACRE Program, our growers have indicated far fewer problems this year. Nevertheless, we believe a more concerted effort is necessary to provide the training and support systems to help streamline the enrollment process and program compliance.

A recent Iowa State study asked farmers who did not participate in ACRE why they decided to decline this option. Complexity was listed as a major reason for not participating. Producers find the rules requiring landowner approvals and documents to prove yields overly burdensome.

Another important issue for ACRE is the limited collection data by NASS to revenue value. This is not only a problem for ACRE, but for counties where producers no longer have access to area-wide crop insurance plans due to insufficient production data.

Over the next few months, NCGA will be evaluating several changes to enhance ACRE. Some of these suggestions include elimination of the base acre cap to make all planted acres eligible for payments. Our growers are also very interested in basing ACRE payments on county yields rather than state yields, as they more closely reflect farmers' yield risk.

The other major addition to the farm safety net was the SURE Program, which represents an effort at a comprehensive revenue assurance program. A number of economists have noted that crop insurance, ACRE, and SURE all have a similar purpose to provide an effective safety net to producers, but have differing components and requirements that could possibly be harmonized to improve overall coverage with minimal overlap.

Moving forward, NCGA believes enhancements to ACRE and our Federal Crop Insurance Program could effectively address the gap SURE is designed to cover today. We recognize that some potential changes would require additional budget resources. Given the fiscal challenges that lie ahead and the increasing importance of risk management tools, NCGA appreciates the Subcommittee's consideration of our members' concerns, and we look forward to working with you and your staff as we prepare for the next farm bill. Thank you for your time.

[The prepared statement of Mr. Bush follows:]

PREPARED STATEMENT OF ANTHONY BUSH, CHAIRMAN, PUBLIC POLICY ACTION TEAM, NATIONAL CORN GROWERS ASSOCIATION, MT. GILEAD, OH

Mr. Chairman, Ranking Member Moran and Members of the Subcommittee, on behalf the National Corn Growers Association (NCGA), I appreciate the opportunity to share with you some perspectives on today's farm programs and their importance to our members' risk management planning.

My name is Anthony Bush. I am currently serving as the Chairman of NCGA's Public Policy Action Team. I am from Mt. Gilead, Ohio where my wife Teresa and I raise corn, soybeans and wheat on a fourth generation family farm.

The National Corn Growers Association represents more than 35,000 corn farmers from 48 states. NCGA also represents more than 300,000 corn growers who contribute to check off programs and 27 affiliated state corn organizations across the nation for the purpose of creating new opportunities and markets for corn growers.

Although it seems like just a short time ago that the 2008 Farm Bill's implementation was launched, NCGA recognizes the need for the House Agriculture Committee to begin planning for 2012 along with ensuring strong oversight over our current farm policies and programs. Knowing the extremely difficult fiscal and economic conditions that our nation must address today, NCGA has begun to prepare for policy discussions on improving the farm safety net and the various scenarios that could arise as a result of new budget realities confronting the Congress. In doing so, we look forward to making a strong case that for our growers to continue to meet the world's increasing demand for food, feed and renewable fuels, there will be need for even more effective risk management tools. In our view, the reforms adopted in the 2008 Farm Bill are serving to move the farm safety net in this direction.

Over the past decade, U.S. corn growers have made significant progress in productivity in an increasingly competitive environment. Between 2000 and 2009, the national average yield has increased from 136.9 to 164.7 bushels per acre, over a twenty percent increase. In my home state of Ohio, we recorded a state wide average yield of 174 bushels per acre, an eighteen percent increase in yield. Although many growers in Ohio were hit hard in 2002 by drought conditions when the state average corn crop yield was 89 bushels per acre, the lowest average yield since then has been 135 bu/acre. Because of advances in seed technology along with modern production and conservation practices, the U.S. corn industry is well positioned to sustain a very positive yield trend. At the same time, though, this success is accompanied by a substantial increase in risk exposure, particularly market volatility.

From a low of $1.85 per bushel in 2000, the season average market price peaked at $4.20 in 2007, and has since declined to $3.50 last year, an increase of 90 percent. Since 2006, swings of more than $0.50 per bushel are common, causing dramatic fluctuations in gross revenue. Nationally, the average revenue per acre for corn increased almost 129 percent between 2000 and 2009. By expanding corn markets, especially a growing ethanol industry, the corn industry has certainly benefited from more robust commodity prices.

The same sources of demand growth for corn—rapid growth in developing economies, however, have also increased demand for farm production inputs; the result is a sharp rise in farmers' production costs. Over the past 10 years, nitrogen and potassium fertilizer have jumped by an estimated 200 and 416 percent, respectively. Diesel fuel has increased by over 148 percent while biotech corn seed costs have risen by over 113 percent. Additionally, the average land rent per acre in the Corn Belt has increased 41 percent. Markets have determined that this recent increase in corn revenue is being mostly bid into the prices of inputs, rather than being mostly reflected in farm land values and rents. The effect is that, in spite of the attractive run-up in prices and yields, a significant amount of the implied wealth is flowing off the farm, leaving producer-landowners without a proportionately increased store of wealth in farm land that could be drawn upon to cushion revenue shocks in the future.

Farming is typically a capital-intense, thin-margin enterprise, but these higher production costs mean even more is at risk with the planting of a crop each year. In short, profit margins are still being squeezed requiring sound risk management plans and timely marketing of corn in order to adequately protect producers from significant crop losses as well as declining commodity prices. This is perspective of NCGA's comments on the development of the 2012 Farm Bill.

It is no surprise, then, that Federal crop insurance's revenue based policies have become critically important to today's farm safety net. Just last year, the total liability protection for No. 2 yellow corn exceeded $31 billion for 503,670 policies, which sold for nearly $3.5 billion in total premium. Corn by itself represents around 40 percent of the aggregate premium.

Impressive as these numbers may be, NCGA remains very concerned with current policy premium levels in light of the fact that corn has experienced exceptionally low loss ratios under the existing rating system. Today's crop insurance program is required to operate with a national loss ratio of 1.0 with indemnities paid not to exceed total premiums. It is important to note the Federal Crop Insurance Act (FICA) provides for instructions to "ensure equity for producers" and to consider the relative performance for "commodities by area". NCGA would argue that the program's ultimate performance should be judged by equity for producers and that there should not be systematically differential performance by commodity, location, or by insurance product. While NCGA recognizes the complexity required to provide an actuarially sound rating system for the size and breadth of today's crop insurance program, we believe an evaluation of the rating methodology's historical performance should begin with a clear and complete documentation of actual results in the "real world". Unfortunately, we were disappointed that the recent outside re-

view of the Risk Management Agency's rating system adopted a less comprehensive approach in its analysis.

If the current rating system was performing correctly, we would expect corn loss ratios to be randomly distributed around that of other crops. From 1990 through 2008, the loss ratio of corn only exceeded that for all other programs in 1993, one year out of the nineteen. In addition, loss ratio experience across crops and regions should converge over time if the rating system is performing as intended. However, NCGA sees little evidence of convergence. For example, the loss ratio from 1990 through 1999 averaged .91 for corn and 1.15 for all other programs, a difference of .24. From 2000 through 2009, the loss ratio was .67 for corn and .99 for all other programs, an even larger difference of .32. While today's historical loss cost system may be designed to be self-correcting, the empirical facts suggest otherwise. Even though NCGA disagrees with the reviewers' endorsement of the current system, we agree with a key recommendation for more appropriate weighting of early crop year observations and additional weather information for credible annual observations. Without significant changes to better reflect reduced yield variability, yield trend increases and appropriate weighting corrections, the rating system will continue to set premiums well above corn's actual loss experience. Over the long term, more corn growers will not be able to adequately protect against significant revenue losses during a period of increasing market volatility and risk exposure.

To address gaps in protection against production shortfalls and volatile markets not adequately met by crop insurance, price based commodity programs and disaster aid, NCGA has advocated for a more market oriented revenue based risk management program. Revenue shortfalls are the direct cause of income reductions. Price declines do not necessarily result in reduced income since price declines have historically been accompanied by above average yields. The new Average Crop Revenue Election Program (ACRE) represents a fundamental reform to the farm safety net; one that NCGA believes provides a more responsive risk management tool for rising input costs, yield trends and greater market volatility.

Unlike other farm programs, ACRE targets the risk that revenue for a crop year at the state level with a guarantee based on the previous 2 season average prices. ACRE is the only program that addresses multiple year revenue stability by limiting the movement of the guarantee to ten percent. Because crop insurance uses futures prices set during the cropping year, crop insurance does not protect against price changes across years. Similar to crop insurance, ACRE is limited to delivering assistance when an actual loss in crop specific revenue is sustained on the farm. Another distinct advantage of ACRE is that state and farm level benchmark revenues better reflect yield trends by using the 5 year Olympic average of proven yields.

As of June 16, 2010, we were advised by FSA staff that 136,170 farms will be participating in the ACRE program for the 2010, 2011, and 2012 crop years. In ACRE's initial year, the share of farms nationwide was around eight percent comprising almost thirteen percent of base acres, well below initial projections by the Congressional Budget Office. While NCGA expressed its concerns last year with the preparedness of Farm Service Agency county offices to adequately explain the ACRE program, our growers have indicated far fewer problems this year. Nevertheless, we believe a more concerted effort is necessary to provide FSA employees the training resources and office support systems to help streamline the enrollment process and program compliance. Some of the concerns regarding ACRE that we hope USDA and this Committee will take under consideration include the farm eligibility condition and the procedures for growers to document their yields. In some cases, reorganization of farms and time itself will reduce producers' use of county yield plugs in the absence of a proven yield to establish a farm's benchmark revenue.

A recent Iowa State study asked farmers who did not participate in ACRE why they decided to decline this option. Complexity was listed as the major reason for not participating. Despite the fact ACRE is modeled, in part, after popular revenue insurance policies, it is not surprising that many producers find the rules requiring landowner approvals and documents to prove yields overly burdensome. Plus, the double trigger, requiring state revenue to be below a state guarantee and farm revenue to be below a farm guarantee adds to the program's complexity. While the farm eligibility condition helps to ensure payments are targeted for real losses, the removal of this requirement would substantially reduce the FSA's work load and administration costs. Moreover, the farm level trigger adds a moral hazard problem. In some cases, farmers could have an incentive to assure the farm trigger is met given expectations that the state trigger will be met.

Another important administrative related issue for ACRE is the limited and inconsistent data collected by the National Agriculture Statistics Service (NASS) used to compute a state's crop revenue values. This is not only a problem for ACRE, but

for counties where producers no longer have access to area wide crop insurance plans due to insufficient production data. As an example, a corn grower in Arkansas who would have elected ACRE on dryland corn in 2009 will find out that for 2010 Arkansas corn ACRE will be a combined practice because Arkansas did not meet the 25 percent irrigated acre requirement for 2010. There is the possibility that the coverage could be restored in 2011, but a farmer in this case has elected ACRE assuming a dryland yield. Another example of insufficient NASS data can be found in Oklahoma where the state has published state level dryland and irrigated yields for about 10 years. In ACRE's initial year, NASS only published a combined yield, but ACRE is split between irrigated and dryland for Oklahoma corn.

Over the next few months, NCGA will be evaluating a number of design changes to enhance ACRE. They include the use of futures prices for determining guarantees and revenues which could more effectively combine ACRE with marketing practices. Further, use of the season average price causes almost a year's delay in receiving ACRE payments. Another alternative is the harvest price now used in crop insurance. Absent any change to the price component in the guarantees, a five percent cup instead of a ten percent cup provides support for a longer period of time when revenue declines over continuous years. Our growers are also very interested in basing the ACRE on county yields rather than state yields as they more closely reflect farmers' yield risk. Notwithstanding the production data issues previously mentioned, we recognize this one change, alone, will likely require a significant tradeoff, assuming no additional funding for the commodity title.

Other suggestions that have been offered to simplify ACRE include: (1) calculating the revenue target as a 5 year moving average rather than as a 5 year Olympic average and a 2 year moving average of price. (2) Eliminate the base acre cap to make all planted acres eligible for payments. (3) Use the same method to determine the farm and state benchmark revenues to eliminate the potential disconnect between the risk management assistance at the broader market area and individual farms. (4) Change to a national program to allow for other enhancements that would not be possible due to budget constraints.

The other major addition to the farm safety net was the disaster assistance program, Supplemental Revenue Assistance (SURE). In our view, it represents an improvement over *ad hoc* disaster programs. SURE introduces more certainty and takes a much needed step toward eliminating duplicate payments for the same revenue losses.

SURE represents an effort at a comprehensive revenue assurance program: it covers whole farm revenue for both covered commodities and many other crops; it includes crop insurance indemnities, Noninsured Crop Disaster Assistance Program (NAP) payments, Marketing Assistance Loan proceeds, Direct and Counter-cyclical Program (DCP) payments and ACRE payments. SURE revenue is guaranteed at 115 percent of purchased crop insurance coverage levels, raising revenue protection up to a maximum of 90 percent and it provides protection for both the growing season and the marketing year of a crop, relative to the growing season coverage of crop insurance and the marketing year coverage of ACRE.

Substantial assistance has been received by a number of farms, however, there is a concern of a moral hazard over a requirement of ten percent yield loss for one crop despite that all other SURE requirements are met. When the difference between a substantial payment and no payment is dependent upon a ten percent yield loss for one crop, an incentive exists for a producer to reach the ten percent yield loss.

The design of SURE also raises questions of equity for farmers who operate multicrop operations. Aside from other serious issues of program complexity and long term funding, concerns remain about overlapping coverage with ACRE and crop insurance. According to one analysis by Drs. Carl Zulauf, Gary Schnitkey and Michael Langemeir, the overlap between these programs is not large due to their different parameters. Most of the overlap occurs between SURE and ACRE due to the same coverage level of 90 percent. One possible solution for addressing most of this overlap is to change SURE's payments to harvest time.

Other observers have noted that crop insurance, ACRE and SURE all have a similar purpose to provide an effective safety net to producers, but have many differing program components and requirements that could be harmonized so as to provide a combined set of programs that would improve overall coverage will minimal overlap. Different entity definitions and coverage units could be unified; a similar price reference across programs could be used; coverage levels are similar, but could be combined to include shallow losses. This would clearly be no small undertaking, but elective programs that were better harmonized could improve the risk management safety net and leave fewer gaps.

Moving forward, NCGA believes enhancements to ACRE and our crop insurance programs could effectively address the gaps SURE is designed to cover today. We understand that achieving a farm safety net that would significantly diminish the need for disaster assistance is an elusive goal yet is one worth pursuing. Given the fiscal challenges that lie ahead and the increasing importance of risk management tools, NCGA appreciates this Subcommittee's consideration of our members' concerns and looks forward to working with you and your staff as you prepare for the next farm bill.

Mr. MARSHALL. Thank you, Mr. Bush.

Mr. Henderson.

STATEMENT OF DAVID L. HENDERSON, PRESIDENT, NATIONAL BARLEY GROWERS ASSOCIATION, CUT BANK, MT

Mr. HENDERSON. Mr. Chairman, Members of the Committee, my name is Dave Henderson, and I am a farmer from Cut Bank, Montana, where I grow irrigated spring wheat, barley, and alfalfa. I currently serve as President of the National Barley Growers Association, and I am here representing U.S. barley growers today.

Barley is the third major feed grain crop produced in the United States, and from 2005 to 2010 U.S. grain producers planted almost 4 million acres of barley each year, contributing over $8 million annually to the nation's economy. But U.S. barley production has been in a severe downward trend over the past 20 years, and the amount of barley grown has declined by nearly 50 percent. We predict continued loss of acreage and production to competing crops that offer better returns on investment.

Though demand certainly plays a role, NBGA believes that the U.S. barley industry has lost significant competitiveness due in part to distortion in Federal farm program support relative to other crops. The 2001 to 2020 projected support level for barley compared to other commodities is relatively low, just two percent of the total farm program expenditure.

Barley growers receive little support from two key components of the commodity title: the Counter-Cyclical Program and the Marketing Loan Program. The target price for barley in the counter-cyclical, though increased slightly in the 2008 Farm Bill, is set considerably lower than market conditions warrant, lending little support in the form of these payments.

Severe weather conditions in consecutive years in many barley states have led to significantly lower yields or total crop failures. The loan program and the LDP are useless when you have no crop and the loan rate is set too low to be an effective price floor.

NBGA remains supportive of the direct payment program, which is the best means to get much-needed operating money into the hands of producers. It is easy to administer, requires conservation practices to be met for eligibility, and is the most WTO-compliant program in the farm bill.

Very few barley producers participated in the initial sign-up for the new ACRE program; however, ACRE has the potential to become an effective support mechanism for barley growers, protecting guaranteed revenues when crop prices fall. Growers like the ability to choose whether or not to participate in a revenue-based program like ACRE or the traditional farm program, but are frustrated with how complicated the program is and how difficult it is to explain to landowners.

Implementation of the new SURE permanent disaster program has been slow, frustrating growers who have suffered crop losses and need financial assistance to meet operating expenses in the next crop year. We are confident that SURE will provide effective support, protecting barley growers from shallow crop losses that cannot be afforded through regular crop insurance.

The risk of failing to produce malting barley that meets higher-price contract specifications is great, and the availability of affordable crop insurance that at least meets the cost of production is critical to our barley growers. NBGA believes improvements can be made to risk management programs in order to adequately address multi-year losses, increase the level of affordable coverage, and coordinate USDA grading standards with those stipulated by the U.S. barley industry.

We continue to face increasing production costs. USDA ERS reports that 2009 barley total cost production per acre for the Northern Great Plains at $301; the total gross value is estimated at $261 for these same acres, for a net loss of $40. These facts, along with potential changes in the WTO rules and the dire Federal budget situation, have led us to begin looking at options for the 2012 Farm Bill.

We look forward to ongoing discussions with this Committee, and would like to thank you again for this opportunity to testify.

[The prepared statement of Mr. Henderson follows:]

PREPARED STATEMENT OF DAVID L. HENDERSON, PRESIDENT, NATIONAL BARLEY GROWERS ASSOCIATION, CUT BANK, MT

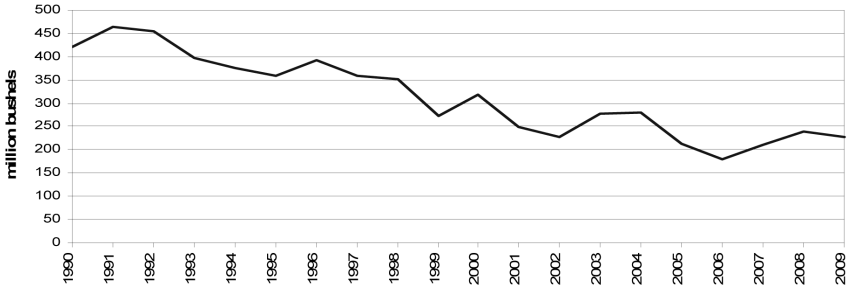
Mr. Chairman, Members of the Committee, my name is Dave Henderson and I am a farmer from Cut Bank, Montana, where I grow irrigated barley, spring wheat and alfalfa. I currently serve as President of the National Barley Growers Association and I am here today representing U.S. barley producers. Thank you for this opportunity to share our thoughts on existing farm commodity programs.

The United States is the eighth-largest barley producing country in the world and, after corn and sorghum, is the third major feed grain crop produced in the United States. From 2005 to 2010, U.S. grain producers planted almost 4 million acres of barley each year, contributing over $800 million annually to the nation's economy.

Production is concentrated in the Northern Plains and the Pacific Northwest in states where the growing season is relatively short and climatic conditions cool and dry. Historically, livestock consumed most of the barley produced in the United States, but food and industrial uses have shown continued growth while feed uses of barley have declined. Most U.S. barley today is grown for malting use because of the price premium it commands. In 2009, approximately 75 percent was grown for food, seed and industrial use; 23 percent for feed and residual use; and two percent for export.

But U.S. barley production has been in a severe downward trend. Over the past 20 years, the amount of barley grown has declined by nearly 50% and we predict continued loss of acreage and production to competing crops that offer better returns on investment.

U.S. All Barley Production

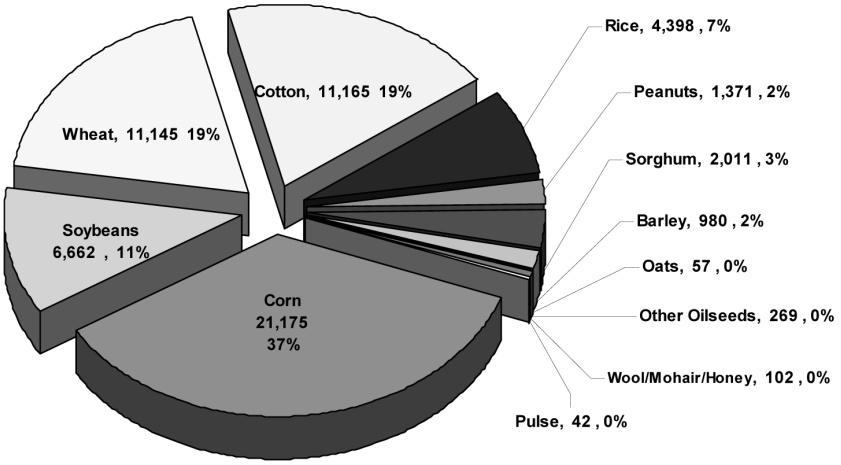


Recent commodity price volatility has been frustrating for barley growers just as it has been for producers of other raw commodities. Historically high prices for barley in late 2007 and early 2008 were offset by extraordinary increases in the cost of our agricultural inputs. When, over the next 2 years, commodity prices fell to much lower levels, input costs did not decline by a commensurate degree, if at all. These input costs, and the barley producer's inability to pass them on, are a tremendous threat to the future of the U.S. barley industry.

NBGA also believes that the U.S. barley industry has lost significant competitiveness due, in part, to distortions in Federal farm program support relative to other crops. As you can see by the next chart in my testimony, the 2011–2020 projected support level for barley compared to other commodities is relatively low; just 2% of total farm program expenditures.

2011–2020 Spending by Crop ($59.4 B Total)

Mar 10 CBO ($ Millions)



Farm programs are designed to cushion the boom and bust cycles inherent to agricultural production and to ensure a consistently safe, affordable and abundant food supply for the American people. But, while barley growers generally support current farm policy, much of the "safety net" provided by the current farm bill has not been effective for them.

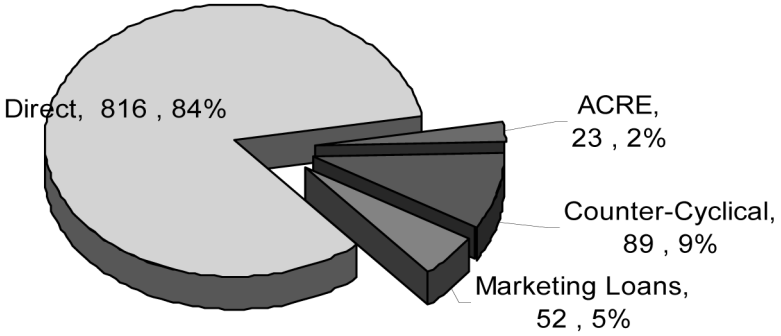
Countercyclical and Loan Program

As shown in the next chart, barley growers receive little support from two key components of the commodity title; the countercyclical program and the marketing loan program. The target price for barley in the countercyclical program, though increased slightly in the 2008 Farm Bill, is set considerably lower than market conditions warrant. As a result, there is very little support in the form of countercyclical payments.

Severe weather conditions in consecutive years in many barley states have led to significantly lower yields or total crop failure. And though the loan program provides for often necessary short term, low-interest commodity loans, the loan program and the LDP are useless when you have no crop and the loan rate is set too low to be an effective price floor.

2011–2020 Barley Payments ($980 Million)

Mar 10 CBO ($ Millions)



Direct Payments

NBGA remains supportive of the direct payment program which is the best means to get much needed operating money into the hands of producers, is easy to administer, requires conservation practices be met for eligibility, and is the most WTO compliant program in the farm bill.

ACRE

Very few barley growers participated in the initial sign-up for the new ACRE program but our early analysis leads us to believe that, with some modifications, ACRE has the potential to become an effective support mechanism for barley growers, protecting guaranteed revenues when crop prices fall. Growers like the ability to choose whether or not to participate in a revenue-based program like ACRE or the traditional farm program but are frustrated with how complicated the program is and how difficult it is to explain to landowners.

SURE

Implementation of the new SURE permanent disaster program has been slow, frustrating growers who have suffered crop losses and need financial assistance to meet operating expenses in the next crop year. Once USDA is comfortable with the program, we are confident that SURE will provide effective support, protecting barley growers from shallow crop losses that cannot be afforded through regular crop insurance.

Crop Insurance

The Northern Plains and Pacific Northwest barley growing regions are susceptible to extreme variability in growing conditions and the risk of failing to produce malting barley that meets higher priced contract specifications is great. The availability of affordable crop insurance that at least meets the cost of production is critical to our barley growers. Crop insurance products currently available to barley growers do not provide adequate coverage compared to other crops, further decreasing barley's competitiveness.

The final rule of the new COMBO crop insurance plan recently released by USDA estimates using a factor of 82.1% of the CBOT corn futures price to determine the 2010 projected and harvest price for barley. Our analysis of USDA NASS pricing data over the past 10 years indicates a more appropriate price relationship between barley and corn should be 92%.

NBGA believes improvements can be made to risk management programs in order to adequately address multi-year losses, increase the level of affordable coverage and coordinate USDA grading standards with those stipulated by the barley industry. We have worked hand in hand with the Risk Management Agency on innovative ways to address these challenges and have appreciated their responsiveness and concern for barley's risk management issues.

Mr. Chairman and Members of the Committee, there is no doubt that America's farmers would rather depend on the markets than the government for their livelihoods, but the current economic and trade environments do not offer a level playing field in the global marketplace. Many of our trading partners support their farmers at much higher levels than in the U.S.

At the same time, we face continually increasing production costs. USDA ERS reports the 2009 Barley Total Cost of Production in the Northern Great Plains, including seed, fertilizer, chemicals, fuel, machinery, labor and land, is $301.55. The Total Gross Value of Production is estimated at $260.59 for a calculated net return of *−$40.96.*

These facts, along with potential changes in the World Trade Organization rules and the increasingly dire Federal budget situation, have led us to begin looking at options for the 2012 Farm Bill. We look forward to ongoing discussions with this Committee.

Thank you again to the Committee for this opportunity to testify. If you have any questions, I will be happy to address them.

DAVE HENDERSON,
President,
National Barley Growers Association.

Mr. MARSHALL. Thank you, Mr. Henderson.

Mr. Joslin.

STATEMENT OF ROBINSON W. JOSLIN, PRESIDENT, AMERICAN SOYBEAN ASSOCIATION, SIDNEY, OH

Mr. JOSLIN. Good morning, Chairman Peterson, Mr. Marshall, and Members of the Committee, I am Rob Joslin, a soybean farmer from Sidney, Ohio. I currently serve as President of the American Soybean Association and also a member of ASA's Farm Bill Working Group. ASA is pleased to provide our initial thoughts of farm program priorities for the 2012 Farm Bill.

ASA believes that farm programs play an important role in the underpinning and strength of the farm economy, which in turn supports the overall U.S. economy. We recognize that in the current budget environment, farm programs are a target for interests that either oppose them in principle or want to fund other priorities. Accordingly, ASA is looking for ways to make farm programs more efficient, effective, and defensible.

ASA has long supported adjusting target prices and marketing loan rates to make them more equitable among commodities. The current $5 per bushel soybean loan rate and $6 per bushel target price are not equitable; but because market prices have been above these levels in recent years, they have not disadvantaged soybean production under the 2008 Farm Bill. In order to provide meaningful income supports, soybean loan rates and target prices would need to be increased significantly.

Direct payments support farm income when prices and yields fall sharply, particularly for producers in regions where ACRE crop insurance protection participation is low. Direct payments are also considered non-trade distorting, or green box, under WTO.

Direct payments have been criticized when commodity prices rise and payments are made regardless of the need for income support. In addition, direct payments can be factored into land grants, so they often pass through to the landlord, rather than benefiting producers who do not own the land, but accept the production risk.

With regard to the ACRE Program, projections indicate it may be a better choice for producers in the largest soybean growing states than the traditional farm program. ASA believes ACRE

could be modified to make it more attractive in regions of the country where participation is low. Modifications could include changing the state loss trigger to a trigger closer to the producer level. This is particularly important to producers in states with high variability of yields, and would functionally improve producer risk management.

A second concern is that sign-up under ACRE requires participation for the duration of the 2008 Farm Bill. This discourages participation by producers who rent their land and cannot make multiple-year commitments.

A third issue is the 30 percent reduction in marketing loan rates required under ACRE. This reduction undercuts the use of the loan as a marketing tool by soybean producers in southern states who also grow cotton, making ACRE a nonstarter for these producers. The ACRE Program needs to be made more understandable and accessible to producers, including reducing the amount of paperwork required to participate.

ASA members in some states indicate that the SURE Program will provide substantive relief for losses incurred in the 2008 year; however, SURE does not provide adequate disaster relief to producers in regions where participation in crop insurance is low or at low levels.

Crop insurance has become an increasingly important part of the farm income safety net for soybean producers in recent years. ASA does not support including crop insurance reform and reauthorization in the farm bill. In addition, ASA opposes cuts in the crop insurance baseline, and any reallocation should be used to make it more effective nationally.

ASA believes crop insurance should be modified to reflect the lower return per acre and higher input cost in soybean producing regions that do not participate at meaningful levels. Low APHs and high rates make buy-up coverage unaffordable for many southern farmers. Inadequate coverage translates into reduced value for the SURE Program.

ASA encourages the Committee to determine whether and how modifications should be made to the ACRE, SURE, and Federal Crop Insurance Programs so that each play an appropriate role in supporting farm income.

That concludes my comments today, Mr. Chairman and Members of the Committee. ASA looks forward to working closely with you and other Members of the Committee as you prepare to write the next farm bill. Thank you.

[The prepared statement of Mr. Joslin follows:]

PREPARED STATEMENT OF ROBINSON W. JOSLIN, PRESIDENT, AMERICAN SOYBEAN ASSOCIATION, SIDNEY, OH

Good morning, Mr. Chairman and Members of the Committee. I am Rob Joslin, a soybean farmer from Sidney, Ohio. I serve as President of the American Soybean Association Board of Directors and am a member of ASA's Farm Bill Working Group. ASA is pleased to provide our initial thoughts on farm program priorities for the 2012 Farm Bill.

There is a widely held view that production agriculture in the U.S., and worldwide, has undergone a significant change in recent years in which demand has begun to outstrip supply for various commodities, including soybeans. The increase in prices for feed and food crops in 2007 and 2008 is attributed to a rise in world demand for agricultural commodities to meet food, feed, fiber, and fuel needs. Sup-

porters of this view suggest that farm program supports are no longer important, since prices are expected to remain above historical levels in coming years.

A contrasting opinion is that agriculture markets are cyclical, and that production will respond to higher prices which, over time, will decline. This view is supported by experience in the mid-1990s when, with prices above historical levels, Congress approved scaling back supports in the 1996 Farm Bill, known as Freedom to Farm. Three years later, prices fell to historic lows, requiring emergency payments to supplement the decline in farm income and support. Another contributing factor is the likelihood that agricultural biotechnology and other scientific advances will continue to raise yields and the quality of crops worldwide, offsetting the trends in population growth and energy use of commodities.

ASA believes that farm programs play an important role in underpinning the strength of the farm economy which, in turn, has supported the overall U.S. economy during the current recession. The importance of an effective safety net for farm income has grown as the rising cost of farm inputs has increasingly pressured farm profitability. We recognize that, in the current budget environment, farm programs are a target for interests that either oppose them in principle or want to fund other priorities. Accordingly, ASA is looking for ways to make farm programs more efficient, effective, and defensible.

Marketing Loan and Countercyclical Programs

With regard to current farm programs, ASA has long supported adjusting target prices and marketing loan rates to make them equitable among commodities. Countercyclical income support should be based on the relative value of each commodity. Loan rates must also be equitable, or planting decisions will be distorted in years when prices are expected to be near or below loan levels. ASA supported equitable adjustments in target prices and loan rates in both the 2002 and 2008 Farm Bills.

Recently, soybean market prices have been well above loan rates and target prices, highlighting the fact that the soybean safety net falls well below the value of the crop. The current $5.00 per bushel soybean loan rate and $6.00 per bushel soybean target price are not equitable with support levels for other major commodities. Because market prices have been above these levels in recent years, these disparities have not disadvantaged soybean production under the 2008 Farm Bill.

CBO's March 2010 baseline projects outlays of $19 million in soybean countercyclical payments, or CCPs, and $82 million in soybean marketing loan gains and loan deficiency payments in FY 2011/20. The total for the two programs of $101 million over 10 years—just 1½ percent of total projected soybean outlays—reflects how far below expected prices current support levels are. In order to provide meaningful income support in current markets, they would need to be significantly increased. ASA continues to support equitable adjustments in target prices and loan rates. And we would note that the cost of doing so would likely be moderate, based on continued higher soybean prices projected in the current baseline.

Direct Payments

CBO projects outlays of $5.6 billion in soybean direct payments in FY 2011/20, equal to 84.5 percent of total support for soybeans over the 10 year period. With the wide disparity between current soybean loan rates and target prices and market prices, direct payments represent a basic support for farm income when prices and yields fall sharply. This is particularly true for producers in regions where ACRE and crop insurance participation is low. Direct payments are also the only farm program considered non-trade distorting, or Green Box, under the WTO.

Direct payments drew significant criticism during debate on the 2008 Farm Bill, as commodity prices rose and payments were made regardless of the need for income support. In addition, direct payments are fixed at constant levels and can be factored into land rents, so they often pass through to the landlord rather than benefiting producers who do not own the land they farm, but accept the production risk.

ACRE

CBO projects outlays of $929 million in payments to soybean producers under the Average Crop Revenue Election, or ACRE, program in FY 2011/20, or 14 percent of total support for soybeans during the 10 year period. While we have experienced only 1 year since ACRE sign-up for 2009 crops, projections indicate it may be a better choice for producers in the largest soybean-growing states than the traditional farm program.

ASA supported including ACRE in the 2008 Farm Bill as an option to the "three-legged stool" of traditional farm program support—marketing loans, target prices, and direct payments. The revenue guarantee provided under ACRE can be strengthened and modified to make it more attractive in regions of the country where participation is low. We believe ACRE can be made to work in tandem with a modified

crop insurance program to provide a more effective safety net for all soybean producers.

Among the modifications needed in the current ACRE program, ASA recommends that the Committee consider changing the state loss trigger to a trigger closer to the producer level. This is particularly important to producers in states with higher variability in yields between growing areas within the state, and would functionally improve producer risk management. A producer who experiences low yields might qualify for ACRE payments on his or her farm, but could be excluded from eligibility if overall state yields prevent reaching the state loss trigger. A related question is whether to maintain the farm loss trigger if the decision is made to move the program from a state to a more local loss threshold.

A significant second concern is that sign-up under ACRE requires participation for the duration of the 2008 Farm Bill. This requirement discourages participation by producers who rent their land on an annual basis, and cannot make a multi-year commitment.

A third issue is the 30 percent reduction in marketing loan rates required under the current ACRE program. The loan program is a critical marketing tool for soybean producers in southern states who also grow cotton. Nearly all cotton is placed under the loan, which serves as a floor for price negotiations with cotton merchants. The 30 percent reduction in loan rates undercuts this marketing function, making ACRE a non-starter for southern soybean producers who also grow cotton.

ASA also supports simplifying the ACRE program to make it more understandable and accessible to producers. The amount of paperwork required to participate in ACRE is excessive, and needs to be reduced if participation rates are to increase.

SURE

Preliminary reports from ASA members in some states indicate that the Supplemental Agricultural Disaster Assistance program, commonly known as SURE, will provide substantive relief for losses incurred during the 2008 crop year that were not covered through crop insurance indemnities. At the same time, SURE does not provide adequate disaster relief to producers in regions where participation in crop insurance is low, or at low levels.

Crop Insurance

I would now like to turn to the Federal Crop Insurance Program. Crop insurance has become an increasingly important part of the farm income safety net for soybean producers in recent years. ASA does not support including crop insurance reform and reauthorization in the next farm bill. To do so would risk skewing coverage between commodities, similar to the inequitable price and income support levels currently provided under the traditional farm programs. In addition, ASA opposes cuts in the crop insurance baseline. Any reallocation of spending under the program should be used to pay for reforms needed to make it more effective on a nationwide basis.

ASA believes crop insurance should be modified to reflect the lower return per acre and higher input costs in soybean-producing regions that do not participate at meaningful levels. We continue to see a wide disparity in opinions and participation in crop insurance among growers, based on region. Low APHs and high rates make buy-up coverage unaffordable for many Southern soybean farmers. As a result, their inadequate coverage then translates into reduced value from the SURE program.

ASA is concerned by the possibility that income support provided under ACRE, SURE, and crop insurance may overlap, which would make these programs less defensible as Congress looks for ways to reduce the overall cost of farm programs. We encourage the Committee to determine whether and how modifications should be made so that each of these programs plays an appropriate role in supporting farm income when prices and yields decline.

Other Farm Bill Programs

Soybean farmers strongly support programs in other titles of the 2008 Farm Bill, including conservation, research, energy, and export promotion and food assistance programs. We look forward to discussing these important issues in future hearings before the Committee.

Conclusion

That concludes my comments today, Mr. Chairman. ASA looks forward to working closely with you and other Members of the Committee as you prepare to write the next farm bill.

Mr. MARSHALL. I thank the witnesses for their testimony.

Now, for the questioning, Mr. Chairman, do you have any questions right now. If you have some, maybe I will come back to you after Jerry and I.

Mr. PETERSON. No. I have to go over, so I am good. You guys will do an outstanding job of grilling these guys, so we will leave it to you.

Mr. MARSHALL. The pressure is on here.

Mr. Bush, you talked a little bit about price volatility where the market is concerned in corn. Could you describe for us your impressions of price volatility, how prices have moved, say, over the last 10 years. What suggestions you would have for what the Federal Government might do to try and dampen down or fix this problem?

Mr. BUSH. In the past 10 years, around 2000, corn was hovering somewhere probably around $1.90 to $2 a bushel. We have seen peaks and valleys among that time. The 2008 crop year, we saw extremely high prices. The market fundamentals did not support corn at that high level of a price.

As far as what the Federal Government can do about price fluctuations, tell me what the weather is going to do and I will tell you what to do. I don't know how the Federal Government can predict the weather, because the weather has so much to do with our markets.

Mr. MARSHALL. So programs that would protect you where price volatility is concerned is not something that you have thought about?

Mr. BUSH. We like programs that protect price volatility like the ACRE Program with the 2 year averages, they address systemic risk, and crop insurance with revenue-based policies. At least when a producer plants his crop, he knows where his floor is.

Mr. MARSHALL. You have seen a lot of volatility in input costs as well. Any comment about that; what might be done, if anything?

Mr. BUSH. Most of our nitrogen in this country, I forget the percentage now; it is a very high percentage of our nitrogen is imported in this country. Streamlining the delivery process for that up the rivers, the locks and dams, things like that could help with the delivery. Most of the nitrogen is imported in the form of ammonia and we refine it here. There are a very limited number of ships that can haul nitrogen in the form of ammonia, and they are aging and it is expensive because there is no back-haul for them or anything. So anything the government could do to improve the delivery process of our inputs would help.

Mr. MARSHALL. For all of the panelists, we have had a lot of testimony in the full Committee and in this Subcommittee over the last 3, 4, 5 years focusing on to what extent different forces within the futures markets, the regulated exchanges, have caused some problems with prices, and there was a wide range of opinion in the agricultural community concerning those issues. And I am just wondering whether or not that has settled down any at this point.

Mr. Bush, I asked you about price volatility. You don't mention that perhaps some of this price volatility is the fault of the futures markets, derivatives, *et cetera.* Does anybody here feel like it is? Mr. Nelson.

Mr. NELSON. I think he echoed our concerns. We have seen that volatility, but we have also seen the lack of convergence in the marketplace in which our producers price their commodities.

Speaking for Illinois, we had a significant problem as it dealt with wheat. The southern third of our state raises quite a few wheat acres, and at one time we were seeing basis levels, the difference between the cash price, the futures price in excess of $3 a bushel. In a lot of cases farmers don't make that. And we have seen that convergence improve with some of the changes that have been made in the delivery system. But, when you start looking at some of the components of risk, price is just one function of some of those components. We deal with, as Mr. Bush said, the weather, and you see the run-up and the slide in commodity markets. That is what farmers deal with, and part of that is the risk management.

Mr. MARSHALL. The improvement in convergence, you attribute that to changes in the delivery system or changes in the contract terms concerning delivery?

Mr. NELSON. It could actually be both of those. We have had several meetings on convergence since we were hearing all those concerns from our producers, but we have seen some strengthening of the convergence factors, especially in wheat. We still have concerns when you see certain types or points during the year where you see wide basis swings in both corn and soybeans in addition to wheat. So hopefully we have started to address some of those challenges.

Mr. MARSHALL. My 5 minutes is up. I will turn to the Ranking Member, Mr. Moran from Kansas.

Mr. MORAN. Mr. Chairman, thank you. I have heard mixed reports, testimony about direct payments from the witnesses this morning. Generally, Kansas farmers would tell me that the two most important components of the safety net that I ought to be fighting to preserve would be direct payments and crop insurance. And particularly you, Mr. Peppler, indicated that direct payments could be better utilized elsewhere, although one of the things you suggested was that the money could be spent on crop insurance. So perhaps those two things are not inconsistent.

But my efforts to champion the—I understand somebody indicated the difficulty in explaining to the public, the public relations issues that surround direct payments. I certainly recognize those as an issue. But is there a consensus here that efforts on behalf of direct payments by Members of Congress, like me, on behalf of Kansas farmers, is something that I ought to move on. Is it just time to forego this belief that direct payments are an important component, despite the fact that they provide a benefit when there is no other benefit?

We have seen numerous circumstances in Kansas in which the price is such that there is no other payment, and yet you have no production and so the direct payment is of great value. And we know that we are under attack for WTO violations, and direct payments are the one that is the least likely to be subject to those attacks.

So do they play no role? Should we deemphasize direct payments, or should I just move on and champion something else? I think I would ask anybody. But, Mr. Peppler.

Mr. PEPPLER. Well, certainly a lot of our producers are in eastern Colorado, which, if my geography, of course, is correct, it is pretty close to Kansas.

Mr. MORAN. It is. We used to be allies, and Colorado has abandoned Kansas and other Big 12 schools. But we do know where your state is and we do share a common border.

Mr. PEPPLER. Yes. Well, you have better water lawyers also, sir.

You know, you mentioned the direct payment being the only payment that comes to your producers on low-price years, but that is not the issue. The issue is the public part of it that you talked about. The issue is, when wheat is up in the $7, $8, $10 bracket, and some of the producers are getting huge government direct payment checks on top of it, how do we explain that? And that is a very difficult load for us.

And certainly in Rocky Mountain Farmers Union, being so close to your area, and we share producers, certainly it has been hotly contested in our policy debate. But traditionally, Farmers Union has said we want a farm program that helps us out when we need help, and doesn't help us when we don't need help. And certainly the countercyclical and the loan programs that we have seen in the past fit that policy the best.

Mr. MORAN. I appreciate you adding words "fit that policy the best," because I only want to point out that direct payments do meet that criteria in many circumstances in which there is no other help but this, and help is needed. So, does anybody else want to join in this conversation?

Mr. JOSLIN. Yes. I will comment quickly. I think you struck at that, that direct payments are clearly the most WTO-compliant. And before you discuss or, as you say, move away from direct payments, I think there needs to be more complete analysis. Specifically, it is very evident. All of us here represent national organizations, and it is very evident that direct payments have different benefits in different regions in the country. I think that needs to be a very important part of the analysis.

Mr. MORAN. Mr. Chairman, my time has just about expired. I would only add that it would be a terrible shame if we put all our eggs in one basket or two baskets that turned out to be WTO-noncompliant, and then direct payments are gone as well.

I thank the witnesses for their testimony, and look forward to further conversations as we progress on this issue. Thank you.

Mr. MARSHALL. Since I have the gavel and I am not going to gavel myself down, I will take privilege of the chair, Mr. Nelson, just to follow up on my question. Is it that the delivery systems have improved or the contract language has improved? And to me, anyway, it makes little sense for the futures industries' contract terms to somehow force the shape of delivery systems in agriculture. Those contracts simply should be modified to fit what is on the ground. We ought not to be, for example, creating warehouses and new ports, *et cetera,* simply because the futures industry doesn't change the terms of its contracts. You know, originally futures were set up to assist us. They weren't set up ever, and even ever contemplated, to be something that actually drives the industry and shapes the industry.

The gentleman from North Carolina, Mr. Kissell.

Mr. KISSELL. Thank you, Mr. Chairman.

Mr. Peppler, kind of a follow-up to what we were just talking about. You mentioned in your testimony that the renegotiations of WTO would be a good opportunity for us to perhaps change some basic foreign policy. Would you like to add more to that in specifics of what farm policies you might like to see changed in new directions?

Mr. PEPPLER. Well, as a whole—and we are all pro-trade. We want fair trade, and we don't want just any trade deal that comes down the pipe. And, to me, the WTO agreement has been almost like a Super Bowl trophy through these Administrations, where at some point somebody is going to sign that deal and have that Super Bowl trophy. And, we have been guilty a little bit of eating our own and throwing the baby out in the wash.

So my view and that of Farmers Union is that we need to take care of our domestic producers first and foremost, and after that, then we can work on the trade issues.

Mr. KISSELL. Mr. Nelson, you talked about that there were different parts of the farm bill that applied better to different aspects of farming. And you mentioned kind of a Goldilocks theory—some real good, some real bad, some just okay. On the overall on the average, thumbs up, thumbs down on the overall effectiveness of the farm bill?

Mr. NELSON. I would say that at the present time I think you can—as I said in my testimony, you can find different regions of this country that like different components of this farm bill, but you can also find people that have concerns.

As I said in my testimony, the ACRE Program, we have one of the largest participation rates coming from our state. The dichotomy to that is you look at the State of Mississippi, they are at the other end. And I would say farmers are concerned with the complexity of this farm bill that they are operating under.

I will use my case as a good example. Just last Friday, since all we do is get rain every day in Illinois these days, I went in to basically certify my acres and bring in the paperwork that was needed for the background dissertation on ACRE. Two and a half hours later, we finished going through that particular sign-up period and the background documentation. I heard it from a number of producers that day: How can we simplify this process, going back with the number of years' data that is involved and that sort of thing?

So I would give the grade—if that is what you are asking me—of 2008 Farm Bill, mixed results, given the fact of what we are hearing and some of the new programs. And, going into the next farm bill debate, some simplifications and modifications can be made to this farm bill that will go a long way in the eyes of producers as it relates to safety net provisions.

Mr. KISSELL. Mr. Nelson, you mentioned, if I understood you correctly, that you would not support or advise shifting money from one place to another in the bill. But, you mentioned that maybe there were some areas that had little to no money that were important areas. If I understood that correctly, how would you suggest, then, we affect those areas with little or no money that should maybe get some more attention?

Mr. NELSON. We feel strongly as an organization about that, because there are a number of titles in this farm bill that are important to various groups and various industries. And to literally take money from one particular area and shift it to another—you could take as an example a program that is working—shift some of those resources to another, and really make a problem with the program that you just took resources away from.

Having said that, we recognize the budget constraints that we are going to be under as we write this farm bill. It is going to be a tough one to write from a financial standpoint. But we do have great concerns when you start moving and shifting resources around from one area to another.

Mr. KISSELL. Thank you, sir. Thank you, Mr. Chairman.

Mr. MARSHALL. Thank you Mr. Kissell. Mr. Conaway from Texas.

Mr. CONAWAY. Thank you, Mr. Chairman.

Gentlemen, thank you for being here. Mr. Bush, I was in Ms. Herseth Sandlin's district, and we went to a terrific ethanol plant, corn-based ethanol plant. And the folks there were telling us that expected improvements in efficiencies and everything else with respect to corn would allow the corn producers to meet most of the mandated demand for ethanol over the next 10 years without undue pressure on prices to consumers of other corn products, and they are betting on the trend that has happened in the past. They say in the past, the productivity per acre and first kernel of seed, whatever it is, that got so much better that we can replicate that in the future and that will happen again.

What is your perspective on future productivity gains for corn in the face of this 36 billion gallon mandate for ethanol?

Mr. BUSH. Let me first point out that currently, here in virtually the end of June, we have about a 2 billion bushel carryout of corn right now, only a couple of months away from a new crop. I believe that yield trends that we have seen in the past, yield trends will help. That is a big part of it, biotechnology in seeds. If you believe the Monsantos and the pioneers, DuPonts of the world, 300 bushel corn is just around the corner. And, it is going to take everything.

I heard a guy from Pioneer Seeds talking the other day at a state meeting and they were talking about China. And he wasn't scared of China a bit because he said, "We are going to need China. We can't produce all this corn ourselves." But here, domestically, we have already seen in just a matter of a few years we went from 2.5 bushel or 2.5 gallons of ethanol per bushel up to around 2.9 now, and I expect those efficiencies to continue.

Mr. CONAWAY. It is interesting you mentioned that somebody said we are going to need China.

Mr. Peppler, the bilateral trade agreement with China has languished for 3 years now, due to misplaced opposition from other folks. While that has languished, and in opposition from perhaps you and other folks, we have lost market share in Colombia to Canada and others. We are drowning in wheat in Texas. We would love to be able to sell that wheat in Colombia, but we can't. We can, but there are tariffs associated with it.

You said protect the American producer first. How does not trading or not putting ourselves in a good trading position with, in this instance, one of our only friends in South America, how does that

help American producers to maintain tariffs on American wheat that went into Colombia?

Mr. PEPPLER. Sir, I hope my impression wasn't that we didn't want to trade. The impression that I wanted to leave with you was that when we do a trade deal, we want to make sure that it is a good trade deal for agriculture and not just for the wheat producers, but for other parts. We have seen some issues in some of these bilateral trade agreements where you may help out one, but you may hurt another segment of agriculture. And it is very difficult to do.

Mr. CONAWAY. Yes, I understand that. When you say you want a good deal, would selling whatever products to Colombia, with no tariffs on American products being sold to Colombia, offset by the existing no tariffs on products made in Colombia and sold here, wouldn't that by definition be a good deal?

Let me follow up further. Panama is another trade agreement that is languishing out there as a result of misplaced opposition. Panama is expanding the Panama Canal, one of the largest earth-moving jobs we have seen in a century. And Caterpillar is at a 15 percent disadvantage on selling tractors and bulldozers and earth-moving equipment to Panama because we have refused to sign a bilateral agreement with Panama.

Anything made in Panama can be sold in the United States without tariffs. So a trade deal in which trade tariffs, in the country we are trying to sell it in, are eliminated, looks like a good deal by most definitions. Any pushback on that?

Mr. PEPPLER. I don't have any comment on that specifically.

Mr. CONAWAY. Thank you, Mr. Chairman. I yield back.

Mr. JOSLIN. Mr. Conaway, may I comment on that?

Mr. CONAWAY. Yes, absolutely.

Mr. JOSLIN. Less than a month ago I was in Panama, I met with the Panamanian Chamber of Commerce and they very clearly said that they are moving forward without the United States. They would like to trade with the United States, but they are writing other trade agreements. And it wasn't a negative, I just wanted to convey that. And you are right, it is a huge process. They are doubling the size of that canal, and I have been in Colombia and it does bother me that these free trade agreements are staying on the shelf.

Mr. CONAWAY. Thank you, Mr. Chairman. Thank you.

Mr. MARSHALL. Thank you, Mr. Conaway. Ms. Markey from Colorado.

Ms. MARKEY. Yes. Thank you very much, Mr. Chairman. I also am going to address my first question to Mr. Peppler, because he is my friend and has a beautiful farm in northern Colorado. Good to see you here.

You had mentioned in your testimony about supply management and that there are very few, if any, programs in the farm bill that address the issue of supply management. And I am intrigued by that.

Can you talk a little bit about what you would see as some fundamental mechanisms that could be put in place to address if there was, for instance, a bumper crop and there was too much supply and what we would do? So if you could talk about those issues?

Mr. PEPPLER. Certainly we have had these kinds of programs in the past, and they are a major part of the NFU policy, and basically it is a safety net for not only producers, but it is for consumers also, to make sure that we have proper food, proper energy supplies.

We would propose a storage-type program where producers get paid to store their commodities, preferably on their farms in their own storage. When the price would come down, that more would go in storage; when the price would go up tremendously, that some would come out of storage. And that would take away from some of the extreme price volatility that we have seen based some on supply and some on speculation in the commodity markets.

Ms. MARKEY. Okay. Thank you. This is really for the whole panel. We have heard the SURE Program was a hard-won victory in the farm bill, but there have been inconsistencies on how it has been administered in local offices.

Can any of you—would any of you like to comment on some of the different experiences that you have heard from producers at the county offices with regard to the SURE Program?

Mr. HENDERSON. Yes, I would. In our section of Montana, 10 of the last 12 years have been drought years. So the gentleman at the end who was talking about rain every day, I think he was bragging.

But anyway, in visiting with our county CED, our local FSA director, she made the statement that sign-up takes, on average, per producer anywhere from 6 to 20 hours. And with the complexities of the program, she is having a second staff member in the office run through it again, which takes an additional 6 to 8 hours. So there is a tremendous amount of time that this takes.

So there is very beneficial money there. I mean, when we are losing the top 30 percent off our crop insurance, losing that every year, that 25 to 30 percent, I mean there is that protection that is SURE that is very beneficial and we would like to see it more——

Ms. MARKEY. So what would help, streamlining the application process, the rules and regs on how it is implemented? What would be helpful to make it more easily understandable for producers?

Mr. HENDERSON. So the statement that she made was more training for staff members would be very beneficial.

Ms. MARKEY. Okay.

Mr. HENDERSON. So just to get them more in line with the program and that would be very beneficial, was her comment.

Ms. MARKEY. Okay. Thank you. Does anyone else want to comment on that. Yes?

Mr. NELSON. Just a comment, because the SURE Program from our state is probably not as widely used as it is in other states because of the levels of crop insurance the producers take out. But, you really need to determine what the SURE Program is. Is it a disaster program or is it a type of crop insurance? And that is really where producers are still trying to sift this out.

Then you layer on top of that, before the ink was dry, and I think the frustration the producers felt, the rules were not put into place. You had producers in this country that lost a crop in 2008. They didn't have the program up and running, and were the resources there at USDA to make this be implemented on time? And then

you started to hear the cries for *ad hoc* disaster to take the place of that.

And as most of us know, when we talked through the last farm bill debate, we were looking at that type of program to look at not having to come back for *ad hoc* disaster. But as all of you know, disasters happen across this country. And those are some of the philosophical questions that need to be addressed.

Ms. MARKEY. Right, okay. So should it be used as a disaster program and, if so, the funding needs to be there.

Mr. Peppler.

Mr. PEPPLER. Yes. I think it is appropriate this time, I was on the Farm Service Agency State Committee during the Clinton Administration, and even at that time the Farm Service Agency was under attack for workload and number of FTE that they are allowed.

We seem to be asking more and more out of these people in our county offices and not putting our money where our mouth is in these situations. And in your district and in Well County, which is probably the fourth or fifth busiest FSA office in the United States, with over 2,800 farms, we were at a point where we even had shared management there with Larimer County.

Ms. MARKEY. Yes.

Mr. PEPPLER. I think we need to look at FSA and their ability to deliver some of these programs. Thank you.

Ms. MARKEY. Thank you, that is helpful. Thank you very much, Mr. Chairman.

Mr. MARSHALL. Thank you. I thank the panel. You will have 10 days to supplement the record. Any of the questions that you have been asked or other thoughts that you have, if you could go ahead and submit something in writing.

I have two more questions for all of you, and you might respond in writing if you would.

We have wrestled with how our disaster program should be structured. You know, they are just *ad hoc*. We make them up as we go along. I know you have ideas concerning what we ought to be doing, what is politically practical and would work where a disaster is concerned. If you could share those ideas with us in writing, we would appreciate that.

The other thing is barriers to entry for new farmers, for young farmers, and your suggestions concerning how we can help new farmers, young farmers, with our existing programs and perhaps in the new farm bill as well.

With that, I thank you for your testimony.

And let's call the next panel. The next panel consists of Mr. Gary Murphy, Chairman of the Board of the U.S. Rice Producers Association, and on behalf of USA Rice Federation. Mr. Murphy is from Bernie, Missouri.

Mr. Gerald Simonsen, Chairman of the Board of Directors of the National Sorghum Producers, from Ruskin, Nebraska.

Mr. Eddie Smith, Chairman of the National Cotton Council from Floydada, Texas.

Mr. Jim Thompson, Chairman, USA Dry Pea & Lentil Council, Farmington, Washington.

Mr. Erik Younggren, Second Vice President, National Association of Wheat Growers, Hallock, Minnesota.

I see our witnesses have not had time to get their seats and the audience is going to replace as well, so we will just take a short break. We will commence in maybe 5 minutes.

[Recess.]

Mr. MARSHALL. If the witnesses are ready, it looks like we are not going to have a stream of people coming in, so why don't we proceed with Mr. Murphy?

STATEMENT OF GARY MURPHY, CHAIRMAN OF THE BOARD, U.S. RICE PRODUCERS ASSOCIATION, BERNIE, MO; ON BEHALF OF USA RICE FEDERATION

Mr. MURPHY. Chairman Marshall, Ranking Member Moran and Members of the Subcommittee, thank you for holding this hearing. My name is Gary Murphy. I am a rice farmer from Bernie, Missouri.

My son and I grow cotton, rice, corn, popcorn and soybeans in Stoddard, New Madrid, and Dunklin Counties, where five generations of the Murphy family have farmed. I serve as Chairman of the Board of the U.S. Rice Producers Association. Today is my first opportunity to testify before Congress, and I appear on behalf of both the U.S. Rice Producers Association and the USA Rice Federation.

The Food, Conservation, and Energy Act of 2008 contained a traditional mix of safety net features. The nonrecourse marketing loan, loan deficiency payment program and countercyclical payment program have not triggered under the farm bill. In fact, if the protections provided were to trigger the low prices for rice, the protections would help stem some of the economic losses but, frankly, not enough to keep most rice farmers in business even through 1 year of severely low market prices.

The direct payment alone has assisted rice producers in meeting the ongoing and serious price and production perils of farming today. FAPRI estimates that at current projected price, only the fixed direct payment program would make a significant payment to rice producers. Unfortunately for rice producers, the existing safety net protection levels have simply not kept pace with the significant increases in production costs.

The ACRE Program: ACRE has not been favorably received by rice farmers. In the first year of the ACRE sign-up, only eight rice farms, representing less than 900 acres, were enrolled in the program nationwide. Specific problems with ACRE are that it is not tailored to the needs of the individual farm. It requires farmers to give up the SURE assistance that they can bank on for the possibility of a payment. And a 35 percent reduction to the marketing loan rates, the bedrock of farm policy, is particularly problematic.

While in recent years we have enjoyed market prices of rice well above a $6.50 loan rate, the bankable certainty that the marketing loan provides is still a great value.

We recognize that the traditional price-based countercyclical program with the zero acres basis and outdated yields is less than perfect. Indeed, the most attractive program of the ACRE option was the updating of acres and yields, and we would suggest that, being

mindful of WTO obligations, these improvements be maintained in the future programs.

Although the risk management products offered under the Federal Crop Insurance Program are of vital importance to many crops, the program had been of minimal value to rice farmers due to a number of factors, including artificially depressed APH guarantees, high premium cost for a relatively small insurance guarantee, and the fact that the risks associated with rice production are unique from the risk of producing many other crops.

Rice farmers generally insure their production against drought not through insurance, but through reliable access to adequate water supply.

Conversely, rice also has a fairly strong natural defense mechanism against most flooding. As a consequence, there are fewer instances of production losses relating to drought than flooding, and such losses tend to be shallower when they do occur. Nevertheless, U.S. rice farmers do face serious production perils due to weather.

When severe losses occur, most U.S. rice farmers find themselves either underinsured or uninsured. The coverage level purchased is commonly the lowest level of coverage, known as CAT coverage. Buy-up or additional coverage, offered protection above the CAT coverage, has not been viewed as cost effective for most farmers who operate on small margins.

What rice farmers need from the Federal Crop Insurance Program are products that would help protect against price risk and increased production and input costs, particularly for energy and energy-based inputs; for example, fuel, fertilizer and other energy-related inputs represent about 70 percent of the total variable cost.

The USA Rice Federation has been working for over a year now to develop a new generation of crop insurance products to protect against sharp upward spikes and input costs. There are two new products that show some promise. We are optimistic that the Risk Management Agency will approve these new products which could be available to growers in time for the 2012 crop year.

SURE has provided little, if any, assistance for rice producers, including those producers in the Mid-South who last year suffered devastating losses. SURE is tailored to complement the Federal Crop Insurance Program by providing higher levels of assistance to producers electing higher crop insurance coverage levels. The higher the crop insurance coverage level, the higher the SURE benefit.

Thus, rice farmers suffered twice under the current program. First, they lack effective, affordable insurance; and second, they are then penalized under the SURE Program by receiving the lowest protection that corresponds with the lowest crop insurance coverage. The public perception about government *largesse* and farm policy is quite divorced from reality. Spending on a rice safety net in the farm bill has declined from $1.2 billion to about $400 million annually.

We would like to thank you once again for this opportunity to share our views.

[The prepared statement of Mr. Murphy follows:]

PREPARED STATEMENT OF GARY MURPHY, CHAIRMAN OF THE BOARD, U.S. RICE PRODUCERS ASSOCIATION, BERNIE, MO; ON BEHALF OF USA RICE FEDERATION

Introduction

Chairman Boswell, Ranking Member Moran, and Members of the Subcommittee, thank you for holding this hearing to review farm safety net programs in advance of the 2012 Farm Bill.

We appreciate the opportunity to offer testimony before the Subcommittee on General Farm Commodities and Risk Management concerning the view of the entire rice industry relative to U.S. farm safety net programs.

My name is Gary Murphy. I am a rice farmer from Bernie, Missouri. My son and I farm about 7,000 acres of rice, cotton, corn, popcorn, and soybeans in Stoddard, New Madrid, and Dunklin Counties where five generations of the Murphy family have farmed. I serve as Chairman of the Board of the U.S. Rice Producers Association, and today I appear on behalf of both the U.S. Rice Producers Association and the USA Rice Federation. Our organizations represent rice producers in all of the major rice producing states—as well as rice millers, merchants, exporters, and allied businesses.

U.S. Rice Industry Overview

The U.S. rice industry is a multi-billion dollar industry that provides jobs and income for not only producers and processors of rice, but for all involved in the value chain. Much of this economic activity occurs in the rural areas of the Sacramento Valley in California, the Gulf Coast region of Louisiana and Texas, and the Mississippi Delta region where about 3.2 million acres of rice are produced annually.

The majority of rice is planted in six states, including Arkansas, California, Louisiana, Mississippi, Missouri, and Texas. The U.S. rice industry is unique in its ability to produce all types of rice, from long grain, medium grain, and short grain, to aromatic and specialty varieties. Last year, U.S. farmers produced a rice crop of nearly $3.1 billion as measured in farm gate value.

2008 Farm Bill Review

The Food, Conservation, and Energy Act of 2008 (the Farm Bill) continued the traditional mix of safety net features consisting of the non-recourse marketing loan and loan deficiency payment program and the direct and countercyclical payment program.

The farm bill also includes the addition of Average Crop Revenue Election (ACRE) as an alternative to countercyclical payments for producers who agree to a reduction in direct payments and marketing loan benefits. The bill also added Supplemental Revenue Assistance (SURE) as a standing disaster assistance supplement to Federal crop insurance.

The 2008 Farm Bill made very substantial changes to the payment eligibility provisions of the safety net, establishing an adjusted gross income (AGI) means test and, albeit unintended by Congress, resulting in the very significant tightening of "actively engaged" requirements for eligibility. Unfortunately, these changes disproportionately affect rice producers because of the economies of scale needed to run a successful rice operation. Operations that are unable to reorganize cannot avail themselves of the farm safety net and face serious competitive disadvantages.

USDA is still in the process of implementing many of the provisions of the 2008 Farm Bill, and the final payment eligibility rules were only announced in January of this year. As a consequence, we are still adjusting to the many changes contained in the current farm bill, even as we begin the process of developing policy recommendations for the 2012 Farm Bill.

Regarding the traditional mix of safety net features, the nonrecourse marketing loan and loan deficiency payment program and countercyclical payment program have not yet provided payments to rice farmers under the current farm bill. In fact, if the protections provided were to trigger due to low prices for rice, the protections would help stem some of the economic losses but, frankly, not enough to keep most rice farms in business even through 1 year of severely low market prices.

As such, whatever its imperfections, the Direct Payment alone has assisted rice producers in meeting the ongoing and serious price and production perils of farming today. The Food and Agriculture Policy Research Institute (FAPRI) estimates that at current projected prices, only the fixed direct payment program will make a significant payment to rice producers.

For rice producers, the existing safety net protection levels have simply not kept pace with the significant increases in production costs. It is for this reason that rice farmers believe strengthening the safety net would be helpful in ensuring that producers have the ability to adequately manage their risks.

While some of the problems with the ACRE and SURE programs can be traced to their general design, others are more specific to rice and other sunbelt crops. Below is a listing of some of the key problems with the respective programs.

ACRE

ACRE has not been favorably received by rice farmers in any of the major growing regions. In the first year of ACRE sign-up, only eight rice farms representing less than 900 acres were enrolled in the program nationwide. ACRE payments occur when state level revenues fall below trigger levels and participating producers must give up some traditional farm program benefits and enroll all crops on a farm. Because ACRE payments depend on prices and state yields, they are inherently uncertain. FAPRI analysis shows that for corn and most other crops grown in northern states, the average ACRE payments over time are likely to exceed the payments that program participants must forego. Unfortunately in the southern states the opposite is true. Only in Arkansas and Oklahoma in some years but not in others do ACRE payments exceed the traditional payments that participating producers must forego.

Specific Problems with ACRE:

- It is not tailored to the needs of the individual farm. This is, in our view, a problem with the general design. While we like the higher price targets that can be provided in a revenue-based program, they are of little value to the individual farmer when they are tied to state production. The lender cannot pencil in a minimum price when setting up an operating loan, and the farmer has to operate in fear that he is not on the bad side of the average (but the fact is half the farmers are always on the bad side of average). In these times of fiscal crisis in our nation, we think the safety net needs to be more tailored to the individual needs of the farm rather than less tailored.
- It asks farmers to give up certain assistance that they can bank on for a possibility of a payment if the state revenue for the crop is down (something they cannot bank on). This is both a problem of design for all crops, and an especially large and unique problem for rice. There is an old saying that a bird in hand is better than two in the bush. This could not be more applicable. Some crops were able to look at the 2009 situation and know that they were going to receive more payments from ACRE in 1 year than they gave up over four in direct payments. These are by and large the producers who signed up for ACRE. This was not the case in rice, where our direct payments are higher relative to other crops due to our higher fixed cost structure.
- The 35% reduction to marketing loan rates—a bedrock of farm policy—is particularly problematic. While in recent years we have enjoyed market prices for rice well above our $6.50 loan rate, the bankable certainty that the marketing loan provides is still of great value. While we hope and want to believe we will never see commodity prices below loan rates again, we are not willing to scrap the program. Two years ago wheat was selling for over $12 per bushel, but last week in Texas the cash price was down in the mid $2's. The same could happen to rice again, and if it does, we want the loan to be there as there is no more effective tool.

Despite these major problems with the design and functionality of ACRE for rice, we do strongly believe that we need a good countercyclical program in addition to the marketing loan to protect producers from systemic risks, and we would acknowledge that the traditional price-based countercyclical program with its old acreage bases and outdated yields is also less than perfect. Indeed, the most attractive portion of the ACRE option for some rice growers was the updating of acreage and yields, and we would suggest that—being mindful of WTO obligations—these emphases be kept to the greatest extent possible in whatever new countercyclical program might be devised.

Crop Insurance

Although risk management products offered under Federal Crop Insurance are of vital importance to many crops, such as corn, wheat, soybeans, and cotton, the program has been of minimal value to rice farmers due to a number of factors, including artificially depressed actual production history (APH) guarantees; high premium costs for a relatively small insurance guarantee; and the fact that the risks associated with rice production are unique from the risks of producing many other major crops.

Rice is an irrigated crop. Rice farmers generally "insure" their production against drought, for example, not through insurance but through reliable access to adequate water supply. Conversely, rice also has a fairly strong natural defense mechanism

against most flooding. As a consequence, there are fewer instances of production losses relating to drought and flooding and such losses tend to be shallower when they do occur, meaning lower yield variability and a smaller probability of an insurable event under policies generally made available under the Federal Crop Insurance Program.

Nevertheless, U.S. rice farmers do face serious production perils due to weather, including, at times, severe quantity and quality losses and increased production costs. Hurricanes and associated high winds and rain that result in the shattering and lodging of rice, saltwater intrusion and excess moisture on rice fields, and crop disease are serious production perils.

Unfortunately, when severe losses occur most U.S. rice farmers find themselves either underinsured or uninsured. To the extent that a rice producer purchases crop insurance at all, the coverage level purchased is commonly the lowest level of coverage, known as catastrophic risk protection or CAT coverage. CAT coverage, which can be obtained for an administrative fee, requires that a 50 percent loss occur before an indemnity will be triggered with respect to any losses above and beyond the 50 percent, and then at only 55 percent of the value of the crop, or about 27¢ on the dollar. Buy-up or additional coverage, offering protection above the CAT coverage level, has not been viewed as cost effective for most rice farmers who operate on small margins.

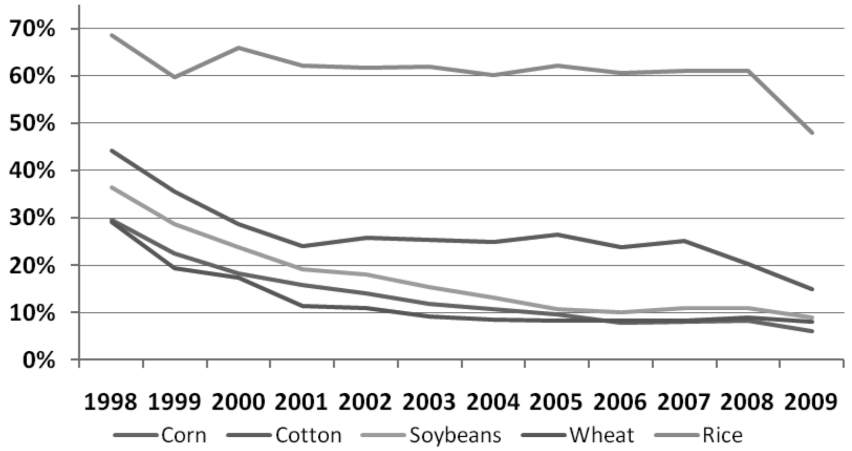
Importantly, this is not imprudence on the part of rice producers but rather a rational economic decision based on cost effectiveness, not unlike a homeowner who opts not to purchase flood insurance since his or her home is not in a flood plain. It does not mean that the homeowner will never suffer flood damage, nor does it mean that the homeowner does not face perils outside the coverage made available under the policy. It simply means that the homeowner, in working to make ends meet, had to make choices within his or her budget. The same is true for a rice producer.

In short, the coverage available under the current mix of Federal Crop Insurance Program policies is not as well suited to rice farmers as compared to producers of other crops. The amount of buy-up or additional coverage above CAT level coverage purchased by producers is strong evidence. For instance, buy-up coverage constitutes 93 percent of all insured corn acres, meaning only seven percent is covered at the CAT coverage level. Moreover, fully 70 percent of corn acreage is covered at levels of 70/100 or higher, meaning a 100% indemnity triggers on production losses above 30 percent. Conversely, for rice, 48 percent of insured acres are protected under minimum level CAT coverage.

The graph, immediately below, offers a comparison between rice and other major crops in terms of their reliance upon the lowest level of crop insurance coverage, catastrophic risk protection, historically and in the 2009 crop year.

Catastrophic Risk Protection (CAT) As a Percentage of Insured Acres

1998–2009 Crop Year



Beginning in 1998, Congress passed a series of *ad hoc* emergency economic relief bills, and the Clinton Administration initiated new levels of incentives for producers

to purchase buy-up coverage beyond that which the 1994 crop insurance reform legislation had provided.

The effort culminated in the passage of the Agricultural Risk Protection Act, signed into law in January of 2000. The bill substantially increased the buy-up coverage incentives to encourage greater participation and higher coverage levels.

Since 2000, virtually all major field crops have seen a dramatic increase in the purchase of buy-up coverage at higher coverage levels. The percentage of acres covered by CAT coverage for corn and wheat, for example, has correspondingly dropped from nearly 30% in 1998 to less than 10% since 2005. Cotton CAT coverage has dropped from 45% to under 15% in 2009.

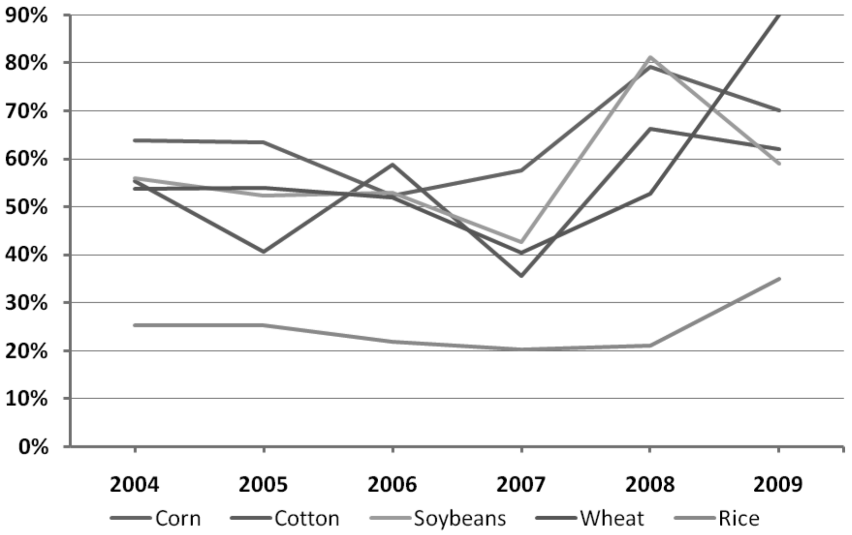
Rice, however, is the one very notable exception to this trend as CAT coverage in 2009, though improved, was still the dominant policy for rice farmers, covering 48% of all insured acres. A more attractive CRC/RA price and the enterprise unit discount that was included as part of the 2008 Farm Bill were significant drivers that helped influence producers to improve their insurance coverage, but more still needs to be done.

The fact remains that current buy-up policies for rice are not working as Congress intended. The unfortunate result, as demonstrated in the chart, immediately below, is that rice farmers have not benefited from the Agricultural Risk Protection Act as have the producers of other crops.

Given so much of rice acreage is insured under CAT coverage and with that acreage which is covered under buy-up policies generally covered at the lower levels of coverage, only a very small portion of the total value of the U.S. rice crop is insured.

Percent Value of Crop Insured

1998–2009 Crop Year



In 2009, the nation's corn crop had an estimated value (NASS estimate) of $ 44 billion and the total liability for insurance covering corn was nearly $31 billion, meaning more than 62% of the value of the crop was insured.

Contrast this to rice, where in 2009, we had a crop valued at $3.0 billion, but less than $1.1 billion—only 35%—was insured.

What rice farmers need from Federal crop insurance are products that will help protect against price risk and increased production and input costs, particularly for energy and energy-related inputs. For example, fuel, fertilizer, and other energy related inputs represent about 70 percent of total variable costs.

The USA Rice Federation has been working for over a year now to develop a new generation of crop insurance products that we hope will provide meaningful risk management tools for rice producers in protecting against sharp, upward spikes in input costs. There are two new products that show great promise and we are optimistic that the Risk Management Agency (RMA) will approve at least these new products which could be available to growers in time for the 2012 crop year.

The first product concept under development is a Crop Margin Coverage (CMC) policy that would allow rice producers to insure or guarantee a percentage of their expected margin on a per unit basis. The CMC coverage would focus on the two categories of input costs that are most significant in rice—energy and fertilizer. We believe this product has tremendous potential in many regions of the rice belt to serve as an effective complement to the existing safety net programs. It is important to note that we do not envision this, or any crop insurance product, as serving as a replacement for the traditional safety net programs, but rather to help enhance the protections those programs provide.

The other product concept under development is an endorsement to existing rice crop insurance policies to help cover losses associated with "downed" or "lodged" rice in situations where weather events are the cause. Hurricanes, flooding, and high winds can all result in this peril, which can increase rice harvest costs by two to three fold of normal, yet there may be minimal yield and quality losses. Rice producers need a product to help offset the higher harvest costs of downed rice due to weather events.

Without these or similar products in place, rice producers enter the 2012 Farm Bill debate at a serious disadvantage, having just one safety net feature from which they have effective assistance. We believe that there is the authority within the current Federal crop insurance statute to greatly expand access to higher quality coverage and we hope that USDA will aggressively use that authority given the constraints Congress faces in pursuing this end.

SURE

SURE has provided little, if any, assistance to rice producers, including those producers in the Mid South who last year suffered significant monetary losses due to heavy rains and flooding occurring prior to and during harvest.

SURE is tailored to compliment the Federal Crop Insurance Program by providing higher levels of assistance under the SURE program to producers electing higher crop insurance coverage levels. The higher the crop insurance coverage level, the higher the SURE benefit. Thus, rice farmers suffer twice under the system. First, they lack effective, affordable crop insurance, thus electing the lowest coverage available, if any at all. Second, they are then penalized under the SURE program by receiving the lowest protection that corresponds with lowest crop insurance coverage.

Perhaps the best way to illustrate this compounding effect is by using the same "percent of value of the crop covered" statistic from above.

SURE is a fairly complex program in terms of how it works. But the essence of it is that the dollar value of crop insurance coverage on a farm is multiplied by 115% to arrive at the SURE guarantee. Because crop revenue and insurance benefits are counted against the producer's SURE guarantee, the value of the SURE program is essentially the SURE guarantee less the crop insurance coverage.

Accordingly, if a producer has 50% of the value of his or her crop covered by insurance (*i.e.,* a 50/100 buy-up policy, a giant leap up for many rice farmers), then the SURE guarantee would be 57.5% and the potential value of the SURE program would be 7.5% of the value of the crop.

In contrast, if a producer has 75% of the value of the crop covered by insurance, then the SURE guarantee increases to 86.25%, meaning the potential value of the SURE benefit is 11.25% of the value of the crop.

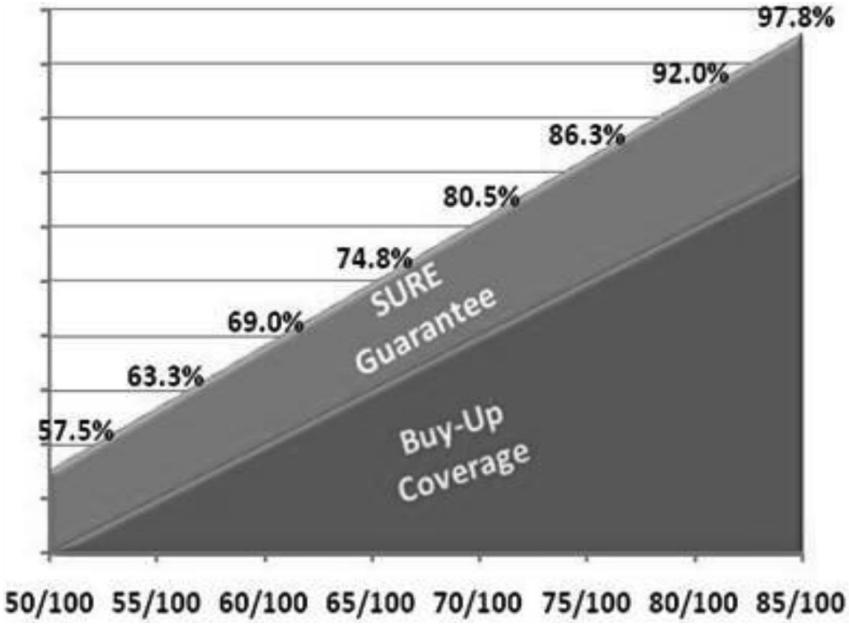
On this basis, it is obvious that the primary beneficiaries of the new SURE program will be the exact same producers for whom crop insurance has proved such an effective risk management tool.

Problems with SURE:

- The fundamental problem with the SURE program is that it is not true to its acronym. Because of the whole farm aggregation and the moving price factors, there is simply no way that a farmer can sit down with his banker, looking at worst case scenarios, and say, "well if this happens on this farm, at least I know I will receive some help." Again, we want to emphasize that the value of these farm programs, like crop insurance, is not the amount of money that is eventually paid out, but how much baseline certainty is provided to the farmer who is putting his operation on the line each year.
- The whole farm calculation presents real problems for larger, share rent farms that dominate much of the sunbelt.
- Whole farm revenue presents a difficult challenge as many farmers have many economic units that have to service their own debts within an aggregate operation.

- Moving price factors work against the farmer who has a loss—those a "disaster program" is supposed to help.
- Building on crop insurance, while probably right in theory, creates a bias for those crops that are best served by crop insurance, and against those that are least served, such as rice.
- The inclusion of direct payments in the calculation again presents biases against rice given its larger direct payments.

SURE Benefit Increases with Coverage



While the motive behind SURE is to encourage producers to insure at higher levels and reward those producers who do, we are concerned that there is something very wrong about creating a disaster program to fill the void left by crop insurance in a manner that provides the least benefit to those for whom crop insurance also provides the least.

2012 Farm Bill Development

The rice industry is working internally to analyze all the existing safety net policies and to evaluate their effectiveness in providing a measure of protection in the most efficient manner.

We believe that a strengthening of the farm safety net is important. But we also believe that any improvements should be accomplished in a manner that does not cause disruption and upheaval in the U.S. agriculture production system which continues to provide our country and millions around the world with a safe, abundant, and affordable supply of food, fiber, and fuel.

At this time, we would like to share with you the key principles that are guiding our work in analyzing the current farm bill policies.

1. The farm safety net should be strengthened for rice producers by the 2012 Farm Bill.

2. The Direct Payment Program, or subsequent program, should confer a stronger safety net for rice producers.

3. The Marketing Assistance Loan/Loan Deficiency Payment Program should be extended with at least current loan rate levels as a base level safety net for producers and lenders.

4. The Countercyclical Payment Program, or subsequent program, should better reflect current market conditions for rice.

5. ACRE, or any variant, needs to effectively serve all eligible commodities.

6. SURE, or any variant, needs to effectively serve all eligible commodities and regions.

7. Crop insurance needs to effectively serve all eligible commodities and regions.

8. The 2012 Farm Bill should create long-term certainty regarding payment limitations, adjusted gross income requirements, and other eligibility criteria.

9. There should be no further reduction in pay limits or adjusted gross income requirements or further restrictions on eligibility relative to the current mix of safety net components or the equivalents under any variant.

10. There should be no further reduction in funding levels for the farm safety net nor any reduction in that safety net funding specific to rice producers.

Conclusion

In sum, despite what one may read in the newspaper or hear on the radio or television about Uncle Sam lavishly spending money on the farm safety net, rice farmers are certainly not seeing any windfalls and, I would respectfully submit, neither are our brethren who produce other crops. The public perception about government *largess* in farm policy, so carefully and diligently created and nurtured by critics, is quite divorced from reality on the ground. Spending on the rice safety net in the farm bill has declined from $1.2 billion to about $400 million annually, which is largely made up of only the direct payments.

In closing, we would like to thank you once again for this opportunity to share our views on the current state of the rice industry, the diverse challenges we face, and our initial thoughts on the current farm safety net programs in advance of developing the 2012 Farm Bill.

Both the U.S. Rice Producers Association and USA Rice Federation look forward to working with you in this regard and I would be happy to respond to any questions the Subcommittee may have.

Mr. MARSHALL. Thank you, Mr. Murphy.

Mr. Simonsen.

STATEMENT OF GERALD SIMONSEN, CHAIRMAN, BOARD OF DIRECTORS, NATIONAL SORGHUM PRODUCERS, RUSKIN, NE

Mr. SIMONSEN. Good morning. On behalf of the National Sorghum Producers, I would like to thank you for this opportunity to discuss the impact of the safety net of the next farm bill on my operation, and the bottom lines of sorghum producers nationwide.

I farm near Ruskin in Nuckolls County, Nebraska. I raise sorghum, soybeans, wheat, corn and cattle. My granddad was one of the first producers in Nebraska to plant sorghum, beginning in the early 1930s.

Sorghum was his safety net, providing feed for his livestock when other crops failed. To this day, sorghum remains a valued necessity on my fourth-generation farm. As a farmer, I realized the vast impact this one piece of legislation has on my day-to-day operations, and I want to ensure farmers benefit from the next farm bill.

Let me begin by saying that I applaud you for having this hearing to discuss the impact of the safety net for producers. I have seen my input prices rise dramatically since the last farm bill. Because of these increased costs of production, my loan rate and target price have been rendered ineffective because they are now drastically below my cost of production. If prices drop to past levels, financial stress to producers will happen much quicker than at any time before in history.

We realize the problems of paying for raising loan rates and target prices, but believe it is important to point out our current situation.

Also, the ethanol industry has dramatically changed the sorghum industry. For example, the sweet sorghum industry will play an

important role in the future of our industry. We encourage the Committee to generate discussion on how to provide a safety net for producers as we produce new crops for feedstocks.

I know we are having those discussions internally and look forward to bringing more detailed ideas to you in the future.

The 2008 Farm Bill: I would like to thank the Committee for its work on sorghum price elections in the 2008 Farm Bill. This Committee's work led to an increase in crop insurance price elections from 88 percent of the price of corn to 97.8 percent of the price of corn for sorghum. On my farm this translates into $18 an acre more coverage.

I would also like to thank the Committee for increasing the subsidy on enterprise units. This has allowed sorghum producers to increase coverage on their crops while paying a lower premium. I would suggest a change, only for enterprise units, which would allow separation of irrigated and non-irrigated practices into separate enterprises.

Regarding the 2008 Farm Bill, I would like to mention that certain parts of the sorghum industry have suffered significant losses 2 years in a row due to drought and flooding.

The requirement that NAP or some insurance product be bought on every crop of every acre of an entire operation to maintain eligibility in SURE Program is unpractical for today's farming and livestock operations. Sometimes producers will not even make decisions on what forage they are going to plant until after the crop insurance deadlines of March 15 from my area, therefore limiting one of the real freedoms that producers appreciate about the current farm bill legislation.

The SURE Program has proven to be incredibly frustrating for producers as they remain unsure where they stand in terms of receiving benefits from the program. Less than five percent of sorghum producers enrolled in ACRE for 2009. Sorghum producers have been hesitant to give up a portion of their direct payment to enroll.

ACRE is essentially a stateside GRP, and grain sorghum producers have historically low participation in GRP policies. Producers do not see financial advantage in participating in a program that is based on national price and state yields. Even if a producer did produce and the ACRE payment was triggered for the state, the producer may not receive a payment at all if he was over his personal guarantee. Consequently, the program has risks at the national level in terms of price, and the state level for yield, and at the individual level for yield.

While I understand this Committee's jurisdiction is the safety net, I want to encourage the full Committee to continue to invest in the energy title programs. Ethanol demand is important to our sorghum price because more than ¼ of the U.S. grain sorghum goes into ethanol.

Without that demand, the safety net would be stretched like never before. We encourage the Committee to continue programs like the Bioenergy Program for Advanced Biofuels, section 9005, and the BCAP Program. The current safety net is not only important for sorghum farmers, but it is important for providing stability to rural communities in the Sorghum Belt. While not perfect, the

current safety net has been effective in helping producers minimize risks while providing production flexibility.

Maintaining the funding at the current program level is critical to ensure young farmers and old farmers have a viable safety net for the future.

Thank you for your time and attention.

[The prepared statement of Mr. Simonsen follows:]

PREPARED STATEMENT OF GERALD SIMONSEN, CHAIRMAN, BOARD OF DIRECTORS, NATIONAL SORGHUM PRODUCERS, RUSKIN, NE

Introduction

On behalf of the National Sorghum Producers, I would like to thank the House Committee on Agriculture for the opportunity to discuss the next U.S. farm bill and its impact on my operation.

My name is Gerald Simonsen, and I farm near Ruskin in Nuckolls County, Nebraska. I raise sorghum, soybeans, wheat, corn, and cattle. My granddad was one of the first producers in Nebraska to plant sorghum, beginning in the early 1930s. Sorghum was his safety net, providing feed for his livestock when other crops failed. To this day, sorghum remains a valued, necessary crop on my fourth-generation family farm.

NSP represents U.S. sorghum producers nationwide, and our mission is to increase the profitability of sorghum producers through legislative and regulatory representation. I am Chairman of NSP's Board of Directors. I also serve on the NSP legislative committee as I understand that the actions of this Committee and the actions of the U.S. Congress have a significant impact on my farming operation.

NSP supports the work put forth by this Subcommittee in passing the 2008 Farm Bill and looks forward to working with the Committee to craft the next set of vital farm policy. My testimony will focus on four areas of farm policy as they relate to sorghum's safety net, including crop insurance, budgets, the importance of the Energy Title to sorghum producers, and the sustainability of sorghum.

Industry Overview

The Great Plains states produce the largest volume of grain sorghum, but the crop is also grown from Georgia to California and South Texas to South Dakota. According to the National Agricultural Statistics Service, last year sorghum was produced in many of the states that you represent. This includes Kansas, Georgia, Mississippi, Colorado, Nebraska, South Dakota, Missouri, Texas, Iowa, Indiana, Oregon, North Carolina, Illinois, Maryland, Pennsylvania, Oklahoma, and Ohio.

Over the past 15 years, grain sorghum acreage has ranged from a high of 13.1 million acres in 1996 to a low of 6.5 million acres planted in 2005. Annual production from the last 15 years has ranged from 795 million bushels to 277 million bushels, with an approximate value of $1.2 billion annually.

The creation of the Conservation Reserve Program in the 1985 Farm Bill had a significant impact on the sorghum industry as producers enrolled thousands of sorghum acres in the program. For past sorghum crops, poor risk management program coverage has also played a role. Thus far, crop insurance changes to the 2008 Farm Bill will place sorghum on a more level playing field with other crops.

Today's sorghum acreage is ⅓ of its level prior to the 1985 Farm Bill. It is a goal of the industry to increase producers' profitability and to bring acres back toward the pre-1985 Farm Bill level. NSP expects that returning acreage to that level will help ensure necessary infrastructure to supply the needs of the ethanol industry, livestock industry and export markets.

In addition, forage sorghum utilized as silage, hay and direct grazing represents an additional 5 million acres of production, approximately. The USDA reported that in 2009, 254,000 acres of sorghum were harvested for silage, producing approximately 3.7 million tons of silage.

The U.S. is the world's chief exporter of grain sorghum, and the crop ranks fifth in size as a U.S. crop behind corn, soybeans, wheat and cotton.

Grain sorghum is typically exported to three main markets: Mexico, Japan and the European Union (EU). Sorghum is a non-transgenic crop. According to the April 9, 2010 *World Agricultural Supply and Demand Estimate* (WASDE), U.S. exports will account for 38 percent of this year's sorghum use.

The most important new market for grain sorghum is the ethanol industry. According to the latest WASDE report, ethanol production will account for 26 percent of domestic grain sorghum usage. This is more than triple the amount of the 2007–

2008 crop year. This market has even more potential with the classification of grain sorghum as an advanced biofuels feedstock in the 2008 Farm Bill.

In addition, the U.S. dominates world sorghum seed production with a $200 million seed industry focused on 200,000 acres primarily in the Texas Panhandle.

Sorghum is a unique, drought tolerant crop that is a vital component in cropping rotations for many U.S. farmers.

Sweet and Energy Sorghum

Two other very important sectors of our industry are sweet sorghum and energy sorghum. Most Americans perceive sweet sorghum to be used to make syrup or molasses. However, it is also used worldwide for the production of ethanol. India and China are producing ethanol from sweet sorghum and the Department of Energy has supported several sweet sorghum pilot studies to explore the potential of sweet sorghums as a feedstock for ethanol production.

While several of the current Energy Title programs cover these two segments, there has been little else done to support these crops. These crops do not receive benefits as Title I commodities, nor as specialty crops. NSP is currently working with these segments of our industry to develop requests to help these important energy crops progress as viable feedstocks for a future generation less dependent on foreign oil.

2008 Farm Bill

Crop Insurance

In the 2008 Farm Bill, Congress instructed RMA to work with five independent reviewers to establish a new methodology for implementing price elections for the 2010 crop year. This methodology was required to be transparent and replicable. As part of the farm bill language, RMA was required to supply the data used to compute price elections.

After extensive work with RMA, I am pleased to report that crop insurance price elections for this crop season increased from 88 percent the price of corn to 97.8 percent the price of corn. This will make a huge difference in the insurability of sorghum because farmers will have a competitive insurance product. However, grain sorghum still has the lowest participation rate in crop insurance programs among major row crops. The two main reasons for this are declining actual production history and premium increases. Producers suffering from a multiple year drought have seen actual production histories decline dramatically while their premium increased. As a result, producers are paying more for less coverage. Producers realize the low risk involved with sorghum enables a perfect fit with enterprise units, which has become widely used by sorghum producers.

An increased subsidy on enterprise units has allowed sorghum producers to increase coverage on their crop while paying a lower premium. Many sorghum producers have taken advantage of this opportunity to increase their risk management coverage. I would suggest a change, only for enterprise units, that would allow the separation of irrigated and non-irrigated practices into separate enterprises.

The action of this Committee and Congress in the 2008 Farm Bill will give me more planting options and ability to choose a crop that is an agronomic fit for my land. Thank you for working diligently to help correct these crop insurance issues in the 2008 Farm Bill.

NSP also thanks the Subcommittee for the 508h program available under the 2008 Farm Bill for introducing crop insurance to underserved crops. NSP will be happy to work with insurance companies in developing a sweet sorghum insurance product, but we cannot do that until EPA approves sweet sorghum as an advanced biofuel feedstock. Until this happens, the industry struggles to have commercial production of sweet sorghum for ethanol or power generation.

Loan Rate

Significant improvements were made in the last two farm bills in regard to how the loan rate for sorghum works at the producer level. However, one challenge remains for producers. The loan level today is far below the cost of production. According to most current budgets in the Sorghum Belt, the break-even for sorghum is in the $2.62 to $3.36 range, well above the current loan rate for sorghum at $1.95 per bushel. Therefore, when sorghum reaches the loan price, the producer is already in significant financial distress.

Direct Payment

Direct payments, while not necessarily tied to a specific crop being planted, have proven to be a very easy and efficient payment for producers. It is one of the few

parts of the current safety net bankers have certainty with and will provide financing for our producers.

SURE

The SURE program had many positive aspects surrounding it during the 2008 Farm Bill debate. It was a quality idea that showed promise to help end the challenges of annual *ad hoc* disaster assistance and become a viable answer for producers. Unfortunately, as of today, it is a program that is not funded at a high enough level to work well for the producer. Additionally, SURE, as written, is without a doubt the most complex piece of farm policy farmers and lenders have ever seen. This program has proven to be incredibly frustrating for producers, as they remain unsure where they stand in terms of receiving benefits from the program. The extensive lap in time between the disaster itself and any financial assistance is especially challenging for young farmers who are the ones who need it the most. Finally, the requirement that NAP or some insurance product be bought on every crop of every acre of an entire operation to maintain eligibility is unpractical for today's farming and livestock operations. Sometimes producers will not even make decisions on what forages they will plant until after insurance sign-up deadlines, thus limiting one of the real freedoms that producers appreciate about current farm bill legislation.

Countercyclical Payments

Sorghum producers have not yet received payments from the countercyclical program under the 2008 Farm Bill. Like the current loan rate, the trigger level is set too low to provide adequate protection for producers.

ACRE

Only 4.85 percent of sorghum farms enrolled in ACRE for 2009. This remains lower than corn, wheat and soybean participation, but is more than the enrollment percentage for cotton. The program is too uncertain for producers to give up a portion of their direct payment. Because ACRE is essentially a statewide GRIP program, it only makes sense that participation by sorghum growers would be low because grain sorghum producers have had historically low participation in GRIP insurance offers. A program that is based on a national price and statewide yield has too much uncertainty for producers. Even if a producer did participate and the ACRE payment was triggered for a state, the producer may not receive a payment at all if he was over his personal guarantee. Consequently, the program has risk at the national level in terms of price, state level for yield, and individual level for yield. Why would a producer participate in such a risky proposition when a direct payment is guaranteed?

Balancing the Budget

As this Committee prepares to develop farm policy for 2012 and beyond, I would like to remind the Committee that the agriculture sector has been contributing to positive economic growth of our economy. We encourage the Committee to recognize the success of investing in rural America. We believe the Committee has done a very good job of making sure increases in farm bill spending have been paid for and we would like to be recognized for that fiscal responsibility by maintaining a strong safety net for sorghum producers.

Viable farm businesses are essential to the safe and reliable production of food, fuel and fiber for the United States and cutting commodity programs that farmers rely on will only weaken our national infrastructure for these products.

We remind the Committee that investing in rural development should focus on agriculture development. Production agriculture truly brings money into the rural economy, supports local businesses, and educates our youth. Off-farm jobs do not keep my local school district's tax base healthy. The school district is dependent on property taxes, which are driven by land values, which are driven by farm economics.

Finally, trade is vital to our marketplace since 38 percent of U.S. grain sorghum is exported. We support a robust trade agenda. This includes an immediate passage of pending bilateral free trade agreements with Colombia, an eventual Doha deal that provides significant new market access for U.S. sorghum producers, normalization of the U.S./Cuba trade relationship including lifting the travel ban, and full funding for both the Market Access Program (MAP) and Foreign Market Development (FMD) program.

Energy Title

One-quarter to ⅓ of the sorghum crop is processed through an ethanol plant. The ethanol industry is the biggest value-added industry to hit the Sorghum Belt. We

want to work with the Committee to fully employ rural America and help secure our energy independence.

As previously mentioned, investment in rural America has shown good returns for the U.S. Government. We believe the Committee should continue to invest in the Energy Title of the farm bill. Currently, more than ⅓ of the U.S. grain sorghum crop is now processed through an ethanol plant. The renewable fuels industry is the fastest growing value-added industry for the sorghum industry.

We also believe that sorghum can be involved in many aspects of the renewable fuels industry. For example, the versatility of sorghum is attracting attention from the seed industry as it looks at sweet sorghum for its potential ethanol production. Biotech companies are recognizing the diversity of the sorghum crop and companies are looking at making biodiesel out of sorghum.

We encourage the Committee to continue programs of the Energy Title of the farm bill. For example, the Bioenergy Program for Advanced Biofuels (section 9005) Program has boosted sorghum markets by encouraging ethanol plants to use sorghum. The BCAP program, if implemented correctly, will help build sweet sorghum as a feedstock for companies looking to make ethanol out of its sugars. However, neither program has run its course or completed its work. Both programs should be maintained in the next farm bill to continue to develop existing and emerging markets for farmers that are involved in energy production.

At the same time, we encourage the Committee to look at new proposals for energy programs in the farm bill that will continue to involve the agriculture industry in the business of providing America's energy and ending U.S. dependence on foreign oil.

Water-Sipping Crop

Finally, sorghum is a water sipping, highly sustainable cropping option for many producers across the U.S. Especially in the semi-arid Sorghum Belt, sorghum is an excellent fit for farmers with limited irrigation capacity or dryland farmers without predictable rainfall. Sorghum demands less water and is able to withstand these dry conditions by becoming temporarily dormant during moisture stress. Therefore, in areas where water supplies are limited, grain sorghum and forage sorghum conserve an important resource while offering more yield and sustainability with fewer risks.

In addition, sorghum tends to use less fertilizer than other crops and produces high yields with proper management. As the Committee works to reauthorize its conservation programs, we encourage you to consider programs that make efficient use of water in the semi-arid Sorghum Belt.

Agriculture accounts for almost 70 percent of world water use. University studies have compared water savings through alternative cropping patterns and the use of crops that require less water, such as grain sorghum. NSP is prepared to support farm bill language that recognizes the sustainability and environmental benefits of crops like sorghum while maintaining the profitability of sorghum producers.

Mr. MARSHALL. Thank you, Mr. Smith. Mr. Smith, is it Floydada? How do you pronounce the name of the town?

Mr. SMITH. Floydada. And you are not the only one that has that problem.

Mr. MARSHALL. Thank you.

STATEMENT OF EDDIE SMITH, CHAIRMAN, NATIONAL COTTON COUNCIL; COTTON PRODUCER, FLOYDADA, TX

Mr. SMITH. Mr. Chairman, thank you for holding this important hearing to review U.S. farm policy. My name is Eddie Smith. I own and operate a family cotton, cattle, and grain operation near Floydada, in partnership with my father and son. I also serve as Chairman of the National Cotton Council.

The National Cotton Council believes that effective farm policy should adhere to several principles. It should be market oriented, it should provide cropping flexibility. It should allow full production, should provide a predictable, effective, financial safety net when prices are abnormally low. It should ensure the availability of competitively priced U.S. cotton to domestic and international

textile mills, and it should encourage maximum program participation without regard to farm size or structure.

The most critical provision of the upland cotton program is an effective, marketing loan program with an accurate world price discovery formula. The marketing loan gives lenders the confidence to provide operating loans, and provides the growers the opportunity to make orderly marketing decisions for an identity-preserved commodity like cotton.

The 2008 Farm Bill made significant reforms to the cotton provisions, including revising the CCC cotton loan premiums and discounts to enhance market orientation; to establish a ceiling on payments of storage credits when prices are low; and, third, providing an economic adjustment program for the hard-pressed U.S. textile industry.

The bill also slightly reduced the target price for cotton to offset any increased costs resulting from other modifications, and it is important to remember that in 2006 the industry supported termination of the so-called Step 2 provision to comply with the WTO Brazil case decision. The 2008 Farm Bill also made historical changes to payment limitations and program eligibility.

Limitations were made more restrictive by first eliminating the three-entity rule; second, by applying direct attribution; and, third, the adjusted gross income test was substantially tightened. For cotton growers, good farm policy is of little value if commercial-size farming operations are ineligible for benefits. Frankly, the statutory changes combined with overreaching regulations have pushed us to the brink, and we strongly oppose any further restrictions.

As evidenced by the data from the recent sign-ups, the current ACRE Program is not an attractive alternative for cotton farmers. The support mechanisms within ACRE do not provide an adequate safety net when compared to the traditional DCP programs, because target revenues must be calculated using historical data from a period of abnormally low cotton prices.

Conservation programs such as Conservation Stewardship Program, EQIP and other conservation programs are attractive to cotton producers and will contribute to continued improvements in conservation practices. Crop insurance is an essential risk management tool for cotton producers. Revenue coverage, enterprise policy rates, and group risk products are examples of improved products that can provide a menu of risk options for growers.

We also want to work to address the lack of effective, affordable crop insurance coverage for the growers in the West. The cotton industry supports a viable biofuel industry, but consumption mandates and other policies have changed the competitive balance between commodities. This has placed severe pressure on cotton's infrastructure in certain parts of the Cotton Belt. We believe that the support given to biofuels crop must be taken into consideration when comparing, first, a relative level of support for commodities; second, when evaluating payment limitation; and, third, when developing commodity programs in the next farm bill.

We continue to support the 2008 Farm Bill's cotton bill components, the marketing loan program, the direct and countercyclical payments. Each component serves a distinct purpose that is beneficial to U.S. farmers and the industry as a whole.

The 2012 Farm Bill debate, however, will take place with several new and increased points of pressure. Record budget deficits will put intense pressure on funding. The WTO Brazil case puts cotton marketing loan and countercyclical programs under special scrutiny. We believe that the U.S. negotiator has constructed an interim agreement that convinced Brazil to temporarily suspend retaliation against nearly $1 billion in U.S. exports.

However, we know that there are expectations and modifications that were made to the cotton program in the 2008 Farm Bill. The U.S. cotton industry is prepared to work with Congress to address the challenges faced in writing the next farm bill.

Thank you for the opportunity to present these comments, and I will be pleased to answer your questions at the appropriate time.

[The prepared statement of Mr. Smith follows:]

PREPARED STATEMENT OF EDDIE SMITH, CHAIRMAN, NATIONAL COTTON COUNCIL; COTTON PRODUCER, FLOYDADA, TX

Mr. Chairman, thank you for holding this important hearing to review U.S. farm policy in preparation for the 2012 Farm Bill. My name is Eddie Smith. I own and operate a cotton, cattle and grain operation near Floydada, Texas, in a partnership with my father and son. I also am currently serving as Chairman of the National Cotton Council.

The National Cotton Council is the central organization of the United States cotton industry. Members include producers, ginners, cottonseed handlers, merchants, cooperatives, warehousemen and textile manufacturers. Cotton is a cornerstone of the rural economy in the 17 cotton-producing states stretching from the Carolinas to California. The scope and economic impact extends well beyond the approximately 19,000 farmers that plant between 9 and 12 million acres of cotton each year. Taking into account diversified cropping patterns, cotton farmers cultivate more than 30 million acres of land each year.

Processors and distributors of cotton fiber and downstream manufacturers of cotton apparel and home-furnishings are located in virtually every state. Nationally, farms and businesses directly involved in the production, distribution and processing of cotton employ almost 200,000 workers and produce direct business revenue of more than $27 billion. Accounting for the ripple effect of cotton through the broader economy, direct and indirect employment surpasses 420,000 workers with economic activity well in excess of $100 billion.[1]

Cotton's Economic Impact

	Cotton Sector		Broader Economy	
	Jobs	Direct Revenue (Million $)	Jobs	Economic Activity (Million $)
Southeast (AL, FL, GA, NC, SC, VA)	77,733	$10,647	173,454	$47,502
Mid-South (AR, LA, MO, MS, TN)	31,434	$6,090	70,143	$27,172
Southwest (KS, OK, TX)	41,569	$5,715	92,758	$25,497
West (AZ, CA, NM)	24,028	$2,318	53,616	$10,343
United States	**191,405**	**$27,622**	**427,102**	**$123,241**

Sound and stable farm policy is essential for the viability of the U.S. cotton industry. The National Cotton Council believes that effective farm policy should adhere to several principals:

(1) It should be market-oriented with a goal of promoting quality, efficiency and domestic competition;

(2) It should allow for full production to meet market demand;

[1] Direct employment and revenue based on 2007 Census of Agriculture and 2002 Economic Census. Indirect employment and economic activity derived from input-output multipliers reported by University of Tennessee's Agri-Industry Modeling and Analysis Group.

(3) It should provide for an effective financial safety net;

(4) It should ensure the availability of competitively-priced U.S. cotton to domestic and international textile mills; and

(5) It should encourage maximum participation without regard to farm size or structure.

We believe the 2008 Farm Bill meets most of these principles and has worked well for the cotton industry. We commend this Subcommittee and the broader Committee as a whole for the diligent work crafting the 2008 legislation.

The centerpiece of the upland cotton program and traditional commodity programs has been an effective marketing loan program. It provides a safety net for producers but does not harm the competitiveness of U.S. commodities. It is a program component that makes sense, that works, and that serves many critical purposes. Because it is well-understood and a fundamental part of commodity policy, the marketing loan gives rural banks the confidence they need to make critical operating loans available. This foundational program has also been the lever to move other important reforms, such as standardized bales and bale packaging for cotton, electronic warehouse receipts, and heightened standards for storage and elevator facilities for cotton and for other commodities.

With respect to cotton, while the 2008 Farm Bill maintained the marketing loan and several other program components from prior law, the bill also made many reforms, such as a revision in the calculation of cotton premiums and discounts, placing a ceiling on the payment of storage credits for cotton under loan, and an economic adjustment program for the U.S. textile industry. The bill also reduced the target price for cotton.

Fundamentally, we continue to support the 2008 Farm Bill's approach to the cotton program and all of its components, from the marketing loan to direct and countercyclical payments. Each component serves a distinct purpose that is beneficial to U.S. farmers and the industry, as a whole.

The 2012 Farm Bill debate, however, will take place with several new and increased points of pressure. Record budget deficits will put intense pressure on funding. The WTO Brazil Case puts cotton's marketing loan and countercyclical programs under special scrutiny even though the cotton program, as revised by the 2008 bill, has never been evaluated by a WTO Panel. Ongoing negotiations in the Doha Round of trade negotiations could result in a dramatically altered landscape for domestic commodity support. If circumstances arise that make it impossible to maintain a reasonable safety net using existing delivery mechanisms, the cotton industry will look at alternatives.

As evidenced by recent sign-ups, the ACRE program has not been an attractive alternative for cotton farmers. The support mechanisms within ACRE do not provide an adequate safety net for cotton farmers when compared to the traditional DCP program. If a revenue-based program is to find support among cotton producers, a more reasonable revenue target must be established. Mr. Chairman, we are working as an industry to evaluate fully our industry's concerns with ACRE in order to develop recommendations for effective modifications.

Even as our industry commits to an in-depth review of the structure of the cotton program, I must emphasize our commitment to the principles I outlined earlier in my statement. One of those principles is that effective farm policy must maximize participation without regard to farm size or income. The 2008 Farm Bill contained significant changes with respect to payment limitations and payment eligibility. In general, the limitations were made more restrictive, and the adjusted gross income test was substantially tightened.

In addition to the legislative changes, we believe that USDA over-stepped the intent of Congress in key payment eligibility provisions and issued regulations that are overly complicated and restrictive. Sound farm policy provisions are of little value if commercial-size farming operations are ineligible for benefits. While we oppose any artificial payment limitations, we advocate administering the current provisions within the intent of Congress and strongly oppose any further restrictions.

Conservation programs were strengthened in the 2008 Farm Bill. The Conservation Stewardship Program and similar conservation programs can lead to improved environmental and conservation practices but should not serve as the primary delivery mechanism for farm program support. The Conservation Stewardship Program has also been hampered by overly restrictive payment limitations contrived by USDA regulators—restrictions that we do not believe are supported by the statute. USDA's unilateral decision to exclude commercial-size farming operations dramatically limits the environmental and conservation benefits that are possible with this program.

We support a permanent natural disaster program as part of the farm bill, but our experience with the SURE program indicates that it cannot provide an effective level of natural disaster assistance. We recognize the challenge facing Congress to make improvements in this program. Without increased baseline spending authority, there will be no funds to even continue the program in the next farm bill, much less make the necessary improvements for it to be an effective disaster relief mechanism. However, we do not support reallocating existing spending authority from current farm programs to apply to SURE.

Crop insurance is an essential risk management tool for cotton producers. Our industry continues to examine concepts that improve the various cotton crop insurance products. Revenue coverage, enterprise policy rates and group risk products are examples of improved products that can provide a menu of risk options for growers. However, we continue to view the current insurance products as complements to traditional commodity programs but do not consider those programs as a replacement system for delivering farm program support.

Continuation of an adequately funded export promotion program, including the Market Access Program (MAP) and Foreign Market Development (FMD) Program, are important in an export-dependent agricultural economy. Individual farmers and exporters do not have the necessary resources to operate effective promotion programs which maintain and expand markets—but the public-private partnerships facilitated by the MAP and FMD programs, using a cost-share approach, have proven highly effective and have the added advantage of being WTO-compliant.

Pima cotton producers support continuation of a loan program with a competitiveness provision to ensure U.S. extra-long staple cotton, also known as Pima cotton, remains competitive in international markets. The balance between the upland and pima programs is important to ensure that acreage is planted in response to market signals and not program benefits.

While the cotton industry supports a viable biofuels industry, it must be recognized that benefits are not equally shared by all commodity producers. Renewable fuels mandates and other policies regarding biofuels have changed the competitive balance between commodities, placing severe pressure on cotton infrastructure in certain parts of the Cotton Belt. Mandated demand can result in excessive and harmful market distortions. The support given to biofuel crops must be taken into consideration when comparing relative levels of support across commodities, when evaluating payment limitations and before trying to mandate a one-size-fits-all farm program for biofuel and non-biofuel commodities.

In summary, our industry believes the cotton provisions of the 2008 Farm Bill are working well. If policy changes are inevitable as part of the 2012 Farm Bill, the cotton industry remains ready to work with the Agriculture Committees to explore alternative programs that can provide the needed safety net to our industry in a manner that is consistent with our international trade obligations and within budget constraints.

Thank you for the opportunity to present these comments. I look forward to answering questions at the appropriate time.

APPENDIX

Cotton Economic Update

National Cotton Council

June 2010

The 2010 economic outlook for the U.S. cotton industry can be described as one of recovery. While the lingering effects of the economic downturn continue to present challenges for the U.S. cotton industry, data suggest that the worst of the storm has been weathered.

After the downturn in the 2008 marketing year, an improved outlook for the general economy is supporting the recovery in mill use. Yarn values improved in the latter half of calendar 2009, and the textile trade is expanding. For the 2009 marketing year, world mill use is estimated at 116.4 million bales, 5.9% higher than 2008. For the 2010 marketing year, world mill use is projected to grow by 2.6%, reaching 119.5 million bales.

In the United States, the slowdown in the general economy compounded the pressure the textile industry has been facing due to imported textile and apparel products. Mill use in the 2008 marketing year fell to 3.6 million bales, down 1.0 million bales from 2007. While the climate has improved and current monthly numbers are exceeding year-ago values, it is likely that marketing year totals will be slightly lower than those observed in 2008. For marketing years 2009 and 2010, U.S. mill use is estimated at 3.4 and 3.3 million bales, respectively.

China's textile industry was not immune to the global economic downturn, falling 7.0 million bales in the 2008 marketing year. However, prospects have improved for the 2009 marketing year with mill use estimated at 47.5 million bales. Government policies and incentives under the textile stimulus plan supported their textile industry during the worst of the downturn. Recently, export markets have improved, as have the prospects for 2010 mill use. Currently, USDA projects China's mill use in the 2010 marketing year to reach 49.0 million bales.

For the 2009 marketing year, India's mill use is expected to grow to 19.5 million bales, as compared to 17.9 million bales the year earlier. For the 2010 marketing year, India is projected to process 20.4 million bales, or 17% of the world total.

USDA's March *Prospective Plantings* report puts U.S. cotton acreage at 10.5 million acres, an increase of 14.8% from 2009. With cotton prices trading 20¢ to 25¢ above year-ago levels and corn and soybean prices essentially unchanged from last year, all regions are expected to increase cotton acres. Based on average abandonment and yields adjusted for favorable moisture conditions, USDA forecasts a 2010 crop of 16.7 million bales, compared to 12.2 million in 2009.

In China, seed cotton prices 50% higher than year-ago levels will attract more cotton acres in 2010. However, the expansion could be less than originally expected as increased government support will keep some acres in grains. Cotton area is expected to increase by approximately 2% above the 2009 level. Assuming trend yields, China's cotton production is estimated at 33.0 million bales, 500 thousand bales above 2009.

Dramatic improvements in yields, coupled with expanded area, have allowed India to more than double cotton production in recent years. In 2009, India devoted more than 25 million acres to cotton and harvested a crop of 23.5 million bales. A stronger market and the certainty of the higher support prices contributed to the increased area. For 2010, cotton is again expected to compete for available land, but concerns about food security will limit further expansion in cotton area. With area projected just 0.4% higher, an expected rebound in 2010 cotton yields is the primary factor behind the projected production of 25.0 million bales.

With reduced area and lower yields, world cotton production for the 2009 marketing year fell to 102.9 million bales, representing the smallest crop since 2003. For the 2010 marketing year, the combined results of the regional and country-level projections generate a world crop of 114.3 million bales. While an 11 million bale rebound in production is substantial, the expected crop falls short of mill use at 119.5 million bales.

After falling sharply in the 2008 marketing year, world cotton trade for the 2009 season is increasing to 35.3 million bales. The U.S. remains the largest exporter with 12.3 million bales for the 2009 marketing year. Both world trade and U.S. exports are projected to increase in the 2010 marketing year. With world trade at 36.1 million bales and U.S. exports at 13.5 million bales, the U.S. trade share increases to 37%.

China remains the largest cotton importer with 10.8 million bales of imports in the 2009 marketing year. Given the projections for mill use and production, China's cotton imports are estimated at 11.5 million bales for the 2010 marketing year. Imports by Bangladesh, Indonesia and Vietnam are projected to increase as mill use expands.

Approaching the conclusion of the 2009 marketing year, it is increasingly clear that global cotton stocks will see their first substantial decline since the 2002 marketing year. The estimated decline of 10.5 million bales will be the largest single-year draw-down since 1986. Mill use of 116.4 million bales and ending stocks of 52.2 million bales results in a stocks-to-use ratio of 44.8%. Globally, 2010 stocks are expected to decline by 2.6 million bales, bringing the stocks-to-use ratio down to 41.5%.

In the U.S., ending stocks are projected to fall to 2.9 million bales by the end of the 2009 marketing year. This would be the lowest stocks since the 1995 marketing year and represents a dramatic change from the 10 million bales of stocks of just 2 years earlier. For the 2010 marketing year, U.S. stocks are projected to decline to 2.8 million bales as the combination of 3.3 million bales of mill use and 13.5 million bales of exports slightly exceed the projected crop of 16.7 million bales.

Cotton prices gained momentum in the latter half of 2009 as the balance sheet tightened due to reduced expectations for 2009 production. Prices also found support in an improved general economy and a weaker U.S. dollar. For 2010, cotton's balance sheet remains supportive of prices as world production is projected to fall short of consumption. However, the outlook is not without risks and uncertainties, particularly given the fragile nature of the macroeconomic recovery.

Table 1—Prospective 2010 Cotton Area

	2009 USDA Actual	2010 USDA Intentions	Percent Change
	(Thousand Acres)		
Southeast	**1,891**	**2,390**	**26.4%**
Alabama	255	360	41.2%
Florida	82	90	9.8%
Georgia	1,000	1,150	15.0%
North Carolina	375	540	44.0%
South Carolina	115	175	52.2%
Virginia	64	75	17.2%
Mid-South	**1,627**	**1,730**	**6.3%**
Arkansas	520	520	0.0%
Louisiana	230	200	−13.0%
Mississippi	305	340	11.5%
Missouri	272	290	6.6%
Tennessee	300	380	26.7%
Southwest	**5,243**	**5,875**	**12.1%**
Kansas	38	35	−7.9%
Oklahoma	205	240	17.1%
Texas	5,000	5,600	12.0%
West	**247**	**320**	**29.5%**
Arizona	145	185	27.6%
California	71	100	40.8%
New Mexico	31	35	12.5%
Total Upland	**9,008**	**10,315**	**14.5%**
Total ELS	**141**	**190**	**34.4%**
Arizona	2	3	87.5%
California	119	165	38.7%
New Mexico	3	4	42.9%
Texas	18	18	0.0%
All Cotton	**9,150**	**10,505**	**14.8%**

Table 2—Balance Sheet for Selected Countries & Regions*

	09/10	10/11		09/10	10/11
	(Million Bales)			(Million Bales)	
World			**China****		
Production	102.89	114.32	Production	32.50	33.00
Mill Use	116.43	119.49	Mill Use	47.50	49.00
Trade	35.26	36.14	Net Exports	−10.78	−11.48
Ending Stocks	52.21	49.59	Ending Stocks	20.64	18.62
United States			**India**		
Production	12.19	16.70	Production	23.50	25.00
Mill Use	3.40	3.30	Mill Use	19.50	20.40
Net Exports	12.25	13.50	Net Exports	5.80	5.18
Ending Stocks	2.90	2.80	Ending Stocks	8.12	7.55
Mexico			**Pakistan**		
Production	0.42	0.64	Production	9.90	10.50
Mill Use	1.90	1.90	Mill Use	11.50	11.70
Net Exports	−1.38	−1.30	Net Exports	−0.95	−1.20
Ending Stocks	0.64	0.65	Ending Stocks	4.01	3.99
Brazil			**Indonesia**		
Production	5.75	6.80	Production	0.03	0.03
Mill Use	4.40	4.60	Mill Use	2.05	2.10
Net Exports	1.80	1.90	Net Exports	−2.09	−2.18
Ending Stocks	4.69	5.14	Ending Stocks	0.36	0.42
Turkey			**Vietnam**		
Production	1.75	2.10	Production	0.02	0.02
Mill Use	5.60	5.50	Mill Use	1.60	1.80
Net Exports	−3.73	−2.85	Net Exports	−1.70	−1.78
Ending Stocks	1.61	1.14	Ending Stocks	0.36	0.35
West Africa			**Bangladesh**		
Production	2.16	2.61	Production	0.05	0.05
Mill Use	0.18	0.18	Mill Use	4.00	4.25
Net Exports	2.17	2.42	Net Exports	−4.00	−4.25
Ending Stocks	0.51	0.51	Ending Stocks	0.74	0.78
Uzbekistan			**Australia**		
Production	4.00	4.60	Production	1.60	2.20
Mill Use	1.10	1.15	Mill Use	0.04	0.04
Net Exports	3.80	3.60	Net Exports	1.83	1.85
Ending Stocks	1.05	0.90	Ending Stocks	0.74	1.12

*Source: USDA June 2010 World Agricultural Supply & Demand Estimates.
**Balance sheet assumes Unaccounted of −2.5 million bales in 09/10 and 10/11.

Figure 1: U.S. Cotton Plantings Reflect Market Signals
(2010 Estimate from USDA March Prospective Plantings)

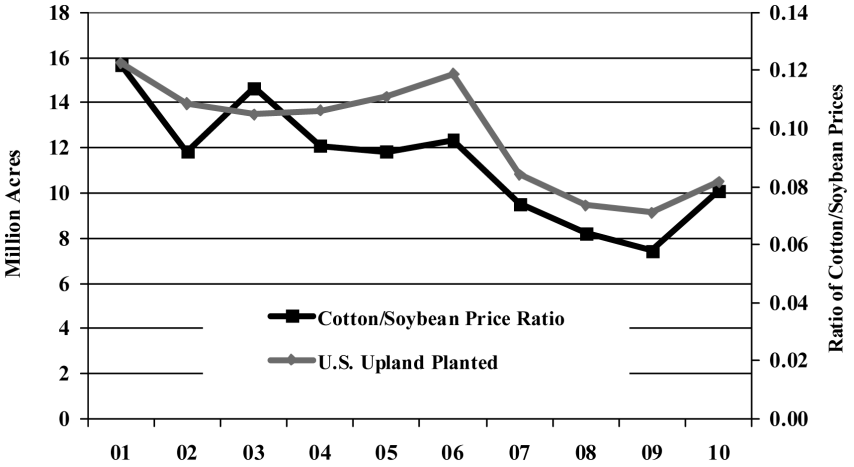


Figure 2: U.S. Demand and Share of World Production

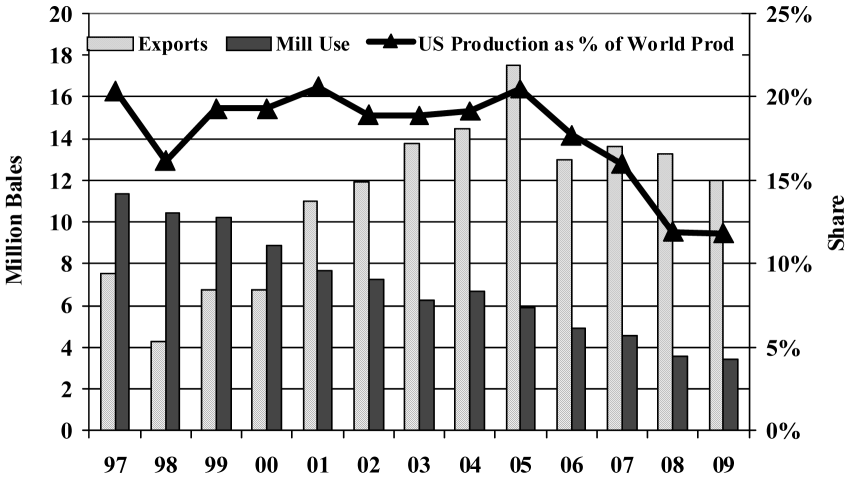


Figure 3: Change in Cotton Production from 2005 Level

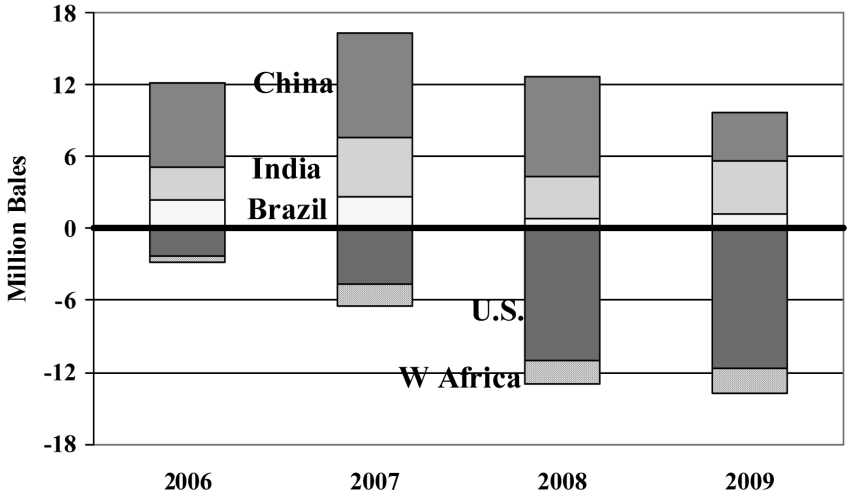
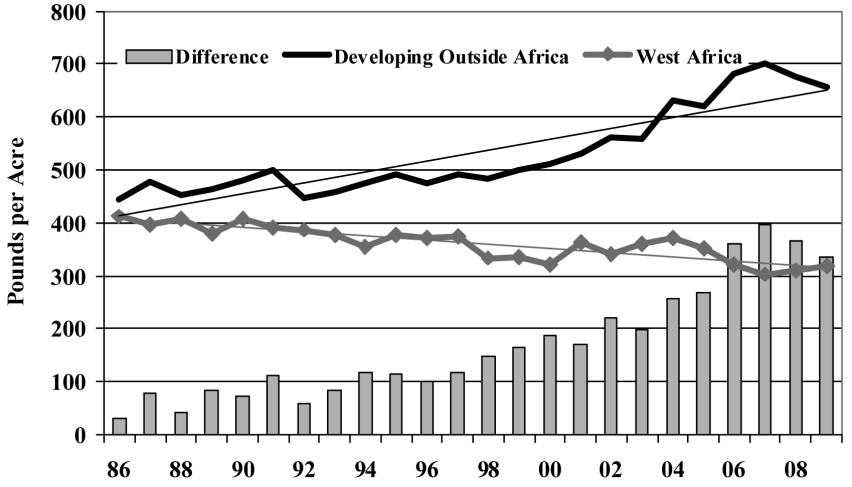


Figure 4: Yields in West Africa Losing Ground to Other Developing Countries



Mr. MARSHALL. Well I thank the gentleman from Floydada. Mr. Smith.

Mr. Thompson, did I pronounce Farmington correctly? Mr. Thompson.

Mr. THOMPSON. You certainly did.

STATEMENT OF JAMES "JIM" THOMPSON, CHAIRMAN, USA DRY PEA & LENTIL COUNCIL, FARMINGTON, WA

Mr. THOMPSON. The USA Dry Pea & Lentil Council would like to thank Chairman Peterson and Subcommittee Chairman Boswell for holding this farm bill hearing about the safety net for the 2012 Farm Bill.

My name is Jim Thompson. I am Chairman of the USA Dry Pea & Lentil Council, a national organization representing producers, processors, and exporters of U.S.-grown dry peas, lentils, and chickpeas. I am a fourth-generation farmer from Farmington, Washington. The Farmington area was the first region in the U.S. to grow lentils commercially in North America over 90 years ago.

Lentils are now grown in over 400,000 acres across the northern tier States of Washington, Idaho, Montana and North Dakota. Fortunately, our producers have not needed the current safety net for pulses over the past 5 years due to strong demand and high prices. This year, however, prices on all pulse crops have dropped 25 percent as a reminder of the volatile nature of agriculture, and the need for adequate farm safety nets.

Pulse crops are grown across the northern tier states in rotation with wheat, barley, miner oilseeds, corn and soybeans. Our industry fought hard to have pulse crops added as a farm program crop in 2002 in order to compete with acreage for other farm programs. Our goal in 2012, as it was for the 2002 Farm Bill, has not changed.

Pulse producers seek to be included and treated equally with other farm program commodities in the areas of farm and conservation program support. We believe that marketing loan and countercyclical price targets should reflect recent market price conditions and the significant increase in farm input costs.

For example, lentil prices from 2004 to 2009 have averaged $23.88 a hundred weight. The current marketing loan rate on lentils is $11.28 per hundred weight and the countercyclical is $12.81 per hundred weight. These prices are less than 50 percent of the average crop price. All pulse crop marketing loan and countercyclical price levels have a similar story and need to be adjusted to provide a realistic safety net for producers when market conditions turn against them. Dry peas, lentils and chickpeas are available for the ACRE Program, and we believe this program should be continued under the 2012 Farm Bill, with some adjustments.

For example, producers should be allowed to use RMA crop insurance records to establish their plug yields on the farm. Revenue guarantees are unfairly impacted by averages of large counties with wide ranges in production levels. Historical crop insurance records give a producer a better reflection of his farm average under the ACRE Program, and thus a better safety net.

The majority of pulse producers in this country were excluded from establishing a pulse base on their farms in the 2008 Farm

Bill. The producer could only establish a pulse base on his farm if he grew pulse crops from 1998 through 2001. This effectively excluded the majority of pulse producers in this country, because pulse production was at very low levels in that time-frame. We ask Congress to reconsider pulse base establishment in the 2012 Farm Bill, to include the most recent 5 years of production.

In addition, the countercyclical payment yield is currently adjusted using yield data from years when no official data exists. The Dry Pea & Lentil Council believes the yield factor used by USDA to be too low and requests a recalculation of the pulse payment yield calculation based on our Council data for those years.

Crop insurance: The 2012 Farm Bill must improve Federal Crop Insurance Program coverage for those crops without a futures market. The USADPLC has been working for over 10 years to secure a crop revenue policy for dry peas, lentils and chickpeas. The Council has taken two pilot program ideas to RMA Board for consideration. Both times our ideas have made it through expert review with positive remarks, only to be rejected by RMA.

Our two pilot programs were rejected primarily because our crops do not have futures markets.

Mr. Chairman, there are a lot of crops without futures markets that do have solid price discovery mechanisms. The 2012 Farm Bill must include reform of the Federal Crop Insurance Program that will make it more responsive to the risk management needs of those crops not traded on the Chicago Board of Trade.

I would like to thank you for listening to these comments. The USA Dry Pea & Lentil Council looks forward to working with you on the 2012 Farm Bill, and I would look forward to working with you. I would be happy to answer any questions.

[The prepared statement of Mr. Thompson follows:]

PREPARED STATEMENT OF JAMES "JIM" THOMPSON, CHAIRMAN, USA DRY PEA & LENTIL COUNCIL, FARMINGTON, WA

1. Introduction

The USA Dry Pea & Lentil Council (USADPLC) would like to thank Chairman Peterson and Subcommittee Chairman Boswell for holding this farm bill hearing about the Farm Safety Net of the 2012 Farm Bill.

My name is Jim Thompson, Chairman of the USA Dry Pea & Lentil Council, a national organization representing producers, processors and exporters of U.S. grown dry peas, lentils and chickpeas. I am a fourth generation farmer from Seltice, Washington, a little settlement outside of Farmington, Washington. The Farmington area was the first region in the U.S. to grow lentils commercially in North America over 90 years ago. Lentils are now grown on over 400,000 acres across the northern tier states of Washington, Idaho, Montana and North Dakota.

2. Statistics

Acreage of U.S. pulse crops (dry peas, lentils and chickpeas) has increased from under 500,000 acres in the year 2000 to over 1.5 million acres in 2010. Last year, the U.S. produced a record 1.0 million metric tons of dry peas, lentils and chickpeas. Strong demand for these legumes around the world has kept prices for these crops above the 10 year average for the past 4 years despite record production. Fortunately, our producers have not needed the current safety net for pulses over the past 5 years due to strong demand and high prices. This year, however, prices on all pulse crops have dropped 25% as a reminder of the volatile nature of agriculture and the need for an adequate farm safety net.

3. Farm Programs

Three legs to the stool. Pulse crops are grown across the northern tier states in rotation with wheat, barley, minor oilseeds, corn and soybeans. Our industry

fought hard to have pulse crops added as a program crop in 2002 in order to compete for acreage with other program crops. Our goal in 2002, as it is for the 2012 Farm Bill, has not changed. **Pulse producers seek to be included and treated equally with other farm program commodities in the area of farm and conservation program support.** Our industry would like to thank this Committee and Congress for approving a marketing assistance loan program for pulse crops in 2002 and adding pulse crops to the countercyclical and ACRE farm safety net programs in 2008. However, pulse crops are the only program crop without a direct payment. Pulse producers continue to support becoming a full farm program partner with other commodities including a direct payment.

Price levels for Marketing Loan and Countercyclical Programs. We believe the marketing loan and countercyclical price targets should reflect recent market price conditions and the significant increase in farm input costs. The marketing loan and countercyclical price levels are well below market price levels for pulse crops in the past 5 years, and they do not reflect the significant increase in costs facing our producers. For example, the 5 year average price for large chickpeas from 2005–2009 was $29.46/cwt. The current loan rate for large chickpeas is $11.28/cwt, and the countercyclical target price set in the 2008 Farm Bill is $12.81/cwt. The large chickpea loan and target price are clearly set too low and need to be adjusted to reflect market conditions in the past 5 years. Lentils and dry peas are also set too low. Lentil prices from 2004–2009 have averaged $23.88/cwt. The current marketing loan rate on lentils is $11.28/cwt, and the countercyclical target is $12.81/cwt. In the case of dry peas, the 5 year average price from 2004–2009 is $9.37/cwt. Current dry pea loan rate and countercyclical price levels are $5.40/cwt and $8.32/cwt, respectively. Pulse crop marketing loan and countercyclical price levels are clearly set too low and need to be adjusted to provide a safety net for producers when market conditions turn against them. We ask that the price levels established in these two programs be brought up to date to reflect current market conditions and significantly increased input costs.

ACRE Program Plug Yields. Dry peas, lentils and chickpeas are eligible for the ACRE program, and we believe this program should be continued under the 2012 Farm Bill with some adjustments. For example, producers should be allowed to use RMA crop insurance records to establish their "plug yields" on their farm. In those counties with a wide variation in environmental conditions, for example, in my county in the state of Washington, average rainfall ranges from 10 to 20 inches. County "plug yields" include the significant differences in yields across my county. This same story is played out all across the northern tier states where counties are big compared to other parts of the country. **Revenue guarantees are unfairly impacted by large regional averages. Historical crop insurance records give a producer a better reflection of his farm average under the ACRE program.**

Pulse Base and Payment Yield Calculations. The majority of the pulse producers in this country were excluded from establishing a "pulse base" on their farms in the 2008 Farm Bill. A producer could only establish a pulse base on his farm if he grew pulse crops from 1998–2001. This effectively excluded the majority of pulse producers in this country because pulse production was at very low levels in 1998–2001. **We ask Congress to reconsider pulse base establishment in the 2012 Farm Bill to include the most recent 5 years of production.**

Countercyclical Payment Yield. The countercyclical payment yield is calculated based on the average yield of each commodity during the 3 year period of 1998–2001. The payment yield is then adjusted by dividing the national average yields from 1981–1985 by the national average yields from 1998–2001. For pulse crops, USDA dropped the annual production and yield report for dry peas and lentils during the period of 1981–1985. There are no USDA/NASS national average yields to establish the adjustment factor. The law gives the Secretary of Agriculture the authority to establish those national average yields if none exist in a "fair and equitable" manner. The only yield data available during that period is the data published by the USADPLC. **USADPLC believes the yield factor used by USDA to be too low and requests a recalculation of the pulse payment yield calculation based on USADPLC data for those years.**

4. Federal Crop Insurance Reform

Revenue Insurance without a Futures Market. The 2012 Farm Bill must improve Federal crop insurance for those crops without a futures market. The USADPLC has been working for over 10 years to secure a crop revenue policy for dry peas, lentils and chickpeas. The USADPLC has taken two pilot program ideas to the RMA board for consideration. Both times our ideas have made it through expert review with positive marks only to be rejected by RMA. Our two pilot programs

were rejected primarily because our crops do not have a futures market. Mr. Chairman, there are a lot of crops without futures markets that do have solid price discovery mechanisms. The 2012 Farm Bill must include reform of the Federal Crop Insurance program that will be more responsive to the risk management needs of those crops not traded on the Chicago Board of Trade.

5. Research

Research is also a critical part of the producer's farm safety net. Without a significant investment in research, producers will not be able to meet the challenges of the future.

Pulse Health Initiative provides solutions. The 2012 Farm Bill needs to revitalize agricultural research to be a leader in providing solutions to the critical health, global food security and sustainability challenges facing this country and the global community. The United Nations projects that the world's population will grow from six billion to nine billion people by the year 2050. We need to double the food supply in less than 40 years. To do this we need to increase funding to agricultural research programming that will provide short- and long-term solutions to these challenges. The USADPLC, in cooperation with the U.S. Dry Bean Council, has launched the Pulse Health Initiative (PHI) to meet these challenges head on. The mission of the PHI is to provide solutions to the critical health and sustainability challenges facing the citizens of the United States and the global community through research on pulse crops. In March of this year we gathered together 50 of the best scientific minds in this country to map out a strategic plan to achieve the following three goals:

1. **To Reduce Obesity** and associated diseases (CVD, Diabetes, Cancer) by 50%.
2. **To Reduce Global Hunger and Enhance Food Security** by increasing pulse crop productivity.
3. **To Reduce Ag's Carbon & Water Foot Print** by optimizing pulse crop nitrogen fixation and sustainability attributes.

Because of their unique nutrition and environmental attributes, pulse crops can achieve these goals, but it will take a significant investment in research. We ask the House Agriculture Committee to include the Pulse Health Initiative in the 2012 Farm Bill. If we are to feed this world in a sustainable way, we have to increase our research investment in pulse crops and all agricultural research.

Thank you for listening to these comments. The USA Dry Pea & Lentil Council looks forward to working with your Committee on the 2012 Farm Bill. I would be happy to answer any questions.

Mr. MARSHALL. Thank you, Mr. Thompson.

Mr. Younggren.

STATEMENT OF ERIK YOUNGGREN, SECOND VICE PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS, HALLOCK, MN

Mr. YOUNGGREN. Chairman Marshall, Ranking Member Moran, and Members of the Subcommittee, my name is Erik Younggren. I am a fourth-generation farmer from Hallock, Minnesota, where I produce wheat, sugarbeets, and soybeans in cooperation with two of my cousins. I am honored to be here today to testify on this important issue.

NAWG has taken seriously the charge to start our discussions early regarding the future of the farm safety net. While we know safety net spending is a very small part of the overall Federal budget, we also acknowledge our responsibility to carefully consider the value of current programs, and to explore opportunities to improve the efficiency and effectiveness of Federal spending in future legislation.

Wheat growers find different degrees of utility in the commodity programs included in the 2008 Farm Bill. We are gaining experience with some of the new programs, and continue to find areas for improvement in programs with which we have more experience.

First, crop insurance is vital to wheat growers; 82 percent of wheat acres were covered by insurance in 2009, and more and more growers are investing in higher value revenue policies. Though arguably the most heavily relied-upon risk management component of the current farm bill before us, it does have limitations.

Growers would like Congress and RMA to continue to build on the program's current successes by enabling growers to purchase higher coverage levels with affordable premiums; by addressing issues relating to eroding APH; and by developing stronger revenue policies that address variable cost risks.

The direct payment also continues to be popular among wheat producers for the same reasons we advocated for it in the 2008 Farm Bill. It is simple, predictable, reliable and trade friendly. Growers can use it to help with the expensive crop insurance, or to help offset volatility and input costs, and it is a vital cash-flow stream that helps producers obtain operating loans.

Wheat grower participation in the ACRE Program has surprised many. In 2009, nearly 13 percent of total wheat-based acres were entered into the program. USDA predicts wheat pay-outs in the $300 million range, constituting roughly 75 percent of the total ACRE payments expected to be issued. We expect participation in the program to continue to rise as growers gain familiarity with it.

However, with only 1 year under our belt and payments yet to be issued, we have continued to withhold judgment on the reliability of the program to provide protection over time.

Wheat growers have also found great value in SURE. However, a few concerns have arisen which may require attention prior to the next rewrite of farm policy. Complexity of the sign-up process, timeliness of payments, and the fact that it is set to sunset in 2011 are a few of the key concerns.

Despite the utility of each of these programs independent of one another, taken together they make for an incredibly complex web. If we get back to the basics of evaluating why we need a safety net in the first place, which is to help us manage risk, not eliminate it, then we can look critically at this system and figure out how best to revise or reform it to achieve that goal more efficiently.

As we look ahead to 2012, the policy development process is not unlike decisions facing farmers about what to do with aging equipment.

Compare our current farm policy with the 14 year old combine that has accumulated about 2,800 hours of use. We are familiar with and appreciate its general predictability, despite the glitches that come with age and known limitations compared to what might be available with new models. It was given some new additions in 2008, but the core hasn't been replaced for a long time.

The question facing growers now is this: Should our energies be directed toward further tweaking and improving the current structure of farm policy, considering the age and known challenges associated with it; or is there a newer model, a next-generation safety net available, that could better achieve our risk management goals in a simpler, more cost-effective manner?

I don't have an answer for you yet today, but I did include in my written testimony some results of an initial survey we undertook

with our members to explore the farm policy landscape. In that survey, growers expressed a variety of opinions related to the effectiveness of the current farm bill. Input was also gathered with respect to improvements to the current structure of farm programs, as well as new out-of-the-box ideas.

We are currently exploring these responses and look forward to sharing the results of that process in the future.

As an agricultural producer and a grower-leader of a national farm organization, I feel a responsibility to help your Subcommittee gather the best possible information as it relates to current and future farm programs. Holding this hearing demonstrates your commitment to the responsibilities you have taken on as a Member of this legislative body, and I very much appreciate the opportunity to testify here today. I stand ready to answer questions you may have.

[The prepared statement of Mr. Younggren follows:]

PREPARED STATEMENT OF ERIK YOUNGGREN, SECOND VICE PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS, HALLOCK, MN

Chairman Boswell, Ranking Member Moran and Members of the Subcommittee, my name is Erik Younggren. I am a fourth-generation farmer from Hallock, Minn., where I produce wheat, sugarbeets and soybeans in partnership with two of my cousins. I currently serve as the Second Vice President of the National Association of Wheat Growers (NAWG) and am honored to be here today to share the views of the wheat industry with respect to the future of Federal farm policy.

Wheat is a vital crop for the food supply and economy of our nation—and, indeed, our world. The United Nations has estimated that 20 percent of calories consumed by humans come from wheat, and the United States is its world largest exporter. While we lead the world in technology and development related to wheat production, our crop and our industry do face challenges. We know the Federal Government plays an important role in partnering with our producers to ensure functioning research and development systems for wheat varieties and inputs; a functioning safety net to mitigate risk inherent in wheat production; and a functioning world market to which our producers can sell their crops.

NAWG has taken seriously the charge from your Committee's Chairman and others to start now with our analysis and discussions with respect to the next generation of farm policy and the future of the farm safety net. A startling Federal deficit and struggling economy are as much a concern for our membership as for each of you on the Subcommittee and for your constituents.

While we know spending on a Federal farm safety net is a minute part of the overall Federal budget, we also know it is our responsibility to carefully consider the value of those programs currently in place and to explore potential opportunities to improve both the efficiency and effectiveness of Federal spending in future legislation.

Farm Policy Goals in General

Our policy goals with respect to the farm safety net are driven by concern for the financial and environmental sustainability of American agriculture, particularly in light of challenges on the horizon ranging from global competition to environmental restrictions and sourcing of petroleum based products, to land use and population growth. It is our intent to borrow the most significant and successful fundamental elements from past policies while casting a vision for the ongoing sustainability of production agriculture in the U.S.

In general, wheat growers seek a risk management system that reflects the realities of today's production environment; protects them from unrecoverable losses due to volatile weather and market conditions; and supports their stewardship efforts on our nation's working lands. Components of that safety net should be reliable, provide meaningful coverage for producers throughout the country and be mindful of the world-wide marketplace in which our commodities operate.

I'd like to leave you today with some thoughts related to the perceived utility of current commodity and risk management programs; ideas on how they interact with one another to create a safety net for growers; and some specific areas we have identified as having room for improvement. I also want to leave you with a preview of

our survey efforts and a commitment to continue in an open-minded policy development process to explore new ways of accomplishing our overall policy goals in a responsible and forward-thinking manner.

Experience with 2008 Farm Bill

The continued health of the farm sector through our recent economic downturn and the less-than-extraordinary experiences in recent years with volatile weather and market conditions is a testament to the commitment of Congress to maintain Federal support for production agriculture.

NAWG supported passage of the 2008 Farm Bill due to the inclusion of a number of programs of significance to wheat growers including crop insurance, the direct payment, conservation programs, renewable fuels programs, market development programs and research funding.

Those programs of interest to this Committee—crop insurance, the direct and countercyclical (DCP) and marketing loan programs, the Average Crop Revenue Election (ACRE) program and the Supplemental Revenue Assistance (SURE) program—were each designed to serve a specific function in contributing to the farm safety net and risk management system available to producers.

In general:

- **Crop insurance** is a vital risk management cost-sharing program to address a combination of production and price risks up to a specified coverage level. It is largely predictable and can be purchased by an individual farmer based on his or her operating conditions. Though arguably the most heavily relied-upon risk management component of the current farm bill by wheat growers, it does have limitations in meeting the totality of producers' risk management needs. These limitations include the fact that it does little to help growers protect against volatility in local market conditions such as basis risk. Revenue coverage can deteriorate after multiple years of disaster, and it currently does not take into consideration risks associated with volatility in input costs.
- The **direct payment** works as a reliable cash flow tool that enables growers to secure operating loans. It can be used to provide assistance with the expense of crop insurance, allowing producers to purchase more than they might be able to otherwise, or to help offset uncertainties related to input costs. It is also a relatively trade-friendly safety net program, which is of utmost importance to many agricultural producers in trade-dependent sectors, including wheat.
- The **countercyclical program** is designed to protect growers from the most extreme dips in market prices by creating a floor price. However, this tool has been rendered largely ineffective due to a target price for wheat that is far below the cost of production, and that has not been triggered for 10 to 15 years.
- The **marketing loan program** is designed to address price risk by creating a floor price for marketing purposes and helps provide liquidity for growers in times of difficult marketing conditions. Because it is more tied to local prices, it can help compensate for some basis risk in a way that other safety net programs aren't able. However, its utility is limited by the comparatively low loan rate.
- The **ACRE program** is an optional, whole-farm revenue protection program that creates an alternative to receiving CCPs at the cost of reducing direct payments by 20 percent and taking a 30 percent reduction in the loan rate. It gives producers a public option for revenue protection outside of the Federal crop insurance program. In general, the past wheat price history has made the ACRE guarantees more attractive, but it is a moving target offering varying degrees of utility to wheat growers depending on their location, production mix and a variety of other factors.
- The **SURE program** is designed to supplement crop insurance in providing risk protection for growers in times of natural disaster. Wheat growers value this program in helping to fill the income gap between insurance coverage levels and cost recovery or income needs.

Wheat growers find varying degrees of utility in each of these programs, but some frustration has been expressed with the web of Federal farm programs that is growing in complexity. Producers are growing in experience with some of the new programs and continue to find areas for improvement in programs with which we have more experience.

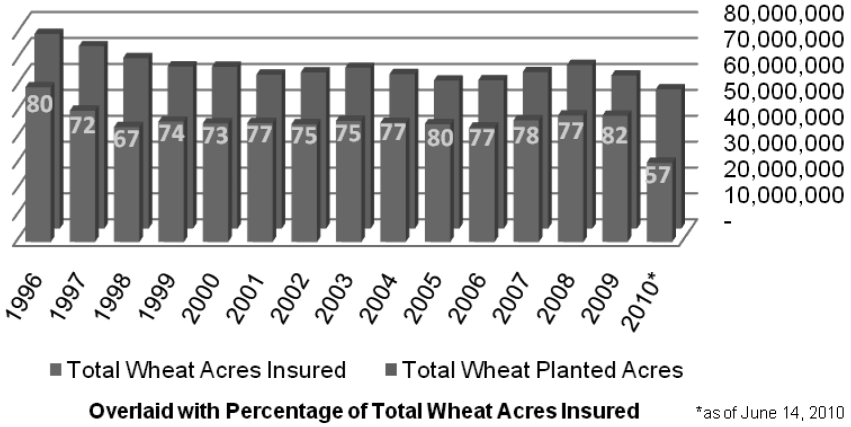
For the purposes of today's hearing, I'd like to give the Subcommittee some more detailed feedback on our experience with a few of these programs and then return to a more general discussion on our thoughts on future farm policy.

Crop Insurance

Wheat growers farm in some of the riskiest areas of the country, so the management of risk to be of utmost importance to our growers. Crop insurance is a vital tool that offers a variety of options for growers to manage this inherent risk.

Wheat growers have a long history of high adoption rates in crop insurance. In the past 10 years, between 73 and 82 percent of total wheat acres have been enrolled in some form of Federal crop insurance. Nearly 49 million wheat acres were insured under some form of Federal crop insurance in 2009, or more than 82 percent of the total 59 million wheat acres planted nationally.

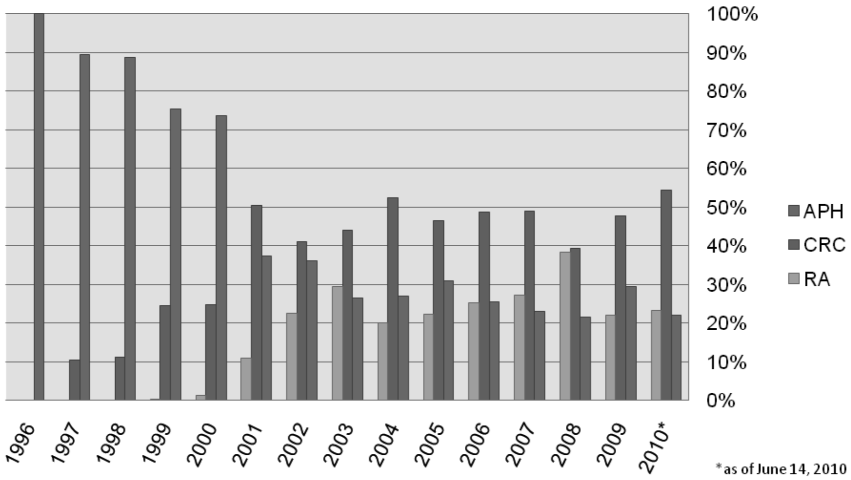
Wheat Acres Insured



Source: Risk Management Agency, FCIC Crop Year Statistics.

Since they became available to wheat growers in the late 1990s, more and more growers have invested in revenue policies as opposed to basic Actual Production History (APH) policies as depicted in the figure on the following page. In 2009, 30 percent of insured acres were covered by an APH policy, compared to 48 and 22 percent of insured acres being enrolled in Crop Revenue Coverage (CRC) and Revenue Assurance (RA), respectively. Group Risk Income Protection (GRIP), Group Risk Plan (GRP) and Income Protection (IP) policies are minimally utilized by producers, with combined enrollment of less than one percent.

Percent Wheat Acres Insured by Policy Type



Source: Risk Management Agency, FCIC Crop Year Statistics.

Despite the clear popularity of the program demonstrated by consistently high adoption rates over the years, wheat growers still recognize room for improvement in the crop insurance program.

As with any type of insurance, your coverage is only as good as what you can afford to buy. In 2009, only 8.3 million acres (or 17 percent of insured acres) were insured under a revenue policy (either RA or CRC) with coverage of 75 percent or greater. The ability to purchase higher coverage levels at affordable premiums is the most-cited desire related to improving crop insurance by wheat growers in informal conversations, at our Board table and in our surveys of NAWG members. We believe a re-evaluation of the subsidy levels that correspond to higher buy-up coverage may be warranted to create ways to further incentivize buy-up.

The ability of crop insurance, even at high levels, to cover actual on-farm losses is also hindered significantly by continued challenges related to the calculation of APH. We've known for years that a few bad crops can diminish a producer's APH such that he or she can buy a high level of insurance, but still not have, overall, a good level of protection in the case of a severe disaster. This is a priority wheat growers feel must be addressed.

As input prices and world markets become more volatile, we also urge an emphasis on incentivizing stronger revenue policies. Different from "traditional" crop insurance that covers bushels produced, these policies provide producers some assurance that a portion of their expenses will be recovered during times of adverse market or weather conditions. In particular, our industry is supportive of the development of new, next generation crop insurance products that will provide added protection for variable cost risk associated with wheat production.

Direct Payment

During the last round of policy debates, NAWG fought to maintain the direct payment as it was the most reliable, World Trade Organization-compliant safety net mechanism for wheat growers beyond crop insurance. March Congressional Budget Office (CBO) projections for 2011–2020 show that 94 percent of wheat payments issued under farm programs will be delivered in the form of the direct payment, followed by six percent from ACRE and zero percent from countercyclical and marketing loan programs.

The direct payment continues to be popular among wheat producers for the same reasons we advocated it in the 2008 Farm Bill discussions. It is simple, predictable, reliable and trade-friendly. Bankers have also come to rely on the predictability of this cash flow stream when giving operating loans to producers. NAWG is evaluating the effectiveness of current programs and new ideas in achieving a consistent safety net on which producers can rely.

Average Crop Revenue Election (ACRE) Program

In the ACRE program's first year of active enrollment in 2009, more than nine million of the 72 million total wheat base acres (or nearly 13 percent) were entered into the program on approximately 61,000 operations in the U.S. USDA predicts pay-outs in the $300 million range for wheat producers, constituting roughly 75 percent of the total ACRE payments expected to be issued.

The State of Washington led the way in farm participation in the new program with 26.8 percent of the state's wheat farms enrolling in ACRE (constituting over 43 percent of eligible wheat acres in the state), though it was closely followed by eight other wheat states that showed participation rates exceeding 10 percent.

Oklahoma, North Dakota, Washington and South Dakota led the charts with total base acres enrolled in the program, each with more than 1 million acres enrolled in 2009. Oklahoma farmers topped the list by entering more than 2.5 million acres in the program.

2009 Wheat Enrollment in ACRE

States	Acres in Program	Percentage of Wheat Acres Enrolled	Number of Farms Enrolled
Oklahoma	2,514,648	36.71%	12,107
North Dakota	1,590,078	12.64%	5,320
Washington	1,067,418	43.18%	2,467
South Dakota	1,035,823	27.81%	5,420
Montana	612,181	9.43%	895
Nebraska	365,858	15.25%	6,758
Idaho	322,077	20.20%	878
Oregon	290,646	28.46%	488
Kansas	215,442	1.80%	1,405

2009 Wheat Enrollment in ACRE—Continued

States	Acres in Program	Percentage of Wheat Acres Enrolled	Number of Farms Enrolled
Minnesota	177,979	6.86%	1,681
United States	9,143,849	12.68%	61,875

Source: Farm Service Agency.

The high pay-out levels projected in 2009 are largely attributable to the fact that the guarantee price was calculated on years of high prices for wheat due to worldwide wheat shortages. The price discovery period and timing of the sign-up deadline allowed producers to make well-informed decisions regarding potential for program benefits. Sign-up levels may have been even greater had more growers had a greater understanding of the detailed workings of the program and the potential pay-out for the year.

We expect participation in the program to continue to rise as growers gain familiarity with it. This is evidenced in recent analyses from USDA, Kansas State University and the Food and Agriculture Policy Research Institute (FAPRI), all of which indicate that wheat farmers may have even more incentive to participate in ACRE in the future. Recent price depressions and price projections for the 2010/2011 growing season indicate that wheat farmers in 23 states could expect substantial ACRE payments should they decide to enroll this year. FAPRI predicts a rise from the current 12.68 percent enrollment rate to rates of roughly 19 percent, 20 percent and nearly 22 percent in 2010, 2011 and 2012, respectively.

However, with only 1 year under their belt and payments yet to be issued, wheat growers have largely continued to withhold judgment on the value and effectiveness of the ACRE program to provide reliable risk management protection on their operations over the life of the farm bill.

Despite the considerable efforts of USDA, academics and others offering information, webinars and analysis of the program, it remains poorly understood by a large number of growers and Farm Service Agency (FSA) county office employees alike. Therefore, absent comfort with the program, growers will often simply opt to remain with what they know.

Recommended Improvements

- One of the biggest pitfalls to the program is the state-level trigger. Though producers recognize the budgetary constraints associated with the change, there is a strong preference to move the trigger down as close to the farm level as possible due to significant fluctuations in prices and revenue guarantees particularly in larger, diverse states.
- A common problem heard among producers is ACRE's use of an Olympic average yield, particularly in those states that experience more than 1 year of losses in a 5 year period. Colorado wheat is proving to be an extreme example of this, showing 3 years of low yields, meaning the 5 year Olympic yield won't reach a realistic yield level until 2011 at the earliest.
- The lack of NASS data is also a significant problem for the ACRE program. FSA lists 21 crops as eligible for the ACRE program, but NASS lacks data on a number of these crops in many states, particularly for minor crops often used in wheat rotations such as lentils. This lack of NASS data also poses a significant problem with respect to considering a county-based ACRE program.

Supplemental Revenue Assistance (SURE) Program

NAWG supported the development of the Supplemental Revenue Assistance (SURE) program to help cover some of the shallow losses experienced by wheat growers in disaster years. Growers are continuing to gather experience with this program, though initial feedback shows it to be relatively popular and effective in helping to fill the income gap beyond coverage available through crop insurance in times of disaster.

The program seems to be operating as intended, as growers are being rewarded for higher buy-up coverage levels. However, there are a number of significant hurdles to this program meeting its maximum potential in providing needed assistance to producers.

As is no surprise to the Subcommittee, the program involves a complex sign-up process under the best of circumstances. Because of the late and continuously changing rules in the program, FSA offices have been left unable to give clear or consistent answers to growers on eligibility, leaving growers less able to make sound

management decisions. Add to that grossly inadequate IT infrastructure in the local FSA offices—which are already short-staffed and underfunded—and growers find themselves frustrated and wasting a great deal of time working through program details and sign-up when they would much prefer to be farming.

A few concerns have arisen with respect to the program that may require attention prior to the next re-write of farm policy. Programmatically, one potential pitfall of the program is that it seems to work best for single enterprise farms in high risk growing regions as the whole farm requirement provides the least amount of protection for diversified farms. Although it shows a marked improvement in terms of predictability over *ad hoc* disaster programs, concerns remain regarding the timeliness of payments being issued. In addition to these delivery hurdles, there is widespread concern about the program's funding over time as it is set to sunset in 2011, leaving SURE spending out of the 2012 Farm Bill baseline.

Consideration for Trade

While the core farm bill safety net programs are our focus today, I would be remiss not to also discuss with you an aspect of our business that is less traditionally thought of as part of our safety net, but which is vital to the continued profitability of wheat producers—trade.

We are all aware of the challenges that have faced the trade agenda over the past few years. The reality is that the wheat industry is trade dependent—fully half of our crop goes overseas in a typical year. We see this as a strength, as we are feeding the world while boosting our bottom lines here at home. But in order for trade to work, we have to have a robust trade agenda focused on opening markets and reducing trade barriers.

The delay in passage of pending free trade agreements with Colombia, Panama and South Korea, and further delay in making common sense changes with respect to trade with Cuba, has real-world implications. Those implications are being acutely felt by producers in hard red winter wheat states that have been facing extremely high basis levels this harvest season. Many of these growers are left with no option but to accept a price for their wheat that is far below the cost of production, with little assistance available as basis risk is one of those risks not easily covered by traditional farm programs.

This year's extraordinary basis situation has been caused by a perfect storm of high supplies, low protein and little storage available. However, we know for certain that one of the only remedies to this situation is moving wheat to some of these export markets that are being kept from their full potential due to the political situation in Washington, D.C.

As you begin to consider the 2012 Farm Bill, we encourage you to keep in mind that a robust trade agenda and properly-funded market development programs are key components of farm policy.

Farm Bill Budget Baseline

We are very well aware that the most significant challenge facing the next rewrite of Federal farm policy will be the budget baseline with which Committee Members have to work. We appreciate the commitment of the Subcommittee Members to preserving as much of the farm bill baseline as possible throughout the last farm bill debates and in legislative activity since.

The CBO projected commodity program spending for the current farm bill will be less than ¼ of 1 percent of the Federal budget. For each American, that's about 25¢ out of every $100 paid in taxes. U.S. farm policy as a whole costs Americans just 3¢ per meal or 9¢ per day—minimal costs compared to the enormous social benefit provided by a stable rural economy and a stable and affordable food supply.

We are committed to working with you as policymakers, others in our government and with our fellow producers to demonstrate this value and present the case over the next few years for a strong Federal farm policy.

Looking Ahead to 2012

The farm bill policy development process is not unlike decisions facing farmers about what to do with aging equipment. You might go so far as to compare our current farm policy—for which we have accumulated up to 14 years of experience with some components—with a trusty combine that has accumulated a whopping 2,800 hours of use. We're familiar with and appreciate the general predictability of the overall system, despite the glitches that come with age and known limitations compared to what we know might be available with newer models. It was given some "new additions" in 2008, but the core hasn't been replaced for a long time.

The question facing growers now with respect to farm policy is this: should our energies be directed toward further tweaking and improving the current structure of farm policy considering the "age" and known challenges associated with it? Or

is there a newer model—a next generation safety net—available that we might explore to better achieve our risk management goals?

That question, Mr. Chairman, is precisely the one we are committed to wrestle with through our policy development process.

I don't have an answer for you today. But what I can share are some results of an initial survey we undertook with our members to explore some of the basic elements that make our current farm policy effective, some of those elements that leave room for improvement and some new ideas that maybe have not yet been fully explored.

Farm Bill Survey Results Preview

The National Association of Wheat Growers provided an online survey to our states for their members' input over a period of about a month this spring. Overall, 558 survey responses were collected, with 90 percent of respondents identifying themselves primarily as growers and 65 percent identifying wheat as their primary crop. Other "primary crops" represented were corn (eight percent of respondents), soybeans (six percent) and cotton (four percent). Twenty-one states were represented in the survey responses, with highest participation from Minnesota (15 percent) followed by Montana, North Dakota and Colorado—each just under 13 percent. Fifty-one percent of survey respondents were between 51 and 65 years of age, with 28 percent between 35 and 50 years of age.

When asked to rate the effectiveness of the current farm bill in providing a safety net for their farms, survey respondents responded in a near-bell-curve, with a slight bias toward less effective than more effective. Forty percent (161 individuals) of those that answered the question gave rankings between one and three (less effective) and 34 percent (140 individuals) gave rankings between five and seven (more effective). Thirty-four percent (105 individuals) were neutral on the rating of effectiveness.

Some of the comments received with respect to the effectiveness of the current safety net included:

- Crop insurance is viewed as contributing greatly to the overall effectiveness of the safety net structure;
- Direct payments make for a dependable, predictable safety net;
- Target prices and loan rates are set too low and are therefore largely outdated for current production systems;
- The programs have become too complicated in nature;
- The current safety net does not directly address risk associated with volatility in farm costs; and
- The safety net is largely effective in helping farmers manage enough risk to keep farming despite volatile weather and/or market conditions.

Input was also gathered with respect to recommended improvements to the current structure of farm programs as well as "out-of-the-box" ideas not already addressed in the farm bill. Crop insurance was by far the most-cited program with opportunities for improvement, with several of those recommended improvements cited previously in this testimony.

These responses and others are being explored by NAWG's leaders through our committee system. Based on the results of this survey, NAWG grower-leaders will be exploring the best possible ways to "fill in the gaps" in current programs—whether that is to continue improvements to the current structure or to recommend new concepts that can even better meet the needs of the next generation of American agriculture. We look forward to sharing the results of that consultative process with Members of this Subcommittee and others in the future.

Conclusion

As an agricultural producer and a grower-leader of a national farm organization, I feel a responsibility to help your Subcommittee gather the best possible information as it relates to current and future farm programs. Holding this hearing demonstrates your commitment to the responsibilities you have taken on as a Member of this legislative body, and I very much appreciate the opportunity to testify here today. I stand ready to answer the questions you may have.

Thank you, Mr. Younggren.

Mr. MARSHALL. Mr. Murphy, you talked about maybe having some new RMA products but still needing the traditional safety net products.

Mr. Thompson, you observed that there is a lack of futures market, and that makes things a little bit difficult to predict what prices are going to look like and consequently manage risk.

Mr. Smith, you specifically said that marketing loans were critical.

Mr. Younggren, you noted that we want programs that help us manage risk, but not eliminate it; and you mention that in the context of the current safety net programs.

On the Committee, and I think elsewhere in agriculture, we are wondering to what extent, if we restructured our insurance programs, revenue insurance, crop insurance, those sorts of things that I am sure others have talked about as well, whether those sorts of changes might address some of the concerns that cause people to want to maintain the existing safety net programs that just, for some, don't work at all.

I think, Mr. Murphy, you might have been mentioning that it just wasn't working for rice. I know it has been a real challenge for peanuts where we set rates.

Could all of you gentlemen just comment on whether or not crop insurance or revenue insurance, or some modifications of the products that are put out by RMA can't sort of substitute for the traditional programs and for the role that the futures industry provides you in trying to manage risk, predicting price, and hedging?

So, nobody is going to tackle that one.

Mr. THOMPSON. I will. I am a little bit different here. I mean, we do have multi-peril crop insurance with our crops. What we have been trying to get is a revenue-based insurance to protect from the price fluctuation during the year, which we have with CRC. I am also a wheat grower.

And, like I said, it has been a little bit frustrating over the last 10 years.

Mr. MARSHALL. If you had that kind of stuff, say we were able to put programs like that together and you had that stuff available to you, does that diminish or eliminate altogether the need for the more traditional programs?

Mr. THOMPSON. I am not prepared to——

Mr. MARSHALL. You don't know.

Mr. THOMPSON. I am not prepared to eliminate those programs at this time.

I think it is an important tool, and in our situation where we don't have a revenue protection, it kind of puts us behind the eight ball with the other crops.

Mr. MARSHALL. We have been joined by Chairman Boswell. He is going to let me keep asking the questions, though. Anybody else?

Mr. SMITH. I will make reference to the Marketing Loan Program in the current program has been very vital to us in cotton. As we go about trying to finance and secure financing from our bankers, that gives them a baseline to base their financing off of, given your production levels there.

On the crop insurance issue that you talked about, crop insurance is vital to us—and especially in our part of Texas as we go through—because we are susceptible to weather extremes that can create issues there.

The problem we have with crop insurance is the affordability of a good crop insurance program that would allow us to cover what it will cost, shallow losses—whenever you have shallow losses of 30 percent or less—which can actually make a crop that you grow on your other acres, really just trying to maintain where you are. Instead of trying to make money, you are just trying to cut your losses in that respect.

So some kind of affordable crop insurance program, as we work through this farm bill would be, certainly, in cotton's best interest.

Mr. MARSHALL. When people bring up this revenue insurance notion, and I don't know all the ins and out about it. Mr. Younggren, I kind of think about what you just said. I wouldn't necessarily put it in those words, "We are looking to manage risk but not eliminate it." How do you have a revenue insurance program without just effectively eliminating risk? Anybody know?

Mr. SMITH. Mr. Chairman, could I make a comment?

Mr. MARSHALL. Sure.

Mr. SMITH. With sorghum we have the same issues of not being traded on the CBOT, so there was a lot of problems. And I mentioned in my talking points, getting our loan rate, our price election rate, which we would like to thank Mr. Moran for his help with that. But one of the issues that we run into when we start looking at different crops and different products and developing new products, a few years ago CRC was not available for sorghum, where it was for other crops. It put sorghum at a disadvantage.

Then along comes—finally, we get CRC where we have some revenue coverage in sorghum; along comes RA for corn. When the prices spiked up a few years ago in corn, CRC was capped where RA was not. We have to be very careful when we develop new products for crop protection that they are available to all crops and don't put certain crops at a disadvantage, which may in turn legitimize putting the wrong crop in the wrong ground.

Mr. MARSHALL. Mr. Murphy.

Mr. MURPHY. Mr. Chairman, could I make a comment on insurance?

Mr. MARSHALL. Sure.

Mr. MURPHY. In rice, the crop insurance doesn't really work very well, but there are some new products being looked at. We would like for crop insurance to work for rice. I think if the premiums were cheaper and there are the new products we talked about earlier, maybe had the cost of inputs been involved in it a little bit, we would look at crop insurance more seriously.

But our bankers like the old farm program, they like to be able to look at direct payments and know that you have this money coming, money in the hand.

Mr. MARSHALL. If I caught the gist of your testimony, not too much is working for rice right now.

Mr. Chairman, why don't I switch seats with you and you switch over? Chairman Boswell is back. Okay, I don't get to go either.

OPENING STATEMENT OF HON. LEONARD L. BOSWELL, A REPRESENTATIVE IN CONGRESS FROM IOWA

The CHAIRMAN. [presiding.] Well, thank you very much.

I think that Mr. Marshall probably explained that we have the conference committee going on in Financial Services, banking. I call it the Wall Street bill. But anyway, that is going on. We started this at 8:30 this morning, and we are on a recess right now. So I would guess that every one of you has some interest in what is going on there, and we are doing our best to try to represent that.

Chairman Peterson is on the panel, as well as Ranking Member Lucas, so that three of us from Agriculture are there. And we take it very seriously and we hope that we can carry the mail.

With that, I know that Mr. Moran is waiting. I heard some of that last discussion.

I will just say this. You know, there is a lot of angst out there, concern about what is happening with the RMA, SRA, and so on, and that information has been bouncing back and forth through, what, Jerry, the third draft which is alleged to be the final draft. I assume it may be. I am not sure at this point, totally, but that is the idea.

They have had their regional meeting out in Kansas City a weekend ago, and so we have some feedback from that. But we are going to continue the best that I am able to control it, the pace that we have been on; that we are going to walk before we run and make sure that we have feedback, which I was just hearing from some of you.

It appears that we are headed on a pretty sure course after our safety net, but it has got to be available and affordable. And those things that I know, having been a producer for a number of years, you have to know where you are at.

But I continue to say this. If you are going to be in production of agriculture, whatever area you are in, you have to have about three things or you just can't operate. You have to have a good bank, you have to have the farmer store—you can call it whatever you want—your co-op, whatever it might be to buy and sell and so on. And you have to have a good insurance agent that knows what they are doing.

I have added those a few years back, too. I think it is very, very important. Of course, to keep the insurance companies out there going, they have to have profitability. That is what they are in business for. So we understand all of that, and I certainly do from having been a practitioner of users, so I understand it very well.

With that, I want to recognize my Ranking Member.

I want to call your attention—I want to thank Mr. Marshall for taking over. He was supposed to fill in for me after we started this morning, and then we got over there for an early meeting and I didn't feel comfortable to leave. We had to get word to Jim that he had to speed up and get here.

But I just want to say something, I really appreciate this guy. Not only is he our workmate here, but 2 or 3 years ago I was very proud, we were both veterans, I was very proud that he got inducted and put into the Ranger Hall of Fame, Jim Marshall, right here, setting beside me. And I am very proud of his service in many ways to all of us.

Having said that, Mr. Moran, you are recognized.

Mr. MORAN. Mr. Chairman, thank you, I certainly appreciate the consideration that you always extend me, and Mr. Marshall was a fine and kind Chairman in your absence.

While you recognize his military service, I mentioned yours several weeks ago in which you were honored at the General Staff and Command College at Fort Leavenworth, Kansas, and thank you both for your service to your country.

Let me follow up with the direction, at least the comments of Chairman Boswell.

In regard to the recent SRA agreement, are any of your organizations or associations following these discussions? Have you examined the third draft and had input or thoughts in that regard? And do any of you believe that the attempt by RMA to utilize savings, so-called savings in this renegotiated, or this negotiated agreement, results in better opportunities for the crops that your members grow, or has a better result for the geographic area of the country you represent?

That is one of the arguments that RMA is making, is that we are going to save some money and we are going to put it back into crop insurance and develop new products and try to take care of those who are underinsured.

On the other hand, I would think there would be some concern, particularly if you farm in a high-risk state, that the crop insurance companies and their agents may soon decide that the risks are too high for the rewards.

And so I wondered, on balance, if there is a consensus or an agreement that we are either headed in the right direction or wrong direction, or perhaps this is not far enough out there that you all had the opportunity to examine it?

Anybody have any thoughts? I always hate to ask a question for which no one has an answer. It suggests that it is a poor question.

Mr. SMITH. Well, one of the things in cotton, we have really, in Texas in particular, because I guess we would be considered a high-risk state in many respects. But, the group risk policies that have been available in the past are no longer available, were tools that some operators could use to protect their investment that they had in the crops.

And we certainly would like to encourage, continue to look at those, what we call the GRP, Group Revenue Protection, policies that have been in place. Of course, I understand the effectiveness in trying to get the ratios right on the things, but they definitely have places in our areas of cotton production.

Mr. SIMONSEN. Well, we are certainly watching it very closely as this unfolds. But to be very honest, we are still fighting insurance battles from the last go-around. We have a couple of other issues to work on, very tied up with that and kind of waiting for the fourth and final draft to come out, and so we actually know what we are dealing with.

Mr. MORAN. I am optimistic to hear you say there will be a fourth draft. That will be encouraging to me.

Mr. SIMONSEN. No. I said there would be four final drafts.

Mr. MORAN. Okay. I appreciate, I guess, those comments. I would take this, I guess, as an opportunity to express my concern that anytime that we are taking $6 billion out of crop insurance, reduc-

ing the base as we prepare for the next farm bill, we are creating problems, certainly perhaps for crop insurance, but also making it much more difficult to develop a farm bill that is going to meet the needs of our country's farmers and the consumers that they serve.

So this is a very troublesome issue to me and particularly the way that USDA has developed this concept in taking some of the savings for paying for a mandatory program, CRP, makes little sense to me from a baseline protection perspective, despite the fact, as I recall, that USDA promised that they would do everything possible to protect the baseline.

So while we are sitting here, and we have had conversation about we are going to develop a farm bill in very difficult economic times, clearly the step taken by USDA RMA, in regard to this issue is making it even more difficult. I guess it would be different if we were saving that $6 billion instead of shifting it to crop insurance—I am sorry, instead of shifting it to CRP, and putting it back into trying to find ways to provide higher levels of coverage, as most farmers tell me they need at an affordable price, or trying to take care of rice, for example, who finds crop insurance less advantageous.

I think it is not a direction that I am very comfortable with, and at the same time I am worried, particularly as a Kansan, where the weather is not always our friend, that we are going to have less companies and ultimately less agents writing the policies. And as they reduce A&O and put a cap on crop insurance agents' commission, the competition for service, that the service will be damaged in the process.

So I would be glad to have any comments from the rest of you.

My time is at 13 seconds, and I do have a couple of other questions. While Mr. Marshall always intimidates me, my friend Mr. Boswell always allows me extra time. But I would ask if we could perhaps have a second round of questions at the end, and I would be glad to yield back the 1 second that I have left.

The CHAIRMAN. Okay. You are welcome. I will just comment on that before I recognize Mr. Kissell here. But we have shared our concern, we have, and it is a big concern.

I think leading into that is—because we went out in the field, as our Chairman and Ranking Member shared with us—is looking down the road at the deficit and all of that. If we are going to anticipate the possibility, and nobody is saying it is happening, but it doesn't take a rocket scientist to figure out there has to be something done about this deficit.

And I thank our leadership for saying to us, starting early with agriculture is what we are primarily concerned about. If there is going to be some reduction, then it has to be with everybody, not just agriculture. I feel very strongly about that, I know Chairman Peterson does and Ranking Member Lucas and both Mr. Moran and myself; in fact, all of us.

So that was one of the reasons we started out on these early field hearings, and having this hearing here today, we want your best thoughts on how we do this.

I don't want you to think that we are going to sit idly and be happy with a reduction just happening in the agricultural sector. But if it happens to everyone, well then we will probably have to

live with it. So how do we do it best? I think that ties in with what Mr. Moran is concerned about, and I appreciate that comment he made.

So we have already taken this reduction in our baseline, okay. The rest of the folks, what do you have to look forward to, is kind of the way I look at it at this point. So we will see what happens from there.

Four billion dollars of it went to deficit production, pretty hard to argue against that, but I am not too sure what is going to end up with the other $2 billion and also what is going to happen to the rest of the overall budget, as I have just mentioned.

With that, I will recognize Mr. Kissell. Thank you for your patience waiting there, Mr. Kissell.

Mr. KISSELL. Thank you, Mr. Chairman.

Mr. Smith, with the Brazil case, any thoughts from the cotton industry as to changes in policy that you all would like to see take place that would help that situation be rectified?

Mr. SMITH. Well, we are concerned about that case, of course. And I will also remind the Members of the Committee that that finding, that panel decision, was made based on the crop conditions that happened in 1999 to 2005. And we are certainly in a different world today than we were in that time period.

The National Cotton Council in the mid-year board meeting, we have already put together what we call our Farm Policy Task Force. We will be looking at different options, all options on the table of how to address exactly what has happened with the farm on this WTO-Brazil case, and we have no comments at this point in time of what policies we might want to look at.

Mr. KISSELL. Thank you, sir. Mr. Chairman, I yield back.

The CHAIRMAN. Thank you. Mr. Smith.

Mr. SMITH OF NEBRASKA. Thank you, Mr. Chairman, and greetings to my constituent from Nebraska, Mr. Simonsen. Thank you for sharing your expertise and your time.

Obviously you talked about grain sorghum as an excellent crop for ethanol. And using ⅓ of the water, yet the same energy output as corn-based, and I think that is a great option to have. Also, there is concern that USDA's recently proposed rule, section 9005 of the energy title of the farm bill, contains a provision requiring all feedstocks purchased under the program to conform to the EPA's RFS2 definition of *advanced biofuel,* thereby excluding biofuels which previously qualified, such as the sorghum.

Could you elaborate on the steps your industry is taking to ensure grain, sweet and high biomass sorghum, qualify under this rule and ultimately as an advanced biofuels in the RFS2?

Mr. SIMONSEN. Well, we have been working closely for quite some time with the USDA as well as EPA. Obviously, indirect land use is a huge factor in how this works out and how it shakes out. Some of the models and formulas that they have been using, we have been trying to work with them to make sure that they are using the best possible data and that it actually reflects the reality of the world that we live in. So that at the end of the day, we don't constrain these plants.

Throughout the Sorghum Belt, there were ethanol plants that were struggling, suffering; some of them shut down, some of them

running at low levels of production, which, because of the payments and incentives of the 9005 program have been able to go back online, put jobs back in these rural communities and pay these people's bills. It is very important for ethanol to have—we talk about risk management, a safety net for producers. Well ethanol is huge for not only sorghum but corn and other crops.

There is no safety net for ethanol producers. We need an available ethanol industry. You know this catastrophe, tragedy in the Gulf, brings us every day just a glaring reminder of how important ethanol is to our future.

Mr. SMITH OF NEBRASKA. Okay. Thank you, sir. Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. Thank you. Mr. Schrader of Oregon.

Mr. SCHRADER. Thank you, Mr. Chairman. I have a few questions, and I would prefer to get the responses in writing, actually, from all the commodity groups if possible. I don't need an answer right now.

I have a little bit of concern on a lot of the comments on direct payments. They are tougher and tougher to explain to a lot of Americans, and I believe, eventually, that there is going to be difficulty in keeping that in place and phasing that out. It is probably inevitable at some point in time here.

Making sure Americans enjoy food security is real important and I would be interested in several things. One is, frankly, from the different commodity groups, what level of food security should be guaranteed by production here in this United States of America for your various crops? I mean, that is a tough question to answer, but given the fact we trade all over the world, I assume some level of foreign competition, even in America, is good. But I want to make sure that we have food security, given disasters that occur in this country and, frankly, overseas.

The other thing is I would be interested in what changes in trade policy we should be advocating for. I would like to know from the various commodities, cotton is a good example, but there are many others, what changes. The developing nations of a few years ago are now pretty developed. We are competing *mano-a-mano* with a lot of nations that before needed an extra hand to compete with us.

The levels of subsidies from various countries have changed. So I would be interested in what we should be advocating for what Members of this Committee, as we look at the farm bill and interacting with our trade partners and committees to deal with trade, what we should be looking for.

Then there has been a lot of discussion over guaranteeing various levels of yield and revenue and the problem with historical data. It seems like to me that a lot of the discussion this Committee has had over the course of the last year and a half is looking at more of an insurance on production costs. So I would be very interested in your comments about different levels of production costs, the fluctuation and changes over time, and how maybe an insurance bill should be designed around covering production costs, not necessarily artificial ups and downs and yields and revenues, and some crops are sold every other year. You know, if you are a cattleman, you don't sell every year, necessarily.

And last, I would like information about discussion on energy bills. I know a lot of my farming friends are worried about increased costs as a result of these energy changes in legislation. We had testimony early last year about the wild fluctuations in futures costs for oil, and cotton got hammered real hard under the crisis.

I would be very interested in knowing what the different commodities feel; any energy legislation, it may be modeled on some of the work the House did or the Senate is currently discussing; what those costs are, because perhaps we should be building those into any sort of 2012 Farm Bill.

If that is indeed going to happen at some point in time, what are the costs that you are seeing that are going to arise out of that? I know USDA is doing some studies indicating that for some types of crops, farmers are going to benefit from energy legislation; there are those that might not be the case for.

So if you could answer those four or five questions, I would surely appreciate it. And I yield back my time. Thank you.

The CHAIRMAN. Thank you very much. I would like to yield to Mr. Moran some more time.

Mr. MORAN. Mr. Chairman, thank you very much. I understand we have votes any moment now, so I will try to keep my remarks brief. But I do have a couple things I want to say. And if you have an answer to my question, and we don't have time for the answer, I would be glad to have you submit that in writing to the Committee.

I want to talk particularly to Mr. Younggren about basis. We heard the Illinois Farm Bureau President speak about the wheat basis, the difference between cash and futures prices. Does the National Association of Wheat Growers have any particular solution to this widening gap? I assume this is not just a unique Kansas occurrence, particularly after hearing from the Illinois Farm Bureau. But what do you think we could do at the moment? Is this related to high carryover stocks, low protein wheat, lack of export markets? Or is there something more fundamentally wrong with the market itself?

Mr. YOUNGGREN. I would say the big problem right now is that we are awash in wheat. We have about half a crop carryover from last year, and we have the free trade agreements lined up that we could really use those to get done, so that we can trade this wheat to Colombia, Panama, South Korea.

We have also worked a lot on the Cuba trade and travel bill. That would help us tremendously to get rid of some of this wheat and bring the market more in line with—bring the cash market in line with the futures market.

Mr. MORAN. In regard to the Cuba issue, it is conceivable to me that if this issue arises in this Committee or others, that the question will be, I suppose particularly in this Committee: Well, we like the agricultural aspect, kind of the fixing of the issues that we have at the Department of the Treasury, in which they have created unnecessary impediments to our sale of agricultural commodities to Cuba.

But let me ask the importance of including the increased travel availability or opportunity for U.S. citizens to travel to Cuba. Is that an important component that we keep in the bill from the per-

spective of any of you who care about trade with Cuba? Rice would have an interest in this topic. Will you be satisfied if we just fix the Treasury Department problems created in the last Administration's regulations? Or is it important to keep the increased travel included in the bill?

Mr. YOUNGGREN. We need the bill to stand intact. We need it all together.

Mr. MORAN. Anybody else?

Mr. MURPHY. Yes. Mr. Moran, rice is definitely for trade with Cuba, and we would like to sell Cuba a lot of rice. And we see no problem with people being able to travel to Cuba also.

Mr. MORAN. Any others? Does anybody else have any thoughts about the basis? Is this just a wheat issue?

Okay. I think, Mr. Chairman, that is my final question. I did want to respond, because we talked a lot about the direct payment today, and even I did this. We talk about how difficult it is to explain. I think what we need to decide is whether it is important to keep.

If we start with the premise that it is so difficult to explain to the public, therefore we are giving up on it, we know it is going to go away. I think it is important for agricultural organizations and commodity groups to let Members of Congress, let Members of this Committee know, are we just supposed to acquiesce in the sense that we are never going to be able to explain this, so let's just give up on the direct payment? Or is it so important, or important enough as a component, what I have always described as the third leg of a three-legged stool, that we ought to be fighting to keep it?

So I would just hate for us to take the defeatist approach that we can't keep it so let's move on, if it really is something that we ought to be fighting to preserve.

So I thank the Chairman for allowing me extra time and appreciate that consideration. Thank you to the witnesses for having this conversation today.

The CHAIRMAN. Thank you. And I am glad to do it.

Mr. Schrader indicates no more questions. I think we will bring this to a close.

Do you have anything in closing, Mr. Ranking Member, you would like to say?

Mr. MORAN. I believe I have more than utilized the time that you have graciously allowed me.

The CHAIRMAN. Well, you are very welcome. And I appreciate what you said, and I think we are on the right track. We are on the same track. That is good. So I will bring this to closure.

Before I do, I want to thank all of you for your presence. And we are relying on you to keep in touch with us. We need to keep the communication line going. And our staff is available, both here the professional staff on the Committee and on our member staffs, and so let's keep that going.

So with that, under the rules of the Committee, the record of today's hearing will remain open for 10 calendar days to receive additional material and supplements, the written responses from the witnesses to any question posed by Members, and I am going to say at this time, and/or staff.

This hearing of the Subcommittee on General Farm Commodities and Risk Management is now adjourned. Thank you.

[Whereupon, at 10:42 a.m., the Subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUBMITTED QUESTIONS

Response from Anthony Bush, Chairman, Public Policy Action Team, National Corn Growers Association

Question 1. Comment on an insurance program based on insuring coverage of your production costs *versus* yield and revenue type programs. How would we design such a program for your commodity/farmers?

Answer. Margin insurance—the difference between the crop's market value and production costs would be one approach to addressing this problem. RMA currently offers a Livestock Gross Margin for cattle.

The Livestock Gross Margin for Cattle (LGM for Cattle) Insurance Policy provides protection against the loss of gross margin (market value of livestock minus feeder cattle and feed costs) on cattle. The indemnity at the end of the 11 month insurance period is the difference, if positive, between the gross margin guarantee and the actual gross margin. The LGM for Cattle Insurance Policy uses futures prices to determine the expected gross margin and the actual gross margin. Adjustments to futures prices are state- and month-specific basis levels. The price the producer receives at the local market is not used in these calculations.

Question 2. Comment on what changes your commodity group/farmers would like to see in the WTO trade guidelines given that some of the previous "developing nations" are now more than equal international partners (*i.e.,* India, China, and others so we have a more level playing field). How have covert subsidies altered the balance of free trade?

Answer. The greater benefit from world trade liberalization in agriculture, about half results from the elimination of tariff barriers; less than ⅓ of benefits results from the elimination of producer subsidies. The current Doha Round largely excuses developing countries from making significant, effective reductions in tariff barriers, yet nearly 40% of the tariff reduction benefits comes from their elimination in developing countries. Moreover, since most of developing country agricultural trade occurs with other developing countries, the absence of significant tariff barrier reduction deprives these countries of most of the benefits of trade liberalization. In the case of the U.S., agricultural tariff barriers, with a few exceptions, are already very low. Focusing the Doha Round on reducing Developed country producer subsidies will provide little benefit to the developing countries, relative to effective tariff barrier reduction.

Question 3. Many agriculture groups, including many testifying today, have publicly stated the House-passed ACES (climate change bill) would be detrimental to their operations. Can you comment specifically on the exact financial effects that a "climate change bill" will have on your commodity/farmers' cost of production?

Answer. The results of NCGA's economic analysis of the House climate bill indicate that every corn grower in the country will experience increased costs of production resulting from H.R. 2454 largely due to increased fertilizer and energy prices, as well as other inputs. In the early years of this legislation, these higher production costs will be relatively minor. However, over time these prices will significantly increase, placing an unnecessary burden on growers. Second, while this legislation offers opportunities to produce carbon offsets, this study demonstrates that not all growers will be able to participate. The single greatest offset opportunity is using continuous no-till. However, not every corn grower is able to adopt no-till practices. The ability to adopt continuous no-till production is driven by both economic and agronomic factors. There is also a high degree of uncertainty about which exact carbon offset activities will qualify, the quantity of offsets that will be provided for a given activity, what producers will be eligible to receive these offsets, and the length of time that farmers can continue to receive these offsets. Those growers unable to adopt no-till production will experience serious economic hardship resulting from H.R. 2454.

Question 4. From your commodity/farm perspective, what level of food production is critical to our national security?

Answer. In our view, food production is more of a distribution issue rather than a national security concern. The sensitivity of the level of food production is dependent upon what prices the public is willing to pay. The United States has a broad, diversified agricultural sector and consumers adjust fairly well to production shortfalls, paying somewhat higher prices that are part of the production cycle, and substituting other, less costly foods. Even the price impact of sharp yield reductions in corn and other feed grains have been cushioned by the adjustment of the livestock sector, which has spread the impact over several years as the shorter biological cycle livestock respond first. The longer cycle cattle enterprise lowers prices first as margins are squeezed and cattle are sent to slaughter. After herds have contracted,

prices rise as cattle are held back from market to rebuild breeding herds and feeder cattle are fattened longer in response to higher prices.

In an example of a true national security situation, rationing was used during World War II to address the distributional issues.

Question 5. How do we defend direct payments to a farm for a crop they no longer grow? And haven't grown for some time? Please comment from your commodity/farm perspective.

Answer. Direct payments currently bear almost no relationship to production cost for their associated crops. The direct payment's origin lies in the CBO 1995 projection of 1996 through 2006 crop deficiency payments. These payments were based on target prices that had been reduced since they were increased in the 1981 Farm Bill to protect producers from the inflationary trends of the late 1970s.

The CBO projection was the basis for the "decoupled transition payments" in the 1996 Farm Bill. These payments were subsequently doubled in annual emergency legislation to protect producers from low farm prices, not rising production costs. Consequently, it does not matter what crop is produced, given the negligible relationship to production costs.

The rational for providing direct payments to a producer who grows no crop is that the alternative, producing an unprofitable crop simply to receive the subsidy, is a more difficult position to defend and a common criticism of farm programs.

Question 6. How should the Federal Government handle disasters? No program that has been constructed thus far has successfully plugged all the possible holes to ensure that we do not have to consider *ad hoc* disaster programs annually. How do we establish predictable protection against disasters?

Answer. Consider a standing Group Risk Plan (GRP), based on the insurance policy, provided at no cost to producers. The type of disaster that typically gives rise to calls for disaster assistance would likely be that triggers a sufficient drop in the county yield to result in a payment. The greater the breadth of the disaster, the more likely GRP is to meet the needs.

However, because a producer cannot count on GRP meeting his entire need for every loss, that producer would need to purchase crop insurance. The interaction between the two programs could be designed to give the producer the greater of the two benefits, but not both. The result would be that policy premium would decline, dependent upon the county-farm yield correlation, and a producer could afford to buy higher levels of coverage.

Question 7. How large of a barrier to entry is there in your area for beginning farmers? How can that barrier be reduced?

Answer. The main barrier for beginning grain farmers in my area is ability to compete with established farmers at the going rates to cash rent farm ground. As important as the availability of affordable credit is to a beginning farmer, one of the most difficult hurdles is accessing land.

Farm land cash rents reflect the current earning capacity of that land's yield history, current and expected crop prices and input costs. Established farmers, who may own as well as rent some of the land they operate, may have little out-of-pocket costs on land and equipment that they already possess, placing them in a stronger position to bid rental land away from others.

One way of improving the position of beginning farmers to gain access to land is to facilitate partnerships with older farmers, with the younger supplying more labor where they may not have an equal cash contribution to the operation. It would also be possible to encourage the transfer of farm assets to the younger generation who would accept increased ownership and managerial roles as well as increased cash receipts with which to make a monetary compensation for the assets.

One way that could address this issue is a favorable treatment of the capital gains tax rate for separating the development rights to farm land, which raise the speculative element of the land price, from the agricultural use of farm land. Deeding away the development rights will keep the land in agricultural or conserving use, lower real estate taxes to the current and future owner and, perhaps, result in a cash compensation for development rights sold to a conservation institution that preserves land in such a way.

Question 8. You highlight concerns with regard to crop insurance rating methodology. How has RMA worked with producers on this process? What should Congress do to ensure they are working with producers?

Answer. This is not an issue of RMA working with producers; RMA has been considerate of NCGA concerns and provided ample opportunity for comments to be submitted on the recent review of the agency's rating methodology. It is a dispute on how insurance rates are determined and a divergence of views on data that demonstrates that corn, with its improving yields, has less variance and, therefore, less

risk. As evidenced by the recent average .61 loss ratio, rates are not being set to reflect that lower risk.

Question 9. You mention that you prefer SURE over *ad hoc* disaster programs. Could you explain the pros and cons of each, and why SURE is a better choice for corn producers?

Answer. Long before the SURE program, NCGA advocated for reforms to disaster assistance that would not only treat crop insurance participants more equitably, but avoid duplication of benefits. *Ad hoc* disaster assistance legislation has usually adhered to a familiar design of targeting payments for large yield losses without factoring in the degree of loss. Growers could still lose up to 35% of their crop and still sustain substantial financial losses.

Producers who do have an eligible loss may receive no more in disaster assistance, including crop insurance indemnities or NAP payments, than 95% of the value of the crop had there been no loss. It is reasonable to limit government assistance, but this limit does not include other payments made by the government. A loss in one crop maybe compensated, but receipts and payment for that crop and others are ignored.

In contrast, SURE covers whole farm revenue for both covered commodities and many other crops; it includes crop insurance indemnities, Noninsured Crop Disaster Assistance Program (NAP) payments, Marketing Assistance Loan proceeds, Direct and Counter-cyclical Program (DCP) payments and ACRE payments. SURE revenue is guaranteed at 115% of purchased crop insurance coverage levels, raising revenue protection up to a maximum of 90%, which is a more reasonable limit to producer protection than the disaster program's 95% limit.

Moreover, the inherent difficulties of securing funds to pay for *ad hoc* disaster aid has usually resulted in protracted delays in delivering assistance in a timely manner. Despite the complexity of SURE, there is at least a standing program in place structured to direct payments to producers who can demonstrate whole farm revenue losses.

SURE is not without issues. There is a concern of a moral hazard over a requirement of ten percent yield loss for one crop despite that all other SURE requirements are met. When the difference between a substantial payment and no payment is dependent upon a ten percent yield loss for one crop, an incentive exists for a producer to reach the ten percent yield loss.

The design of SURE also raises questions of equity for farmers who operate multi-crop operations. Aside from other serious issues of program complexity and long term funding, concerns remain about overlapping coverage with ACRE and crop insurance.

Response from Dave Henderson, President, National Barley Growers Association

Question 1. Comment on an insurance program based on insuring coverage of your production costs *versus* yield and revenue type programs. How would we design such a program for your commodity/farmers?

Answer. Using the 508(h) process of the Federal Crop Insurance Act, North Dakota growers have been working on a new product that seeks to insure growers' production costs. This 'crop margin coverage' product would use USDA regional cost of production values to determine a reasonable guarantee to cover input expenses.

Another solution could include what we have previously described as a crop insurance 'plus,' or risk management account, a type of co-insurance structured as an accumulating individual fund that provides a mechanism for producers to insure themselves against losses not covered by current crop insurance policies. Producer contributions, along with Federal matching funds, would create a tax-deferred, self-insurance plan that would allow a producer to build equity for uninsurable, targeted losses above currently affordable levels.

Question 2. Comment on what changes your commodity group/farmers would like to see in the WTO trade guidelines given that some of the previous "developing nations" are now more than equal international partners (*i.e.,* India, China, and others) so we have a more level playing field. How have covert subsidies altered the balance of free trade?

Answer. A concerning aspect of the current WTO negotiations is the ability of a country to self-designate themselves as a developing nation, resulting in lower tariff disciplines. But that being said, WTO staff has indicated we should not be so concerned with trying to lower tariffs in developing nations, as most current applied tariffs are far lower than the bound rate. We should be far more concerned about developing nations who have no limits on agricultural subsidies. China, with their accession into the WTO, is limited but India, Brazil and others are not. India is a prime example of huge increases in subsidies for their farmers and it has probably

affected trade. China could illegally be providing subsidies to their farmers, but our agricultural trade with them is so large there is currently no traction to bring a case against them. U.S. barley and wheat producers have been mostly left out of ag trade with China, "but a rising tide lifts all boats."

We have been told the SPS (Phyto agreement) is complete in the current text and will not be reopened. If that is the case, we need to make sure that an easier mechanism is in place to challenge, in a more timely manner, illegal trade-blocking Phyto standards. India is a prime example of a country's use of Phyto's to block U.S. imports.

Question 3. Many agriculture groups, including many testifying today, have publicly stated the House-passed ACES (climate change bill) would be detrimental to their operations. Can you comment specifically on the exact financial effects that a "climate change bill" will have on your commodity/farmers' cost of production?

Answer. It is not possible to know the exact financial effects that climate change legislation will have on our cost of production as there are too many unknowns in the equation. We do know from a recent *Informa Economics* study that fertilizer prices are projected to rise dramatically and, on most farms in the Northern Great Plains region, fertilizer represents over ⅓ of our production costs. Every crop input we purchase is made from or produced with energy that will be regulated by this legislation; from the chemicals we spray, the fertilizer we apply, the fuel and oil we burn, and the tires we run, to the steel in the equipment we use to produce our crop. The difference between agriculture and other industries affected by this legislation is that other industries are able to pass their increased costs on to the consumer, while those in agriculture have no way of passing on higher costs. We are also concerned that, since ag producers today operate in a global market, if one of our competitors is not required to follow similar regulations, then they will have a competitive advantage in the world market and we will not only have higher input costs, but lower prices as well.

Question 4. From your commodity/farm perspective, what level of food production is critical to our national security?

Answer. The U.S. grain industry produces more bushels than can be consumed domestically, but those additional bushels represent a bright spot in the nation, providing a surplus that has contributed positively to the overall U.S. trade balance and, consequently, to our national security. The argument could be made that there will still be sufficient food to feed the world since any acres that come out of U.S. production will most likely be picked up by other grain producing countries. Yet we need only look back a couple of years to weather-related crop failures in many parts of the world, including the United States, when crop prices rose to unprecedented levels from the fear that supplies would be insufficient. If we push too much U.S. grain production overseas, then we are at the mercy of other countries for our food supply and must rely on their often inadequate food safety standards.

Question 5. How do we defend direct payments to a farm for a crop they no longer grow? And haven't grown for some time? Please comment from your commodity/farm perspective.

Answer. Allow periodic updating of base acres to reflect the previous 5 years of planted acreage. This may be more palatable to the public, but would be less WTO compliant since it would most certainly influence production.

Question 6. How should the Federal Government handle disaster? No program that has been constructed thus far has successfully plugged all the possible holes to ensure that we do not have to consider *ad hoc* disaster programs annually. How do we establish predictable protection against disasters?

Answer. We believe the new SURE program, established by the 2008 Farm Bill, is a good first step at handling disaster assistance, protecting growers from shallow crop losses above those levels that are affordable through regular crop insurance. SURE requires growers to participate in crop insurance and encourages buy-up coverage by establishing a guarantee at 115% of the producers' individual coverage level up to 90% of their expected revenue. The SURE program should be included and funded in the next farm bill, and could be improved by lowering the individual producer loss level for eligibility from 50% to 30%. We believe strongly that growers who do not adequately protect themselves using available crop insurance tools should not be made whole through *ad hoc* disaster assistance.

Question 7. How large of a barrier to entry is there in your area for beginning farmers? How can that barrier be reduced?

Answer. Most beginning farmers in our area are young people who are working with their parents while, at the same time, trying to establish their own operation. They need low interest loans to purchase the inputs necessary to get started, but they also need a strong safety net in order to survive in times of volatile weather

and prices. A low interest loan could be offered to beginning farmers that requires purchase of Federal crop insurance at an 80% or 85% coverage level at a reduced (more highly subsidized) premium cost.

But the best way to help a beginning producer is to make sure they have a steady, consistent stream of income, namely through the direct payment and crop insurance. Not only do these programs provide stable income and risk protection, but they can also be used as collateral for an operating loan. Low interest loans in and of themselves are no good, no matter the rate, without enough income to make the loan repayment. In fact, a short term low-interest loan may be more detrimental than helpful if a beginning farmer suffers several years of crop loss in a row.

Another barrier for a beginning farmer is the estate tax. A young farmer who has worked on the farm all his life in partnership with his parents may be saddled with taxes that can only be paid by selling the farm when the parents pass away. Unless Congress acts soon, the estate tax will snap back in 2011 to the onerous rates under previous law. To prevent this from happening, NBGA urges Congress to pass estate tax reform that exempts the first $5 million at a 35% rate of estate tax for family farms.

Question 8. You have indicated that one of the reasons that barley acres have declined is the relative lack of program support, citing just 2% of the spending going to barley. However, given that much of the spending is derived by the amount of production and the amount of base acres in a particular crop, you would expect crops with less acreage to have less total spending. How would support levels for barley stack up when compared to other measures such as the cost of production and average revenues?

Answer.

2011–2020 Farm Program Spending, Production and Planted Acres Barley, Wheat, Corn, Soybeans*

	Barley	% of Total	Wheat	% of Total	Corn	% of Total	Soy-beans	% of Total	Total These Crops
2011–2020 Farm Program Spending by Crop (*Mar 10 CBO in mill $*)	980	2%	11,145	28%	21,175	53%	6,662	17%	39,962
2009 Production (*mill $*)	$917	1%	$10,626	12%	$48,589	53%	$31,760	35%	$91,892
2009 Planted acres (*thous acres*)	3,567	2%	59,133	26%	86,482	38%	77,451	34%	226,633

* *USDA NASS data.*

Net Return 2009 Barley, Wheat, Corn, Soybeans*

	Barley	Wheat	Corn	Soy
Gross Value of Production/Acre *2009 Northern Great Plains*	$260.59	$242.60	$480.68	$325.15
Cost of Production/Acre *2009 Northern Great Plains*	$301.55	$267.25	$452.89	$287.80
Net Return	–$40.96	–$24.65	$27.79	$37.35

* *USDA ERS data.*

Response from Roger Johnson, President, National Farmers Union; on Behalf of Kent Peppler, Treasurer; President, Rocky Mountain Farmers Union

Hon. LEONARD L. BOSWELL,
Chairman,
Subcommittee on General Farm Commodities and Risk Management,
House Committee on Agriculture,
Washington, D.C.;

Hon. JERRY MORAN,
Ranking Minority Member,

Subcommittee on General Farm Commodities and Risk Management,
House Committee on Agriculture,
Washington, D.C.

Dear Chairman Boswell and Ranking Member Moran,

Thank you for inviting Mr. Kent Peppler, Rocky Mountain Farmers Union president, to testify on behalf of National Farmers Union (NFU) at your June 24, 2010, Subcommittee hearing. NFU members are always happy to discuss the policies

adopted by our grassroots organization. We look forward to working with you during the preparations for and writing of the next farm bill.

NFU received several additional questions from Members of the House Subcommittee on General Farm Commodities and Risk Management. The questions and the answers are listed below to be entered into the record.

Question 1. Comment on an insurance program based on insuring coverage of your production costs *versus* yield and revenue type programs. How would we design such a program for your commodity/farmers?

Answer. There has been a great deal of discussion in 2010 about the potential for revenue-based insurance programs to play a more prominent role in the next farm bill. Since the farm bill process is in its very early stages, all options must be kept on the table and production cost insurance options are certainly worth consideration.

The priority for any new crop insurance programs should be to craft them in such a way that they will work for all commodities and specialty crops. NFU members produce a wide variety of commodity crops and they all should be able to affordably mitigate their risk. Ensuring that high-value crops have access to effective insurance will also help to reduce the need for *ad hoc* disaster programs. The crop insurance programs of the future must be able to cost-effectively protect farmers from losses in times of low prices, poor yields or high costs. no matter the mechanism.

Question 2. Comment on what changes your commodity group/farmers would like to see in the WTO trade guidelines given that some of the previous "developing nations" are now more than equal international partners (*i.e.,* India, China, and others so we have a more level playing field). How have covert subsidies altered the balance of free trade?

Answer. World Trade Organization (WTO) guidelines should better reflect the unique qualities of agriculture policy in future trade agreements. Governments arouud the world place a high value on domestic farm policies because having a safe, local, reliable food supply is vital to their national security. This is the same in the United States as it is in the other G20 countries or throughout the developing world. Expectations for our own or any other country to voluntarily relinquish control of their food production is misguided. Countries will continue to assist their farmers through price supports, direct payments, insurance or other government investments.

However, the WTO should also ensure that countries do not dump artificially cheap agricultural commodities into the global market. In an era when more "developing nations" are attaining "developed" status, WTO's role as a regulator for agricultural trade is becoming even more important.

Question 3. Many agriculture groups, including many testifying today, have publicly stated the House-passed ACES (climate change bill) would be detrimental to their operations. Can you comment specifically on the exact financial effects that a "climate change bill" will have on your commodity/farmers' cost of production?

Answer. There is a broad consensus among academics and experts that a properly constructed climate bill would yield positive net returns to agriculture. While it is acknowledged that increases to input costs are expected, there is also the expectation that producers would realize additional sources of revenue from practices generating carbon credits.

USDA research found aggregate economic benefits for the agriculture sector from the American Climate and Energy Security Act (ACES) as passed by the House of Representatives in June 2009. Other institutions have also concluded the potential benefits outweigh the potential costs for agriculture in the House bill. The University of Tennessee found net returns to agriculture are positive and exceed baseline projections for eight of the nine crops analyzed. A Duke University study shows net gains for farmers of about $1.2 to $18.8 billion, depending on the price of carbon. According to Texas A&M University research, there would be a higher average anuual net worth for farms that produce feed grains, oilseeds, and wheat along with dairies and ranches. *Informa Economics* saw that ACES would bring long-term benefits to corn, wheat and soybeans around $35, $45 and $85 per acre, respectively.

Question 4. From your commodity/farm perspective, what level of food production is critical to our national security?

Answer. The written testimony mentioned that Americans are very fortunate to have an agricultural industry that almost always produces more food than can be consumed. Agriculture is one of the few industries in which the United States has a consistent trade surplus and Americans pay the smallest percentage of their income on food in the world. If the United States were to become a net food importer, food prices would become more volatile and our national economic security would be threatened.

NFU's written testimony also notes that the Federal Government places such a value on petroleum that a strategic reserve is maintained. It is estimated that if all the trading partners of the United States were to withhold their oil, the strategic reserve, along with domestic production, would allow for another 75 days of normal American petroleum consumption. Maintaining a supply of commodities in reserve would protect Americans from disasters or attacks against agriculture. Some Federal programs already keep a reserve of certain agricultural commodities, like cheese, on hand as a precaution and to help stabilize supply swings in the dairy marketplace. Instituting a reserve for a variety of other commodity food stocks, especially for grain, would offer another layer of security in case of emergencies.

Question 5. How do we defend direct payments to a farm for a crop they no longer grow? And haven't grown for some time? Please comment from your commodity/farm perspective.

Answer. NFU acknowledges that direct payments are very difficult to justify to the general public. It should also be noted that most of the programs in the farm safety net are complicated and require a good deal of explanation. However, direct payments usually attract a great deal of negative attention during public discussions of the farm bill which does not help efforts to strengthen other portions of the farm safety net. NFU would much rather make the defense of direct payments a moot point by directing those funds into other farm safety net programs.

Question 6. How should the Federal Government handle disaster? No program that has been constructed thus far has successfully plugged all the possible holes to ensure that we do not have to consider *ad hoc* disaster programs annually. How do we establish predictable protection against disasters?

Answer. The Supplemental Revenue Assistance Program (SURE) has the potential to be a consistent and reliable mechanism to provide farmers and ranchers with disaster relief. As mentioned in the written testimony, the framework provided by SURE should make it possible for quick and efficient recoveries from disasters.

NFU's 2010 policy calls for Congress to "improve and fully fund a permanent disaster program." However, since its inclusion in the 2008 Farm Bill, SURE has been severely underfunded. The low levels of funding have made implementation of this new program difficult. In order to establish predictable protection against disasters, policymakers should commit to SURE and provide it with the resources it needs to function as designed while eliminating the need for annual *ad hoc* disaster legislation.

Additionally, it will be important to continue to link participation in crop insurance programs with eligibility in SURE. The distribution of disaster aid must remain linked to crop insurance participation, which will encourage farmers who have not traditionally taken out crop insurance policies to do so. With more farmers enrolled in programs that qualify for SURE assistance, the need for *ad hoc* disaster programs would greatly decrease.

Question 7. How large of a barrier to entry is there in your area for beginning farmers? How can that barrier be reduced?

Answer. Because NFU is a national organization, our members are spread throughout the country. There are some geographic and commodity-specific variations between beginning farmers; however, it is safe to say that significant barriers exist for all beginning farmers and ranchers, regardless of these variations.

Technical assistance/education, both on farming techniques and on business management, is one barrier beginning farmers and ranchers must overcome. Agricultural extension serves as an important resource for beginning farmers and ranchers and it is crucial that extension offices remain robustly funded. In addition, many younger farmers are more dependent on electronic sources of information than previous generations. For this reason, outreach using social media and eXtension can be targeted in particular to these beginning farmers.

The most significant obstacles beginning farmers must overcome include access to land and access to capital and credit. Programs that link retiring and beginning farmers, both for land access and for technical support, can help alleviate some of these problems. Many states have implemented successful FarmLink programs that have yet to be recreated on a national level. We commend USDA for writing the rules for the Transition Incentives Program authorized by the 2008 Farm Bill; however, the program is limited only to land enrolled in CRP and to certain production methods.

The troubled economy of the last 2 years has resulted in financial institutions becoming hesitant to provide credit to all farmers and especially beginning farmers. In general, providing greater access to affordable credit is the biggest obstacle facing new farmers across the country. Farm Service Agency programs to assist with loan guarantees and to provide direct lending must be provided with the resources they

need to meet demand. Farm safety net programs have been part of solving the credit crisis for farmers and ranchers in the past and it may be worth considering dedicating more resources to this important need in the next farm bill.

Question 8. You state that farmers and ranchers would be better off if Federal spending on direct payments was reduced and the funds distributed among the other programs. Do you have a percentage or figure in mind as to the ideal level of direct payments? Where do you think the bulk of our energy/money should be spent?

Answer. Funding for direct payments would be better used if it were redirected, in its entirety, elsewhere in the farm safety net for more effective assistance programs. Direct payments provide operating income for some farmers, but they do not address the root causes of the volatile agricultural marketplace. The challenges the farm safety net is intended to overcome are the long periods of very low commodity prices followed by brief periods of higher prices. Farm bill baseline spending should be used to smooth the harmful spikes and crashes that have plagued agriculture for years. Direct payment funding should remain within the farm safety net but should be used to prevent, rather than treat, the persistently low and often volatile prices farmers and ranchers encounter every year.

Direct payment spending could be used to enhance existing programs or to create more effective new safety net tools. The funding could be put toward countercyclical payment programs by raising target prices and expanding eligible crops. Countercyclical payments offer increased assistance when commodity prices fall well-below the cost of production, not when prices are higher—this helps to smooth the peaks and valleys of commodity prices. Crop insurance could be a possible destination for direct payment funds, as well as newer revenue-based insurance options such as the ACRE program or even disaster aid programs like SURE. Direct payment funds could be redirected to establish a national grain reserve or to enable supply management tools that have been eroded during previous farm bills. Whatever form it takes, the energy and resources of the Federal Government should be channeled toward programs that help farmers and ranchers when help is needed and build a stronger base for agricultural commodity prices.

Thank you again for your early and diligent attention to the next farm bill. If you have any questions regarding Mr. Peppler's testimony or NFU's policy, please do not hesitate to contact our staff.

Sincerely,

ROGER JOHNSON,
President,
National Farmers Union.

Cc: Members of the House Subcommittee on General Farm Commodities and Risk Management.

Response from Robinson W. Joslin, President, American Soybean Association

Question 1. Comment on an insurance program based on insuring coverage of your production costs *versus* yield and revenue type programs. How would we design such a program for your commodity/farmers?

Answer. Many soybean farmers support the idea of being able to insure production costs rather than just revenue, especially since existing revenue programs decline in efficacy when APHs decline over multiple years of drought or disaster. However, we recognize the challenges in trying to establish cost of production on an individual basis and think farmers would not be attracted to a cost of production policy based on some kind of county or state average. ASA instead supports making improvements to existing policies that are generally accepted by farmers, particularly revenue insurance.

Question 2. Comment on what changes your commodity group/farmers would like to see in the WTO trade guidelines given that some of the previous "developing nations" are now more than equal international partners (*i.e.,* India, China, and others so we have a more level playing field). How have covert subsidies altered the balance of free trade?

Answer. ASA has long advocated establishing standards for designating developing countries eligible for lower tariff reductions and other concessions under the WTO rather than allowing countries to simply designate themselves as "developing." A per capita income threshold is used by the World Bank to designate "least devel-

oped countries," and a similar measure could be developed and applied under the WTO.

In addition, there are a number of "developing" countries with well-developed agriculture research, production, and exporting sectors that are major U.S. competitors. These include Brazil, Argentina, and Malaysia. ASA has repeatedly asked USTR and USDA to insist on language in the Doha negotiations that would require these sectors, if not their countries, to "graduate" to developed status for purposes of complying with greater domestic support, market access, and export subsidy disciplines.

Moreover, the governments of each of these world-class agriculture producing and exporting countries provide various subsidies to their agriculture sectors. Brazil offers subsidized production credits to its farmers and imposes higher taxes on land that is not brought into production than on farmland. Argentina and Malaysia tax exports of raw commodities, including soybeans and soybean and palm oil, at much higher rates than exports of biodiesel. This Differential Export Tax effectively subsidizes biodiesel into the world market, including the U.S., where it undercuts the price of U.S. biodiesel.

India is the most prominent "developing" country that uses high tariffs to protect its market and agriculture from imports. Even with significant reductions, India's tariffs will continue to significantly restrict access for U.S. soybean and livestock products. As a result, U.S. negotiators have been working to establish Tariff Rate Quotas for sensitive product imports by India and other developing countries. At the same time, these countries are insisting on being able to exclude specific imports as "Special Products," or to raise tariffs to prohibitive levels using a Special Safeguard Mechanism (SSM) when the amount of imports exceeds recent average levels.

The language in the Falconer text on SSMs is of concern because imports would have to exceed only 110 percent of recent average levels in order for higher tariffs to be imposed. A paper submitted to the WTO by Canada and Australia based on import data from developing countries in the last 6–10 years concluded that, even with a trigger of 140 percent, higher SSM tariffs could have been imposed on 30.3 percent of all tariff lines in each year, and on 85.6 percent of all tariff lines in at least 1 year. ASA is particularly concerned how the SSM provision could affect U.S. soybean and soybean and livestock product exports to countries which have been consistently exceeding prior year's levels, including China.

These highly protectionist loopholes in the WTO's tariff-based market access framework could negate any gains for U.S. agricultural exports to emerging developing country markets. The lack of specific or identifiable improvement in market access to developing countries is one of ASA's principal objections to the Falconer text. As previously noted, ASA is also concerned that the text does not impose greater disciplines on trade-distorting domestic support, market access, and export subsidies of major agriculture exporting countries that have designated themselves as "developing," including the elimination of Differential Export Taxes.

Question 3. Many agriculture groups, including many testifying today, have publicly stated the House-passed ACES (climate change bill) would be detrimental to their operations. Can you comment specifically on the exact financial effects that a "climate change bill" will have on your commodity/farmers cost of production?

Answer. Analysis that we have seen shows varying projections of the impact on production costs for soybean farmers. Given the many variables and assumptions involved, we believe there is a great deal of uncertainty in all of these projections. The vast majority of our members believe any potential financial gain would be less then additional production costs and a likely loss of soybean acres.

Agriculture in the United States in many ways is an energy intensive operation. Our farmers use fuel to plant, harvest and dry a crop. Since over half of our crop is exported, fuel is required to accomplish the logistics of massive soybean movement. In a world market place, any additional costs, not shared with overseas competitors would put U.S. soybean farmers at a disadvantage, thereby driving production offshore.

ASA is concerned with the impacts that could result from enactment of climate change legislation that unilaterally subjects U.S. farmers, manufacturers, and other businesses to emissions caps and increased energy costs without appropriate measures to ensure that the U.S. maintains global economic competitiveness. Climate change legislation passed by the House of Representatives and various versions drafted in the Senate do not provide sufficient measures to protect American economic competitiveness, and ASA does not support those measures in their current form. As a crop that relies heavily on exports and competes with soybeans produced in developing countries, such as Brazil and Argentina, U.S. soybeans will be at a competitive disadvantage if subjected to increased production costs that are not incurred by our competitors. Further, the climate change bills provide no safeguards

to prevent productive U.S. farmland from being idled or afforested in response to carbon sequestration incentives. Conversion of land from crop or livestock production to carbon based opportunities will decrease available land, and likely increase production and associated costs, resulting in even more pressure on crop insurance and other revenue protection programs.

Question 4. From your commodity/farm perspective, what level of food production is critical to our national security?

Answer. ASA believes agriculture is a cornerstone of national security. It provides our consumers with an abundant supply of high-quality, safe, and low-cost food, feed, and fiber, and contributes to efforts to reduce U.S. dependence on imported petroleum through the increasing production of biofuels, including soy-based biodiesel. It also provides exportable supplies of agricultural commodities to a growing world market, including through foreign food assistance, which is an important factor in maintaining economic and social stability abroad. As the principal source of protein feed and a major vegetable oil in the U.S. and global markets, maintaining a viable soybean industry, with unimpeded opportunities for growth, is critical to national security.

It is clear that the ever increasing demand for soy protein and vegetable oil, as well as other agricultural commodities, will require an increasing level of food production. The level of food production required to maintain national and international security is determined by the market, which will price the amount of land and inputs needed to fulfill domestic and world demand. It is also dependent on advances in agricultural research in order to increase food, feed, and fiber production on existing farmland. ASA opposes policies which interfere with the ability of the market to encourage increased production, including diversion of productive farmland into the Conservation Reserve Program. ASA also strongly supports increasing funding for agricultural research under AFRI, as authorized in the 2008 Farm Bill and proposed in the Administration's budget for FY 2011.

Question 5. How do we defend direct payments to a farm for a crop they no longer grow? And haven't grown for some time? Please comment from your commodity/farm perspective.

Answer. Farmers need an income safety net when low prices and/or yields force revenue below their production costs and living expenses. Soybean producers in various growing regions, who also grow other commodities, depend on different programs established under the 2008 Farm Bill, as well as on crop insurance, to provide an effective safety net. Some producers find direct payments to be the most reliable safety net for their operations.

Direct payments were decoupled from production decisions in order to eliminate the distorting impact that price and revenue-based support programs can have on current-year production, prices, and exports. This was done, in part, to eliminate the trade-distorting impact of U.S. farm supports and to improve compliance with the WTO.

While it has been over 10 years since crop acreage bases were used to establish direct payments, it is doubtful that crop rotations on soybean and corn farms have changed significantly. In addition, the acreage planted to both commodities has increased during this period. So receiving direct payments for crops no longer produced is not a major issue for soybeans.

The argument for maintaining direct payments is based on whether, in their absence, producers might not receive sufficient revenue from farm sales and other farm programs to cover their operating costs and living expenses. The fact that producers are not required to grow the specific crop originally tied to a direct payment reflects the intent of the program. The problem with direct payments is that they are made regardless of whether they are needed to provide an adequate safety net.

Question 6. How should the Federal Government handle disaster? No program that has been constructed thus far has successfully plugged all the possible holes to ensure that we do not have to consider *ad hoc* disaster programs annually. How do we establish predictable protection against disasters?

Answer. While *ad hoc* disaster programs do not fully meet farmers' needs, demand for assistance from Congress is a continuing refrain from growers in times of extraordinary weather. Deficiencies in the authorized disaster program, SURE, became apparent after flooding in southern states in 2009: too much time lag between loss and payment, too complicated a program, and linkage to crop insurance that doesn't make sense for growers who are underserved by existing crop insurance policies. ASA believes that farmers would support the reliability and consistency that could come from a standing disaster program. Congress needs to determine if SURE has the support of the Committee to become that program; if so, improvements to SURE should be made so that it can truly replace *ad hoc* assistance.

Question 7. How large of a barrier to entry is there in your area for beginning farmers? How can that barrier be reduced?

Answer. Farming is a capital extensive business, making it extremely difficult for beginning farmers. There are differences of opinion among soybean farmers about whether or not direct payments help or hinder beginning farmers. Some think that direct payments aid beginning farmers with assured capital outlays, at predictable times, for input purchases such as seed and fertilizer. Others believe that direct payments are capitalized into land rents, making it even more difficult for beginning farmers to get started. While some programs are directed at beginning farmers, it may be that barriers in others create the biggest hindrances. For example, it is very difficult for a new operator of any age to get an adequate APH under crop insurance to provide acceptable risk protection.

Question 8. You mention that direct payments are the only farm program considered non trade distorting under the WTO. However, this is because they are completely decoupled from price or production signals, a feature that strikes a lot of the public as not being a good safety net. Would you recommend keeping direct payments even if it meant losing other programs that are more price or revenue based?

Answer. The decision on whether to keep direct payments *versus* other farm programs that are price or revenue based will depend on the amount of baseline spending permitted on commodities in the 2012 Farm Bill, not on the outcome of the current WTO negotiations. ASA's priority is to establish an efficient, effective, and defensible safety net. If a reduction in direct payments is considered, it must be made in conjunction with needed adjustments in price and revenue based programs, and be reflected by an equivalent increase in their projected costs. It is unlikely that any agreement reached in the WTO will force a choice between direct payments and other farm programs.

Response from Gary Murphy, Chairman of the Board, U.S. Rice Producers Association; on Behalf of USA Rice Federation

Question 1. Comment on an insurance program based on insuring coverage of your production costs *versus* yield and revenue type programs. How would we design such a program for your commodity/farmers?

Answer. I understand that the USA Rice Federation is engaged on two fronts in this regard but because the 508(h) submission and approval process established by the Risk Management Agency involves proprietary information, I am not able to comment in detail on these efforts. I can say that there are unique perils to rice, for example, which do not necessarily result in lost production or price but do result in increased production costs. Drought requiring the pumping of additional water and downed rice requiring more costly harvest are two examples. Covering such perils as a policy or as an endorsement to an existing policy may be an effective means of assisting rice and other producers. These are just a couple of examples I am familiar with but are by no means exhaustive.

Question 2. Comment on what changes your commodity group/farmers would like to see in the WTO trade guidelines given that some of the previous "developing nations" are now more than equal international partners (*i.e.,* India, China, and others so we have a more level playing field). How have covert subsidies altered the balance of free trade?

Answer. Texas Tech University conducted a study during the 2008 Farm Bill debate listing the substantial subsidies and tariffs benefitting our key global competitors which far outstrip support to U.S. producers as a recent OECD report indicates. The study was updated recently. The study reveals that many nations use subsidies that are not reportable to Geneva for WTO purposes but furnish their producers a competitive leg up, nevertheless. These means of support should be reportable and subject to discipline in the same way as support employed by developed nations. Moreover, while a case might be made for the poorest of nations to be excused from some disciplines on agricultural support, India, Brazil, and China certainly cannot be said to fall into this category under any objective standard. These and other self-designated developing countries should be required to abide by the same disciplines as the U.S. and other countries traditionally recognized as developed.

Question 3. Many agriculture groups, including many testifying today, have publicly stated the House-passed ACES (climate change bill) would be detrimental to their operations. Can you comment specifically on the exact financial effects that a "climate change bill" will have on your commodity/farmers' cost of production?

Answer. The only indication that any of us really have in terms of the effects of climate change legislation on the farm are the studies we have read, including one conducted by the Agricultural and Food Policy Center in relation to representative U.S. farms, ranches, and dairies. Reasons for the uncertainty about the exact impact

include: (1) the various and sundry bills in contention; (2) questions surrounding how "uncapped" sectors may still be affected under such bills; (3) the indirect impact on production costs resulting from higher inputs under the various bills, which in turn is difficult to estimate due to any number of factors, including but certainly not limited to allowances provided to capped sectors; (4) the impact on producers who participate in farmer-owned cooperatives (which may not qualify as an uncapped sector), meaning producers are impacted not only by higher input costs but also by lower patronage refunds (assuming the cooperative is still viable under a climate change bill); (5) the degree to which climate change legislation preempts state and local regulation, regulation under the Clean Air Act, or even common law nuisance suits, which seems to vary from bill to bill with the one common theme that none provide the kind of clear preemption agriculture needs. In addition, we are deeply concerned about where this legislation would position us in the global economy, particularly since it is highly unlikely that our key global competitors will impose an equally rigorous regulatory regime on their own industries. Increased input costs will make us less competitive *vis-à-vis* our major global competitors, such as Vietnam, Thailand, Pakistan, and India, who already benefit from heavy government involvement in their rice production. In sum, based on what we have heard and read, producers have reason to be concerned about the impact of climate change legislation especially when our competitors will not be held to the same standard, if any standard at all. Although in the net aggregate, U.S. agriculture sequesters more greenhouse gases than it emits, there are currently few, if any, opportunities for rice production to further sequester or reduce greenhouse gases. The rice industry is confronted with no economic upside under pending climate change legislation and plenty of economic downside. The study referenced above showed that all the representative rice farms in the U.S. would have lower net income and lower net worth under the House-passed climate change bill. The study estimates that due to the increase in input costs for rice and the likelihood of no opportunity to participate in an offset credit program at this time, all 14 representative rice farms analyzed would experience lower average annual net cash farm income ranging from $30,000 to $170,000 in reductions per operation. Annual costs for these farms increase from $20,000 to $120,000 during the 2010 to 2016 period. And while the commodity price is expected to increase slightly it is not enough to make up for the significant cost increases. In addition, a study by American Farm Bureau Federation noted that input costs for rice production would increase between $70 and $150 per acre. This is why the climate change legislation pending before Congress is not supported by the U.S. rice industry.

Question 4. From your commodity/farm perspective, what level of food production is critical to our national security?

Answer. USDA defines food security for a household as access by all members at all times to enough food for an active, healthy life including at a minimum the ready availability of nutritionally adequate and safe foods; and, the assured ability to acquire acceptable foods in socially acceptable ways (that is, without resorting to emergency food supplies, scavenging, stealing, or other coping strategies). It is critical to our national security that U.S. farm policy ensures that our level of domestic food production can always provide this level of food security to all Americans. We are fortunate that because of the natural blessings we have in land, climate, and the productivity of the American farmer, we have been able to feed not only ourselves but also many others across the globe. Indeed, approximately half of the rice produced in the U.S. is exported to other countries. The United States should always be in a position to feed and clothe its people. Given a level playing field under international trade rules, a tax and regulatory environment that is conducive to economic growth and jobs creation, and a quite modest safety net and set of risk management tools and the American farmer and rancher can continue to make that happen.

Question 5. How do we defend direct payments to a farm for a crop they no longer grow? And haven't grown for some time? Please comment from your commodity/farm perspective.

Answer. First, one must remember that the law requires that land on which Direct Payments are received be dedicated to agricultural use. If the land is not dedicated to an agricultural use, for instance, it is lost to development, then Direct Payments cease. Second, the philosophy behind Direct Payments was and continues to be to provide farmers and ranchers with maximum planting flexibility in order to farm for the market, rather than the farm bill. This was the intent in 1996 and farming is a long-term proposition, therefore lawmakers in 2002 and 2008 declined to change the rules on producers who relied on what the government told them in 1996. Third, beyond this rationale behind Direct Payments is a more practical con-

sideration: the Direct Payment is the only payment that is currently providing a certain benefit to producers. This is the only benefit that lenders can predictably rely. Protection levels offered by countercyclical payments and marketing assistance loans have not been very relevant due to commodity price levels. In addition, ACRE and SURE have been unpredictable and disappointing in their performance and because of their design will likely never provide risk protection to rice producers. As a consequence, we are very concerned about pulling out from underneath farmers the one sturdy leg of the three-legged safety net even if it is not ideal and difficult to explain to those outside of production agriculture. We would certainly welcome a stronger safety net and one that is more narrowly tailored to our production costs and our price, production, and revenue risks. But, to date, we have not seen a workable alternative to the current mix of policies.

Question 6. How should the Federal Government handle disaster? No program that has been constructed thus far has successfully plugged all the possible holes to ensure that we do not have to consider *ad hoc* disaster programs annually. How do we establish predictable protection against disasters?

Answer. Unfortunately, given the wide scope of production agriculture in the U.S. today both in regards to regions and commodity types it is hard to imagine a policy that can address every conceivable economic or natural disaster. I would expect that any policy that "plugged all the possible holes" to cost more than the U.S. public is willing to spend. A certain level of *ad hoc* disaster assistance provided by Congress is to be expected. However, we should enact policies that greatly lessen the need for such *ad hoc* assistance. In this regard, USDA should be strongly encouraged to use its existing authorities under the Federal Crop Insurance Act to vigorously develop and offer expanded or new policies to help all producers in all regions reach 85% revenue coverage in a way that is affordable to the producer. In addition, we need to continue to explore ways to improve the existing safety net and to find new and different ways of providing a more effective safety net under the farm bill. If these were done, there should be far less need for *ad hoc* disaster.

Question 7. How large of a barrier to entry is there in your area for beginning farmers? How can that barrier be reduced?

Answer. Uncertainty may be the biggest factor discouraging beginning farmers. Price, production, and revenue risks in farming are all inherent. But, the uncertainty in trade, farm, tax, environmental, and other policies emanating out of Washington is a significant problem. Farming is incredibly labor and capitol intensive which requires a long-term commitment. Too much uncertainty discourages long-term planning, investment, and jobs creation.

Question 8. You point out the problems with the whole farm nature of SURE. Do you believe these problems will be present with any "whole farm approach?"

Answer. We would certainly take a close look at any whole farm approach to farm policy but those we have examined to date are not effective as a safety net. The defects to such an approach may be inherent.

Response from Philip Nelson, Board Member, American Farm Bureau; President, Illinois Farm Bureau Federation

Question 1. Comment on an insurance program based on insuring coverage of your production costs *versus* yield and revenue type programs. How would we design such a program for your commodity/farmers?

Answer. A true "cost of production program" would be difficult to develop and administer as costs of producing a commodity varies significantly among growers, due primarily to differences in production practices and yields. Production costs vary widely across the country because of regional differences in cropping practices, yields, and costs of land, labor, and capital. If the Committee is referencing a margin cost of production similar to what is being discussed by the rice and dairy industry, we believe those to be extremely worthy of further study and discussion. For the rice industry specifically, crop insurance has not worked in the past as rice farmers irrigate their fields and thus remove the main reason for crop insurance payments. However, a program designed to cover energy costs in that industry is a very interesting concept.

Question 2. Comment on what changes your commodity group/farmers would like to see in the WTO trade guidelines given that some of the previous "developing nations" are now more than equal international partners (*i.e.,* India, China, and others so we have a more level playing field). How have covert subsidies altered the balance of free trade?

Answer. Farm Bureau supports the expansion of market access opportunities for U.S. agriculture from the Doha Round of trade negotiations. These negotiations will only result in commercially meaningful trade expansion when all the nations that

wish to trade participate fully in the process of reducing government barriers to trade. The existing flexibilities for all "developing" nations, no matter their level of economic activity, and also for recently acceded members (RAM's), contained in the existing negotiating text serves to lower the level of ambition for the entire round. The demonstrable lack of trade gains from the Doha negotiations to date leads directly to the lack of support by governments and sectors for the Doha Round.

Farm Bureau believes that nations should move from developing country status as their economies grow. Advanced developing countries participate in the world trading economy differently than other developing countries. They play influential roles in the Doha talks and are partners, with the U.S. and other developed countries, in the G20 group of international leaders. For the Doha negotiation, the "special and differential treatment" concept is written throughout the agriculture text. This is a real obstacle to removing barriers to trade. The trade benefits for U.S. agriculture are automatically reduced for those countries where U.S. agriculture has the most opportunity for future trade growth. The formula tariff cuts of the developing countries will be ⅔ of the developing country cuts. The operation of the "special safeguard mechanism" for developing countries would allow an importing country to restrict increases in imports. While a safeguard mechanism should operate to protect against import "surges" it must be market based and must not exceed current permitted tariffs. The "special products" category for developing countries also reduces the number of items eligible for the formula tariff reductions.

The unchanging status of certain "developing countries" limits the legitimate expectations of trade growth that should result from the Doha Round. The Doha Round must act to support trade expansion as a path to economic growth for all countries and not produce a text that rewards increased protection. In the domestic support pillar of the agricultural negotiations, developing countries will make ⅔ of the cut that is required from developed countries and those cuts will be phased in over a longer period of time. No reduction in trade distorting domestic support programs will be required for a developing country if the programs are for subsistence farmers. This treatment applies even for those developing countries with an export-oriented agriculture. For China, domestic support spending levels are governed by its WTO accession agreement. China is allowed to use support up to 8.5 percent of the value of its agricultural production. In 2007, China reported to the WTO that its value of domestic agricultural production was over $700 billion annually.

Question 3. Many agriculture groups, including many testifying today, have publicly stated the House-passed ACES (climate change bill) would be detrimental to their operations. Can you comment specifically on the exact financial effects that a "climate change bill" will have on your commodity/farmers' cost of production?

Answer. No one is capable of stipulating the "exact financial effects" of ACES or any other specific bill on agriculture or any other sector. The economic impact of the Waxman-Markey bill is based almost entirely on models, which are driven by the assumptions on which they are based. The figures that have been cited are best estimates based on these economic models and their assumptions. They provide us the ability to assess broad impacts, not exact costs. Moreover, because the legislation is designed to be implemented over roughly forty years, it is virtually impossible to predict the ultimate outcome. How U.S. agriculture—or the U.S. economy, for that matter—will look in forty years were ACES to be enacted into law would depend on whether the technological assumptions pan out, in what time frame they become available, whether we can build future nuclear generating capacity, and what other countries do to limit their own carbon emissions. In short, there are so many moving parts in such an analysis that it is virtually impossible to predict what the "exact financial effects" would be.

The legislation that passed the House was structured specifically to front-load subsidies to consumers and to cushion the impact of higher carbon costs. Thus, the early-term costs are not indicative of what would happen to our economy. The models do, however, provide a rough idea of what will happen as costs are attached to carbon. For agriculture, which is an energy intensive sector, the costs would be significant. The costs incurred by "capped" sectors—such as utilities, manufacturing and transportation—will be passed through to consumers of those products, like farmers and ranchers, resulting in higher fuel and energy costs. If, instead of coal, electric utilities migrate to the use of natural gas, we will potentially see higher energy costs where coal continues to be used, as well as cost pressures on natural gas. This latter development will translate almost certainly into higher fertilizer costs because natural gas is the principal feedstock used to manufacture fertilizer. A corollary development would almost certainly be the continued reduction, if not elimination, of American fertilizer production.

For lower carbon costs, those in the $15–$30 range, the impacts on agriculture would most likely not be critical. But it must be remembered that at these relatively

low numbers, it is highly unlikely you would see shifts in consumer behavior that would effectively reduce carbon emissions. Thus, we would not expect that such costs would last for long. As the cost of carbon rises, we would expect to see U.S. agriculture be reduced in size, both in crops and livestock.

When an offsets market is part of the policy choices, it seems apparent that agriculture will respond to the economic incentive to store carbon, either through planting trees or through other means. A number of studies have been conducted to evaluate this impact—by USDA, Duke University, University of Tennessee, University of Iowa and others. While these studies vary in their particulars, a general trend is apparent in all of them. Land in agriculture will shift from producing crops and livestock to growing trees. In some of the most extreme examples, the amount of acreage could be as much as 60 million, a sizeable portion of existing agriculture.

In addition, studies have shown that any expected revenues to farmers and ranchers generated through the production of offsets will not be enough to fully recapture the increased fuel, fertilizer and energy costs that will result from ACES.

There are also several commodities—cotton, rice, fruits and vegetables, to name a few—that cannot generate offsets, but would still incur increased fuel, fertilizer and energy costs associated with ACES. We believe it is quite clear, from all the studies that have been done, that once a price is placed on carbon, U.S. agriculture—an energy intensive sector that has relatively little ability to pass along its cuts—will be faced with a number of very unappealing choices. Whether the shift is to planting trees, downsizing production, shifting into other, less cost-intensive crops or some other alternative, we are convinced that the ACES legislation, or similar measures that are now being discussed in the Senate, would have a significant, negative impact on agriculture.

Question 4. From your commodity/farm perspective, what level of food production is critical to our national security?

Answer. Agriculture is strategically important to the survival of the U.S. Our nation's economy, energy, environment and national security are dependent on the viability of the agricultural industry.

Agriculture must be treated as a strategic resource by our nation and reflected as such in local, state and national government policies.

Question 5. How do we defend direct payments to a farm for a crop they no longer grow? And haven't grown for some time? Please comment from your commodity/farm perspective.

Answer. Direct payments are an important part of the "three-legged stool" (direct, countercyclical and loan deficiency) safety net structure of the commodity title for farmers. From 2005–2009, U.S. producers received $4.85 billion in direct payments compared to $2.64 billion in marketing loan benefits and $2.27 billion in countercyclical payments per year on average. (CBO Actual Outlays).

Direct payments helped many producers endure drought years because they did not have to "grow" a crop in order to get the payments. If it were not for direct payments during the drought years over the past few years in several parts of the country, many family-owned and operated farms would be out of business.

Direct payments are more WTO-friendly and redirecting them to another commodity payment could make our farm program system subject to more potential WTO challenges. As a major agricultural exporting nation, we are increasingly concerned that a new farm bill could be designed in a way that would increase the odds of additional successful WTO challenges of U.S. farm policy. Therefore, they are defensible in terms of a global marketplace because they are categorized as green box non-trade distorting due to the de-coupled nature.

Those who believe direct payments are no longer needed because current high commodity prices are here to stay need to remember that we are dealing with a commodity market that responds to high prices. We have seen bull markets in agricultural commodities before. Unless history does not repeat itself, bull markets are usually followed by bear markets because farmers around the world will respond to higher prices and grow more commodities. Direct payments are a basic part of a safety net that may be needed if prices and/or revenues cycle lower.

Removal of direct payments would not have an impact on slowing the growth of the average size farm. Existing farm programs, which include direct payments, have little impact on the size of farms.

Because the current structure of payments is based on per acre or per bushel system, the current program is largely scale neutral. The only way existing programs influence farm size is through cash rents and land process.

Current increases in land values and rent are due to the increased demand for corn and soybeans rather than the current farm policy. In fact, current direct payment prices do not represent current achievable yields. Base yields for farm pro-

gram crops are based on proven yields from the early 1980's, with few exceptions, despite the passage of more than 25 years and five different farm bills.

Direct payments give farmers the ability to maintain flexibility in their planting decisions. Flexibility is important to the growth of both the ethanol and biodiesel industries.

Question 6. How should the Federal Government handle disaster? No program that has been constructed thus far has successfully plugged all the possible holes to ensure that we do not have to consider *ad hoc* disaster programs annually. How do we establish predictable protection against disasters?

Answer. Currently, crop insurance participation—defined as insured acres as a percent of planted acres—is about 80 percent. Coverage levels at which producers are insuring are generally high. But coverage levels continue to be low in some regions and for some crops. Thus, while most U.S. crop production is insured, pockets of inadequate protection raise the prospect of *ad hoc* disaster assistance. Because the SURE disaster program is essentially a bump-up in crop insurance, it also provides inadequate protection to some parts of the country where adequate crop insurance coverage is not a viable economic option.

Drought has been the source of the largest share of crop insurance indemnities. From 1989 to 2004, drought was listed as the primary cause of loss for about 40 percent of indemnities. Excessive moisture, rain, or flood accounted for about 30 percent, followed by frost, freeze or cold weather, and hail, each of which accounted for about ten percent of indemnities.

Crop insurance may need to be strengthened for it to be the primary form of disaster aid to farmers and ranchers. The use of premium subsidies to encourage insurance participation and to raise coverage levels is costly. Additional subsidies are not likely to boost participation in large areas of the U.S. where it is already high.

While we supported an *ad hoc* disaster assistance bill this year, we spent significant efforts to ensure the farm bill was not reopened to pay for that assistance. We oppose funding for a disaster program coming from reopening the farm bill or from other agricultural funding offsets.

Question 7. How large of a barrier to entry is there in your area for beginning farmers? How can that barrier be reduced?

Answer. The average age of farmers continues to climb while the number replacing them shrinks. Much thought has been given on how to help young and beginning farmers get started in the business. Some have suggested higher fixed payments for crops that the government subsidizes. While we applaud the idea, it is difficult to see how much money would have to be added to those payments to really encourage young farmers to enter the business.

Most young farmers say that land availability at reasonable prices is their biggest impediment to entering farming. In the Midwest, with corn prices significantly higher due to ethanol demand, some farmers are paying $100 to $120 per acre more for rent than they did in 2006.

Another problem that arises with trying to help beginning farmers is to come up with the correct definition of "a beginning farmer." For example, do "start-up" farmers who have worked in agriculture with their parents for years but are now taking over the farm as part of an intergenerational transfer qualify as beginning farmers? This is a huge problem fraught with loopholes that could indeed hurt those producers we are all trying to help.

FSA has made great strides in increasing the amount of loan funds for beginning farmers and ranchers and socially disadvantaged farmers. We would support initiatives to continue this trend. We would also support the enhancement of FSA's program for beginning farmer downpayment program to make it easier for beginning farmers to buy property by lowering the interest rate charged and by eliminating or increasing the monetary cap on the value of the property that may be acquired.

In addition, we hope the program recently announced by USDA titled the "Transition Incentives Program" will be helpful. Under that program, a retiring farmer or rancher must have land enrolled in the Conservation Reserve Program (CRP) that is in the last year of the contract. If all program requirements are met, it provides annual rental payments to the retiring farmer for up to 2 additional years after the date of the expiration of the CRP contract, provided that the transition is not to a family member.

Question 8. You note in your testimony that "more than 30 programs included in the last bill do not have any baseline at all." You also note that one of your organization's five key principles is that "the basic funding structure of 2008 Farm Bill should not be altered"—*i.e.,* that your proposal "will not shift funding between interest areas." What would you advise the Committee to do for programs in areas, such as the energy title, where there is very little funding for any program?

Answer. Current Farm Bureau policy supports extending the concepts of the 2008 Farm Bill into the next farm bill. Obviously, we are having a considerable amount of policy development discussion in the country regarding the next farm bill so it is possible that our policy will change on this issue next January. However, we caution the Committee regarding funding of some of these unfunded programs. As you well know, in the past the Appropriations Committees have been known to reduce discretionary funding for areas such as research if the authorizing committees indeed try to fund it. That is not to say there are no good programs in the 30+ that do not have a baseline, but funding them will be problematic. In addition, we strongly suspect that the Congress authorized some of those programs in the last farm bill knowing that is was unlikely the programs would ever receive appropriations funding.

Response from Gerald Simonsen, Chairman, Board of Directors, National Sorghum Producers

Question 1. Comment on an insurance program based on insuring coverage of your production costs *versus* yield and revenue type programs. How would we design such a program for your commodity/farmers?

Answer. NSP believes it is significantly easier to structure insurance coverage based on yield and revenue than cost of production. If the coverage is too low, there is no value in the program. If the coverage is too high, it drives farmers to the crop with the best cost of production in disproportionate numbers. Cost of production coverage has a higher moral hazard than yield and revenue based programs. To be effective with a cost of production scenario, a program would have to split regions and even key growing states as cost of production varies so greatly nationwide.

Question 2. Comment on what changes your commodity group/farmers would like to see in the WTO trade guidelines given that some of the previous "developing nations" are now more than equal international partners (*i.e.,* India, China, and others so we have a more level playing field). How have covert subsidies altered the balance of free trade?

Answer. NSP supports a level playing field for the export of U.S. agricultural commodities as 30 to 40% of our annual production is exported to Japan, Mexico, and Europe among others. Opening new markets is just as important to our industry as the impact of covert subsidies. Countries use tariffs and quotas on sorghum to keep our commodity out of their market, lowering tariffs and eliminating these practices would go a long way toward increasing our exports. Just as important, we encourage Congress and the Administration to continue to secure new markets for ag commodities.

At this time, NSP does not know of specific covert subsidies placing sorghum exports at a disadvantage in a traditional sorghum market; however, we expect that developing countries will continue to look for ways to change the balance of free trade to their advantage. We believe it is only a matter of time before our trading partners look to such tactics to the advantage of their industries.

Question 3. Many agriculture groups, including many testifying today, have publicly stated the House-passed ACES (climate change bill) would be detrimental to their operations. Can you comment specifically on the exact financial effects that a "climate change bill" will have on your commodity/farmers' cost of production?

Answer. According to independent analysis conducted when ACES passed the House during the summer of 2009, ACES would raise cost of production for sorghum by $30 to $40 per acre. We know that ACES was projected to significantly raise the prices of fuel/energy and fertilizer, the most intensive inputs for sorghum. That said, our costs of production would unavoidably go up while providing minimal returns in the form of carbon payments, lowering our already small margins and eliminating any profitability. Increasing revenue to overcome the increased cost of production is difficult in the Sorghum Belt as the Sorgum Belt does not have the soil or environmental conditions needed to qualify for programs set forth by ACES last year.

Question 4. From your commodity/farm perspective, what level of food production is critical to our national security?

Answer. We encourage the Committee to expand the scope of this question to include a broader discussion of the role of agricultural production in rural economies and energy security.

Food production should be, and will always be, the top priority for U.S. agriculture. We believe that the strength of this nation is based on being self sufficient in food production. In addition, we take seriously our responsibility to feed this country and the world with an affordable and healthy food supply while protecting our natural resources.

However, we know our current productivity significantly exceeds domestic demand and it is important to our rural economy that we have demand for our production. We need an industry that has a steady growth pattern, not a growth pattern of peaks and valleys. In the Sorghum Belt, the aftermath of the 1970s boom resulted in CRP taking more land out of sorghum production than any other commodity. Another similar contraction could eliminate our industry. We encourage the Committee to continue the flexibility introduced by past farm bills as they craft future farm policy.

We have worked hard to make sure value-added industries like the ethanol industry work with sorghum and expand into the Sorghum Belt. We hope that new demands for sorghum continue to expand markets and keep large surpluses of our commodity from hanging over the market and driving down prices. However, we all understand the cyclical nature of the agricultural industry and encourage the Committee to provide ways for our producers to manage the risk of price and production volatility.

Question 5. How do we defend direct payments to a farm for a crop they no longer grow? And haven't grown for some time? Please comment from your commodity/farm perspective.

Answer. NSP does not currently have board policy on this issue but would like to see sorghum direct payment money used to help current sorghum farmers.

We urge the Committee to carefully study how a change in direct payment structure would impact the industry to avoid unintended consequences.

Question 6. How should the Federal Government handle disaster? No program that has been constructed thus far has successfully plugged all the possible holes to ensure that we do not have to consider *ad hoc* disaster programs annually. How do we establish predictable protection against disasters?

Answer. Again, NSP has no board policy on this subject. However, in order to establish predictable protection against disasters, the Committee should put more money and infrastructure support into a program like SURE, making it more time-sensitive and drawing from lessons learned while implementing the SURE program from the 2008 Farm Bill. Speed and predictability are key to making a disaster program that works for producers.

Question 7. How large of a barrier to entry is there in your area for beginning farmers? How can that barrier be reduced?

Answer. Our organization represents sorghum farmers nationwide. From California to Maryland, the barriers for entry into farming are the same. Startup costs including land, equipment and infrastructure reach into the millions of dollars even before accounting for annual costs of production such as seed, fertilizer and fuel. This makes it very difficult for a beginning farmer to enter the industry without significant outside help from inheriting land and equipment. Even with a co-guarantor for a farm loan, only a small number of beginning farmers can secure the credit necessary to begin a farming operation.

One concern our members have is that the current tax structure does not allow older farmers to retire or exit the industry. As it stands, farmers face such high taxes if they choose to sell out, it becomes cost prohibitive to leave the industry and does not make room for beginning farmers who wish to invest their futures in farming.

Additionally, Congress should examine Federal crop yield restrictions to create a friendlier environment for new farmers to operate. The current transitional yields system can be prohibitive to beginning farmers, as well.

Question 8. You mention both that the loan rate is too low and that the direct payment program works well for your producers. Would you prefer a program that is more price-sensitive or has the reliability of the direct payment program?

Answer. We prefer the synergistic effects of both loan rates and direct payments that we benefited from under the 2002 Farm Bill. We believe that successful farm policy is all about the program as a whole. Ultimately, the needs of sorghum farmers and budget decisions will drive our policy position and we will strive to evaluate the overall support package rather than pitting parts of the program against one another.

Response from Eddie Smith, Chairman, National Cotton Council; Cotton Producer, Floydada, TX

Question 1. Comment on an insurance program based on insuring coverage of your production costs *versus* yield and revenue type programs. How would we design such a program for your commodity/farmers?

Answer. Measured on the basis of per-acre costs, cotton is a relatively expensive crop to produce when compared to other U.S. row crops. With increased volatility

in oil and fertilizer prices in recent years, cotton farmers are all too familiar with the risk posed by dramatic changes in production costs.

Developing an actuarially-sound insurance product that can mitigate the risk associated with changes in input costs remains an interest of the U.S. cotton industry. Currently, the National Cotton Council has policy resolutions supporting the development of an insurance product based on costs of production. While the specific details of such a program remain open to further study, we believe that any program must recognize the regional differences in cotton production costs and be based on those regional costs. With the potential for moral hazard and to protect the integrity of the program, an insurance product based on an individual's specific costs of production may not be feasible.

Question 2. Comment on what changes your commodity group/farmers would like to see in the WTO trade guidelines given that some of the previous "developing nations" are now more than equal international partners (*i.e.,* India, China, and others so we have a more level playing field). How have covert subsidies altered the balance of free trade?

Answer. Currently, the WTO only officially recognizes least-developed countries (LDCs) that have been so designated by the United Nations. Of the 49 LDCs on the UN list, 32 are members of the WTO. The remaining 121 members of the WTO are able to self-declare as either developing or developed. Currently, countries such as China, India and Brazil all claim developing country status.

The National Cotton Council has long been concerned about the special and differential treatment afforded in the WTO to countries that are able to self-declare themselves as a developing nation. With respect to developing countries that are competitive in world markets, provisions providing special and differential treatment should not relieve those countries of their commitments to limit export subsidies and domestic subsidies or improve market access.

In cotton and textile production and trade, both covert and overt subsidies and trade restrictions in developing countries continue to cause significant distortions to world fiber markets. China maintains government-owned strategic reserves and administers import quotas in a manner that limits market access and supports internal prices at levels well above market prices.

In 2008, India increased support levels above world market prices. A 2009 USDA attaché report indicates that Indian Government agencies procured almost 10 million bales, which would subsequently be released onto world markets. In some cases, the cotton exports were facilitated by an export subsidy, which is inconsistent with India's WTO commitments. In a complete reversal of their policy direction, India responded to higher prices by instituting a cotton export ban in April 2010.

Since 2005, Brazil has also expanded the use of government subsidies for cotton and other agricultural products. For 2010/11, Brazil has announced $54 billion in support to agriculture, largely through rural credit being made available at rates which are significantly lower than market-based interest rates. Three quarters of the money will be lent to farmers through their banks to cover up-front expenditures until they receive their income at harvest time.

Question 3. Many agriculture groups, including many testifying today, have publicly stated the House-passed ACES (climate change bill) would be detrimental to their operations. Can you comment specifically on the exact financial effects that a "climate change bill" will have on your commodity/farmers' cost of production?

Answer. A broad consensus of analysis finds that the implementation of certain Cap-and-Trade (CAT) systems increases end-user prices for energy inputs. The degree and timing of the increases will depend on several variables related to the structure of the CAT system. For example, a June 2009 EPA analysis of an early Waxman-Markey proposal found energy price increases ranging between 4% and 13% in the early years and 15 and 35% in the later years.

Preliminary analysis of direct energy costs related to cotton production, ginning, marketing, and yarn spinning indicates that every 10% increase in input prices will increase U.S. cotton industry costs by at least $175 million. The estimate represents a minimum impact since it does not fully account for the ripple effects that higher energy costs will have on all industries that supply inputs to U.S. cotton and textile industry. Longer term price increases under a Cap-and-Trade program could add $400 million in higher energy costs for U.S. cotton.

In addition, no credible studies have identified methods or practices by which cotton production could generate carbon credits that would offset the higher energy costs.

Question 4. From your commodity/farm perspective, what level of food production is critical to our national security?

Answer. From the perspective of the National Cotton Council, the question should focus on the totality of agriculture and cover both food and fiber production. The contribution of food and fiber production to our overall national security extends beyond the initial concept of simply producing enough food and fiber to feed and clothe our population. Fortunately, U.S. agricultural productivity has exceeded the basic demand of our own population. However, national security encompasses not only food security, but also economic security and security in our trade relations.

From this broader perspective, the United States should strive for the full use of agricultural resources and productivity. By maintaining fully-utilized agricultural resources will promote a healthy rural economy and ultimately support the broader economy. Stable and secure food and fiber production systems also insure our trading partners that the U.S. will remain a consistent supplier of agricultural products, both in times of high prices as well as low prices.

Question 5. How do we defend direct payments to a farm for a crop they no longer grow? And haven't grown for some time? Please comment from your commodity/farm perspective.

Answer. Many opponents of agriculture look at high commodity prices and question the need for direct payments. However, farm bills should be written for the longer-term, not the short term, and we all know that high commodity prices are unlikely to last. To weaken the certainty of direct payments during times of high commodity prices could prove disastrous on the countryside when prices fall.

Direct payments are the only component of the safety net currently helping every farmer with base acres to deal with steep increases in input costs, dramatic commodity market swings, and increasing uncertainty in the credit markets that they rely on to keep their farms running.

It is also important to note that the fixed direct payment was created in the 1996 Farm Bill to give farmers some flexibility in their planting decisions. This flexibility enables farmers to make planting decisions based on expected market prices and variable productions costs, which makes this portion of the farm safety net the most trade compliant and least problematic in WTO negotiations.

Question 6. How should the Federal Government handle disaster? No program that has been constructed thus far has successfully plugged all the possible holes to ensure that we do not have to consider *ad hoc* disaster programs annually. How do we establish predictable protection against disasters?

Answer. Disasters affecting agricultural production can take many forms and can happen at any time before or during the growing and harvest season. As such, it seems that it is virtually impossible to completely rule out the future need for *ad hoc* disaster assistance. However, Congress should strive to minimize the need for *ad hoc* assistance when reviewing changes to existing programs.

The NCC supports a permanent natural disaster program as part of the farm bill, but our experience with the SURE program indicates that it cannot provide an effective level of natural disaster assistance. We recognize the challenge facing Congress to make improvements in this program. Without increased baseline spending authority, there will be no funds to even continue the program in the next farm bill, much less make the necessary improvements for it to be an effective disaster relief mechanism. However, we do not support reallocating existing spending authority from current farm programs to apply to SURE.

Enhancements to current crop insurance products can provide more effective risk protection for U.S. cotton farmers and hopefully mitigate the need for *ad hoc* assistance.

The NCC believes that there are several enhancements that can further improve crop insurance programs.

RMA should continually look for ways to move towards rate setting procedures that recognize investments a grower makes that reduce their individual risk. Producers who practice risk-reducing cultural practices, such as planting improved varieties and employing good soil and water conservation practices, are actively working to reduce their risk and increase the productivity.

The Group Risk Income Protection (GRIP) and Group Risk Plan (GRP) programs should be reinstated. Those programs were effective products in some parts of the Cotton Belt.

A major concern is the lack of affordability of higher levels of insurance coverage and the exposure to significant "shallow losses" that prevents effective risk management. The National Cotton Council supported proposals introduced during the 2008 farm bill debate regarding the use of GRIP and other group coverage alongside buy-up coverage to help shield growers from shallow losses. We would encourage RMA to put additional focus on the refinement of policy options that allow regional differences in insurance to be recognized

Accurately rating coverage is also critical to providing an affordable insurance product. RMA should continually look for ways to move towards rate setting procedures that recognize those investments a grower makes that reduce their individual risk. Producers who practice risk-reducing cultural practices, such as planting improved varieties and employing good soil and water conservation practices, are actively working to reduce their risk and increase the productivity. These activities benefit the cotton insurance program immediately by reducing production risks. The Council has consistently supported a move toward individualized experience based rating that would not disadvantage good producers in bad county experience situations. The lack of experience rating has reduced participation at higher levels of coverage for many cotton producers.

Unfortunately the current rating structure looks backward and lags well behind the risk reduction curve created by new technology. Practices that reduce risk and improve productivity should be rewarded with lower rates that can be translated into improved insurance coverage.

Another improvement that the cotton industry has asked RMA to consider is allowing a producer to purchase different levels of coverage for irrigated and non-irrigated production. Under the current system, which limits a grower to a single coverage level for both practices, a diverse cotton operation is stuck with balancing the coverage level between two entirely different risk management situations. The end result is a bad compromise that forces growers to under-insure their high input, high yielding irrigated production and over-insure their lower input, lower yielding non-irrigated acres. RMA has the tools and procedures necessary to monitor this situation to prevent the possibility of fraud and abuse. We would also suggest that when allowing different levels of coverage to be selected an effective way to prevent potential abuse would be to prohibit a grower from purchasing a higher level of coverage on non-irrigated acreage than they select for irrigated land.

Maximizing quality is a primary consideration of producers throughout the production process. Cotton is unique in the fact that our product is sold on an identity-preserve basis and that cotton end-users purchase based on the quality characteristics of each individual bale. We believe cotton quality loss provisions should be structured in recognition of the unique bale identity. We are pleased to report to the Committee that a new quality adjustment provision for cotton, based on the CCC Loan Premium and Discount schedule, has been developed by RMA with recommendations from the Council. We have made some progress with RMA on implementing this provision and encourage the Agency to complete this process as quickly as possible. We also believe that this revised quality adjustment procedure should continue to be considered part of the basic premium and be implemented at no additional cost.

Question 7. How large of a barrier to entry is there in your area for beginning farmers? How can that barrier be reduced?

Answer. One significant barrier to entry for beginning farmers is the difficulty to obtain financing necessary to launch a new farming operation. Programs that will make that capital acquisition more affordable with be a great benefit to beginning farmers.

Relaxing current payment limits will also lower a barrier to entry. In today's agriculture, a successful farming operation must be able to take advantage of the economies of scale that exist. Often times, the number of acres necessary to support the purchase of specialized cotton equipment will exceed the acres necessary to reach existing payment limits of direct and countercyclical payments. Relaxing those limits will remove existing penalties on growers who are simply trying to realize their economies of scale.

Question 8. What is the level of support within the cotton industry for direct payments?

Answer. The support for direct payments within the U.S. cotton industry is strong. The certainty and stability of direct payments are extremely important in times of volatile prices and costs.

Response from James "Jim" Thompson, Chairman, USA Dry Pea & Lentil Council

Question 1. Comment on an insurance program based on insuring coverage of your production costs *versus* yield and revenue type programs. How would we design such a program for your commodity/farmers?

Answer. The North Dakota Grain Growers have been working on an insurance policy through the 508(h) process called "crop margin coverage" that would insure a growers' production costs using USDA regional cost of production values to determine input expense guarantees. Such a policy, if successful, should be able to be

expanded to other crops. That said, USADPLC continues to support developing a workable crop revenue policy for dry peas, lentils and chickpeas.

Question 2. Comment on what changes your commodity group/farmers would like to see in the WTO trade guidelines given that some of the previous "developing nations" are now more than equal international partners (*i.e.,* India, China, and others so we have a more level playing field). How have covert subsidies altered the balance of free trade?

Answer. Over 60% of the peas and lentils produced in the U.S. are exported overseas, and so reducing trade barriers is vital to the continuing growth of our industry. However, free trade agreements negotiated in the past 10 years have failed to adequately address important phytosanitary issues, environmental concerns, harmonized tariff rate quotas, unfair production and/or export subsidies and currency manipulation. Top priorities of the USADPLC are: (a) Eliminating the phytosanitary impediments in China and India, and (b) the elimination of all trade barriers with Cuba. The USADPLC also strongly supports ratification of the FTA's with Colombia, Korea and Panama. Finally, the USADPLC does support the current WTO negotiation if the result is an agreement that puts U.S. agriculture on an equal playing field with other countries.

Question 3. Many agriculture groups, including many testifying today, have publicly stated the House-passed ACES (climate change bill) would be detrimental to their operations. Can you comment specifically on the exact financial effects that a "climate change bill" will have on your commodity/farmers' cost of production?

Answer. No one can predict the total affect that implementation of the ACES bill would have on production agriculture. However, it is logical to expect a dramatic rise in petroleum based input costs. Pulse crops do have some advantage in that they are a legume and do not require nitrogen application. Further, pulse crops actually fix nitrogen in the soil for the following crop's use. That said, USADPLC is concerned that unless other countries adopted similar climate change legislation, U.S. agriculture would be become uncompetitive in the global marketplace because of higher overall energy costs when compared to other exporting countries.

Question 4. From your commodity/farm perspective, what level of food production is critical to our national security?

Answer. The U.S. has been known for years as the breadbasket of the world, a bounty that has helped mitigate the growing trade deficit our nation faces for many other commodities, most notably crude oil. The USADPLC believes that it is essential for national security to continue to produce sufficient food to supply our domestic needs.

Question 5. How do we defend direct payments to a farm for a crop they no longer grow? And haven't grown for some time? Please comment from your commodity/farm perspective.

Answer. Dry peas, lentils, and chickpeas do not receive direct payments. As stated in our testimony, the USADPLC continues to seek equal status amongst other program crops and supports extending direct payments, should they continue, to pulse crops.

Question 6. How should the Federal Government handle disaster? No program that has been constructed thus far has successfully plugged all the possible holes to ensure that we do not have to consider *ad hoc* disaster programs annually. How do we establish predictable protection against disasters?

Answer. The USADPLC supports building and improving on the SURE program established in the 2008 Farm Bill in order to cover shallow losses that are not adequately covered by the Federal Crop Insurance Program.

Question 7. How large of a barrier to entry is there in your area for beginning farmers? How can that barrier be reduced?

Answer. A major obstacle for beginning farmers has been the inability to raise the large amounts of capital needed to establish a viable farming operation. Beginning farmer loan programs that offer low interest loans are important tools that can help mitigate this problem.

Family farms are also one of many small, family-owned businesses that would benefit from reforms in the inheritance tax laws. Current law reverts to previous estate tax rates beginning in 2011, and will place a financial burden on those trying to pass their small businesses on to their children. The USADPLC supports the reform of the inheritance tax system so that family farms can remain in the family.

Question 8. You note that pulse crops are the only program crop without a direct payment. Would you regard this as more important than increasing loan rate and target prices?

Answer. While the USADPLC continues to seek equal status with other program crops with regards to farm programs, including direct payments, the Council would not consider gaining direct payment status more important than adequate loan and target prices.

Response from Erik Younggren, Second Vice President, National Association of Wheat Growers

Question 1. Comment on an insurance program based on insuring coverage of your production costs *versus* yield and revenue type programs. How would we design such a program for your commodity/farmers?

Answer. Farmers use all income stabilizing programs whether farm program or insurance program, to cover production costs. Since generally farmers are price takers, they manage production costs with the goal of farm profitability.

Current insurance programs provide a percentage of income coverage to protect the farm operations. This coverage can be up to 85% of historical yield or 90% of anticipated revenue but because of Federal subsidy levels, the most affordable coverage is only up to 70%. Insurance alone leaves any profitability or return to management unprotected. In times where production costs are highly variable, this can also leave some of those costs uncovered.

From the wheat perspective, some of our major input costs are energy and nutrients. In recent years both of these markets have become increasingly volatile, and the risk associated with these costs have significantly affected most farmers, including putting some out of business. Energy costs range from diesel to natural gas to electricity. Of the nutrient category, nitrogen is derived from natural gas. Energy prices, both petroleum and natural gas, have some regional or local price variability. Energy prices are monitored by the Energy Information Administration of the Department of Energy. Additionally there are many industries that rely on energy derivatives to provide some risk management of this key driver in our economy.

With this national level information, a national level energy index could be incorporated into current insurance models that reflect risk in production (yield) and commodity price. Some models being discussed include a margin coverage or add-on component to revenue insurance to cover a volatile component of crop production cost. Our association has monitored crop insurance products introduced before RMA to cover these production costs. RMA has yet to approve the development of such a product. It may be time to incorporate such a product in the commodity programs instead. However, we haven't completely vetted any proposals at this time.

Question 2. Comment on what changes your commodity group/farmers would like to see in the WTO trade guidelines given that some of the previous "developing nations" are now more than equal international partners (*i.e.,* India, China, and others so we have a more level playing field). How have covert subsidies altered the balance of free trade?

Answer. First and foremost, NAWG would advocate for a very important change to the "Developing Nation Status." Currently, nations are able to determine for themselves if they are a developing nation. We see that many of these nations have components of their economy or regions that may fit this status, but across the country do not fit this category. We would recommend that we advocate for a WTO panel to determine this status based on factors from across their economy.

Additionally, subsides to the agricultural industry in the United States are very transparent. International media attention becomes focused on our support system. However, very little attention is given to the support to agriculture in other countries. In our research, we've determined that countries like China and India support domestic wheat production to the tune of a price support system that guarantees $8 to $9 per bushel. Canada allows the Canadian wheat buyers and growers the authority to borrow capital at government rates. Furthermore, many countries still allow export subsidies that depress world price and give their government funds to purchasers of their agricultural products. One specific example are the export subsidies that Turkey provides for wheat flour. Such practices serve to support production in countries around the world but severely hinder free trade.

We would encourage the U.S. Government to seek increased transparency in WTO member countries of their support for their domestic agricultural production. This increased transparency is needed as agricultural production around the world follows the U.S. in adopting technology and growing food to feed our growing world population.

Question 3. Many agriculture groups, including many testifying today, have publicly stated the House-passed ACES (climate change bill) would be detrimental to their operations. Can you comment specifically on the exact financial effects that a "climate change bill" will have on your commodity/farmers' cost of production?

Answer. By some accounts, climate change legislation is one the most complex issues with which Congress has ever dealt. Many studies have been done on the House-passed legislation with varying results, as many of the effects of this legislation will be determined only after implementation. Some reports suggest there will be some forestation across the country, other studies show that our costs will increase to varying degrees. They also show varying prices, anywhere from $15 to $154 per ton of carbon sequestered. We also have been told that, on average, climate change legislation will be a net benefit to farmers. Unfortunately, I don't know that I or any other individual farmer you could find in the country is average.

So while proposed climate change legislation gives farmers a chance to add income per acre by selling a service in sequestering carbon, it most definitely adds costs as well. This equation is the determining factor when it comes to farmers who ask, "What is the cost/benefit to my operation?"

We know that this legislation will increase energy costs. Agriculture is an energy-intensive industry and any greenhouse gas caps or other increased regulation on energy will drive up our costs. We expect higher prices for inputs such as fertilizer and chemicals, energy costs for drying grain, transport costs our taking our crops to market and equipment costs that will adjust for engine regulations. Studies may show that they will go up a small amount, but as a farmer I must consider worst case scenario. We are already working on thin margins, so any cost increase will be devastating to some who operate on the thinnest margins.

Agricultural sequestration credits will hopefully be an important part of any legislation. Farmland can sequester a large amount of carbon efficiently and cheaply. I hear a lot about no-till farming and the benefits for sequestration. However, I live along the Canadian border and have heavy black gumbo soils with annual threats of spring floods. I can't no-till as I need the soil to be black so it dries out quick in the spring. I generally don't worry about wind erosion in the winter as I usually have a nice blanket of white snow to hold the dirt in place. So, for my operation, my question is: "What can I do to benefit from the incentives being discussed in the carbon sequestration arena?"

I have heard that practices that reduce carbon intensive inputs or my farm's carbon output may qualify for credits. Will these technologies such as site-specific farming, autosteer, narrow band fertilizer placement, or future introduction of nitrogen-efficient wheat allow me to benefit? If I reduce the amount of nitrogen I apply on my crop and reduce the amount of NO_X, will I qualify for carbon credits? These are all questions for which I have yet to hear a definite answer.

And how do I go about proving the amount of carbon sequestered? Will requirements be region-specific, farm-specific or crop-specific? What if I do a better job than my neighbor? Will there be somebody running around in my fields with a probe checking out how good a job I am doing? What happens in a disaster year when nothing is normal?

I wonder how the market will develop and how any legislation will provide a structure for this market. Will there be an aggregator, or middle man, that verifies the amount of carbon I have sequestered? If carbon is worth, say $40 per ton, will I receive $40 per ton or, like everything else in farming, will I pay all the transaction costs?

How are early adapters handled? If they are not recognized as sequestering carbon, it is possible they will tear up the no-tilled ground thereby releasing all the carbon they have sequestered only to put that land back into no-till to qualify for the program. Early adopters will be an important group for any legislation. They pioneer technology and practices. If legislation treats them fairly, their experiences will show others in the region the benefits. So drawing on the experiences of the early adapters, the pioneers, will be important and it is essential they are treated fairly.

My questions related to biofuels and next generation biofuels that use crop residues or dedicated energy crops are just as numerous. How are these products going to be sold, grown and processed? How will we really address the classic chicken-and-egg problem: a farmer won't grow something without a reliable customer to buy it or a market in which to sell. And the market may not develop if the product isn't grown. I am encouraged that the Navy would like to buy oilseeds from the Pacific Northwest but there currently is no market or infrastructure to develop the industry. Somehow all of these challenges must be developed for a supply chain to come to fruition.

Such questions are why our association is in the climate change debate. We realize it is a very complex issue with far reaching consequences for our members. As a producer, the theory sounds good and it's certainly an exciting time with lots of opportunity for agriculture. But to me, I'm very interested in seeing how the legislation will be administered and determining the bottom line between increased costs

for my operation and any possible benefit in a credit program or through increased demand for biofuels.

Question 4. From your commodity/farm perspective, what level of food production is critical to our national security?

Answer. Domestic production of the major food commodities is a matter of national security. U.S. food production is at a level where American expenditures for food are only 12.8%, where only 10.1% of an American's income is spent on food (U.S. Bureau of Labor Statistics, *Consumer Expenditures in 2008*). Compare this to food expenditures in other developed nations of 20% or 40%. Also, American expenditures for petroleum and transportation fuel is 5.4% but a significant portion of these dollars are shipped overseas to regimes that are unstable and sometimes threatening to our nation's defense. It's not hard for me to see the downfall of moving to a system that doesn't maintain a minimum level of food production and relies on a substantial amount of food being imported. By producing our food on domestic soils, we maintain control of food safety, environmental and humanitarian standards that ensure America's ability to maintain a safe and secure society.

Furthermore, our food production system results in agricultural products to sell overseas as a solid foundation for our export balance. American farmers and ranchers incorporate technological advances that encourage development to keep up with population increases. This technology allows world populations to advance and live more securely. This in turn allows the U.S. to assist in furthering humanitarian efforts not only in food aid but also in agricultural development. This circle of interdependency provided by our nation's agricultural production provides security throughout the world.

Question 5. How do we defend direct payments to a farm for a crop they no longer grow? And haven't grown for some time? Please comment from your commodity/farm perspective.

Answer. The 2002 Farm Bill replaced production flexibility contract (PFC) payments (which were established by the Federal Agriculture Improvement and Reform Act of 1996) with direct payments. Direct payments are not based on producers' current production choices but are tied to historical acreage bases and yields. Because direct payments provide no incentive to increase production of any certain crop, the payments support farm income without distorting producers' current production decisions. We defend direct payments by emphasizing their important role in allowing producers the flexibility to grow what the market signals tell them to grow as opposed to what the government tells them to grow. This environmental, agronomic and economic flexibility is clearly seen in the move away from wheat to other crops.

Now, that's not to say there is not room for improvement in the program. NAWG is currently discussing farmer-suggested improvements in our policy committee. Maybe it is time to equalize the direct payment rates across crops, or, update base as we did in 2002, or allow for new crops to set a base. But this reliable support that is decoupled from current production provides for rural stability and base farm support to cover the increasing risks farmers experience.

We defend the direct payment as the most efficient system of getting money to farmers in a timely manner. It is simple and straightforward and farmers and FSA offices understand it. There is not a complicated formula to build or software to develop to administer the program. With other programs such as CSP, SURE and ACRE, much time and money is spent trying to write rules, build software, train personnel, educate farmers, and finally implementing the program. In this time of Federal Government budget woe, I think that is an important selling point.

Question 6. How should the Federal Government handle disaster? No program that has been constructed thus far has successfully plugged all the possible holes to ensure that we do not have to consider *ad hoc* disaster programs annually. How do we establish predictable protection against disasters?

Answer. The last farm bill provided a disaster program on which we can improve. Yes, it does have gaps and as they come forward, we can address them. Some of the gaps we've identified are in three areas.

First, we have to have the SURE disaster legislation permanently written into the law. SURE encourages farmers to buy higher levels of insurance coverage which results in the farmer sharing more of the risk during bad years. This program expires in 2011 and leaves no protection for disaster in 2012 or beyond.

Second, we look at the triggers. One suggestion is to lower the trigger level to 30% rather than 50%. A 30% loss would complete the safety net offered by 70% coverage from crop insurance. Because crop insurance indemnities are taken into account with the SURE program, there is not risk for double payment on the loss. Another trigger gap is requiring a county disaster declaration. In some areas, farmers may have localized losses but not be wide enough spread to trigger a declaration on a

county basis. Counties across the country are different sizes. County size shouldn't limit producers' ability to utilize the SURE program.

And finally, we need to get the payment into producers hands as soon as possible. Input providers and banks in areas that have disaster get spread extremely thin when their customers have to wait for the payment. Having a 75% advance payment would support the entire rural community in these difficult times.

Question 7. How large of a barrier to entry is there in your area for beginning farmers? How can that barrier be reduced?

Answer. The barriers to entry for new farmers are quite large and daunting. Many people who become interested in farming are kids of farmers who recognize the lifestyle benefits and inherit the entrepreneurial blood required to take the risks associated with farming. However, beginning farmers have limited access to capital and this is a very capital-intensive business.

There are some farm credit and loan programs for beginning farmers that do allow access to capital. Acquiring additional land and increasingly expensive equipment is often required. With the high cost of purchasing or renting farmland, any expansion severely stretches balance sheets and adds risk. Farms with healthier margins are more able to absorb this risk.

Some will tell you that one barrier to entry for beginning farmers is the Conservation Reserve Program. This program guarantees a competitive rental rate for 10 year contracts. Changes in the last farm bill have allowed programs to address CRP land transition to beginning farmers and we are monitoring the results. However there is a constraint in the definition of a beginning farmer or rancher that limits the addition of young farmers to family operations that have been farming for more than 10 years. This definition also constrains those who may have developed financial ties while living away from the farm but choose to come back to the farm for full-time management.

Some other beneficial changes that will affect benefit those with limited capitol include:

- Lowering capital gains tax on land transfers to beginning, qualified farmers;
- Allowing new landowners to use the APH of the previous operator regardless of acreage in that county; and
- Protecting higher leveraged, beginning farmers through higher level of crop insurance subsidies.

Question 8. You mention both the inadequacy of the target price for wheat along with the stability provided by the direct payment. For your operation, would you rather have a higher price floor or a stable, but lower, payment in times of high and low prices?

Answer. NAWG members continue to debate the benefits of target price or direct payment as we determine our 2012 policy goals. This debate is somewhat regional and is affected by the other crops farmers in those regions grow.

In my perspective my crop rotations are fairly stable due to factors other than price. We primarily grow wheat, sugarbeets and soybeans and I have a crop rotation that maximizes output on those crops. So in my case, a higher target price wouldn't influence my planting decisions and I would like a higher target price for the price supporting role. However, my counterparts in Kansas or Montana are in favor of the direct payment. Some of the factors in our debate across the country include the regional differences in base acres, yields and production volatility.

NAWG policy supports the direct payment as reliable financial support that farmers can deposit in their checking accounts and use however we wish; we can add it into the bid to rent new land, we can use it to buy fertilizer, we can use it to buy up to the next level of insurance. We use it wherever we feel it is most needed and our bankers appreciate this reliable support. I must say the direct payment has provided more direct support in the last 10 to 15 years than payments that are tied to the target price (countercyclical and LDP) since the price mechanism has not been triggered. The direct payment is reliable support that does allow better ability to pay our expenses in the good and bad years.

○