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EXPANDING OUR FOOD AND FIBER SUPPLY THROUGH A STRONG U.S. FARM POLICY

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BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

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EXPANDING OUR FOOD AND FIBER SUPPLY THROUGH A STRONG U.S. FARM POLICY

Wednesday, June 30, 2010

UNITED STATES SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY
Washington, DC

The Committee met, pursuant to notice, at 9:36 a.m., in Room SDG50, Dirksen Senate Office Building, Hon. Blanche Lincoln, Chairman of the Committee, presiding.

Present: Senators Lincoln, Harkin, Baucus, Nelson, Brown, Casey, Chambliss, Lugar, Cochran, Roberts, Johanns, Thune and Grassley.

STATEMENT OF HON. BLANCHE L. LINCOLN, U.S. SENATOR FROM THE STATE OF ARKANSAS, CHAIRMAN, COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

Chairman LINCOLN. Good morning. The Senate Committee on Agriculture, Nutrition and Forestry will now come to order. This is the first in a series of hearings to help this committee prepare for the next Farm Bill. We will be taking an inventory of what we have, obviously, from the 2008 Farm Bill and ensuring that it is working properly but doing so with our eye on the future of farm policy.

I want to first thank my very good friend Senator Chambliss for helping me to organize this hearing, for being a great partner on this committee, and for being a steadfast advocate for our Nation's farmers and ranchers. America's producers are blessed to have such a good friend in their corner and so am I.

I also want to thank my other distinguished colleagues for their attendance here today and for all the work that they do on behalf of rural America. This has always been a bipartisan committee where we put problem solving and people above partisan politics.

We are privileged to have some excellent witnesses today. I very much appreciate Secretary Vilsack as well as Dow Brantley from my home state of Arkansas, and all of our witnesses for being here to offer their unique perspectives. I look forward to hearing from each of you-all.

I am very honored to be the first Arkansan to serve as Chairman of the Senate Agriculture Committee, not to mention being a farmer's daughter. Agriculture provides a job for one out of every four Arkansans, and it contributes more than 15 billion each year to my state's economy. I expect that each and every one of my colleagues around this table has a similar story to tell about the importance of agriculture to their state's economy and jobs both on and off the farm. Of course, the Farm Bill is one of the most important pieces of legislation that Congress considers on behalf of rural America and our Nation's farmers and ranchers.

In the 2008 Farm Bill, we made some significant new investments in nutrition, energy, conservation, rural development and other priorities while maintaining the integrity of the farm safety net. In the next Congress, we will be writing the 2012 Farm Bill. In this process, we will have the opportunity to build on the good things that we have accomplished.

This first hearing will focus on how well the current safety net is working for our Nation's farmers and ranchers. As we begin our discussion, I want to share five points that will guide me when deliberating the next Farm Bill.

First, I am proud of our farmers and ranchers. They work hard. They put food on our tables, clothes on our back and fuel in our cars and trucks. But today, our farmers and ranchers not only have to cope with unpredictable weather and unfair global markets, but they must also suffer from abuse on TV and in newspapers from folks who really ought to know better than to bite the hand that feeds them. Our Nation's farmers and ranchers need to know that they will never have to apologize to this chairman or to this committee for the hard work that they do. We appreciate the work that you do every day, and we are going to be on your side.

Second, these Farm Bill deliberations should not be a Washington command and control top-to-bottom approach to policy. President Reagan used to say that ordinary people see things that work in principle and wonder if they work in practice, but economists see things that work in practice and wonder if they work in principle. In the same way, we in Washington may know what policies work in principle, but it is our farmers and ranchers who know what works on the ground.

The good Lord gave us two ears and one mouth, so it is important that we use them in that proportion. And it is also vitally important that the safety net features of the 2012 Farm Bill come from the kitchen tables of places like Stuttgart, Arkansas and Cando, North Dakota rather than tables like this one.

Third, we need to look before we leap. More than anything else, I think most American farm and ranch families simply want steady, predictable, supportive policies coming out of Washington and for us to otherwise get out of their way. Huge policy fluctuations, mixed signals coming out of Washington, and the uncertainty that these things create make it very difficult for our producers to compete, invest and plan for the future.

So rather than start from scratch, or from some newfangled idea cooked up in Washington, or in some college professor's office, we need to reassure our farmers and ranchers that we will start where we left off, the 2008 Farm Bill. If we can do better by our producers in 2012, great, but if not, current law serves as the benchmark from which we will work.

Fourth, we need to get more creative. The safety net provided under the 2008 Farm Bill is not perfect. It can and should be strengthened. But Congress does not even have to wait for 2012 for that to happen. In fact, Congress does not even have to act. For instance, back in 2000, Congress provided USDA with very broad authority to develop and approve new tools to help producers of all crops and from all regions better manage price, production and revenue risk. We need to use this and other authorities to their absolute fullest.

For example, if we could get every farmer in this country to 85 percent revenue insurance that is affordable, we would go a long way in filling the holes of the current safety net. I know my rice farmers are working towards this goal, and I suspect farmers from other states are doing the same thing. We can make this happen.

Finally, I was reading an article the other day about the OECD rethinking its objectives away from promoting policies that discourage food and fiber production towards policies that help us meet the needs of a planet that will one day in the not-too-distant future host 9 million—not million—billion people.

I believe that this consideration needs to be our overarching objective as well. Too often, it takes a crisis to remind us of the essentials in life, basic as they may all be. But I do not believe it is wise for us to wait for a crisis to value our domestic food and fiber production.

Mike Rowe—and this comes from the mother of twin boys at the age of 14—the host of the popular TV program "Dirty Jobs," had this to say about the importance of production agriculture. "All jobs rely on one of two industries, mining and agriculture. Every tangible thing our society needs is either pulled from the ground or grown from the ground. Without these fundamental industries, there would be no jobs of any kind. There would be no economy. Civilization begins with miners and farmers, and polite society is only possible when skilled workers transform those raw materials into something useful or edible."

It is from this perspective that I will hope to approach the 2012 Farm Bill. Again, I look forward to hearing from our friend, Secretary Vilsack, and all of our distinguished witnesses. And I will now would like to yield to my good friend, Senator Chambliss, for any opening remarks that he may have.

STATEMENT OF HON. SAXBY CHAMBLISS, U.S. SENATOR FROM THE STATE OF GEORGIA

Senator CHAMBLISS. Thank you very much, Madam Chairman, and thanks for your kind words. Most of all, thanks for your friendship and your leadership on this committee. Your commitment to agriculture has been unwavering. And as we move towards the writing of the next Farm Bill, obviously, we are going to be looking to you for that continued leadership that I know is going to be there. So thanks for starting off with this hearing and moving us in the right direction early on. And I thank you for holding this oversight hearing of the current farm safety net. U.S. farm policy certainly plays a valuable role as we seek to expand our food and fiber supply.

Farmers form the backbone of rural communities. They are employers. They are businessmen and women keeping local economies moving. They are conservationists seeking ways to improve the productive capability of their land. Farmers are also feeding, clothing and providing bioenergy to the world.

A challenge that I believe our producers can help meet is related to the anticipated world population growth. The Organization for Economic Cooperation and Development projects that production output will have to double over the next 40 years to feed a world population of 9 billion people in 2050. I want to ensure that our farmers and ranchers remain well positioned to be the best suppliers of the world's food and fiber well into the future.

Agriculture has a positive story to tell. Agriculture is absolutely essential to our everyday lives. And I am pleased to learn of new and innovative uses of our agricultural products.

As a fellow Cotton Belt member, Madam Chairman, you are probably familiar with a new cotton product, Fibertect, which will aid in the cleanup of the Gulf spill. Many of our agriculture products hold tremendous new potential. Programs under the jurisdiction of this committee also have a positive story to tell in terms of cost to the taxpayer.

Agriculture spending is a small share, extremely small share, of the federal budget. Over the 10-year projected period of 2011 to 2020, the Congressional Budget Office estimates Commodity Credit Corporation outlays at .24 percent, less than one-half of 1 percent of all mandatory and discretionary spending. Adding nutrition program spending raises the share to just 2.31 percent of the entire federal budget.

With concern growing over the deficit and debt, mandatory spending under this committee's jurisdiction will be the focus of increased attention. While many believe that the bulk of agriculture program funding goes toward commodity programs, that is not simply not the case. In fact, nutrition spending is the largest share of the committee's mandatory outlays, approximately 81 percent, according to CBO, with spending on nutrition programs rising since the Farm Bill due to the recession and increased participation. Those and other important Farm Bill programs will be reviewed on another day.

Today's hearing will allow us to exercise oversight of the commodity and risk management safety net components of the 2008 Farm Bill, which is now two years old. In my view, it is important for us to focus on oversight at this point rather than fully discuss reauthorization of the safety net, as some programs, such as the ACRE Program, have not yet distributed assistance. We appreciate the Department's work to deliver Farm Bill programs to date and look forward to completion of outstanding programs.

Before I conclude, I would like to make a quick mention regarding the recent bilateral talks between the United States and Brazil. As many of you know, the export credit and cotton programs are a particular interest of mine, and recently both have been in the news. The announcement last week of a framework agreement between both countries sets forth a constructive process to find a mutually agreeable resolution to the Brazil World Trade Organization case. While there is much work and discussion that remain and some parts of the agreement are not without concern, I believe that we are on the right path.

Since Congress writes the Farm Bill, we know this will be an integral part of the 2012 Farm Bill. But for now, we have an opportunity to carefully discuss and find agreeable modifications to both programs. The success of the talks is due in no small part to the hard work and efforts of Secretary Vilsack—and thank you, sir—U.S. Trade representative Ron Kirk, Under Secretary Jim Miller and Chief Agriculture negotiator Islam Siddiqui. Thanks to you-all for your great work.

We appreciate our witnesses being with us today. I wish to say a special thank you to my neighbor, my good friend, Johnny Cochran, of my home state. We look forward to hearing your perspective on the 2008 Farm Bill and your thoughts about how we can ensure a bright future for American food and fiber products.

Thank you very much, Madam Chairman.

Chairman LINCOLN. Thank you, Senator Chambliss.

If I can just take a moment, seeing a quorum, if I may just ask the indulgence of Secretary Vilsack, I think this will be beneficial to you as well.

[Recess.]

Chairman LINCOLN. We will resume our hearing in the Committee. And, again, thank you, Senator Chambliss. I appreciate that. I thank all the members for their indulgence in moving that business forward.

We do have three panels today, and we are eager to hear from our witnesses and to get questions in, as many as possible. So in the interest of time, I would certainly like to ask members, if they could, to submit their opening statements for the record. If anyone wants to say a few words, certainly, I am amenable to that. But if there is anybody that needs to say anything, we would like to offer your opening statements for the record.

Chairman LINCOLN. Well, in that case, welcome, Mr. Secretary, to the Committee. Thank you again for your testimony today on behalf of the Department. Before we do get started with your testimony, I would like to take a moment and say a very special thank you for joining me recently in Arkansas and visiting the site of the tragic Albert Pike flood that took 20 lives in the Ouachita National Forest. It meant so much to the people of Arkansas to have you there, as well as the chief of the Forest Service, Chief Tidwell, to see the devastation firsthand and to simply lift those people up in your thoughts and prayers as you did. And I am grateful to that.

I originally had scheduled a hearing for tomorrow looking at the flood with Chief Tidwell of the Forest Service and some of the first responders. That hearing has been postponed due to the passing of Senator Robert Byrd. So we will reschedule that at another time. But thank you again for coming.

Secretary Vilsack, your written testimony will be submitted for the record, so hopefully that can help you keep your remarks to five minutes. Thank you.

STATEMENT OF HON. TOM VILSACK, SECRETARY, U.S. DEPARTMENT OF AGRICULTURE

Secretary VILSACK. Thank you, Madam Chair and Senator Chambliss and other members of the Committee. Thank you for the opportunity to be here.

First and foremost, Madam Chair, our condolences continue to be extended to the families of those who were tragically lost as a result of that very devastating flood in Arkansas. And I appreciate the opportunity to spend a few minutes—recognizing that the focus of this hearing will likely be more on the implementation of the 2008 Farm Bill, permit me for just a couple of minutes to talk a little bit about the 2012 Farm Bill.

My staff and I met several weeks ago to begin that process, and during the course of our conversation, it occurred to me that we did not have a very clear understanding or appreciation of the vision and the results that we sought from a 2012 Farm Bill. And I asked the staff to think about that, and it concluded for them that for my perception and from my vantage point, what I am most interested in is trying to increase populations in our rural communities, in our rural areas and also improve incomes.

Why am I interested in increasing populations? Well, the sad reality is that in 56 percent of the counties in rural America today, we have lost population. And with that, as everyone knows, you lose political influence. You have fewer people who understand, as members of this Committee understand, the hardworking folks who live, work and raise their families in those rural communities.

It is particularly true in the area of production agriculture and particularly true in small commercial operations, the operations where you may have 200,000, $300,000 in sales every year. Over the last 10 years, we have lost 141,000 of those operators. And I think we ought to get very serious, as we consider the 2012 Farm Bill, about how we can replenish and rebuild that population center, how can we focus policies and procedures and programs and efforts to increase small and medium-sized farming operations.

Let me suggest one idea that this committee might consider. We had at one point in time not long ago a goal and a national commitment to increase the national police force by 100,000 police officers. We have talked about the need for additional teachers in our classrooms.

Why not set as a goal for the 2012 Farm Bill the ability to add at least 100,000 additional farmers in the area of the small farming and commercial operations?

Why not establish local advisory councils in communities across the country, to identify, recruit and encourage and incent young people to consider a life of farming?

Why not develop a system similar to case management in Human Services that would enable those young people to have assistance to work themselves through the many programs that are created in a Farm Bill?

Why not create a venue where new farmers can get help with business planning, with marketing and the other ingredients of successful entrepreneurship?

Why not expand our efforts to encourage transitions from those seeking to retire to those seeking to start in the farming business?

Why not place the Nation's attention on our need for young farmers on the same plane as police officers and teachers, as they are equally important to the future of this country?

The sad reality is that the farming community is aging. The average age of a farmer today in America is 57 years of age. Five years ago it was 55. We have had an increase of 30 percent of the farmers over the age of 75 and a decrease in the number of farmers under the age of 25 by 20 percent.

I think it is important, as you-all begin your discussions and deliberations of the Farm Bill, that we focus an aggressive effort on helping beginning farmers begin.

At the same time, I think we also have to pay attention to those who live, work and raise their families in rural communities that are not necessarily only connected to farming but may be living in these small towns, providing other services and assisting these farm families. The sad reality of rural America is that 90 percent of the persistent poverty counties in this country exist in rural America. The sad reality is that the per capita income differential between those who live in rural communities and those who live in urban centers is about $11,000 per capita.

I think it is important and necessary that we really focus our attention and efforts as well on building and revitalizing the rural economy generally. I think we need to focus on building regional economy, providing greater flexibility in our programs and making sure that our programs are simplified from an application and process standpoint.

In short, Madam Chair, I think we need to begin focusing on very clear result orientation to the Farm Bill. If we can rebuild the farming population, if we can increase populations in rural communities, if we can increase income levels for farm families and for rural families, I think we will not only benefit rural America, we will benefit the country.

With that, Madam Chair, I will be happy to answer questions.

[The prepared statement of Secretary Vilsack can be found on page 103 in the appendix.]

Chairman LINCOLN. Well, thank you, Mr. Secretary, again for joining us today. And hopefully, in the next panel, we have got some young farmers in here that can talk to the concerns and the challenges that are faced by young farmers in this country. So I certainly appreciate that and certainly your objective there. Just a couple of questions from me and then I will turn it to my colleague.

One thing I would like to visit with, and it is something we have talked about an awful lot recently—and I have some disappointment that the Department was unable to come up with any ideas that would help the House and Senate Ag committees preserve the baseline for our use in the 2012 Farm Bill.

Obviously, the $4 billion designated for deficit reduction out of the crop insurance cannot be recaptured. But it is not clear that the increased spending that you are contemplating for the Conservation Reserve Program will impact the CBO baseline since they assume that the retired acreage will already be at the cap in the out years.

If we cannot capture the full 2 billion in additional crop insurance and Conservation Program spending in the CBO baseline that will be developed after the new SRA is signed, can you at least hopefully assure the Committee that you will remind OMB that the Crop Insurance Program and the Agriculture Committee already gave at the office when it comes to future budget cuts? And that was something we experienced, and we have experienced it year after year as we do these farm bills, is that we seem to give and give and give, and it is very rarely is it remembered.

I hope that we can look to you for that assistance in reminding OMB.

Secretary VILSACK. Well, let me, first of all, emphatically say that we have begun that process publicly in encouraging not just OMB but the entire country to understand and appreciate that agriculture has led in this effort to try to not only focus on the Farm Bill baseline but the Nation's baseline. There is, I think, agreement that there is a need to address deficits in a meaningful way. Failure to address deficits could lead to inflation, interest rates which would be very harmful to those who farm and live in rural America.

Having said that, I think it is also important to recognize that the CRP program is a very popular program and one in which we currently need the additional resources in order to meet the 32-million-acre threshold which we are working under. It has been well received out in the countryside, and it is an opportunity again for us to do what is right for our farm families and also for the environment.

We will continue to work with the Committee, continue to work with Congress to preserve that 2 billion, and we will certainly continually remind OMB and anyone else who is interested in this that this part of the budget has given. And it might be interesting to know if everyone else gave in a proportion to what we gave, how quickly we could get the deficit under control.

Chairman LINCOLN. Absolutely. Well, I appreciate that. And again, in building the foundation to be able to feed 9 billion people globally, not to mention encouraging young farmers to come in and to be able to make a living in agriculture to feed their families, and to raise their children, and to do all of those things, I think it is going to be really critical that we remind people that time and time again, production agriculture has given. And we have been willing to come to the table, whether it is deficit reduction or just making sure that we are being responsible within the confines of our own budget baselines in this Committee, and I hope that we will have your assistance in doing that.

My staff has also been working with the Risk Management Agency to find a way to provide insurance against the higher harvest costs farmers incur when high winds result in downed rice in their fields, and, obviously, with these capital intensive crops and some of these types of circumstances. RMA has been very helpful so far in suggesting possible approaches, but the sooner that we can get such a product in place, certainly, the better off my rice farmers in Arkansas and I know rice farmers across the country would be.

What are the prospects for developing such an insurance policy?

Secretary VILSACK. Madam Chair, specifically, I would like to have the opportunity to specifically respond to your question in writing, if I might. But take this opportunity to indicate to you that we are constantly looking for ways in which we can expand opportunity. One of the things that we are hopeful of doing with the resources that we are recapturing from the SRA negotiations is to expand on our range and forage and pastoral land programs, long overdue. And we continue to look at specialty crops in a variety of other ways in which we can provide assistance and help.

We appreciate and understand that risk management is a very critical component of a safety net, and the more we can figure out how to spread that opportunity to more producers, covering more risk, the better off they will be and the better we will be. So we are committed to continually looking for ways in which we can expand coverage.

Chairman LINCOLN. Well, I appreciate it. I know you have commented to me several times, "It seems like the Committee's dealing an awful lot with risk management these days," whether it is the financial world or agriculture, and I appreciate that. So I will look forward to getting your written response and suggestions there.

One last note. One complaint that I hear from many farmers is that the safety net programs have become very complicated, and especially the ACRE and the SURE Program. We also have other programs that are similar to these, such as crop insurance and counter-cyclical payments.

Do you think that these programs complement each other or do they work at cross purposes?

Secretary VILSACK. Well, I think there has got to be work done on ACRE. There is no question about that. We were asking farmers to basically give up the known for the unknown. We were asking them to enroll for the life of the Farm Bill instead of being able reevaluate the impact and effect of that decision.

We know that this particular program was not particularly geared towards all commodities. It was more favorably inclined towards some commodities. Certainly, the rice and cotton producers and peanut producers were not necessarily enamored with the ACRE Program. So I think there is still work to be done. When only 8 percent of farms and 13 percent of total base acres are included in the program, it tells you that there is still additional work that needs to be done.

Candidly, I think we have a lot of work to do in terms of simplifying all of these programs and encouraging and improving our technologies so that we can provide quicker service and better service. We are still dealing with a very antiquated technology system in our Farm Service offices. We have started the MIDAS Program. We have started to stabilize our technology, but it is going to take a couple of years for us to get the job done. And hopefully, we can maintain the resources that have been provided in the last year or two.

With that, I think when we have better technology and if we can focus in the discussions on the Farm Bill on trying to simplify these programs, I think we will all be better off.

Chairman LINCOLN. Well, thank you, Mr. Secretary. Just one adage there. Crop insurance really does not work very well in my state. And since crop insurance does not well, SURE does not work well. One of the reasons I have been fighting for disaster assistance is that I have got foreclosures now on a lot of my farms because they did not receive any '08 disaster or '09 disaster and, of course, going into a 2010 crop year without those resources or having suffered from that, it just makes it a very, very difficult circumstance.

So I hope that we will work together to improve the safety net program dealing with crop disasters and certainly hopefully work together in terms of any disaster assistance that we can provide farmers that are really in need right now.

Secretary VILSACK. Madam Chair, just 15 seconds. On the issue of credit, we obviously have been working very closely with our own credit operations to see whether or not we can forebear or restructure loans to farmers who are struggling. At the same time, we have done as much as we can to convince and encourage our commercial bankers with which we have a guarantee relationship to do the same.

Chairman LINCOLN. Thank you.

Senator CHAMBLISS.

Senator CHAMBLISS. Thanks very much, Madam Chairman.

And, Mr. Secretary, I would be remiss if I did not comment very quickly on a matter that you and I talked very briefly about before the hearing and to thank you for the great work that your department is doing in continuing to provide assistance to the people of Afghanistan.

If we are going to be successful in the war on terror, it is interesting to note that the U.S. Department of Agriculture plays a very key role in that. And we have a number of volunteers from my state who have been in and out of Afghanistan, as well as a number of other folks from around the country who are providing assistance to the people of Afghanistan. And it is all under your leadership and the leadership that has continued from the previous administration. So I thank you for that good work that you are doing there, and again, I look forward to visiting that country with you soon.

Also, I appreciate your comment about the average age of farmers. We have talked about that on this committee ever since I have been a member of Congress. And it is difficult to try to devise methods to encourage young people to come into farming when, just as they step right out of college, for example, and into the world of farming, they immediately have got to incur hundreds and hundreds of thousands of dollars of debt to buy equipment, to rent land or buy land. For somebody with absolutely no ability to have credit extended to them, obviously, it makes it very difficult.

I am not sure what the answer is, but I think the way that we have approached it thus far has been the best way that is available. That is, some sort of safety net program that at least when they go in and speak to the banker guarantees that banker that he is going to have some income coming in, that farmer is going to have some income coming to pay him the debt that he is going to have to incur to step out there in the world of farming, which is so uncertain.

As Chairman Lincoln alluded to, the disaster situation we have got right now, this is my 16th year on the Ag

Committee in both the House and the Senate. We have never had a year when in some part of the country, some farmer, some group of farmers did not have an agricultural disaster. And it is a very difficult issue, but as we move into this Farm Bill, I appreciate your ideas and appreciate your bringing it up now so that we can put it at the top of the list and think about ways that we can encourage farmers, young farmers, to engage in this business because that age of 57 is rising, unfortunately. It is not falling.

I want to first of all mention the five pillars that I have heard you talk about that will make rural America stronger. One is trade. Two is rural broadband access. Three is renewable energy. Four is conservation, and five is research. I do not disagree with any of those as being critically important to the world of agriculture. But ensuring that new farmers find a way to be a part of the 21st Century of agriculture is listed as a "concern", and we just talked for a minute about that.

Where do production agriculture and commodity and risk management programs fit into that picture of those five pillars?

Secretary VILSACK. Senator, when we talk about the five pillars, we talk about the first pillar being improving incomes for farmers, and that involves a variety of issues. One is trade, obviously, expanding export markets. This year, we are fortunate. We are on track to have perhaps the second best export opportunity we have seen in agriculture since we have been keeping records. The first six months of our fiscal year were actually a record. Continued good news with the President's leadership in opening up the poultry market in Russia should help those numbers as well.

It is also about expanding domestic markets and creating opportunities. That is one of the reasons why we are focused on trying to better link local production with local consumption. This is not just about small, very, very small operations. This is about production agriculture, the ability of schools, institutional purchasers of food to be able to access things locally. Sometimes you would be surprised that there are folks in small communities who are purchasing food from far, far away that do not realize or appreciate what is being grown and raised in their area. And that is why we are focusing on trying to rebuild the supply chain with local slaughter facilities and mobile slaughter facilities with storage facilities, also creating job opportunities. So it is very important to understand and appreciate that production agriculture is critically key to that first pillar.

Obviously, having a safety net is important. It is very important when you take a look at the overall farm income. If you take a look at all farmers of all sizes and you ask the question how much of their income comes from farming operations, if you include all farmers, only 9 percent of their income comes from the farming operations. So it is obvious that we need to do work there. If you look at just large production agriculture, still 30 percent of their income has to come from off the farm.

So I think there is still work to be done in expanding markets and providing assistance and help, but it is clearly one of the key keys to revitalizing the economy. And that is why we also focus on energy, providing new ways and new opportunities to use the crops and the waste product that is produced from agriculture, I think has an exciting potential. If we get to 36 billion gallons of renewable fuel in this country by the year 2012, we will see $95 billion of additional investment in rural America and 800,000 jobs and obviously increased bottom lines for farmers and ranchers. So that is one of the reasons why we focus a great deal on that.

I might just say just very briefly as it relates to the issue of beginning farmers, I think one of the focuses should be on how we might be able to incent sweat equity opportunities in beginning farming operations so that the credit needs are not as great as they are today. And the other is to take a look at our guaranteed programs and determine whether or not there is a difference between a guaranteed loan and a guaranteed payment of a loan. Whether or not it is possible to provide guarantees of payments during difficult times as opposed to waiting until the loan has to be foreclosed on to trigger the guarantee, could that possibly open up more credit, could it make it more available to young farmers and make it easier for them to get started.

These are some of the ways that are being discussed, and I think they are obviously a lot of ideas that we need to think about. But it is clear we have to think about it and we have to get the Nation's attention focused on it.

Senator CHAMBLISS. Let me just throw out one suggestion to you there. Leasing of equipment has become more and more common practice. And rather than thinking in terms of these young folks going out and having to purchase equipment, if we could get creative and develop some programs that incentivize maybe the leasing for short-term periods and have some sort of credit programs really focused on that aspect, it would be a huge benefit, obviously, to our agribusiness people as well as to the farmers. And I look forward to dialoguing with you on that.

My time is up, but I cannot not comment on the proposal in the President's 2011 budget to not only take some money out of the baseline, the Farm Bill baseline, for risk management but also the reduction in direct payments as well as the adjusted gross income limitations are issues that are very much a concern to me.

This is an issue that we dealt with in a very significant way in the 2008 Farm Bill, and I will have to tell you that there was very much in the way of discussion about these issues. I see Senator Johanns down there. He was the secretary during those days, and he will remember well the discussions between the administration and this committee. And we made significant changes, and to now step in and take another whack at two of the basic safety net programs is something that this committee is going to look long and hard at because we want to make our contribution.

No farmer has ever told me that they did not believe in paying their fair share when it came to dealing with the issue of deficit reduction, but in taking those two programs now and once again trying to make significant reductions in them, I think is going to be met with a lot of resistance on this committee. But in any event, we look forward to continuing to work with you on that and all the other difficult issues as we move into the next Farm Bill debate.

Thank you, Madam Chairman.

Chairman LINCOLN. Senator Brown.

Senator BROWN. Thank you, Madam Chair, for holding this hearing and thank you for your exceptional work on the derivatives issue. I wanted to thank you publicly for your leadership on that very important issue.

Mr. Secretary, welcome. I appreciated your work, your discussion earlier on the ACRE Program. I would like to pursue that, that and one other issue, for a couple of moments.

The ACRE compromise that ended up in the final bill obviously was not particularly close to but in the right direction from where

Senator Harkin and—then Chairman Harkin and Senator Durbin and I advocated. The program is—you mentioned in your testimony, it is complicated. It has made it difficult for farmers to make their election decision.

How do we simplify the process? Give me some very prescriptive words on how we simplify the process so that there is higher participation. How do we improve the program during the next Farm Bill as we just move forward?

Secretary VILSACK. I think there are a couple things, Senator. I think, first of all, the fact that you are making a farmer commit to a decision, particularly at the outset of this program, asking him or her to give up a certain percentage of payments and protections for something that is not quite known and then suggesting that they need to be locked in for an extended period of time, that this is not a year-to-year kind of operation, that they are essentially locked in for the life of the Farm Bill, it makes it difficult for folks to be interested in trying a new program out.

Secondly, there is some concern that the program is based on state data as opposed to individual county data. That may be adding a level of complexity to it, but it may make it easier for people to calculate how it may actually impact their operations and it may become a more popular program.

We are seeing—as I said, we have a relatively small percentage of farms enrolled in this. I think it is obviously focused on trying to figure out how you would deal with what the Chair indicated, which is how do you get to some level of protection, some level of assistance that assures that you are going to get a good part of your production costs back and so that the risk of farming is minimized.

But I think if you take a look at giving people a little more flexibility within the program and you also take a look at the data that you are going to use in making the calculations, it might make it more popular and more interesting for people. And I think as people see the impacts of it on their neighbors who elected ACRE, hopefully, we will see improvements in——

Senator BROWN. You are getting generally good reports back from those who have enrolled, correct?

Secretary VILSACK. Good reports in the sense that I think people are satisfied with the election that they have made, not necessarily good reports—and that is part of our challenge and part of our issue, is to make sure that we do as good a job as possible articulating and explaining these new programs.

It is again somewhat difficult for the 3,000 Farm Service Agency offices to institute new programs when you realize how much they were required to institute by virtue of the enormous work you-all did on the 2008 Farm Bill, and then having to do a lot of it with very antiquated technology, it creates a very difficult, stressful time for folks. So, hopefully, people are getting more comfortable with the program and in a better position to explain it to their friends and neighbors.

Senator BROWN. Thank you. Another question I wanted to ask you, you, of course, are familiar with the struggles that dairy farmers across the country have undergone with high costs and low prices. Senator Casey and I worked on the Feed Cost Adjuster provision to help farmers when the cost of feed spiked.

Give me an assessment of how that provision has worked.

Secretary VILSACK. We are still working. I mean, the program is providing some degree of assistance and help, but it is not enough to avoid a substantial amount of stress in dairy. And I think that is because we really have to address this in a much more holistic and comprehensive way. It is one of the reasons why I asked the Dairy Council to be formed and asked and challenged them to come up with a consensus view on how we might be able to end what we are seeing as more peaks and valleys in the pricing of dairy, which makes it very difficult for operators to have a difficult year and recoup the losses that they incur in these very, very difficult years, because they are more frequent and they are more severe, and the highs are not as high as they need to be and they do not last as long as they need to last in order for people to recover.

So I think really what we need to look at is a very significant effort at trying to figure out how we stabilize the price band in dairy. Absent that, you can tinker with programs and you can provide assistance as we did last year and as we are continuing to do this year, over a billion and a half dollars in assistance to the dairy industry. You are going to continue to have to do that until we figure out how to stabilize that price band. And, hopefully, the Dairy Council is focused on that. I know the Milk Federation has come up with some ideas and thoughts that are provoking some good deal of discussion, and, hopefully, we can get a consensus across the country, and we do not get into a situation which we have had in the past where there are regional differences that prevent a consensus in moving forward.

Senator BROWN. Okay. Thank you.

Thank you, Madam Chair.

Chairman LINCOLN. Senator Roberts.

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

Senator ROBERTS. Well, thank you. Thank you, Madam Chairman, and I think you said it would be preferable that if we would not give opening comments and just keep them to a few words. Obviously, that is an oxymoron for senators, especially this one. But I want to rip through here, about two or three minutes and then have a question for the Secretary.

Are we going to have a second round?

Chairman LINCOLN. If you need one.

Senator ROBERTS. I would like to ask some specifics about crop insurance.

Anyway, thank you, and let me just say that you gave one of the best opening statements I have heard in the House Ag Committee or Senate Ag Committee. I think that you have shown again that you are a true champion for all farmers, all of agriculture, and I truly appreciate it. I supported the 2008 bill with 79 other senators and overriding a presidential veto twice.

Mr. Secretary, thank you for taking your very valuable time. You have been all over the country with a listening tour to come and visit with us. It seems like yesterday the Conference Committee met in this very room till the early hours in the morning. I think we met in the House first. That is when Charlie Rangel made the announcement he did not know why he was here but he was told to be there, and it sort of went from there.

But at any rate, here we are two years, 12 days after the bill became public law. Already folks want to move on to drafting the next bill. I am not sure that this is wise, but that is what we are doing. It is always good to look back first and then try to see where we are headed down the road or what trail we take.

The Secretary's testimony points out that the commodity title and the statute programs are yet to be fully implemented. I know, I think there is 21 regulations yet to come out, and I hope it is appropriate to find out what farmers and ranchers think of the current bill before we start suggesting any drastic changes and program cuts. Although I find the Secretary's comments about trying to repopulate rural areas through rural development, I hope through farm income, very interesting and very pertinent.

I am here today to relay the concerns and experiences of our producers in Kansas. Mr. Secretary, I am pleased that you have joined us. I want to thank you—or I am asking you to pass a thank you on to Under Secretary Concannon for agreeing to come out to Kansas to work with me on the bonus commodities issue within the senior nutrition programs. We depend on that. That was a pilot program that has worked very well. I am going to be out there in August, and we have issued a request for him to come out and join me, and we will have a good time. We will buy him a big steak in Dodge City and the whole thing.

One of the responsibilities, I think, for a Secretary of Agriculture—and I am not trying to tell you what your job is. But I think I asked during your confirmation hearings, is who is going to be the champion for agriculture, for farmers and ranchers, somebody to help tell their story to those who neither understand nor appreciate the miracle of modern agriculture. And the Chairman talked about that, one in four people in Arkansas employed by agriculture, same thing in Kansas, same thing in Iowa, same thing in the Dakotas, same thing, Georgia.

Today's producers face challenges from many different directions, including their government. And you spent most of your term touring rural America, which is a very good thing, a very positive thing. We have a former secretary that did that sitting over here to my left, doing the same kind of thing. Basically, you have seen firsthand the struggles of farm country.

Of all the rural investment tools in our tool belt, perhaps the most effective is our commodity and crop insurance portfolio. The dollars that our producers receive through these programs, demanded by their lenders by the way, get passed through to lenders, to grocery stores, to mechanics, to implement dealers, churches and many more.

Now, I am talking about Crop Insurance and the Direct Payment Program. I know that they come under a lot of criticism. Usually, that is the first thing people talk about, about cutting something in agriculture, but I think that is very misleading. And I know there is a lot of talk about the ACRE Program and the problem with it and how complex it is. 1.8 percent of Kansas wheat farmers took part in that program out of a 75,000 ballpark figure. So something has to be done to make that program more beneficial, and the one we have ongoing is obviously the Direct Program and the Crop Insurance Program.

I know you want to be of help to these areas, and we want to be partners in that effort, but our producers, unfortunately, are hearing a different message from your colleagues in other agencies, not the USDA but other agencies. And I am talking about the ever-tightening ratchet of federal regulation. The Chairman talked about that somewhat.

Whether it calls for overly burdensome and unreasonable carbon and dust standards, rural fugitive dust is back. I dealt with that when I was a staffer, I dealt with it when I was a member of Congress, and now we are dealing with it again. I think it has been in some pile, and somebody just jerks it out of there and says, well, here we go again, or to regulate every pothole and play as if it were the Missouri River, these are very, very small little ponds where no self-respecting duck would ever land.

So producers are being squeezed. They feel attacked by some federal officials and agencies, and especially the press. I am so upset in regards to the lack of press from people who understand production agriculture, which has actually become a pejorative. People used to win Nobel Peace Prizes for our ability to feed this country and a troubled and hungry world. And yet now, if you are not small—definition of a small family farmer, I guess we could say it would be 5 foot 2, but there is a 6 foot 3 guy out in Kansas who has a 10,000-acre operation that is just operating on the edge. But that individual plus other individuals in Kansas produce 400 million bushels of wheat, and if that is endangered, our capacity to feed this country and to make everybody pay one dime out of their disposable income dollar for food, they are going to pay more. And then when we have a Haiti disaster, we cannot respond.

So I am not very happy with the press in regards to how they describe farming only as small family farmers. I am not opposed to that at all. I am for all of agriculture, and you have done a great job in highlighting that. A matter of fact, you have educated probably more consumers than almost any other secretary and you deserve the credit.

At any rate, the American farmer and rancher supplies food and fiber not just for our benefit but for that of the many nations in need. I went through that. But they are criticized for the programs that help provide this very assistance. I am back again to crop insurance and the direct payment.

The fact of the matter is our producers are not competing against themselves. We are competing against Brazil, Europe, Australia, other parts of the world. We all know that story. Our Farm Bill takes modest steps to level the scale of international competition, but, Mr. Secretary, we need a lot more help in that area.

So as you are advocate in chief of agriculture, let me just ask you a question. How are you working to defend and protect our farmers and ranchers, all of agriculture? And I know I heard you say to repopulate the areas. And I know that we keep hearing about small family farmers, and we have put that on the size, we put that on income or whatever. But the folks that really—that one farmer out there and three sons, one son went to Denver, one son went to Kansas City, one son stayed. His daughter stayed, and now he is farming 10,000 acres, maybe 20,000 acres. And yet, it is high-risk agriculture, and he has to depend on crop insurance, has to depend on that direct payment, and his contribution to this country is tremendous. And yet somehow, he is pilloried by the press as some big business farmer that does not need any help at all.

So I am just asking, in your opinion—I do not think we have swung the pendulum too far because you have done a good job, but in your opinion, how can we better defend or better tell our story in agriculture from the standpoint of production agriculture?

Secretary VILSACK. Senator, boy.

How much time do we have, Madam Chair?

Senator ROBERTS. Well, I went over three minutes and 54 seconds, and so I am way over.

Chairman LINCOLN. He went a little over, but I found myself agreeing with him, so it was hard to cut him off.

Secretary VILSACK. Let me try to answer this question, Senator, and I would be more than happy to have a more extended conversation with you about this, just to give you a couple things.

First of all, on the press issue, I absolutely agree with you. I absolutely agree with you, and it is one of the great frustrations. And I am sure Senator Johanns when he was secretary probably had the same feeling.

I was watching one of the morning shows a couple weeks ago, and they were highlighting a fellow who had written a book, suggesting that the worst thing that ever happened to humankind was agriculture. So I came to the office enraged, and I said to the communications folks at my shop, "Call that show up and ask them for equal time." We have yet to hear from them. We have yet to hear from them. That is wrong. Major newspapers——

Senator ROBERTS. Well, name the program here and now. You know, go get 'em. You are on, man.

[Laughter.]

Secretary VILSACK. It is "Morning Joe," and——

Senator ROBERTS. Joe did that?

Secretary VILSACK. Well, I do not know that—Joe may not have been on that day.

Senator ROBERTS. Did he have a roll with his cup of coffee?

[Laughter.]

Secretary VILSACK. But it irritated me to the point where we asked for equal time. And many major newspapers are reducing staffs and reducing it in agriculture at a time——

Senator ROBERTS. You are exactly right.

Secretary VILSACK. —when agriculture is absolutely so fundamentally important.

Senator Chambliss referred to Afghanistan. You do not win in Afghanistan until and unless you have a functioning agricultural economy in that country.

Senator ROBERTS. Yes, the Taliban killed everybody. I mean, we had zero. If they make $400 a month, they can make it and they will not grow poppies, but they do not do it with $400 a month, and now we have National Guard people over there teaching them basic agriculture.

Secretary VILSACK. Well, here is the deal. If they grow tables grapes or they grow saffron or they grow pomegranates, they can make three, four, fix, six, eight times what they are making selling poppy. We just have to create a system of credit and so forth. So that is one thing.

Secondly, you mentioned the issue of regulation, and I know that is a frustration. As I traveled around the country listening to folks, there is deep concern about this. So what we have done and what we have started is we are bringing the major commodity groups, the major livestock groups, and the major specialty crop groups into a joint meeting with myself and the administrator of EPA.

It is the first time that this kind of conversation has been taking place on that level. We are setting up working groups so that there is an effort to have ongoing dialogue, so that there is a clarity of understanding and positions relative to regulations, what is and is not being considered. Oftentimes, what we find is that what is out in the countryside is not necessarily what is actually happening. So helping with those discussions, I think is important.

But the last thing I will say is this. You ask how do we relate this to ordinary folks. I think it is important for Americans to understand that they have something that nobody else in the world has. No one else in the world has this, and it is because of our farm families and our farm laborers. They spend somewhere in the neighborhood of 10 percent of their take-home pay for food. Everybody else in the developed world spends 25 percent or 30 percent—or in the developing world, 40 or 50 or 60 percent of their pay in food.

So the question we ought to be asking Americans is, what do you do with that extra 10 to 15 percent of your income. Do you buy a nicer house? Do you have a vacation home? Do you have a retirement fund? Do you have something for college education for your children? Do you buy a nicer home? What do you do with that 10 to 15 percent, and when was the last time you thanked a farmer for it? Because a farmer and farm laborers are in part significantly responsible for that.

Part of the reason why I think it is important to put the emphasis in having a goal and encouraging the number of farmers to increase in this country is to give people a concrete way of explaining to the rest of the country that without farmers, we would not be able to do anything. It all starts with farmers. I mean, you may never need a police officer, and I hope you never do need a police officer. But every day, two, three times a day, you need a farmer.

Chairman LINCOLN. Here, here.

Senator ROBERTS. I thank you for that statement. Thank you, Mr. Secretary.

Chairman LINCOLN. Senator Johanns.

Senator JOHANNS. Thank you very much.

Let me, if I might, start out where I think this discussion relative to the Farm Bill does need to start out, and that is an analysis of the baseline because there can be a lot of great ideas, and there are a lot of great ideas out there. But the reality is we have to figure out how to deal with this within the confines of the budget we have.

Now, Mr. Secretary, I think there is a whole host of factors at work here, but there is outside forces. There is the desire by this country to bring down the deficit, and that is going to put pressure on every budget. You have got internal forces; certain programs are growing.

We just had a debate about the Child Nutrition Program, which I think every member of this committee supports. The offset, where did it come from, it came from a very well-received program EQUIP, or it looks like that is where it is going to come from. You have crop insurance. You have got a 4-billion-dollar squeeze there. The Permanent Disaster Relief programs are, as I understand it, a part of the baseline only through the 2008 bill.

Chairman Peterson has already said, “Look, when we look at the baseline for this upcoming Farm Bill, we need to focus on what is within our jurisdiction.” I think that is just a way of saying, look, we are not going to go out and ask somebody else to try to find money beyond what is there.

So I guess what I would like your thoughts about, it seems to me as we think about this upcoming Farm Bill, in some respects, it is going to be important to recognize that because of these financial restrictions, this may be a time where we just simply decide what is it about the ’08 bill, which was really based upon the ’02 bill that we like, and how do we focus on keeping those in place, how do we keep those programs in place because there is no likely going to be much opportunity for expansion.

Would you agree with that analysis?

Secretary VILSACK. Senator, I certainly would. Somewhat complicated by the fact that not all of the programs within the 2008 Farm Bill were carried through the entire term of the 2008 Farm Bill, so they are—and you may have alluded to that in your comments. So that creates a slightly deeper hole than you would normally be faced with.

Having said that, I think the challenge for us at USDA is to provide assistance and help to this committee and to the House committee on how we can do a better job, how we can learn from the experiences that we have had the last couple of years in an effort to try to squeeze as much effectiveness out of these dollars as we possibly can.

But I think your analysis of where this starts is important, and I think the Chair’s comments is that we have to constantly remind the outside world and the folks inside in the inside world of the fact of the decisions that have already been made that have already affected the baseline so that there is not an expectation.

I mean, to be honest with you, one of the concerns I had was when the Commission was appointed to take a look at the budget issues. There was Medicaid, Medicare and Social Security, but then they talked about farm programs. And I thought to myself, well, farm programs, the first three are the ones that you really got to have to deal with. And proportionally, if everyone else gave as much as we have already given, it would be interesting to see what the deficit would be.

Senator JOHANNS. You would solve a lot of the problem.

Secretary VILSACK. Yes.

Senator JOHANNS. The other thing that would be very, very helpful to me, I think there is this perception that the Crop Insurance Program has gotten less and less and less and less. And the reality is, at least from the numbers I am looking at, that program has grown pretty significantly, while at the same time, the Commodity Program, largely due to not paying money out on counter-cyclical, has gone down.

What would be helpful to me, and I think to the Committee, is if Joe Glauber and some others could kind of give us analysis of what is driving that because it may be a good thing. It may be a direction that we want to pursue, and it may not. But very clearly, you can see an increase in crop insurance payments and a decrease in commodity payments. And I just want to know the inner workings of that. Other than to look at the macro numbers, I have not been able to get a sense of what is driving that. I think it would be helpful to the debate if you would task your people to maybe provide us some more information on that.

Secretary VILSACK. Senator, we will do that.

Senator JOHANNS. Okay. Great. Thank you.

Chairman LINCOLN. Senator Thune.

Senator THUNE. Thank you, Madam Chair. I want to thank you and Senator Chambliss for holding this hearing.

Secretary Vilsack, welcome. It is always nice to have you here, and it seems like we just did finish the 2008 Farm Bill and we are already talking about the next one. But I think it is always appropriate to evaluate the effectiveness of these programs and to discuss ways to improve U.S. farm policy in the coming years.

My view is that a strong ag industry that provides the food, feed, fiber and energy for the country really is the backbone of our rural economy. And I think it is going to be important going forward as we look at the next Farm Bill to determine how best we can stretch every taxpayer dollar within the Farm Bill's jurisdiction because there is going to be, as you know, a tremendous amount of pressure, budgetary pressures. And my guess is we will be authorizing, reauthorizing the Farm Bill at or below the existing baseline.

So it seems to me at least that farm safety net programs are accounting for a smaller and smaller portion of the overall Farm Bill. It is important that these programs continue to provide the most effective, efficient and targeted protections for our agricultural producers. And, of course, we have got some revenue-based safety net programs that we have been attempting to get implemented and with mixed results, but I hope that we can continue to refine those and make those more effective and more attractive to our producers.

I want to focus, briefly, though, however, on one aspect. I said food, feed, fiber and energy. And to me, the energy issue is relevant, is interconnected now with farm policy, because in many respects, when you have a corn price that is at a decent level because there is demand for corn, some of which is for energy production, it means then that in many cases LDP payments and counter-cyclical payments are not being made. So it does impact in a very direct way, I think, the commodity title of the Farm Bill when you have got a robust renewable fuels, biofuels industry in this country.

For that reason, I am concerned about where we are headed with respect to policy on ethanol and biofuels. And I wanted to ask if you agree with the EPA announcement to delay the decision on approval of E15.

Secretary VILSACK. Senator, I would like the permission to agree with half of the statement of EPA, which was an indication that they are prepared in the fall to authorize E15. The question is what level and what make vehicles and what year vehicles will be covered by that. As I understand it, there is additional testing that is being conducted by the Department of Energy on some of the older vehicle models and on smaller engines so that there is a determination of what is appropriate. And I think the fact that the EPA is proceeding with working on labeling is an indication of the direction.

So we took this at USDA as an indication that we want to take this as a positive sign. This is an industry that must grow, that needs to grow. So what we did, what I tasked our team to do is to say, okay, Congress has set 36 billion gallons, a threshold. What do we have to do? How many biorefineries do we need? Where do they need to be? What kind of feedstock are we going to need? How do we make this an industry that is national in scope so that it has the kind of support, both political and financial, that it needs to survive and to thrive? What distribution systems need to be put in place? What kind of blender pumps do we need? What do we need to do in terms of providing assistance and help to expand blender pumps? And what do we need to do to ask the question whether the existing assistance that we are providing the industry needs to be calibrated or recalibrated to focus on distribution and encouraging the promotion and development of flexible fuel vehicles?

I think that has got to be part of the conversation, and I think as we talk about energy in this country, as we deal with what is going on in the Gulf, it just seems to me that we ought to be reminding Americans that we have the capacity in our farm fields and our forested areas and our grasslands to be enormously far more independent than we have been of fossil fuel, of foreign oil and of oil generally. And I think we ought to be promoting this. And so we are full speed ahead at USDA on trying to build out a biofuels industry.

Senator THUNE. Do you think we are hitting—are we hitting the E10 wall?

Secretary VILSACK. I think we are very, very close to hitting the E10 wall, which is why this determination is important. The sooner that it is made, obviously, the better. The more expansive it is made, the better. But even if it is—no matter when it is made or how it is made, there still is the issue of how do you build out the industry, how do you make it a nationwide industry, how do you build and support the biorefineries, how do we use the Farm Bill programs that you-all have put in place in an effective way, and what do we do about distribution?

I am concerned that we are going to have production capacity, then no distribution capacity that is convenient and co-located, and that it will create confusion among consumers and not particularly an interest in the industry. And even if we have production and distribution, if we do not have enough vehicles, if we are not continually encouraging flexible fuel vehicles, there will not be the demand.

Senator THUNE. Right.

Secretary VILSACK. So we have to balance all of that at the same time.

Senator THUNE. And I agree with everything you are saying, but to get to the infrastructure to support the pipelines, the blender pumps, the flex fuel vehicles that are all essential, in my view, in creating a market for this, you also have to, in my view, get these blend levels raised. And I do not know.

I mean, do you think we can achieve what the RFS calls for absent higher blends?

Secretary VILSACK. I think it is going to be difficult to do that, which is why we are supporting and encouraging EPA to get to E15 as quickly as possible.

Senator THUNE. Good. And I hope that USDA is leaning heavily on them to do that because the sooner the better. I mean, this is——

Secretary VILSACK. You asked Administrator Jackson something; I talk to her about it every day, and it is something—when I see Secretary Chu, it is something I talk to him about every day. This is very, very important, and it is important because it will help. It is the key, one of the keys, principal keys, to revitalizing the rural economy.

Senator THUNE. Good.

All right. I see my time has expired. Thank you, Madam Chair.

Chairman LINCOLN. Thank you.

Senator Cochran is not with us, so Senator Lugar, go to you.

Senator LUGAR. Thank you, Madam Chairman.

Mr. Secretary, I took advantage of the opportunity at the White House yesterday to talk to Secretary Jackson about the same issue that Senator Thune has been addressing. And I commend you not only for thinking about the blend but also the distribution problems, the overall industry problems. I think these are crucial, and to the extent that you and your administration were able to move on them, this would be tremendous.

Likewise, I appreciate your earlier remarks about encouragement of younger farmers, and that is imperative and may require some creativity on the part of our committee working with you. But I appreciate very much that opening statement.

My question, however, today, is with regard to Congress' debate of the 2008 Farm Bill. At that time, I shared my frustration with colleagues. We were specifically ignoring a ruling by the World Trade Organization that Farm Bill programs largely associated with cotton production were in violation of our trade agreements. In fact, during the debate, I offered an amendment that would have created a fast track process to amend offending statutory language upon a final WTO ruling. I agreed to retract my amendment upon offers to resolve the issue through compromise, which ultimately did not occur.

Predictably, upon exhaustion of appeals by the United States, is now held in violation of the trade agreements by the WTO, and Brazil has legal authority to impose over $800 million annually in retaliation against U.S. interests. Now, while I applaud the fact that the U.S. has reached an agreement with Brazil to stave off that retaliation, it is not without cost. The administration and USDA have agreed to provide the Brazilian farm sector with nearly $150 million annually in taxpayer dollars without explicit authority from Congress.

I would appreciate your response to these questions. Please explain the Department's legal authority to provide these payments to Brazil and relied upon precedent. Does the administration support immediate reform of the Farm Bill programs found in violation of our WTO trade rules in order to preserve taxpayer resources and abide by our trading commitments? And while Congress ultimately determines annual appropriations, the administration suggests spending and saving priorities through the annual budget requests.

Should USDA continue to make payments to the Brazilians, would you support offsetting those payments through corresponding reductions in farm program payments, specifically from the trade offending provisions?

Secretary VILSACK. Senator, we—before I agreed to enter into negotiations along the lines of what ultimately became the framework for an agreement, I asked whether or not we had the capacity and authority within, I believe, the Commodity Credit Program to basically provide the resources to fund this settlement. And I was assured by our lawyers that this was the case. I would be more than happy to provide to you a more detailed explanation in terms of chapter and verse of that opinion. I am frank to say I just asked for the go-ahead and got it. I did not go into great detail in terms of the actual specific language, but they were reasonably certain that they had the authority to proceed, and we will provide you with that information.

As it relates to the necessity of reforming the Farm Bill, as you know, the framework and structure of this agreement provides for modifications of the credit program, which we have done and which we were planning on doing anyway. It also provided for APHIS to be perhaps a bit more timely in terms of responding to requests from Brazil on certain commodities, which they are in the process of doing without compromising the safety and security of our food supply.

There was also an understanding that we would enter into conversations and discussions about how we could potentially create a better program that was not violating WTO rules and regulations. Obviously, we will have to work with the Committee, the respective committees, and I recognize and respect that there are differences in opinion within this committee, I suspect, on these very issues. But we are committed to working with you so that we not just have a framework for a resolution but we actually get this behind us.

Senator LUGAR. Well, I appreciate that, and I hope that you will forward to the Committee the legal findings, at least of your attorneys, because, literally, the situation is one in which we entered into this Farm Bill knowing that we were potentially going to be found in violation—we needed to set some contingency in the event that was the case. We did not. So as a result, we were levied with an $800 million burden, not farming. This is all of American industry, and the Brazilians have the ability to retaliate against everything that is in our trade situation.

Secretary VILSACK. Senator, that was one of the concerns that I had about this situation was that there was a concern on our part that they would interfere with intellectual property, which would carry with it a far greater economic consequence than the $850 million price tag.

Senator LUGAR. So temporarily, as you say, we have settled with the Brazilians for 150 million a year, but this goes on and on. This is not a one-time situation, and literally, in framework in which they got a ruling for 800 million. Now, granted, we have a responsibility in the Congress, but so does the administration. And this is why I have certain frustration about this.

I think, by and large, the American taxpayers are oblivious to the fact that we are on the hook for 800 million against our entire trade apparatus because of a program, in this specific case, the cotton program. I hope there are not other programs that we have that are likely to run aground and run into other difficulties, because, if so, we better highlight those while we are thinking about the next Farm Bill right now. This is huge in comparison to all the baseline discussions we have had and the rest of the budget.

Secretary VILSACK. It might be instructive for the Committee if we put together a list of current WTO cases and complaints. As I testify here, the obvious one is the COOL litigation that Mexico and Canada have precipitated, which we feel very strongly about, but nevertheless, there is that case pending. And how long it takes and when it gets resolved is another matter.

Senator LUGAR. Thank you very much.

Chairman LINCOLN. Senator Grassley.

Senator GRASSLEY. Thank you, Madam Chairman. And, thank you, Mr. Secretary.

Senator Thune touched on biofuels, so I will not bring that up. Senator Brown touched on dairy. I will not bring that up. I have four questions in regard to the SURE Program. I will only ask one and then submit the others for answer in writing, because if there is one part of the Farm Bill that I have heard complaints about, it is about the implementation, and more importantly, maybe the complexity of SURE. And it is not your problem that it is complex. That is what we have done here.

We have had a very large payment in Iowa under this program, but I am not certain that it has always been equitable. It is my understanding that Iowa has about 185 million in payments that have already been made for 2008, and we are on track to hit 300 million before we close out 2008.

My question to you is, do you know about regional differences that have been discovered, and if you do, could you explain what you know about those? Because that is something that has cropped up as a problem.

Secretary VILSACK. Senator, I know that in terms of the—I think it is a billion and a half dollars that have been paid out so far in terms of the overall disaster programs that you established. A significant percentage of that amount has been paid in what I refer to as the Midwest and Plains states. Whether or not there are—I mean, there are significant regional differences, I mean, I think it is it depends on the size of the state, and it depends on the number of farmers, obviously.

But we can provide you with a list of states—I have it right here—in terms of the amounts that have been paid out to date under SURE. It is a little over $965 million that have been paid out. And there are obviously states—well, Pennsylvania, for example, has received very little. Texas has received a good deal. Iowa, looking quickly at this, has received the most. So you have got Pennsylvania with hardly anything and Iowa with—Pennsylvania has got $49,000, and Iowa has 185 million, so I think that is——

Senator GRASSLEY. Well, thank you for that. I want to just point out something, and you do not have to answer this. But I have heard a lot of people in southern Iowa that hay and forage acres were being taken into account for revenue, which are not crops that typically sell but are instead used for feed on farms. One area of consideration is removing the requirement on crop insurance for crops that are not true risk crops. In other words, allowing producers to decide what their risk crops are and whether they want to purchase insurance for them and then only being eligible for sure on those acres and crops that they have chosen to insure.

Would you have any thoughts on a proposal like that?

Secretary VILSACK. I would like the opportunity to have our team think about that before I responded to it, Senator. I do know that we—in the implementation of the SURE Program and referencing hay, and particularly in Iowa, there was a glitch in which we had to make a slight adjustment because of record keeping issues that some farmers had difficulty with.

I can understand why there is frustration here because the way it is set up, you actually have to have a full year's data before you can make the calculation for payments. So we are now in the process of doing 2008, 2009, and people are dealing with 2010 difficulties. So I understand and appreciate why there is some concern.

It was further complicated by the fact that there were adjustments made in the Recovery Act, which we had to recalculate into the SURE Program, further complicated by the fact that, again, our technology's pretty antiquated and it is difficult to institute a new program with antiquated technology and do it in a quick way. So a combination of all those things, it is perfectly understandable why people in the field are frustrated.

Senator GRASSLEY. Yes. One other thing, I think that you have highlighted and tried to do a good job in the area of civil rights that had some shortcomings from a lot of previous administrations. I have been an advocate for this Pigford African American settlement. Now that the Extenders Bill might not move, have you got any suggestions how we might move forward on getting that money out?

Secretary VILSACK. Senator, our hope would be that you find a vehicle, a legislative vehicle. We have identified an offset that you can tack that onto so that we can get these people—begin the process of getting these folks paid what they are entitled to. And at the same time, we are setting up a process by which we are going to offer a settlement opportunity for the folks in the Garcia and the Love cases, and we are in, I think, significant negotiations with the plaintiffs in the Keepseagle case. The goal of all of this is to close this chapter and start a new chapter in civil rights within the USDA.

Senator GRASSLEY. Thank you, Madam Chairman.

Chairman LINCOLN. Senator Nelson.

Senator NELSON. Thank you, Madam Chairman.

Mr. Secretary, throughout the efforts on putting together the Standard Reinsurance Agreement, I am sure I am not alone, but I have heard from a number of agents over the impact of the proposed SRA cuts we have on the delivery system. As a matter of fact, some have raised the question about whether or not they would have access and availability—the producers will continue to have access and availability to agents if the new and more rigid cap on agents' commissions reduces the number of insurance agents providing service, particularly in rural communities, recognizing the space distances between communities and what impact that could have.

In addition, a question; does the Department foresee that these cuts will have a detrimental impact on high-risk areas that crop insurance companies may see as simply too risky to insure so that they no longer decide to provide service there as in western Nebraska where we had the multi-year drought that went from at least 2000 to 2005, longer in some areas.

So I guess what I am saying is while we recognize the need to take some cuts, we do not want to impair the program to the point where service is impacted and reduced and the possibility that some crops will just simply be redlined, if you will, as being too risky to cover. I wonder if you have any thoughts on that.

Secretary VILSACK. I do, Senator. First of all, we obviously share with you the concern about the stability and solvency of this very important piece of the safety net, and we understand and appreciate the role that agents play in providing service. I would say that we are confident that this agreement is fair to farmers because it does not necessarily increase costs to them. In fact, many farmers may as a result of our proposal see a decrease in crop insurance premiums. It also, we believe, will help to expand coverage under the pasture, forage and range land portions of the product, which we have been talking about for some time, but we have now identified the resources to be able to make that happen, so we think an expansion of the program.

We think that in terms of the agents, while it is true that they may not make as much as they made last year, they will certainly make more than they made several years ago, and it is, I think, a fair return for the work that needs to be done.

The companies suggested that the A&O be about $1.3 billion and then that number would be adjusted for inflation from this point forward. Interestingly enough, that $1.3 billion number for A&O is roughly the same as the 2010 number would be under the current agreement.

So because of the way in which this is structured, we think this is fair to the taxpayers. We think it is fair to the agents, fair to the companies, and most importantly of all, it maintains the program, it expands the program, and offers many producers the possibility of reduced crop insurance premiums.

Senator NELSON. Well, as long as it does not result in a reduction in availability of a program for certain kinds of crops because now the lost costs are projected to be much higher and maybe even higher than the premium would suggest. So I hope that this is not the case. As a matter of fact——

Secretary VILSACK. Senator, can I just——

Senator NELSON. Yes, sure.

Secretary VILSACK. To that point, just to be clear, we asked to do an analysis, an outside analysis, of what we think a reasonable rate of return would be for companies. What we found was a reasonable rate would be somewhere in the neighborhood of 12 percent, and the previous year, the companies had a 26 percent return on investment. Historically, it has been about 17 percent. This agreement takes it down to about 14 and a half percent. So it is above the 12 percent number, slightly below the 17 percent number, but we think that is a reasonable number that should not necessarily result in a reduction of coverage.

Senator NELSON. Well, it assumes that lost costs are going to be even over a period of time and premiums will be even over a period of time. If you have unusual losses or an unusual year, you will see that this number probably will not maintain. But let's see how it works.

I had a call yesterday from a gentleman that indicated that some producers would prefer to select crop insurance over direct payments as a way of risk management. In other words, that they would prefer to insure against unforeseen future events that could affect their livelihood rather than having direct payments.

I think that is an interesting thought. I hope the Department would take a look at that. Obviously, one of the things one would want would be that if they are going to give up the coverage of direct payments, perhaps they ought to have some reduction, something to reduce the size of the premium in order to secure that kind of risk management. I wonder if anyone has brought that up as an internal discussion within the Department.

Secretary VILSACK. Senator——

Senator NELSON. It could be optional. It is not something that would be mandatory.

Secretary VILSACK. I think your question offers me the opportunity to sort of explain how we see our role in all of this, and if we are off base on this, we obviously need to be told. Our view is that you-all will be writing the Farm Bill and our job is to provide the assistance and advice and analysis that you need. Senator Johanns has asked for an analysis, which was perfectly appropriate.

We may very well throw out some ideas and some concepts for consideration, as I did today with beginning farmers. But in terms of direction, we are looking to you to direct us in terms of what you need.

Now, I can tell you that we have had inquiries from House members of the Ag Committee in terms of how much money are we currently spending in totality in the safety net and is there a better way of channeling those resources in a way that provides greater protection and fairer protection and broader protection for farmers that they would like. And I think that those are questions that we always need to be asking at this point in time when we enter into a Farm Bill discussion. Learn from previous experience, perfect on what we have done, and always question whether or not there is a better way. And that is obviously what we are interested in helping you do.

Secretary NELSON. Well, I wonder if you would undertake some sort of analysis on what could be accomplished if there could be a program offered as a voluntary program to move away from direct payments into a risk management arrangement that is based on an insurance model. I appreciate that.

Thank you, Madam Chairman.

Chairman LINCOLN. Yes, certainly.

I know Senator Baucus has to get somewhere, and I want to thank Senator Casey for being just a heck of a nice guy.

Senator BAUCUS.

Senator BAUCUS. Thank you, Madam Chairman.

First, I want to thank my colleague from Pennsylvania. I am on this Deficit Reduction Commission, and my deficit time today has been about an hour. I need to get back to it. Thank you very, very much. And thank you, Madam Chairman, for holding this important hearing.

I would just like to state, just for a fact because it is true, that agriculture is still Montana's number one industry. It has been for as long as I can remember. It clearly is today. It is 3 billion of our state's economy, and that might be small by other state standards, but it means so much to our state, Mr. Secretary. I know you know that.

I also thank you for coming to Montana. I commend you on lots of actions you have taken with respect to Montana, several conversations we have had, and I appreciate your candor and your forthrightness and your follow-up on assurances that you made. That means a lot to me personally. I just wanted to thank you very much for that.

When we wrote the last Farm Bill, before we wrote it, I spent a lot of time traveling around Montana. I made a major effort. I went to the major cities in our state to ask farmers what do they think about the next Farm Bill, what should it contain. When I say cities, I do not mean like Great Falls, Missoula. I mean major communities. I had about ten of these around the state.

There were various themes that became apparent. One is the need for much better, efficient ag disaster assistance. Our farmers very much were concerned about the time it took for Congress to pass agricultural disaster assistance. Sometime it took a long time. Sometimes some farmers were helped and other farmers were not when it should be the other way around. Sometimes it was tied. We had to wait until some other bigger disaster came long. It just did not work. And sometimes the payment had to be one year, not to another. We had to choose between years, et cetera.

And so I authored the Ag Disaster Trust Fund in the Farm Bill, and I am very happy that it is there. And, of course, it is not perfect, but at least there is much more assurance that farmers when they incur a disaster are paid properly and the right farmers are paid. It is better than what we had previously. And I just want to thank you, Mr. Secretary, for helping to implement that.

One of the programs funded obviously in the Trust Fund, as has been discussed a few times already this morning, is the SURE Program, the Supplemental Revenue Assistance Payments Program. So I have a couple of questions about the program.

First is, does the administration view the SURE Program as an effective part of disaster assistance safety net? And second, since it is funded only through 2011, does the administration see enough value in it to support it being fully funded in the 2012 Farm Bill? And I might add, I would like to hear what suggestions you might have to deal with this administration glitch. As it is, it just takes a long time for farmers to get compensated. If you could just comment on SURE, its importance and the degree to which you want to recommend that we pursue it in the 2012 Farm Bill.

Secretary VILSACK. Senator, first of all, recognizing your leadership in this, I think it is important to recognize that and to thank you for it. I will say that for the farmers that are predominantly covered by the SURE Program, it is a very important component of a safety net because there can be and there are on a frequent basis things that cannot be anticipated, disasters of significant proportion that impact and affect farmers. And there has to be some way short of ad hoc disaster programs on an ongoing basis, which you dealt with before SURE.

Having said that, I think I have to recognize that in the Chairwoman's state, that is a program that does not necessarily work as well because of the nature of farming in Arkansas and in some of the other southern states. So I think as we look at the future, I think we have to recognize that whatever program you create to try to provide a permanent disaster assistance program, it has to be available to the diversity of farming in America.

Then to Senator Nelson's point, which is that there are conversations and discussions about all the money that is spent in the safety net, are we comfortable that it is being spent in precisely the most effective and fair way, that is obviously a conversation you-all are going to have.

So whether or not SURE survives in its current form or you have something that is a modification to it or you have something that builds on it, that, I think, is yet to be determined. But it is very clear, you have to have some vehicle because I think your farmers' concerns were appropriate. They have a disaster, and the disaster creates an immediate need. And you have to have a program that responds to the immediate need. And with all due respect, sometimes it takes awhile for Congress to basically do the necessary legislative steps to get the need fulfilled. And then it takes time for us to distribute the resources.

I think we showed the capacity to get resources out the door quickly with the dairy program that you-all passed at the end of last year. We got that out in record time.

There has been a delay on the SURE Program simply because of the complexity of the calculations that are required and the antiquated nature of our technology. I have said that a couple of times today. I just need to emphasize it.

We are dealing with 1980, 1990 technology. In no other area of government, I think that has to do as much as we have to do in terms of regular folks, interconnection with regular folks, could deal with the kind of technology we are dealing with. So the fact that we have got a billion and a half dollars out the door already in these disaster programs, I think is a testimony to the hard-working folks at the local level, the Farm Service Agency. But we have got to do a better job on technology, and we have got to figure out ways to simplify these programs. And I do not have the answers today, but I think by identifying the problems early and having this conversation early, I think we will do a better job of finding those solutions.

Senator BAUCUS. I appreciate that, and clearly, we want to work together. This Committee, I know I can speak for the Chairman. We want to work with you. It is right. SURE works better in some parts of the country than other parts, and that is why disaster assistance is set up in a multifaceted way, to make it work. But thank you very much, Mr. Secretary.

Thank you, Madam Chairman. And thank you, Senator Casey.

Chairman LINCOLN. Senator Casey, thank you for your patience.

Senator CASEY. Thank you, Madam Chair.

And I want to commend the work Senator Baucus is doing on a whole host of fronts, including the challenge of the deficit, so we are happy to yield a little time to that. We are grateful.

Mr. Secretary, thank you for being here once again. You have been in this room a number of times, and I think every time you have been here, I have asked you about the dairy issue. But we are particularly grateful for your work and your commitment, not only as Secretary of Agriculture and all of the difficult challenges you face and we all face, but, in particular, the time you have spent being available and accessible to us, either here in Washington or back in our states and in this case, Pennsylvania. I know you are a native. We want to get you back there as often as we can, but we are grateful for the time you spend there.

You know better than I, I think. You understand this issue, the challenge that dairy farm families face with regard to the cost of production being so difficult. You also, I think, understand and you have given meaning to this difficult issue we face when we encounter families that are suffering through this, so many families that have led and continue to lead lives of struggle and real stress because of the economy and because of the impact on dairy farmers and their families.

I remember early in my time in the Senate way back in 2007, on a very, very cold day going to Wayne County, Pennsylvania, you know, where that is in the northeastern corner of our state, and meeting Joe Davitt and talking to him about whether or not he would be able to continue that tradition in his family going back several generations. And he told me at the time he did not think he could and was despondent about that, and I think in many ways his life and his struggle encapsulates the struggle that so many families face.

But in the face of that, we have taken action. In your testimony, I was looking on page 5. I know you were not able to get through all of this today, but the Milk Income Loss Contract Program, the so-called MILC Program, $930 million. You mentioned the impact, although it is limited of the feed cost adjuster that we worked on. But under your leadership, 290 million in additional direct payments to dairy producers, 60 million for the purchase of cheese and other products, expediting the purchase of cheese and cheese products, helping both farmers and food banks, and increasing the purchase price for cheddar blocks, barrels and nonfat dry milk in the Dairy Products Price Support Program. So a lot of actions you have taken, whether they are in furtherance or in the development of programs as it relates to appropriations, emergency actions you have taken, all of that is meaningful and has had an impact.

I guess I ask you what more can we do to help you, to give you more options or resources or tools to combat this terribly difficult challenge by way of new programs, by way of adjustments or changes to existing programs, by way of appropriations, number three. And I guess number four, looking down the road a bit as you have done today so appropriately, are there strategies that we can employ in the 2012 Farm Bill that will attack this problem with even more impact? I know that is a lot, but as best you can.

Secretary VILSACK. Well, first of all, Senator, no one in Congress has been more focused on this issue than you have, and that is one of the reasons why we have taken the action we have taken is because of your request for us to——

Senator CASEY. Thank you.

Secretary VILSACK. —continue to move. And it is a crisis, and it is a crisis because 10 years ago, we had 110,000 more people in the dairy business than we had—and today we have 65,000. So we have lost half of our dairy operators in this country. I certainly am sensitive to the pain that you have discussed in terms of your constituent. I heard a number of similar conversations and stories on my rural tour, as well as just last week in Wisconsin when we had a hearing, part of the consolidation and competition hearings that the Department of Justice and the USDA are cosponsoring around the country. We went to Madison, Wisconsin, and we focused on dairy.

I think that there were many concerns expressed about the way in which markets are setting prices and basically have control over what is being—how things are priced and whether or not there is a need for an examination of that structure and system.

Here is the problem. I mean, we took all of these steps last year in an effort to try to get folks through a tough time. And initially, the industry reacted as it needed to, which was a very systematic and thoughtful reduction of herd so that the amount of oversupply was reduced. And as it was being reduced, prices began to rebound and we began to see strength again in the industry.

Just about the time we got to see that strength in a significant way, folks decided that it was okay to increase their herds, and we got right back into the situation in the first part of this year that we were in, in 2009. So that led me to believe that we cannot just simply look at individual assistance programs as we have in the past. So we really do need to look at a holistic and comprehensive response, and that is why we put the Dairy Council together. We have representatives from all across the country. Our co-chair is from Pennsylvania. And we have just basically challenged them; can you come up with a consensus position within the dairy industry as to what needs to be done in terms of supply, in terms of pricing, in terms of marketing so that we have greater stability and a broader price band that we have today and greater distance between the very high and lows that men and women in the dairy industry experience? And how do we make sure that the folks who are producing the milk and the cheese and the cream and the butter get their fair share of the value, the retail value of those products? I mean, the reality is that they get a very, very small percentage of the retail value corresponding to the amount of work and effort and capital it takes.

So those issues are being discussed and reviewed, and I would say, in terms of responding to your question of what more can you do, give us some time to formulate a more comprehensive approach and then basically take a look at it and see whether or not it is something that you could be supportive of and champion, because at the end of the day, it has got to be a more comprehensive approach than this sort of ad hoc, band-aid approach that we have had.

There are just too many people losing, too many people leaving, and I too have heard very sad stories. The first week I was in office, I talked to the widow of a dairyman who took his own life because of being distraught and distressed over credit circumstances. And so it is a painful memory that will not leave me as long as I am in this job.

Senator CASEY. Well, thanks so much for your enduring commitment on this. We look forward to continue to work with you. Thank you so much.

Chairman LINCOLN. Thank you, Senator Casey.

We do have a vote coming up at noon, and so I want to—since it is the same question I was going to ask, I am going to yield to Senator Chambliss and then we will yield to Senator Roberts for the remaining questions.

Senator CHAMBLISS. Thanks, Madam Chairman.

Mr. Secretary, as USDA has partnered with the Internal Revenue Service to monitor compliance with the income level restriction for farm program participation, I am curious to know if the list of those flagged by the IRS and then supplied to the USDA will be subject to release under the Freedom of Information Act. While I realize that tax information is not subject to release, I also understand the list transmitted to USDA from the IRS will actually have no tax data contained in it.

Secretary VILSACK. Senator, that is a question I am not prepared to answer today. I will get you an answer as quickly as I can. I know that we made concerted efforts in the MOU and in the discussions with the IRS to make sure there was a firewall, appropriate firewall, in terms of the information we were receiving, that it would not be disclosed either intentionally or unintentionally. I do not know whether it is subject to the Freedom of Information Act, and I will be more than happy to get that answer to you. I just do not know.

Senator CHAMBLISS. All right. If you will please, I would appreciate it. Thanks very much.

Secretary VILSACK. Thank you.

Chairman LINCOLN. Senator Roberts.

Senator ROBERTS. Thank you, Madam Chairman.

And again, Mr. Secretary, thank you for coming up, and I do look forward to having a good conversation with you at your convenience. I know you are very busy.

In regards to crop insurance, the thing that concerns me is that when back in the dark ages when I used to be somebody and I was chairman of the House Ag Committee, there were 30 insurance companies in the business, crop insurance business, and they would concentrate in certain areas of the country with certain commodities. Now there is 12.

I am very worried that if we cut $12 billion—well, not if, we have. But if we continue down this road, you are going to have a hodgepodge of coverage that is not a national program. That is not what Bob Kerrey and I worked on and Dick Lugar worked on very hard with the Crop Insurance Program. But if we do not preserve that, I just worry, both from the lending standpoint and the producers' standpoint, we are going to be in a lot of trouble. So I am just going to leave it there, and then I look forward to having a good discussion with you.

We are about 60 percent finished with harvest this year. I am going to be very bullish and say we are going to approach 400 million bushels. I hope that is the case. Some of have had a very good year; others, a poor year. The weather has been—Mother Nature, I do not know what we did to Mother Nature, but she has not been very kind to us.

But at any rate, no matter who you talk to, all of our farmers are concerned, and they do not understand the widening basis. Now, by that I mean the difference between the future price at the Board of Trade and those and the price at the country elevator. That is a buck fifty difference, over a buck fifty. And you know the stories that will come out in regards to who is at fault and whatever. I think I have a gnat here from the Board of Trade that is giving me some problems.

Global wheat production is up. This is what I get back. Storage capacity is full. Transportation costs are high. And they say we just have to have more demand, and obviously, that gets back to a trade agenda. That gets back to several countries that we have been working with for a considerable amount of time but unfortunately have not been able to consummate any kind of a trade agreement. So I guess in order to explain to farmers this widening basis—and if you have some kind of a formula or some kind of a short explanation, I would sure like to hear it and I know they would.

What are we going to do to address this concern on the over basis?

Secretary VILSACK. If I understand your question properly—let me say this. We are working very hard to try to create a good deal of momentum behind a trade agenda that basically allows us to do a better job of reducing oversupplies of commodities that we have the extraordinary capacity to produce, and to do it in a way that provides greater income opportunities for those producers. And it involves taking a look at trade not as every country being looked at in the same way, but actually individualizing our approach to each individual country depending upon where they are in terms of their market maturity and in terms of their market sophistication.

So you have got countries right now where we are trying to build a relationship that someday will lead to a trading opportunity.

They are fragile markets. You have got markets that are very closed and which we are trying to open them up. I use India as an example there. We have had a significant difficulty on a number of areas with India trying to get them to be more cooperative in opening up our markets. Then there are maturing markets like China where we are confronted with a series of issues concerning quality, phytosanitary, sanitary barriers that we are trying to knock down. It is the reason why we have spent a lot of time promoting more technical assistance teams traveling around the world trying to knock those barriers down. And then you have got mature markets, very mature markets like Japan, where we are making a concerted effort to brand American products more successfully.

The area of—the wheat issue is a difficult one, and it is one that worries me because of the price differential. We are looking at ways in which we can provide assistance and help through our lending programs, but I wish I had a better answer for you, Senator. I am afraid I do not, other than we are working hard to expand opportunities.

Senator ROBERTS. Well, I know you get the same question as I do, and I have difficulty trying to explain it. Here is a farmer who is getting, what, 2.80 at the country elevator going over the scales and then he looks at the future price at the Board of Trade, and it is 3.50 or 3.80 or 3.90. And he asked me, “Senator Roberts, how do you explain this?” or “Pat, how do you explain this?” And I have a little trouble doing that.

Secretary VILSACK. Well——

Senator ROBERTS. Bob Stallman has the answer, so I am sorry. I mean, he will come up with the answer with his testimony, I am sure.

Secretary VILSACK. We face that in virtually every commodity in terms of the producer putting a lot of the labor and a great deal of capital and then getting a relatively small percentage of the retail value or the market value of——

Senator ROBERTS. Exactly.

Secretary VILSACK. —the product. And I think that is one of the reasons why we are having these consolidation and competition hearings, is to determine whether or not there is anything within the current structure of how these commodities are being marketed. Is there insufficient transparency, for example? Is there the capacity for folks to differentiate from producers that is not fair? Are there special deals and sweetheart deals that distort the market? Is there just a general markup that takes place when you have got as many steps in the process as you have?

It is one of the reasons why, candidly, we are trying to figure out a way to better connect local producers with local consumers by bringing some of the processing facilities at a smaller way down into the more local area to see if there is a way in which we can do a better job of converting those crops so that you have competition for that wheat, so that you have got competition for the corn or the hogs or whatever.

When I have got it figured out, I will let you know, Senator. When you have it figured out, I would appreciate it if you let me know.

Senator ROBERTS. All right. We will get together on it. We will have some meaningful dialogue.

Thank you, Madam Chairman.

Chairman LINCOLN. Thank you, Senator Roberts.

Mr. Secretary, I want to applaud the Administration's effort in moving Korea, the Korean Free Trade Agreement, and hope and encourage that we can also see Columbia and Panama follow suit, and would certainly say that the self-imposed ban that we have on our products and exports into Cuba is another issue. The President's comments have been that we can create jobs by increasing exports, and I hope that we will work with the Administration to see those happen in all of these different areas where there is meaningful opportunities for our products to be able to go into those countries, and I look forward to working with you.

Thank you for your patience and your willingness to be here. We certainly appreciate working with you, and we look forward to not only work on a 2012 Farm Bill but a 2008 implementation and so many other issues that are important to rural America and certainly our hardworking farm families and ranchers across the country.

Secretary VILSACK. Madam Chair, thank you. And just to point out and to remind folks who might be watching this or listening to it, there is always conversation in this country about trade deficits. It is often not appreciated or recognized that in agriculture, we have a surplus. We anticipate it could be $28 billion, and for every billion dollars of ag trade, it is somewhere between 8 and 9,000 jobs. It is one of the reasons why ag is responsible nationwide for one out of every 12 jobs. Thank you.

Chairman LINCOLN. We appreciate it. We look forward to continuing that. Thank you so much.

I would like to ask the witnesses of the second panel to come forward and be seated. We are going to run up against a vote, so we want to make sure we move forward. So I am going to go ahead and introduce them as they are taking their seats.

Bob Stallman, a rice and cattle producer from Columbus, Texas, is president of the American Farm Bureau Federation, the 11th president in the organization's history. Mr. Stallman was first elected president on January the 13th, 2000. He is the first American Farm Bureau Federation president from the Lone Star state, and we welcome him here.

Roger Johnson is the 14th president of the National Farmers Union. He was elected to serve in this role at the organization's 107th anniversary convention in 2009. Prior to leading the family farm organization, Johnson is a third-generation family farmer from Turtle Lake, North Dakota; served as North Dakota agricultural commissioner, a position he was first elected to in 1996.

Mr. Johnson and Mr. Stallman, your written testimony will be submitted for the record, so we appreciate all of that and would certainly ask you to try to keep your remarks to five minutes.

Mr. Johnson.

STATEMENT OF ROGER JOHNSON, PRESIDENT, NATIONAL FARMERS UNION

Mr. JOHNSON. Thank you, Madam Chair and members of the Committee for the opportunity to testify. You have heard my introduction. It is again in writing. Let me get directly to the point, if I can, because I know your time is short and we are running late.

I just have a number of observations that I think are important as we begin to look at the next farm bill development. We want to sort of take a high-level look and see what is working and what is not, and what some of the needs might be for future farm programs.

Certainly, the 2008 Farm Bill, we think was an improvement over many of the predecessor bills, but there still is room for improvement that remains. As many have said during this here, the United States is the—our agriculture has the producers of the safest, most abundant and most affordable food supply in the world. That certainly is something that we want to make sure that we maintain as we begin looking at the next farm bill.

It is often asked why a domestic farm policy, and I think it is important that we have a little bit of discussion about why that is important. The history of U.S. agriculture shows that the challenges that we have always faced are persistently low incomes in agriculture, persistent high volatility, and that has become an even larger issue in the last couple of decades as we have made some changes to farm policy, particularly higher price volatility and excess capacity. When I first started farming many years ago, I was told we are at this high price point and we are going to be here, it is clear sailing, so get in the business and get ready for the ride, and we all know what has happened.

To buttress this argument, I have showed a number of charts because, quite often, it is argued that really the answer to this is we can trade our way out of it. And while trade is extraordinarily important, we need to recognize that it by itself is not going to solve this problem. In the bottom line chart I show on page 5, which really shows that if you look at the major commodities, wheat, corn and soybeans over the last 30 years, on real terms, on a volume basis, our trading volume has been basically flat as a country. And so that is not going to be by itself—while it is an important part of what we want to do, it is not going to solve those three critical problems that I pointed out at the beginning.

On page 6, I show a chart that shows the distribution of where we spend money on these safety net programs. More than half of it goes to crop insurance. We would argue appropriately so. The next largest chunk goes to direct payments, and then a number of smaller slices to try and deal with what we would argue are the more important pieces of the safety net, those parts of the program that kick in when times are tough and go away when times are good. It is difficult for us to argue persuasively to the general public that we need to subsidize agriculture more when we are in very high income time periods. It is much less difficult to make the argument when times are difficult. And so we think that we ought to be putting more of our efforts into those kinds of things that are counter-cyclical in nature that help through tough times, not good times.

I have comments about the ACRE Program. Several of the observations that have been made already dealing with the statewide trigger, we think it needs to be a county, even better if you could make it a local producer trigger. That would be very helpful for that program. In many ways, the ACRE Program and the SURE Program were both new programs, came at the same problem from different directions in the last Farm Bill.

We think the SURE Program is extraordinarily important, and if you make some of the adjustments that have been talked about in ACRE, it will more closely mirror what the SURE Program was trying to do, the big difference being that the SURE Program is appropriately coupled to crop insurance. So having crop insurance expanded into more commodities, into more geographical areas, we think is a very good thing. Having the SURE Program tied to that is a very good thing. Having programs that work in a counter-cyclical fashion are also a very good thing.

Finally, let me just make a last point that I make in the last couple pages of my testimony. And it is that some years ago, we threw away a number of public policy tools that we would argue you need to be reconsidering. You heard a lot of dialogue about the dairy problem that we have. And one of the things that the dairy industry is coming together around is some sort of supply management program.

We think you ought to seriously look at whether we ought to have some sort of supply management that is incorporated into other parts of the Farm Bill and included with that, of course, is some sort of a strategic reserve. The final point is in this country, we think energy is important enough to have a strategic oil reserve, but we do not have a strategic food reserve and perhaps we ought to. Thank you.

[The prepared statement of Mr. Johnson can be found on page 82 in the appendix.]

Chairman LINCOLN. Mr. Stallman, we will ask questions after you both complete your testimony, so thank you.

STATEMENT OF BOB STALLMAN, PRESIDENT, AMERICAN FARM BUREAU FEDERATION

Mr. STALLMAN. Madam Chairman, Ranking Member Chambliss, thank you for allowing us the opportunity to present before this Committee today, and thank you for holding the hearing.

I would like to start by saying that our farmers can generally point to at least one safety net program included in the 2008 Farm Bill that they utilize on their farm, although it does depend 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. Most farmers, though, 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, including the budget environment and the need to balance the interests of a multitude of players. 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 are not here today to present to this Committee a proposal for the 2012 Farm Bill, but we have outlined five general principles that we will follow when we develop and evaluate our future proposals.

One, the options we support will be fiscally responsible. Two, the basic funding structure of the 2008 Farm Bill will not be altered. In other words, money will not be shifted from one title of the Farm Bill to another. Three, the proposals we support will aim to benefit all of the agricultural sectors. Four, World Trade rulings will be considered. And five, consideration will be given to the stable business environment that is critical to success in agriculture.

While our farmers are generally content with the safety net provided in the 2008 Farm Bill, it can sometimes feel 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 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.

Without fail, farmers that farm different crops in different parts of the country rely most heavily on different pieces of the safety net. And the complexity of the interactions between the commodity program safety nets and crop insurance, it can probably best be illustrated by looking at two state examples. 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 buy-up crop insurance, and then through the SURE Program.

In fact, Illinois has some of the highest levels of ACRE participation; 26,000 out of the 134,000 farmers in the U.S. reside in Illinois that have signed up for the ACRE Program. That is about 17 percent. Buy-up crop insurance coverage is the norm. About 95 percent of Illinois farmers have buy-up crop insurance. 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. Only 165 out of the 22,435 farmers in Mississippi that could qualify have signed up for the program. Many farmers in the region, particularly cotton farmers, experienced very low prices in 2007 and 2008, which were the base years for setting 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 to participate in this portion of the safety net were too steep to attract farmers to ACRE, particularly when their bankers are more comfortable with the greater certainty of direct and marketing loan payments.

The use of buy-up crop insurance is also not as prevalent in Mississippi as it is in the state of Illinois. Only 41 percent of the farmers have buy-up coverage in Mississippi. Again, there are a lot of reasons a farmer in Mississippi might 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 risks 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 of our farmers can find at least one component of the commodity title that works for their farm, but it depends on who you ask as to which programs work best and are utilized the most.

Given the great deal of discussion that has already occurred regarding whole farm revenue programs, we would be remiss if it we did not at least briefly discuss our thoughts on this topic. Both the adjusted gross income crop insurance product and SURE provide us with case studies of whole farm revenue programs. And from those cases, we have determined potential problem areas to consider as future farm policy is designed.

One, the complexity of such programs makes them unpopular; two, such programs can be difficult for USDA to implement which in turns delays payments to farmers; three, including livestock in such programs adds an additional layer of complexity that can be cumbersome to overcome; and last, the paperwork and confidential information that can be required to sign up for a revenue program is daunting to farmers and often discourages participation. Having said that, we at American Farm Bureau are doing research and analysis on different provisions related to whole farm revenue insurance.

In conclusion, we appreciate the hard work of this Committee to provide America's farmers with a practical safety net that allows us to continue to produce the safest, most abundant, least expensive food supply in the world. Thank you for the opportunity to be with you this morning. I look forward to questions.

[The prepared statement of Mr. Stallman can be found on page 97 in the appendix.]

Chairman LINCOLN. Well, thanks to both of you, gentleman, for being here and for your continued availability for us to work with you in the Committee as we move forward on the 2012 Farm Bill in months to come.

Just listening to Mr. Stallman's testimony, Mr. Johnson, in your written testimony, you characterized direct payments as the least effective way to smooth farm income. So I guess what would be your response to farmers described as, say, Mississippi in the testimony here who have described direct payments as the only program they can rely on and the only one classified as green box under WTO rules?

Mr. JOHNSON. Well, thank you, Madam Chair. Obviously, a lot of the issues that Mr. Stallman mentioned are the same issues that our members debate at conventions as they determine what policy we ought to be supporting, and we do, in fact, have some states who have policies supporting direct payments. But across the country in our organization, we have fairly strong policy with respect to direct payments principally because it is so difficult to publicly justify when you have farmers in very high income years receiving the same payment that they receive in very low income years.

While that may be WTO legal, one of the reasons that we are suggesting that you think about throwing back into the toolbox some of the tools that we have used dealing with supply management and reserves is because you may also be able to bring in some WTO legal vehicles by doing that. Another feature that we have seen is we sort of made this major shift in farm policy beginning in the mid to late '80s and going through the '90s is that you saw pretty much all of the tools looking at a reaction instead of trying to prevent the event from occurring, and so that is another reason to include those.

Our members believe very strongly that you ought to design farm policy such that it helps folks when times are tough. That ought to be sort of the overriding goal here. And that is why we strongly support things like crop insurance, like the SURE Program, counter-cyclical payments, some of the supply and reserve programs that I talked on. We would acknowledge that direct payments are WTO legal. Lots of things are, but that does not necessarily make them the best policy.

The final point I would make, Madam Chair, is that we also think, as many have said here today and before, that this Congress is going to struggle mightily with figuring out where are you going to get the resources to put the right tools in the toolbox for this next Farm Bill. You are likely going to be having fewer dollars. You are likely going to have even more demands on those dollars. And so it requires us to figure out what works best and where should we prioritize those dollars.

Chairman LINCOLN. Well, I thank you very much, and you are right. Those are going to be tough questions. Certainly, looking at what is the most important safety net programs, for example, is crop insurance more valuable than direct payments? I mean, that is your question there, but also note that the participation in ACRE and certainly, from my area, SURE, have been fairly low.

How do we improve that? How do we improve on their ability to help producers in different areas of the country? Is ACRE more valuable than counter-cyclical in terms of the counter-cyclical payment?

Mr. JOHNSON. Sure.

Chairman LINCOLN. And I guess the real question then that we must ask, and I would ask both of you-all, is that traditionally, Congress has tried very hard to keep the structure of different components of the farm safety net the same across various regions of the country.

In your opinion, is it time for Congress to take a second look at that approach?

Mr. Stallman.

Mr. STALLMAN. Well, I know Chairman Peterson has talked about that to some extent. Our position is that we have to be very careful in terms of our overall farm policy structure not to be favoring certain regions or favoring certain commodities over another. As a general for our organization, we have to take into account the interests of all producers. And it may very well be that the complexity of American agriculture is such that the only way you can ultimately design safety net programs that work sort of across the board is to take a more targeted approach by commodities, for instance. And so that would be one option that would certainly be worth looking at as we move forward in the discussion of this Farm Bill.

Chairman LINCOLN. Thank you.

Mr. Johnson.

Mr. JOHNSON. Yes, if I can add to that, I think to more specifically answer your question, Madam Chair, I think the challenge that we really have is to figure out how to make crop insurance work better because it is—I think there is a lot of support behind the principle that government ought to help when times are tough, but individuals have an obligation to do what they can to help themselves first. That is the important principle behind crop insurance.

Now, it means we have to design it in such a fashion that it is going to—there will be an incentive for farmers in your state to, in fact, carry crop insurance. We have to make sure it works for them. And if works for them, a lot of these other programs, SURE being a perfect example, that are very closely tied to it will work much better.

At the same time, you will avert all sort of the problems that we always experience with ad hoc disasters, the political problem of trying to get it passed. You have to be extraordinarily capable to get that done, and you are making it happen this year, but it is not an easy lift. We all know that, and we also know that it tends to not always be as targeted in where it helps, that you tend to have to write the language so that maybe you help people that really we think should not have been helped and maybe it does not help as much some of those that should have been. And it depends on a crisis happening someplace and enough political—and the crisis happening in enough places that you can get enough political gumption together to get something passed.

Chairman LINCOLN. Well, I certainly appreciate that, but just watching and listening to my producers in Arkansas and knowing that both '08 and '09 disasters have still not been dealt with through the programs that are traditional now for that kind of assistance—and certainly knowing the fact that we are maybe perhaps more prone to disasters, but certainly, we are definitely designed to better utilize capital-intensive crops in terms of what we grow best. And it is a challenge, and so it is important for us to look and make sure that whatever we are designing, that is going to be fair and helpful across the country to the diversity of producers that we have in a way that is going to make sure that everyone has the kind of assistance that they need. So we look forward to working with you-all.

Senator CHAMBLISS.

Senator CHAMBLISS. Thanks, Madam Chairman.

I think you-all have pretty well outlined the difficulty that we face every five years or six years when we write a farm bill. In theory, Mr. Johnson, what you say is right on target, that Washington ought not to be sending out checks to America's farmers unless times are tough. And in the good years, we have seen smaller checks going, but with the Direct Payment Program, we still do send them out irrespective of whether it is a good year or a bad year.

Obviously, every time we write a Farm Bill, we run head first into that WTO issue. And it seems like that exactly the opposite ought to be true, and the counter-cyclical ought to be more WTO compliant. That is the argument we always make, but the Brazil cotton case has taught us a lesson there. And it just happened to be cotton that time, and who knows what it is going to be next time.

But we have got to figure this out between now and 2012. And as we think in terms of that, this cookie-cutter approach that we have had to adopt, whether it is crop insurance or whether it is commodity title, is going to have to be looked at and, Lord knows, I think we could all agree that the input costs for a bushel of corn in Georgia is significantly higher than for a input cost of a bushel of corn in Iowa. But how you adjust to that, I do not know. We never have been able to figure that out.

But you guys, we know how smart you are, and you have smart people working for you. And we look forward to you-all figuring out these answers and giving them to us. But you are also right on the fact that we are going to have less money to work with, and, philosophically, we always run into issues that are more and more difficult to overcome each farm bill, particularly with fewer and fewer members of particularly the House coming from truly rural districts. It makes it more and more difficult.

Though we talk about crop insurance—and I would say that when I first came to Congress, we had a crop insurance program that was primarily designed for Midwest farmers. I mean, that was generally accepted that nobody in my part of the world and I doubt in Arkansas bought crop insurance in any big numbers because it just did not work. You could not get a return on your investment. But we have gradually changed that, and I think we have incentivized farmers now all over the country to purchase crop insurance.

But the demand you talk about, Roger, with respect to the money that is going to be there, is there right now with respect to crop insurance. We have got a pecan program that is working well. It is a good program, but it takes up part of the money. We have got demands from specialty crop growers of vegetables, for example. Again, I do not know how we deal with that, but it needs to be on the table and up for discussion as we move forward into this next Farm Bill.

But before I leave crop insurance, both of you know we have had this recent SRA renegotiation. Give me your thoughts here.

Bob, let's start with you. What do you think about this new SRA agreement?

Mr. STALLMAN. Well, in terms of budget, obviously, and it was already discussed with Secretary Vilsack, is the reduction in the budget baseline and taking the dollars and taking them away, basically, if you will, from the Farm Bill. That is of great concern to us.

We have some of the concerns that if you do have the reductions that are being talked about in the current SRA proposal that is out there, that there may be a tendency to have some cherry-picking in certain regions of the country. You may have a tendency for more marketing efforts in those parts of the country, which are more profitable and those parts of the country where crop insurance is perhaps a little more difficult sell, if you will, that the service there may not be as good.

Long term, we do have a lot of variability in terms of returns and what the premiums are based on what crop prices are and those kind of things. I am not sure that the SRA as it exists now adequately takes into account that volatility or that variability over the course of a long period of time, but that remains to be seen. Our goal is to, once again, have a delivery mechanism and the products available that will allow crop insurance to be a successful program for our producers.

Senator CHAMBLISS. Mr. Johnson.

Mr. JOHNSON. Well, thank you, Senator. I doubt that there is much difference between the way the two of us would view this. We signed on to a letter early on after the first SRA draft was proposed, expressing a number of concerns, the ones that have already been talked about, access, cost, those sorts of things.

The worry that you may actually see insurance companies pulling out of certain areas, I will say in defense of USDA that as they moved forward, it got better. Was it as far as we would have liked? Probably not. But we all face these challenges. The challenge they faced with that is not unlike the challenge you face with how do you put the right mix together for a Farm Bill.

I know that one of the huge issues that we face from a public perception standpoint was that we had—because of the anomaly, the extraordinarily high price run-up in '08 in particular, that you had insurance agent commissions that were extraordinarily high. And people in your and my home communities knew that and did not feel good about that. And so then there is a tendency to say, well, we want to make sure that does not happen, and so you tend to sometimes overreact.

Well, public perceptions are that this is the business that you-all are in. We all have to react to them, and we have to do it in a fashion that, hopefully, is as rational as possible and does not get too deep into the heat of the moment.

At the end of the day, crop insurance has got to be an important part of the next Farm Bill. It just has to be. It is the principal part of the safety net that we have right now. And you-all have struggled, I think, mightily and bend over backwards over the years to make it more and more expansive to pick up different crops, different regions; in some ways, even livestock have been pulled into this. And I think it is a process that we will just have to keep working on, but it is getting better.

Senator CHAMBLISS. Well, I thank both of you for your leadership of your respective organizations. You are always in constant communication with us, and you truly do represent the folks who are the most affected by Farm Bills. And without the correct kind of input coming from the ground level, we simply cannot write a very positive Farm Bill. So we thank you for your continued dialogue with us. Thanks for being here today, and we look forward to staying in touch.

Chairman LINCOLN. Thank you, gentlemen. We do see you-all are going to be a tremendous resource for us as we move forward, and we are grateful that you are here today and grateful that you will be there as we go through these steps. So thank you very much for being here today, and we look forward to continuing to work with you.

I would like to ask the witnesses of the third panel to come forward as the gentlemen are leaving. I will go ahead and get started with that. We will probably have an interruption, but I think Senator Chambliss and I will be able to manage with the vote so that we can continue the hearing and get through.

The third panel and final panel is composed of a diverse group of producers. They are Dow Brantley from England, Arkansas; Thomas "Johnny" Cochran from Sylvester, Georgia; Chris Pawelski from Goshen, New York; and Mark Watne from Jamestown, North Dakota.

I just remind all of you-all that your written testimony will be submitted for the record. I will also take this opportunity to say that members may have questions that they would like to submit. I know Senator Harkin had a few questions. It may have been of the Secretary, but certainly of either of these second and third panels, they may have questions. And if they do, we will be sure to get these questions to you so you can answer them.

Beginning with Dow Brantley, Dow is third-generation farmer and a partner of Brantley Farming Company in England, Arkansas. Dow joined the family operation in 2000 and produces cotton, corn, rice and soybeans on approximately 8500 acres. He is active in the National Cotton Council, USA Rice Federation, Arkansas Ag Council and the Arkansas Farm Bureau.

Dow, thank you for being here and a very special thanks. Your father has been a tremendous mentor to me. I am grateful to all of your family for what you-all do for us in Arkansas. So if you will give your testimony, then we will continue down.

STATEMENT OF DOW BRANTLEY, FARMER, ENGLAND, ARKANSAS

Mr. BRANTLEY. Thank you, Chairman Lincoln, Ranking Member Chambliss. Thank you for holding this hearing today. I am honored to have the opportunity to offer testimony before you concerning my views on the current farm policy and the development of the 2012 Farm Bill.

The 2008 Farm Bill provides a sound and safe, stable farm policy foundation that is essential for our farming operation by continuing the traditional mix of safety net features consisting of the Nonrecourse Marketing Loan and Loan Deficiency Payment Program and the Direct and Counter-Cyclical Payment Program.

While the Counter-Cyclical and Marketing Loan programs have been helpful in the past, they have recently been overwhelmed by the cost of production. If crop prices drop sharply, most producers, including me, will be in dire financial straits by the time these program make payments. While there has been much debate about the effectiveness of direct payments, I believe they are an integral part of our farm program delivery system and should be maintained.

The 2008 Farm Bill made very substantial changes to the payment eligibility provisions of the safety net, establishing an additional adjusted gross income means test and a very significant tightening of actively engaged in farming requirement eligibility.

In my opinion, the USDA overstepped the intent of Congress in payment eligibility provisions and issued regulations that are overly complicated and restrictive. The FSA's overly restrictive financing rules, legally incorrect, active personal management rules and multiple sets of actively engaged in farming rules, which are inconsistent when applied to different commodity and conservation programs within the same program year, are a few examples of problems that we are facing. Sound farm policy provisions are of little value if commercial-size farming operations are ineligible for benefits.

The 2008 Farm Bill included the addition of ACRE Program as an alternative to counter-cyclical payments for producers who agreed to a reduction in direct payments and marketing loan benefits. The bill also included SURE Program as a standing disaster assistance supplement for federal crop insurance. The support mechanisms within ACRE do not provide adequate safety net for the cotton or rice producers when compared to traditional DCP Program.

If a revenue-based approach is to find support among us producers, a more reasonable revenue target would have to be established. In my home county, we have 1,650 producers, and no one has elected to participate in ACRE. In fact, only two producers in the entire state have chosen ACRE.

The SURE Program has provided little, if any, assistance to row crop producers in the mid South who last year suffered significant monetary losses due to heavy rains and flooding occurring prior to and during harvest.

I 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, I do not support relocating existing spending authority from current farm programs to apply to SURE.

Crop insurance as a whole has not worked on our farm or many others like ours in Arkansas. Our farm is 100 percent irrigated, and on average, our yields are very consistent. Our financial problems occur with the higher production costs due to irrigation or a weather event in the fall that disrupts our harvest and ultimately affects the quality of our crops. These circumstances cannot be hedged against.

For example, the coverage available under this current mix of federal crop insurance policies is not as well suited to rice or other mid South crops as compared to producers of other crops in other regions. What rice producers need from federal crop insurance are products that will help protect against price risk and an increased production and input cost, particularly energy and energy-related inputs. The rice industry has been working for over a year now to develop new generation crop insurance products that we hope will provide meaningful risk management tools for rice producers to protect against sharp upward spikes in input cost.

My family has participated in several conservation programs over the years, and programs such as EQUIP, WRP and CRP have helped us become better stewards of the land and better conserve our natural resources. Conservation programs such as the new CSP Program, I think, can lead to improved environmental and conservation practices; however, I believe that this program is not succeeding in the way that it could.

Of all the conservation programs offered by the USDA, the CSP Program might have the most potential in terms of actually producing the desired results that are beneficial to both the environment and the farmer. This program is a win-win for everyone; however, it has always been vastly underfunded. The CSP Program has been hampered by overly restrictive payment limitations contrived by the USDA regulators, restrictions I do not believe are supported by the statute.

In summary, I appreciate the work of this committee in crafting the 2008 Farm Bill. I know that the next Farm Bill presents its own set of challenges, especially due to inadequate budget authority and international trade obligations. Based on my experience in working with the USA Rice Federation, the National Cotton Council and the Farm Bureau, I know they will work closely with this committee to ensure that we have an effective farm policy. Thank you for the opportunity to present my views today.

[The prepared statement of Mr. Brantley can be found on page 72 in the appendix.]

Senator Chambliss [presiding]. Thank you very much, Mr. Brantley.

Next is Johnny Cochran, from Worth County, which is the adjoining county to my home county and very similar from a production agriculture standpoint. Johnny is a farmer and grows primarily peanuts and cotton and has a livestock operation, also a timber farmer, probably used to grow a little tobacco from time to time, but now that is a thing of the past in our part of the world. Johnny has been recognized as Farm Family of the Year on several different occasions and also as Conservation Man of the Year.

I often talk about the fact that we want folks up here who get dirt under the fingernails to explain farming operations, and Johnny is the real deal. He does get dirt under his fingernails and is extremely active from a production agriculture standpoint in our part of the world. So, Johnny, thanks for being here. We look forward to your testimony.

STATEMENT OF THOMAS "JOHNNY" COCHRAN, FARMER, SLYVESTER, GEORGIA

Mr. COCHRAN. Chairman Lincoln, Ranking Member Chambliss, thank you for holding this important hearing to review U.S. farm policy. My name is Johnny Cochran. I am a fourth-generation peanut and cotton farmer from Worth County, Georgia.

The production, processing and marketing of peanuts and cotton are the cornerstones of the economy in my rural county. That is why a predictable and stable farm policy is important to me and my neighbors. Effective farm policy should adhere to several principles. It should be market oriented. It should allow full production. It should provide a predictable, effective financial safety net. It should ensure the availability of competitively priced peanuts and cotton to domestic and international end users, and it should allow participation without regard to farm size or structure.

A key provision of the cotton and peanut program is the Marketing Loan Program. It gives the lenders the confidence to provide operating loans. It provides growers the opportunity to make orderly marketing decisions. The 2008 Farm Bill made significant reforms to cotton program, including revising loan premiums and discounts to enhance market orientation, establishing a ceiling on payment storage credits, and provided the Economic Adjustment Program for the hard-pressed U.S. textile industry. Cotton is also the only commodity that experienced a reduction in target price.

The peanut program changed dramatically in the 2002 Farm Bill. It moved from a supply management quota program to a program similar to other commodities. The 2008 Farm Bill continued these changes. For the most part, the program has worked well for the peanut industry.

Unfortunately, the marketing loan has not functioned as it was intended because USDA has not followed the Committee's direction to consider international prices when calculating the peanut loan repayment rate. Thus, the USDA repayment rate we saw on Tuesday afternoon is not accurate. I ask this Committee to include language in the next Farm Bill that will ensure that prices our international competitors are selling peanuts for will be considered in establishing the repayment rate.

The 2008 Farm Bill made historic changes to payment limitations and program eligibility. Limitations were made more restrictive by eliminating the three entity rule. I understand these reforms, but please remember that full-time farmers like myself must be eligible for programs to be effective.

As evidenced by data from recent sign-ups, the ACRE Program is not an attractive alternative for cotton and peanut farmers. ACRE's target revenue does not provide an adequate safety net when compared to traditional DCP programs, and growers and their landlords are reluctant to accept a permanent reduction in loan and direct payment rate to enroll in ACRE programs.

I support the Natural Disaster Program, but my concerns are that SURE does not provide an effective level of assistance for diversified farming operations.

I want to convey my appreciation to Chairman Lincoln and the others in crafting the provisions included in the tax extenders package. I hope this legislation will ultimately be approved.

Conservation programs such as Conservation Stewardship and EQUIP and others are attractive to producers and will facilitate continued improvements in conservation practices. I commend the Committee for including the new crop rotation program as part of CRP. Although implementation was delayed, I believe it is an effective option for peanut producers.

Crop insurance is an essential risk management tool for producers. I believe crop insurance should always be considered a complement to good commodity programs but not a substitute.

In summary, the 2008 Farm Bill's cotton and peanut programs have generally worked well. You and your colleagues did an excellent job in balancing diverse interests. I recognize the 2012 Farm Bill debate will take place with record budget deficits that will put intense pressure on funding.

The findings in the WTO Brazil case put cotton's Marketing Loan and Counter-Cyclical programs under special scrutiny even though the U.S. negotiators have crafted an interim agreement that has resulted in Brazil temporarily suspending retaliation.

I would like to thank you, on behalf of all Georgia farmers, for the opportunity present these comments, and I will answer your questions.

Senator CHAMBLISS. Thank you very much.

Next we have Mr. Chris Pawelski. He is a specialty crop farmer from the town of Florida in Orange County, New York. Onion farming, like most specialty crop farming, is very hands-on, labor-intensive form of farming, and Chris is involved in all aspects of his family's operation. Currently, he farms with his father Richard and his brother Brian. They grow 99 acres of onions and 8 acres of butternut squash.

Mr. Pawelski, welcome.

[The prepared statement of Mr. Cochran can be found on page 66 in the appendix.]

STATEMENT OF RICHARD PAWELSKI, FARMER, GOSHEN, NEW YORK

Mr. PAWELSKI. Thank you. I would like to first thank Madam Chairman Lincoln and Ranking Member Chambliss first for both pronouncing my name correctly. Usually, I tell people say Chris something Polish. The fact that both of you pronounced it correctly was outstanding, so I would like to thank you for that.

I would also like to thank my Senator Kirsten Gillibrand for affording this opportunity to address you today as a specialty crop farmer from New York who has had extensive experience with the Federal Crop Insurance Program, specifically, the Multi-Peril Crop Insurance Program or the MCPI policy.

Though I am testifying alone, my wife Eve who is here with me has been full partner over the last 14 years who has worked hard with me making the various improvements to our policy, and without her hard work and imagination, I would not be here today.

On Monday, I received a letter from the head of RMA, Bill Murphy, who was here today, who soundly rejected my wife and my reform proposals for the MCPI policy. I will be including it for the record for this hearing. Bottom line, when you read the letter, you walk away with the notion there is absolutely nothing wrong with the MCPI policy and all is functioning well. Of course, this does not explain why Congress the last 15 years has had to pass multiple crop loss programs as well as create a permanent disaster aid program as part of the last Farm Bill.

Since 1996, our region has been struck by a series of catastrophic weather events, and over the years, Eve and I have done our very best to improve our policy. This has included fixing the expected market price, which was set at less than half of what it should be; fixing our replant feature, which was set at a fraction of what it should be; and getting a pilot program for a no-stages option for our New York onion growers, which was done with the hard work of our congressman at the time, Bill Gilman.

Unfortunately, there are two facets of the MCPI policy that we have made no headway on, and it is for this reason, for the first time since 1996, we on our farm have not purchased buy-up coverage for this year, and so have most of the crop growers in Orange

County. We believe that the minimal catastrophic coverage is virtually worthless, but we have paid the administrative fee for this coverage so as to have access to the USDA programs.

Crop insurance reform over the years has typically involved increasing the federal subsidy rates to make the policies cheaper to the farmer, but there is very little discussion as to why these policies do not pay out, which is a primary reason why farmers are reluctant to participate. Farmers wonder why anyone would think making a problematic policy cheaper would entice them to buy it. We often ask when will someone address the various problematic policy provisions or what I call gimmicks that quite often make the policies resemble more of a shell game than insurance.

There are two main provisions I want to discuss. One is a facet, which is an all MCPI policy. It is called Production Account, and all decrease drastically in value when a farmer's actual production history or APH starts to plummet due to successive weather disasters. What happened to me last year perfectly illustrates the problem.

In 2009, I grew 41 acres of onions, and I bought the buy-up level coverage of 70/100, 70 percent of my crop at 100 percent the price. The premium total was $29,507. I paid $9,924. The rest was paid by the taxpayer.

Last season, we had 28 inches of rain during the summer, which meant that most of the onions either did not make a bulb or many of them and many were rotten. Due to my successive disaster years, my APH was lower, so my loss in real terms, though, was roughly in the neighborhood of $115,000. But thanks to my lower APH and production account, my indemnity was $6,729. I did not make back the premium. The insurance company pocketed the difference as an underwriting gain. I suffered $115,000 crop loss, had 70/100 coverage, and I still owed a 3,000-dollar premium. You have to ask the question what is the purpose of this policy.

In a hearing held in 2009 by the House Subcommittee for Risk Management, the topic of shallow losses repeatedly came up. No one seemed to understand why shallow losses are a problem. The facet of production account is the reason why shallow losses occur. And my wife and I have a proposal, a sound proposal, to reform production account to do it, and if you read my written testimony, it details it.

But, essentially, what production account does, it takes a percentage of your crop that is not covered plus also whatever you salvage and what they are calling a deductible, and what they are doing is, they are guaranteeing a loss. And it is a sliding scale, and the less damage you have, the greater the deductible is. So that is how you can think you have 75 percent coverage when, in fact, you do not have that. You can have a 25 percent loss and get nothing.

Our idea, our basic reform idea, is basically whatever you salvage plus your coverage level cannot exceed 100 percent of your APH. So you would actually come close to whatever your coverage level is. And again, if you refer to my written testimony, you will see it in more detail with examples.

We have again worked on this for 14 years. Quite often, when we talk to people in D.C. at RMA, we have been received very positively. Unfortunately, the people who seem to call the shots in Kansas City and Raleigh are not as supportive. There is stonewalling and arguments over semantics are endless, and quite often, the farmer is to blame. Yet the problem always is still there with the MCPI policy. And this is a primary tool for us, for specialty crop farmers, especially mono-cropping specialty crop farmers. This is the only safety net we have, and it is inadequate. So unless this policy provision and the problem with APHs being skewed due to successive losses, you are not going to be able to fix it.

So I also—in my written testimony, you can ask about it as well. I have another example of what production account did a couple of years ago where I had onions that I destroyed that were immature that made no sense against my indemnity. I can explain.

But in conclusion, I again want to thank you again for this hearing and inviting me to appear before you. Again, my wife and I have spent a great deal of time and energy trying to improve our MCPI policy, and we firmly believe if APH reform was done and our proposal to reform production account was implemented, the MCPI policy would be a valuable tool and an integral part of the specialty crop producers' safety net. Thank you.

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

Senator CHAMBLISS. Thank you very much.

Next, Mr. Mark Watne. Mr. Watne farms 1,500 acres of crop land in north central North Dakota. He has a family farm operation and would be considered at about average in size in the state of North Dakota. He primarily raises wheat, barley and canola and occasionally plants oats, sunflowers, peas and soybeans if market conditions appear to be attractive.

Mr. Watne, welcome. We look forward to your testimony.

STATEMENT OF MARK WATNE, FARMER, JAMESTOWN, NORTH DAKOTA

Mr. WATNE. Thank you very much, Madam Chairperson Blanche Lincoln, Ranking Member Chambliss and the rest of the Senate Agriculture Committee for my opportunity to testify here today.

As stated, I am a family farm operation from North Dakota and have a wide variety of crops that I raise. If I could, I would just generalize a little bit of the reasons for a Farm Bill and then get into specifics. I always think the first consideration of a Farm Bill is to identify that it is necessity for our consumers in this country to have an inexpensive, very secure food system in this nation. And as many people today have stated, we can see very well that we are achieving that goal. I have included a chart in my testimony that shows that disposable income that everybody talked about, showing that we are spending less than 10 percent of our disposable income on food in this country, which is the lowest in the world.

The fact that we in agriculture have the ability to have this abundant food supply and the fact that farmers and ranchers are efficient at producing this quantity forces prices to be lower than what we would like them to be from a farmer's perspective. Commodity prices reflect the small amount of oversupply beyond demand that is produced each year. This unique scenario creates the need for a farm program that addresses low commodity prices which hurt farmers. The demand for food does not add an extra meal just because food costs less. The family does not necessarily add an extra meal because of these lower costs of food.

The nation of consumers would be negatively impacted if we had a food system that was based on just-in-time inventory which would hold no surplus to meet needs in case of natural disasters. Commodity price fluctuations could cause prices to rise rapidly and not level off in time to keep our current inexpensive food system, which American consumers enjoy.

If we were to compare our food program to our energy program, we could see wide market variations on pricing when we rely on outside sources for energy. We certainly would not want to become reliant on other sources of food supply from other nations in the world. The small portion we spend on the U.S. agriculture budget may be one of the best investments we make for the benefit of our Nation.

So the second consideration is how a farm bill is able to provide a safety net for farmers and ranchers when the market prices or environmental conditions do not allow for adequate return to cover our operational costs. In my written testimony, I have provided a chart that shows of 537 producers—this is tracked by our land grant university-that would have lost money or had very low significant income from their operations seven of 10 years, if you had taken farm program payments and crop insurance out of the mix.

The current Food and Conservation Energy Act of 2008 and many of the preceding farm bills have been relatively successful and generally accepted by farmers and ranchers in North Dakota. The main concern from farmers regarding these bills is that there has not been an adjustment to the counter-cyclical payments and loan rates to reflect the higher cost of production that we as farmers and ranchers are currently facing.

To continue the success—and again, I do believe we have had success, and I am very proud to be a farmer when we can feed the country very well and the fact that we can continue to oversupply the market with abundant food. To continue the success, we need to consider a number of items.

Our Nation's agriculture policy must be directed toward an economic system that provides citizens the opportunity to own, control and work their own land and remain contributing members to their communities and to the country. National farm policy should foster a fair and competitive environment that allows farmers and ranchers to increase their net farm income, improve the quality of rural life and continue to provide a safe, reliable supply of food and fiber for this country and the world. Farm policy should also provide price production protection, contain stock control mechanisms that do not push stocks onto the market at a point when prices are lowest and ensure competition in the marketplace.

The following objectives should be included in farm policy; a safety net that is counter-cyclical and most importantly, indexed to current production cost; directed program payments at the production levels of family farmers; realistic and meaningful payment limitations; the removal of marketing loan caps and upward equalizing of commodity marketing loan rates based on historic price shifts between commodities and equal to USDA's cost of production.

We should maintain planning flexibility. We should continue the current permanent disaster programs in the Farm Bill, and they should be fully implemented in a timely manner. We should consider establishing a revolving two-year farm loan reserve of commodities to provide an adequate supply of raw materials for use as emergency food or renewable energy. We should push for international food reserves, which means both importing and exporting nations share the cost of maintaining these reserves.

We need the continuation improvement of all crop insurance and coverage on all crops. The Farm Bill should further encourage the development of renewable energy, primarily ethanol and biofuels as these tools can enhance income and lower agricultural budget costs.

To just wrap this up, probably the most important thing I want to pressure on today is that we continue to strengthen the Crop Insurance Program and continue to maintain permanent disaster. North Dakota, we have had some extreme weather conditions as of the last few years ranging from ice storms to excessive moisture. These seem to be an abnormal pattern but seem to be holding true for a number of years. We have a number of farmers, especially in the north central part of the state, that are paying a land payment, taxes on their land and costs associated with maintaining this land, and land is covered in water that they cannot recover any of these expenses.

So from my perspective, if we do have to make major changes in the program—and I do believe the programs are working fairly well today—we should consider maybe a shift in the direct or decoupled payments to better programs that reflect the cost of production plus inflationary safety nets.

I want to thank you for the opportunity to speak today. I think counter-cyclical programs that pay when prices are low are much more accepted by taxpayers than the direct payments. And again, thanks for the opportunity to speak to the Committee today.

[The prepared statement of Mr. Watne can be found on page 116 in the appendix.]

Chairman Lincoln [presiding]. Thank you, Mr. Watne.

Thank you-all for your patience in terms of our having to juggle votes on the floor.

Again, wanted to welcome Dow Brantley. Obviously, I know him from Arkansas. But also want to thank Mr. Cochran. I know he is here at the recommendation of Senator Chambliss and grateful for your input here today.

Mr. Pawelski, you are here at the recommendation of Senator Gillibrand who speaks very highly of you, and we are grateful that you are here today.

And, Mr. Watne, obviously, at the recommendation of Senator Conrad, you are here today. I was with him on the elevator going over to the vote, and he wanted to apologize for not being here as well. He is at the same Deficit Reduction Commission meeting that Senator Baucus had to run off to.

So I certainly want to tell all four of you-all how much we appreciate your being here. And I would just simply say to you please do not underestimate the role that you play as we move forward, both you and your colleagues across the country. And your input is going to be absolutely vital in being able to get it right in the structuring of the 2012 Farm Bill.

So we appreciate that you are here today but hope that you will remain in constant contact with us as we move forward and look at how we can do a better job at supporting our farm families and ranchers across the country. So we really appreciate that.

I guess just some kind of generic questions for you-all individually, and I am not sure that you have mentioned it in your testimony or not. But would be curious to know what safety net programs you-all participate in, and if you would, for your region and your crop and other circumstances, if you could pick the one that is the most important to you and for what reasons and what other programs are important to you, but maybe one that is the most important and why. Is it more dependable? Is it something that allows you to manage certain aspects of your production and your operation?

So, Dow.

Mr. BRANTLEY. Thank you. I think two of the most important programs for me are the Marketing Loan Program and the Direct Payment Program. The Marketing Loan, just the ability to have a loan to market my crop over the nine months that we are given to do that.

Now, the Direct Payment is a sense of security for us, for our banker, that we have some income coming from the farm or from the land that we produce these crops on. Those two programs have been key for not only us but anybody in Arkansas and across the mid South.

Chairman LINCOLN. Thanks. Do you participate in the other programs? Are there any other programs?

Mr. BRANTLEY. Not administered through the FSA. We are in NRCS, several conservation programs.

Chairman LINCOLN. Johnny?

Mr. COCHRAN. Along those same lines, the Marketing Loan Program in cotton as well as in peanuts, both are very important to us. The Marketing Loan Program, like Dow said, allows us to market our crop over a nine-month period with having cash flow when we harvest the crop, which is much needed. And, of course, crop insurance, we do buy up crop insurance. It is an essential risk management tool in our farm, and we utilize crop insurance to a great——

Chairman LINCOLN. For all of the crops that you grow?

Mr. COCHRAN. Yes, ma'am.

Chairman LINCOLN. Great, thanks.

Mr. Pawelski.

Mr. PAWELSKI. For my area, it is mostly on muck soil. It is mostly vegetables that are grown, some sod. So as far as risk management, crop insurance and NAP are what is available.

Like we mentioned and my written testimony talks about, we have done—my wife and I, like I said, worked 14 years to improve our policy the best we can. We have hit the wall. One thing I did not talk about—it is in the written form. I did not mention orally, but just how bizarre the current policy is.

In '07, we were wiped out by a flood. The Wallkill River flooded, and I had planted. Much of the valley planted, and I replanted afterward. I lost 26 acres to the flood, and I replanted afterward. And when I replanted, I lost it all again plus an additional 10 acres, and other people as well all around me, obviously, because it was too hot and too dry.

The special provision policy for the onions calls for if over 50 percent of the crop is damaged, you are allowed to destroy the crop in the field. And within the rules itself, it says in the—I am not making this up. In the onion law stand book, it says that, "If the damage to harvest or unharvested mature onion production exceeds the percentage, or is 50 percent, no production will be counted if it is not sold."

So in other words, if you destroy it, it is not counted against you. But RMA interpreted the word "mature" is used there. That must mean immature should be treated differently. So those little plants that were this tall, the 8 or 9 percent that were an inch high, even though I destroyed them, they counted against our indemnity and subtracted it, even though you are not selling them, even though the policy says itself later if you have an onion that makes a bulb and you do not sell it, you destroy it, it does not count against you. And there is no basis for that in the policy itself.

Whenever we would raise this issue with—again, we first raised it with the administrator's office at the time, they would say, oh, that makes sense what you are saying, but then they would talk to Kansas City who would defend this. There is like a level of disconnect there that makes no sense, and that is what we really need to—this is the kind of thing we need to get it fixed.

But, currently, as far as risk management safety net stuff, crop insurance, we have a conservation program. We have a proposal out there for a conservation of muck soils program. Our congressman, Congressman Hall, got it in the House version last Farm Bill, and we are hoping that it will make it in the next version. I know Senator Gillibrand will be talking to you about that.

Chairman LINCOLN. Good. Well, those are the kind of specifics, though, that are very helpful for us. As I have mentioned in my opening statement, that we look at policy and oftentimes we just look at the written words as opposed to thinking about what your practices are and what you are actually going through. And those are critical examples that really do help us in so many different ways to try to figure that out, so we appreciate that. Thank you.

Mr. Watne.

Mr. WATNE. On my farm, we participate in just about all the programs. We are active in the Direct and Counter-Cyclical Program, the DCP. We have used the loan program in the past, not as much as late as market prices have been substantially higher than loan rates. And, of course, crop insurance.

But if I had to rate them, the crop insurance in North Dakota is probably the primary, most important. We have a lot of risk and a lot of weather conditions that impact our crops, and without Multi-Peril Crop Insurance, we could show our lender at least a minimum amount of return that we can get to pay back our loans, we would not be able to get financing in the state, so federal crop insurance is a key. And then, of course, putting SURE on top of that adds about 11 percent potential income increase if we have a major disaster.

We did look at the ACRE Program briefly this year, and I wrote this in my testimony. I was very tempted to sign up for it because I see it as a revenue assurance. Just the fact, though, that I had to rely on a state trigger and a farm trigger at the same time is what scared me away. There is many times in North Dakota where the state will not have an overall impact where a trigger would be met and a individual farm could be met simply be a localized drought or a localized excessive rain or potentially a hailstorm. But I would rate federal ——

Chairman LINCOLN. So that is what kept you away from the ACRE?

Mr. WATNE. Yes, that state trigger was just too broad. It is very likely that you could have a pretty strong loss on your farm and not see the state trigger met. So crop insurance, to me, is probably our most important one.

Chairman LINCOLN. But you do participate in the Direct Payment?

Mr. WATNE. Yes, we do.

Chairman LINCOLN. I just wanted to—I know that you had some concerns about that, and I was not sure if your concerns were really focused on that you wanted to see it changed or did you want to see it eliminated.

Mr. WATNE. What I really want to see is—I think farmers are quite proud and they would rather see a system where we were paid if we were having a tough time as the market prices or something, so a counter-cyclical type payment. I do not want that money taken out of the ag baseline. I would rather see it shifted to a counter-cyclical type payment.

Chairman LINCOLN. Okay. Well, thank you. And just back to what you were talking about in terms of that state trigger being broad and certainly to what Mr. Pawelski said, in our circumstances in Arkansas, we saw floods, some folks that planted twice, some of them three times in the spring after being flooded out but then also being flooded out in the fall during harvest, finding that they had—I saw thousands of acres under water for at least a week to 10 days right before harvest, which was unbelievably awful. But some of those were localized. Our state probably did hit the state trigger because we had so many counties, but nonetheless, I could see how it could have been localized even worse.

Well, thank you-all. Just in general, what is your response to the concerns of the complication of safety net programs? Do you-all find—I mean, many of you have worked with them through the years, and Mr. Pawelski, you have certainly expressed concern about the application of certain programs. But the complicated nature of that, does anybody want to expand on that?

Mr. BRANTLEY. The complicated nature of the rules that we have been given through the 2008 Farm Bill?

Chairman LINCOLN. Well, and the safety net programs in general.

Mr. BRANTLEY. Prior to this Farm Bill, we have been able to do all of our own work. My family and I have done our own work ourselves in explaining who we are, meeting the payment eligibility rules. This Farm Bill has been complicated and so confusing, we have had to, along with everybody else, to hire a lawyer to make sure that we were doing what is asked of in this Farm Bill. The financing rules, it is just unbelievable. I get confused even today, and that is what I spend most of my time working on day in, day out is making sure that what we have done is correct. We still are waiting to be approved from our state FSA office on our farm whether we—or the changes we have made in our operation have been approved or not.

Chairman LINCOLN. Anybody else?

Mr. PAWELSKI. I would say that we have not applied yet for the SURE Program because we had a decent year in '08. '09, we will be applying, and my understanding is it will not be until December. But I have looked it over, and it has had my head spinning already. So the application process, I am not looking forward to. It seems extremely complicated.

Crop insurance, that has just been—understand the bureaucracy. Again, it has been 14 years my wife and I have worked on that. It has got a heck of a learning curve as far as understanding how the maze works.

Chairman LINCOLN. Did any of you-all apply for the ACRE Program? None?

Mr. COCHRAN. I was going to allude to the ACRE Program. As I understand it, in Georgia, I do not think there is a single farm that is enrolled in the ACRE Program.

Chairman LINCOLN. Dow indicated there is only two in Arkansas.

Mr. COCHRAN. Yes, with high-input crops, it just does not—the revenue does not work out in the program.

Chairman LINCOLN. Well, just—yes.

Mr. WATNE. If I could comment about it, the sign-up has actually been quite simplified, I think, and for the current existing program. I think the confusion has came in when we are trying to recalculate what benefits we might get out of SURE or even trying to calculate the ACRE Program, the benefits side of it. It was not that it was so complicated. It was a little bit hard to try to guess what the prices and the market prices might do and how that would impact you, and that is where farmers got quite nervous when they were looking at it.

But as far as signing up for the farm program, I found it to be quite simple. There is an occasional question or two that makes you a little suspicious if they are digging for something that you might not want to answer. But the reality has been it is substantially easier to sign up at USDA than it has been in the past.

Chairman LINCOLN. It has been a general trend, I guess, to develop safety net programs that provide protection against revenue loss as opposed to yield losses. What would be your recommendations on the next Farm Bill to continue in that trend or not?

Mr. COCHRAN. Well, we would certainly have to be considerate of the trade relations and the effects that different types of payments will make on our relations. And even though the revenue side is ultimately the goal, whether it is crop insurance on yield based on whether it is a revenue assurance program, we still would have to be careful there. But we do need these safety nets.

Chairman LINCOLN. Anybody else?

Mr. WATNE. If I could comment, the revenue insurance, it makes a lot of sense that we could have that option, but I do get a little fearful because when you start doing it in a light of an insurance-type program, that we tend to write underwriting rules or things that are based upon avenues to save money. And then, of course, it all depends on where you base the primary starting point, the price point. If we can do that off of a cost of production, the USDA cost of production or something, and not based on average market prices from a time frame when the prices do not represent the true cost of production would make a big difference.

So revenue insurance can work, but it needs to have some basis behind cost of production. And then, of course, it has got to be based at a level where the farm itself can qualify rather than having to see a large region qualify before you trigger the payments.

Chairman LINCOLN. Sure.

Mr. BRANTLEY. I just might add that it would need to be regionalized. The cost of production does not need to be represented for the state or the mid South. You need to break it—it would need to be broken down into the counties, per se. Although our production, our goal of raising rice is the same in Arkansas as it is in California, our costs are vastly different, and those things would need to be regionalized.

Chairman LINCOLN. Well, thank you.

I will turn it over to Senator Chambliss.

Senator CHAMBLISS. Thanks very much. All of you were sitting here when we had the conversation with Secretary Vilsack relative to getting younger farmers into agriculture, and I was in Roberta, Johnny, last Saturday with 200 Georgia young farmers. And I dare say that 100 percent of the folks who were there that day are young people who are returning to their own family farm versus individuals just going out on their own, deciding they want to get into farming, and being able to do so.

This is a real problem, and I just want to throw it out there if any of you have any comments, suggestions or whatever that we might think about. All of you obviously have had experience, whether you went back to your family farm or whether you began on your own. And I notice in the case of a couple of you there, you have children that may be thinking about coming back and going into your operation.

What are your general thoughts—Mr. Brantley, we will start with you—relative to the availability of agriculture for young people?

Mr. BRANTLEY. I am fortunate that I was able to join a family farm, and you alluded to that fact that most young people coming back are able to join a family farm. And it has been very difficult for individuals who want to start out on their own, for young individuals, to go to the FSA office and receive some funding to start a viable operation. I think for someone to get in the business today you almost need a mentor. You need someone who can help you get started.

It would take a unique individual today to decide that he or she wants to farm and to have the capital to do that. I do not know how. I am not that person. Again, I was fortunate to join a family operation. There are plenty of those operations around that are looking for young people today. Maybe we can think of a creative way to start a mentor-type program, and that is not the proper word, but some type of a program to allow someone that is ready to retire or slow down to have a young person who is interested to come in and join their operation.

Mr. COCHRAN. In Chairman Lincoln's opening remarks, I thought I was in the wrong room when she said she had an outstanding panel of young farmers.

[Laughter.]

Mr. COCHRAN. That is a problem in Georgia. It is a problem I am experiencing in my family. I have a son that has decided that after all these years of low wages on the farm, he is seeking other avenues.

But I would venture to say that the biggest problem we have in getting a young person established on a farm, a mentor idea would be excellent. It is extremely hard for a young person with all the desire in the world to go out and get started farming on his own. I do not know whether RMA could come up with some type of yield program where if you do not have a history, you have to start with a T yield, which is traditionally a very low yield. Financing is a problem. Crop insurance could help cover some of the financial risk certainly for a beginning farmer.

But there are very few avenues for a young person with a true desire to farm to have the ability to start farming in our community.

Mr. PAWELSKI. I started working on the farm when I was five years old. My first job was picking up onions that fell out of a crate, which I hated. I started driving heavy farm equipment on the road by the time I was 11, trucks with no doors and stuff like that. And aspects I liked, but by the time I was older, I grew tired of it, and I actually went away. My bio mentioned I did my graduate work at the University of Iowa, who had a great year last year, by the way, in college football. But I was a PhD student in broadcasting and film studies. I actually studied James Bond.

But after I got married, I had office jobs, and I would look out the window at the guys mowing the lawn. And I was wishing I was outside doing what they did, so I moved back to the farm. My poor wife who I met in Iowa grad school did not have this background from Wisconsin, and I kind of feel sorry for her because she has been dragged into this. And it has been year after year of disaster and scraping by, and she does all the finances. I do not even look. I just work, and I come inside, and she pays the bills somehow and credit card to credit card and so on and so forth.

Going back to what Secretary Vilsack said, the best way to get people young working on the farms and staying on the farms is make it profitable. And the thing is, I am not looking to be a Elmer J. Fudd millionaire and own a mansion and a yacht. I would just like to make a living. That is what I am looking for, making a living.

There is aspects of farming. I am an hour north of New York City, and a lot of people that I know and friends of mine commute down to the city. As a matter of fact, my brother, he farms part-time and he also is a head hunter. He places people in international equities markets in Europe and Asia, so he farms part-time and he goes down to the city and meets people and places them in these sorts of jobs. A lot of my friends commute.

My commute, I walk outside five feet out the door, and I am in my yard where my farm, my barn is. I drive tractors and trucks which I love. I wear funny suits where I wear nice Tyvek suits and helmets and stuff and spray. I love the work. I see my family all the time. I see my boys every day. That is stuff that you—my wife's family, where her father used to work outside of Chicago, she never had. All I want to do is make enough of a living that I can provide for my family.

And if we can get things like a little better or a safety net and I can get a better return on my onions, things that was talked about a little later when you were talking Mr. Stallman and Mr. Johnson about as far as the—I think it was Senator Roberts was talking about the return and the possibility of concentration and such. Well, I have got the same thing in my crop with how my product is sold, where I am getting $6 for 50 pounds, and I look in the grocery store at what the price is going there, a heck of a lot more for something that is virtually nothing value added. But all I am looking for is just to make a living, and if we can make it a little bit more profitable, I think you will see a lot more people, including my kids, staying on the farm.

Mr. WATNE. I really think it is as simple as your last statement there. We have to make some reward for the risk that is taken in agriculture. We have to get back to profit potential. It has been interesting in our state that we are finally seeing some young people wanting to come back, and the parents instead of telling them whatever you do, do not come back to the farm, they are starting to talk maybe you should come back to the farm.

Of course, we see this rapid rise in the price of commodity prices and expectations that we may reach new plateaus. I am not 100 percent comfortable we have seen these new plateaus because we have seen barley prices drop down to LDP rates just last year again, but that optimism, the potential for optimism and ability for people to make a profit.

Somewhere along the line, we have to start thinking how we can price the amount that we actually need each year on what its fair value is rather than pricing every bit of production on that small amount of overproduction that we ship into either the export market or it sits in storage. I really think we have a backwards system in that light. If we have one bushel extra production of wheat, we price all the bushels on the one bushel of extra production. I said it in my testimony, we need some reserve system that does not force the consumer to be reliant on a just-in-time inventory but also does not burden the marketplace that we drive our prices so low that there is no reward for the risks that farmers and ranchers take.

Senator CHAMBLISS. As Mr. Cochran knows, we have what we call the Southeastern Agricultural Expo in my hometown every year. It is the largest farm equipment show east of the Mississippi River, and I am always amazed at that show as to the advancement of technology when it comes to agriculture.

Mr. Watne, let's start with you. From a technology standpoint, what is your biggest asset? Where do you see technology with respect to agriculture production going?

Mr. WATNE. Well, there is two areas. One is in just simply the way we plant our crop. We are using GPS. We are using very large tractors. We do what would be considered a minimum tillage, one-pass operation. It has brought our expenses down, which has enabled us to continue to produce at these lower prices in comparison to what inflation should have did with the prices of commodities. The second area is genetics. I really think genetics is going to allow a wider area of crop selections that we can grow in our state and make us able to choose from different crops.

But all in all, it gets me back to my earlier point. I do not believe that there is any worry that we can produce what the world needs in food. I also believe we can supply a vast percentage of the energy for this nation. I am not the least bit concerned that we can meet that demand because technology will allow it. So I think that we really have to really rethink our pricing mechanisms so we can try to figure out the avenue to continue to grow this.

Technology is very important to our farm, and it has been the only savior that has been able to keep our expenses in line to keep our farm operational.

Senator CHAMBLISS. Mr. Pawelski.

Mr. PAWELSKI. We still use ACGs from the 1950s and all the crawlers, we have a Cat 22, so we are not as advanced as that. We have some newer tractors, but technology comes in being that we are fruit and vegetables and such, a lot of times the development of seeds and stuff, we are on the lower end of the scale as far as timewise. We are still waiting for some GMO crops. If there was a Roundup ready onion, I would grow that in a heartbeat because on muck soils especially, the amount I have to apply two different pre-emerge chemicals three times and two different post-emerge materials two, three, four times. So if I had a one-time spray Roundup ready, I would be doing that.

We do have some advancements as far as some of our hybrids and the like. Technology is more important for me as far as on the public policy end. The stuff that I do with this kind of thing, with crop insurance, or the stuff I have worked on where I have met you one time before on the labor issue when you had that meeting set up a few years ago regarding the Immigration H2A reform, that I was Senator Clinton's designee at that meeting, which was an excellent meeting. I worked with your staffer Camila Knowles over the years who is excellent on that issue.

The technology enabled me and my wife, the changes that we were able to do with the crop insurance, we never would have done 20 years ago or 15 years ago. It has all been we have been able to do because of the computer, the Internet, e-mail and the like. If it was not for that, we simply would have been able to do all of this public policy stuff. That is where it has come in handy for us, which has been a benefit not just for our farm but for our whole region and in some aspects for our state. We are hoping that the other things will happen to us down the road more so for our crops, our onion crop as well. But that is where it has come into play for us.

Mr. COCHRAN. We also use GPS-guided tractors, which is an added benefit for the skill—it is a double-edged sword for the skill of the operator needed. He needs to have computer skills to a degree, but he does not need as good steering wheel skills. But that along with the genetically modified cotton that we are using has been a tremendous increase in yield, which is allowed us to stay in production with the prices that we have seen that are not much higher than they were 10 years ago, whereas in the last 10 years, the average yield on the farm has just about doubled due to genetically altered seed. And we are also implementing strip till, which is a very fuel efficient way of agricultural production for us.

Mr. BRANTLEY. I would reiterate a lot of what they said. We try to use all the technologies that are available today from the computer to the guidance systems. You name it, we will try it. Anything that can lower our production cost, we are going to give it a try. But it is really exciting to know that the technology is there for us to feed and clothe the world the next 40 years through doubling our output that we are today.

What we need or what I need is a simple farm program that will back us up in those tough times, a program that is simple to understand and operate that allows me to spend most of my time growing these crops that we do.

Senator CHAMBLISS. Well, gentlemen, I cannot thank you enough for taking your time, particularly in the middle of a busy growing season to come up and give us the benefit of your thoughts. This is the first in a number of hearings that we are going to have as we lead up to the 2012 Farm Bill. So this will not be the last time we look to you for advice and input as to some of the issues that we are going to have to be dealing with, so thanks to each of you for taking time to come and share your thoughts with us today. I hope all of you have your best yields ever and the best prices ever.

Chairman LINCOLN. Thank you, Senator Chambliss.

I, too, want to add my thanks and would just reiterate, please do not underestimate the role that you play as we move forward. We hope that we will continue to have contact with you-all and you can share your ups and downs with us on how we can better improve the Farm Bill in 2012. And more importantly, I hope you will encourage your colleagues and your organizations that you are participatory in, in being able to weigh in as well because that is very important for us to hear from you. So thank you all so much for taking time to be with us today.

With that, our hearing is adjourned.

[Whereupon, at 12:56 p.m., the Committee was adjourned.]

APPENDIX

JUNE 30, 2010

Testimony
Of
The Honorable Sherrod Brown
United States Senator

Before the
U.S. Senate Agriculture Committee

Dirksen Senate Office Building
Room G-50
Washington, DC

June 30, 2010

Ohio has a rich history of agriculture and strong rural communities. As the Senate Agriculture Committee begins its work on this critical legislation, I look forward to continuing to improve the programs that help serve Ohio's farmers, foods banks, schools, and promote alternative energy initiatives. The Farm Bill touches more than just agriculture and Ohio's farmers; it also makes strides in the fight against hunger, encourages renewable energy and sustainable conservation practices, and is a driver for rural and economic development.

I am eager to work with the Senate Agriculture Committee and Secretary Vilsack to review and form farm policy that further enhances a robust and flourishing agricultural sector.

To do so, we need to strengthen the ACRE (Average Crop Revenue Election) Program so it is more beneficial to farmers and is more widely taken advantage of. Senators Durbin, Harkin and I worked to include this program in the 2008 Farm Bill. The ACRE program was designed to help farmers when prices are high but yields are low – resulting in a revenue shortfall. By targeting overall revenue rather than simply price, farmers can receive better protection against swings in prices and natural disasters. I believe that by strengthening this program we can see more stability for farmers. Farmers in Ohio, and across the Midwest, should continue to have the opportunity to choose an alternative safety-net if it better allows them to manage their farm's risk in today's uncertain and evolving farm environment.

We also need to reform our nation's current dairy policy. More than ever, Ohio's dairy farmers are facing rising costs of production and disadvantageous pricing practices during challenging economic times. Ohio's dairy industry deserves strong reforms that match the role they play in the economic success of their small towns and communities.

Overall, we need to ensure that US agriculture policy works for all of our nation's farmers. The 2012 Farm Bill needs to be more equitable and touch a more widespread faction of farmers to truly make an impact on our country's agriculture industry and rural communities. As the first Ohioan in over 40 years to serve on the Agriculture Committee, I share the commitment of my colleagues to make certain that our nation's farmers are well-served in this undertaking.

Agriculture Committee Hearing
June 30, 2010
Expanding Our Food and Fiber Supply through a Strong U.S. Farm Policy
Opening Statement
Prepared for Senator Robert P. Casey, Jr.

Madam Chairman, thank you for calling today's hearing. I believe it is an important step in listening to the concerns, ideas, and views of farmers and policymakers in agriculture when it comes to oversight of the 2008 Farm Bill.

The Farm Bill is essential to ensuring that Americans have food security, and that agricultural producers can continue to feed us, clothe us, provide us with environmental benefits, and fuel our future. In the 2008 Farm Bill, we incorporated some new ideas and important reforms, boosted investment in nutrition, ensured greater regional equity, and cultivated other programs that help those who haven't received benefits through the Farm Bill before. It makes historic investments in nutrition, conservation, fruit and vegetable production, and renewable energy while maintaining a strong safety net for America's farmers. It helps to lead us in a new direction toward becoming more energy independent

In addition, the Farm Bill was supposed to provide tools for dairy producers and processors to better manage the volatile nature of the industry, but as we have seen over the past couple of years, that may not be the case. Further, the bill increased funding for nutrition, dedicating almost three-quarters of the bill's funding to nutrition programs. Food banks have been reporting a significant increase in the number of people seeking emergency food assistance, and the nutrition safety net is so important for hungry families across our nation.

We live in a nation that is as diverse in agricultural production as it is in the people who consume the products that farmers grow. I believe this Farm Bill reflected great cooperation among Members of Congress who represent a wide variety of producers and consumers. As we reflect upon this Farm Bill, and look toward the future, I hope we can again ensure that we have a safe, stable, secure supply of food, fiber, and fuel from American farmers.

Senate Committee on Agriculture, Nutrition, and Forestry

Statement of Senator Thad Cochran

June 30, 2010

Madame Chairman, thank you for holding this important hearing. I welcome the panels to the Committee and thank them for their statements.

To the dismay of many producers in my State, we have begun discussions relating to the reauthorization of the 2012 Farm Bill without yet fully implementing the provisions of the 2008 Farm Bill.

The 2008 Farm Bill instructed the Administration to begin a catfish grading and inspection program for all catfish sold in this country. While the American consumer and the catfish industry continue to wait for the Federal Government to do its job and implement these provisions, foreign grown catfish continues to be imported into this country that does not meet our health standards.

Foreign trade concerns are having a larger impact than ever on our domestic agriculture policies, yet I remain convinced that the United States can support our farmers at home while continuing to advance a free and fair trade agenda.

In this hearing we will have the opportunity to hear from farmers and national farm groups about how the policies of the 2008 Farm Bill have affected them. I look forward to hearing from the witnesses and thank them for giving us the benefit of their suggestions about farm programs and government policies that affect American consumers and producers.

Thank you.

FARM BILL OVERSIGHT HEARING
U.S. SENATE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY
STATEMENT OF SENATOR TOM HARKIN
JUNE 30, 2010

Thank you Chairman Lincoln. I commend you for holding this important hearing to examine how the Food, Conservation, and Energy Act of 2008 -- the farm bill – is being carried out and how it is working thus far. I also want to thank our Ranking Member, Senator Chambliss, for his role in this hearing. And I want to recognize, once again, the Chairman, Ranking Member, and all members of this Committee for the cooperative working relationship we enjoyed in crafting and enacting the 2008 farm bill.

As we worked to write the 2008 farm bill, we faced many different demands and needs but limited budget resources with which to satisfy them. Fortunately, we were able to enact a number of significant new initiatives and investments, yet we fully offset and paid for the additional funding in compliance with our budget rules. I am proud of our achievements in that legislation, and today I look forward to the testimony and perspectives of our witnesses about how the 2008 farm bill has worked in practice.

While the farm bill is called upon to address many needs – in rural communities and throughout our nation – farm income protection is undoubtedly an essential element of the legislation. The farm income protection programs are vitally important in helping provide some measure of stability and predictability in the otherwise highly risky field of agricultural production.

Our task is to devise farm income protection programs that work well for producers, are fair across commodities and regions of the country, and that use taxpayer dollars cost-effectively and efficiently. We strengthened farm income protection in the 2008 farm bill in several respects – most notably with the Average Crop Revenue Election, or ACRE, program and the in the Supplemental Revenue Assistance Payments, or SURE, program.

I look forward to today's testimony so that we can better understand how these new programs are working and particularly how they work in combination with previously existing programs, including crop insurance. We need to be informed of whatever gaps or shortcomings there may be, as well as of any disparities or inequities that may have become evident as the programs are all carried out and applied in conjunction with one another.

Of course, in addition to farm income protection, there are many other subjects covered and needs to address in the farm bill. Frankly, we have real opportunities to help build a better future for farm and ranch families and rural communities though sound policies and investments. We especially need to find better ways to encourage and assist young and beginning farmers and ranchers and others who want to start and grow new businesses in rural communities. In another key area, we made substantial, critical new investments in the 2008 farm bill to help farmers and ranchers carry out sound conservation and environmental practices. We also included an energy title in both the 2002 and 2008 farm bills, and I hope we will build on that foundation in the future.

Our nation's agricultural producers and rural communities can and should play a central role in contributing the bioenergy and other forms of renewable energy that eventually will provide the majority of our nation's energy in what I like to call our new energy era. And we must not forget our responsibility to help all American families obtain adequate and healthy diets regardless of their economic circumstances.

Again, thank you Chairman Lincoln, and I look forward to today's testimony.

Testimony of

Laudies Dow Brantley, III

Before the U.S. Senate

Committee on Agriculture, Nutrition and Forestry

To Review U.S. Farm Policy in Advance of the 2012 Farm Bill

Washington, DC

June 30, 2010

Chairman Lincoln, Ranking Member Chambliss and members of the Committee, thank you for holding this important hearing to review U.S. farm policy in advance of the 2012 farm bill. I am honored to have the opportunity to offer testimony before the Committee on Agriculture, Nutrition and Forestry concerning my views on current farm policy and the development of the 2012 farm bill.

My name is Dow Brantley and I am a producer from Arkansas. I farm in partnership with my father, mother, two brothers and our families. Our farming operation is located in Central Arkansas near the community of England. We grow cotton, corn, rice, and soybeans. Due to the hard work of my grandparents and parents, our family farming operation has grown from just a few hundred acres in 1946 to around eight thousand five hundred (8,500) acres in row crop production today.

The Food, Conservation, and Energy Act of 2008 (the Farm Bill) provides a sound and stable farm policy that is essential for our farming operation. The current program had its origin with the Food Security Act of 1985 when the concept of the marketing assistance loan was introduced. Two of the lead sponsors for the legislation were Senators Thad Cochran of Mississippi and David Pryor of Arkansas. The 2008 farm bill continued the traditional mix of safety net features consisting of the non-recourse marketing loan,

loan deficiency payment program, and the Direct and Counter-Cyclical Payment (DCP) program. While the counter-cyclical payment and marketing loan programs have been helpful in the past, they have recently been overwhelmed by the costs of production. If crop prices drop sharply, most producers, including me, will be in dire financial straits by the time these programs make payments. While there has been much debate about the effectiveness of direct payments under the DCP program, I believe they are an integral part of our farm program delivery system and should be maintained.

The 2008 farm bill made very substantial changes to the payment eligibility provisions of the safety net, drastically lowering the adjusted gross income (AGI) means test and significantly tightening the "actively engaged in farming" requirements for eligibility. In my opinion, the USDA over-stepped the intent of Congress in key payment eligibility provisions and issued regulations that are unduly complicated and overly restrictive.

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, my family and many other producers across Arkansas 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. These changes have not only been expensive and time consuming, but they have also required us to make changes in our day-to-day operations that do not make good business sense. The Farm Service Agency's (FSA) overly restrictive financing rules, legally incorrect active personal management rules, and multiple sets of "actively engaged in farming" rules, which are inconsistent, when applied to different commodity and conservation programs within the same program year, are a few examples of the problems that we are facing. Sound farm policy provisions are of little value if commercial size farming operations are ineligible for benefits. While I oppose any artificial payment limitations, I advocate administering the current provisions within the intent of Congress and strongly oppose any further restrictions.

The existing safety net protection levels have simply not kept pace with the significant increases in production costs. It is for this reason that I believe strengthening the safety net would be helpful in ensuring that producers have the ability to adequately manage their risks and access needed credit. I believe the marketing loan program prices must be raised to meet the costs of today's production.

The 2008 farm bill also included the addition of the Average Crop Revenue Election (ACRE) as an alternative to counter-cyclical payments for producers who agree to a reduction in direct payments and marketing loan benefits. The bill also added the Supplemental Revenue Assurance Program (SURE) as a standing disaster assistance supplement to federal crop insurance.

The support mechanisms within ACRE do not provide an adequate safety net for cotton or rice producers when compared to the traditional DCP program. If a revenue-based approach is to find support among these producers, a more reasonable revenue target would have to be established.

As evidenced by the lack of recent sign-ups, the ACRE program has not been an attractive alternative for southern agriculture. In my home county, we have one thousand six hundred fifty (1,650) producers and no one has elected to participate in ACRE. In fact, only two (2) producers have enrolled in ACRE in the entire state. Specifically, in the first year of ACRE sign-up, only eight (8) rice farms representing less than nine hundred (900) acres were enrolled in the program nationwide. A one size fits all program will not work, where as a regional or crop based program could provide more protection.

The SURE program has provided little, if any, assistance to row crop 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. I 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, I do not support reallocating existing spending authority from current farm programs to apply to SURE.

Crop insurance as a whole has not worked on our farm or many others like ours in Arkansas. Our farm is one hundred percent (100%) irrigated, and on average, our yields are very consistent. Our financial problems occur with higher production costs due to irrigation, or a weather event in the fall that disrupts our harvest and ultimately affects the quality of our crops. These circumstances cannot be hedged against. The real winner of crop insurance is the insurer, not the insured.

For example, the coverage available under the current mix of Federal Crop Insurance Program policies is not as well suited to rice or other Mid South crops as compared to producers of other crops in other regions. The amount of buy-up or additional coverage above CAT level coverage purchased by producers is strong evidence. For instance, buy-up coverage constitutes ninety-three (93%) of all insured corn acres, meaning only seven percent (7%) is covered at the CAT coverage level. Conversely, for rice, forty-eight percent (48%) of insured acres are protected under minimum CAT coverage level.

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 thirty percent (30%) in 1998 to less than ten percent (10%) since 2005. 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 producers, covering forty-eight (48%) percent of all insured acres. The unfortunate result is that rice producers have not benefited from the Agricultural Risk Protection Act like the producers of other crops have.

What rice producers 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 seventy percent (70%) of total variable costs.

The rice industry 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 (2) new products that show great promise and we are optimistic that the Risk Management Agency (RMA) will approve these new products, which could be available to growers in time for the 2012 crop year. However, it is important to note that we do not envision these, or any other crop insurance products, serving as a replacement for the traditional safety net programs, but rather to help enhance the protections those programs provide.

My family has participated in several conservation programs over the years, and programs such as the Environmental Quality Incentives Program (EQIP), Wetlands Reserve Program (WRP), and Conservation Reserve Program (CRP) have helped us become better stewards of the land and better conserve our natural resources. Conservation programs, such as the new Conservation Stewardship Program (CSP), can lead to improved environmental and conservation practices. However, I believe that this program is not succeeding in the way that it could. Of all the conservation programs offered by USDA, CSP might have the most potential in terms of actually producing the desired environmental results that are beneficial to both the environment and producers. This program is a win-win for everyone. However, it has always been vastly underfunded. In addition, CSP has been hampered by overly restrictive payment limitations contrived by USDA regulators – restrictions that I do not believe are supported by statute. Because the

CSP regulations limit payments to an "agricultural operation" and because the payment limits are so low, most producers do not have the opportunity to receive CSP payments for all of their land, even if such land is eligible,. Again, this has to do with the level of funding for the program, but it would seem to me that a program that produces benefits to both the environment and the producer would warrant more funding. With that being said, conservation programs should not serve as the primary delivery mechanism for farm programs support and should not come at the expense of our farm safety net.

Let me also take this opportunity to thank you Chairman Lincoln for your efforts to secure ad hoc disaster payments for 2009 crop losses.

In summary, I appreciate the work of this Committee in crafting the 2008 Farm Bill. I know the next farm bill will present its own set of challenges especially due to inadequate budget authority and international trade obligations. Based on my experience in working with the USA Rice Federation, the National Cotton Council and the Farm Bureau, I know they will work closely with this Committee to ensure that we have an effective farm policy. It is critical that we maintain provisions that allow us to be competitive in world markets and provide support in times of low prices. Our industries will evaluate different program delivery systems if necessary to accomplish these goals.

Thank you for the opportunity to present my views today. I would be happy to respond to any questions.

Chairman Lincoln, Ranking Member Chambliss, my name is Johnny Cochran. I am a fourth generation cotton and peanut producer from Worth County, Georgia. I have grown cotton and peanuts for 33 years, through six farm bills. My family farming operation is comprised of 1150 acres, with one third in peanuts and two thirds in cotton. We also have beef cattle and timber on our farm.

I appreciate the opportunity to be here today to comment on U.S. farm policy as you review the 2008 farm bill. Stable agricultural policies underpinning our nation's food and fiber production are important to the overall U.S. economy and are a good deal for U.S. taxpayers and consumers. In 2009, spending on all agriculture and conservation programs totaled $13 billion. However, that's less than 1% of the $1.7 trillion of the nation's gross domestic product contributed by consumer spending on food and textile products.

Cotton and peanuts are the cornerstone of the economy of my rural county in South Georgia. All segments of these industries are represented in my home county. We produce, gin, and warehouse cotton in Worth County. We grow peanuts; have peanut buying points, shell peanuts and have the only manufacturing plant of the largest peanut butter producer in the United States. Our county is not alone in the Southeast in its dependency on the cotton and peanut industries. These commodities produce a lot of jobs in Georgia as well as other Southeastern states.

In the State of Georgia, farms and businesses directly involved in the production, distribution and processing of cotton employ almost 21 thousand workers and produce direct business revenue of $2.6 billion.

Peanuts in Georgia employ approximately 50 thousand workers and add $2 billion in direct revenue to the Georgia economy. Cotton and peanuts add a much larger job and economic activity impact to the broader state economy.

Sound and stable farm policy is essential for the viability of the U.S. cotton and peanut industries. Effective farm policy should adhere to these key principles:

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
3) It should provide for an effective financial safety net for producers
4) It should ensure the availability of competitively-priced cotton and peanuts to domestic and international end-users; and
5) It should encourage maximum participation without regard to farm size or structure.

I believe the 2008 farm bill meets most of these principles and has worked well for the cotton and peanut industries. I commend the Senate Agriculture Committee for your hard work in drafting the 2008 farm bill. You succeeded in balancing many diverse interests to assure a strong agricultural economy.

The centerpiece for 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 essential purposes. Because it is well-understood and a fundamental part of commodity policy, the marketing loan gives banks the confidence they need to make critical operating loans available.

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 the only commodity to receive a reduction in target price.

The peanut program changed dramatically in the 2002 farm bill. The program moved from a supply-management quota program to a marketing loan program similar to cotton. The 2008 farm bill continued these changes. The program has worked well for the peanut industry.

The peanut loan repayment rate guidelines were established in the 2002 Farm Bill. The loan repayment rate has not functioned as it was intended for peanut producers. Congress directed the U.S. Department of Agriculture to consider the following when determining loan repayment rates:

- Minimize potential loan forfeitures;
- Minimize the accumulation of stocks of peanuts by the federal government;
- Minimize the cost by the Federal Government in storing peanuts; and
- Allow peanuts produced in the United States to be marketed freely and competitively, both domestically and internationally.

It is this last variable the Committee included in the 2008 Farm Bill and similar language in the 2002 Farm Bill that has not been adhered to. In setting the loan repayment rate, USDA has not taken into account world market prices. Thus, the USDA posted price we see on Tuesday afternoons is not accurate. I ask the Committee to include language in the next farm bill that will assure that the prices at which our competitors in the world marketplace are selling peanuts for will be considered in establishing the posted price.

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 counter-cyclical 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 and peanut farmers. I checked with my local Farm Service Agency office before coming to Washington and we haven't had a single producer sign up for the ACRE program. The support mechanisms within ACRE do not provide an adequate safety net for cotton and peanut farmers when compared to the traditional DCP program. Also, there is reluctance to sign up for ACRE because, once in the program, farmers are committed to it for the duration of the farm bill. If a revenue-based program is to find support among cotton and peanut producers, a more reasonable revenue target must be established. Chairman Lincoln, economists for the cotton and peanut industries are working to evaluate fully our concerns with ACRE in order to develop recommendations for effective modifications to the program.

I mentioned earlier in my testimony that effective farm policy must maximize participation without regard to farm size or income. With the exception of the marketing loan, commodity programs are based on farm yield and farm base, not the total size of farm operation. It is my opinion that each producer should receive the same protection from market gyrations irregardless of the acres farmed. 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.

The 2008 farm bill made significant changes regarding payment limits and means testing to determine farm program eligibility. I believe USDA should administer the provisions without further restrictions. Sound farm policy provisions are of little value if commercial-size farming operations are ineligible for benefits.

Conservation programs were strengthened in the 2008 farm bill. The Conservation Stewardship Program and similar conservation programs, such as the Environmental Quality Incentives Program, will lead to improved environmental and conservation practices but should not serve as the primary delivery mechanism for farm program support. The Conservation Stewardship Program is based on acres that are experiencing soil and water savings and should not be limited based on total farm size. This 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.

I want to commend the Committee for including a new crop rotation program as part of the Conservation Stewardship Program in the 2008 bill. Although the regulations were late and the program is just starting, it is an excellent opportunity for producers and will work to protect our soil and water. I hope you will maintain this program in the 2012 farm bill.

I support a permanent natural disaster program as part of the farm bill, but my experience with the SURE program indicates that it cannot provide an effective level of natural disaster assistance. The program does not work well for southern agriculture. Growing multiple crops and diversification on many farms makes it very difficult for southern farmers to qualify for benefits. I 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. I don't support reallocating existing spending authority from current farm programs to apply to SURE.

I do however want to commend you, Madam Chairman, for your untiring efforts to pass supplemental disaster assistance. If passed it will provide welcomed support for weather-related losses last year.

Crop insurance is an essential risk management tool for producers. In 2009, approximately 80% of Georgia's cotton and peanut acres purchased buy-up levels of insurance coverage. However, I would like to iterate that insurance products should be viewed as complements to traditional commodity programs not considered as a replacement system for delivering farm program support.

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, there are a number of improvements that can enhance the effectiveness of crop insurance for Georgia producers. For example, USDA's Risk Management Agency 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.

Other improvements to crop insurance include extending the final peanut planting date beyond its present May 31 deadline. The University of Georgia Cooperative Extension Service has conducted research showing advantages of the later deadline date. Second, re-implement the non-standard classification system which identifies the most egregious abusers of the crop insurance program. Third, allow Georgia producers to participate in the Pasture, Rangeland, and Forage (PRF) program. This program assists livestock producers with pastures and forages in the event of below normal rainfall. PRF is available in our neighboring states of Alabama and South Carolina, but it is unavailable in Georgia.

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. Farmers don't 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.

I support a viable bio-fuel industry that helps the United States become less dependent on foreign oil, but it must be recognized that renewable fuels assistance benefits some commodity producers more than others. The support given to bio-fuel 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 bio-fuel and non-bio-fuel commodities.

In summary, I believe the cotton and peanut provisions of the 2008 farm bill are working well. I appreciate the opportunity to testify today and look forward to answering questions at the appropriate time.

SUBMITTED TESTIMONY FOR THE RECORD

Roger Johnson

President, National Farmers Union

Senate Committee on Agriculture, Nutrition and Forestry

June 30, 2010

Introduction

Chairman Lincoln, Ranking Member Chambliss and members of the Senate Committee on Agriculture, Nutrition and Forestry, thank you for inviting me to speak to you today. It is a privilege to share a few reflections upon the 2008 Farm Bill that could be helpful in the development of our next food and farm policy. My name is Roger Johnson and I am president of the National Farmers Union (NFU). NFU is a national organization that has represented family farmers and ranchers and rural residents for more than 100 years.

Every member of this committee represents constituents who grow food, process food, and eat food. We all know that during this period of financial stress there will be pressure to reduce spending. Rural programs like the farm bill might be targeted even more so because rural people constitute a smaller percentage of our national population. The fact that the number of farmers has declined is not a reason to weaken the farm safety net. The population of our country – the people fed by American farmers – continues to grow. We must work together to provide sufficient federal investment in domestic food production. Fortunately, this committee is 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.

The 2008 Farm Bill became law after years of debate; tens of thousands of hours of policy research and analysis; input from thousands of citizens and hundreds of interest groups; two presidential vetoes and two subsequent Congressional veto override votes. The legislation has helped to build a strong agricultural economy by funding crop insurance and permanent disaster relief programs, creating ambitious new programs to better serve farmers' and the general public's interests, continuing successful programs and making adjustments to make other programs more successful. The 2008 Farm Bill was an improvement over its predecessor, but like almost any other legislation, room for improvement remains.

Since the last farm bill was enacted, many 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 while continuing to provide the safest, most abundant and most affordable food supply in the world.

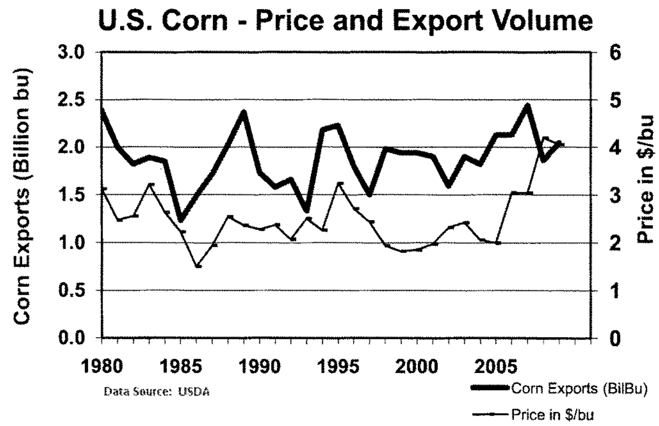
Why Domestic Farm Policy?

The need for domestic farm policy is rooted in the fact that farmers are price takers, not price makers. For decades, decision-makers in Washington have sought to find the right mix of policies that will address the ever-present problems of the agricultural economy, such as persistently low incomes, high volatility and excess capacity.

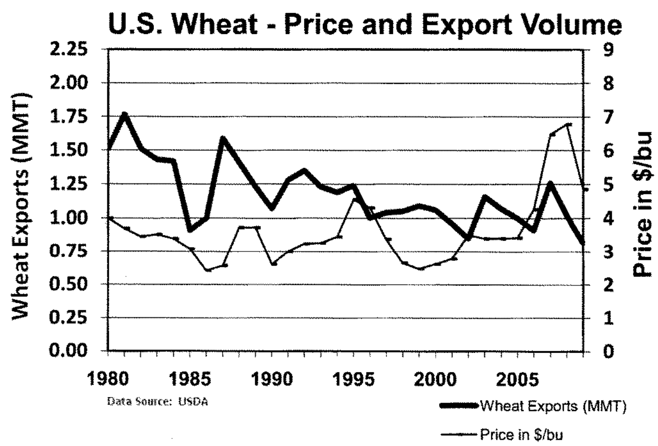
A national farm policy that relies on free, unregulated trade and the removal of the safety net will not result in improved prices or exports. While trade is important, agriculture has not been able to trade its way to prosperity and it is unlikely to ever happen. In order to provide nearly unlimited exports, American agriculture would need full access to markets in every developing nation, higher demand for exports to our existing trading partners and more competitive production to beat our export rivals. Even then, we must understand that such access to emerging economies must be carefully calibrated to avoid ruining their domestic agricultural markets. It is important to remember that most hungry people in developing countries are farmers themselves and they will need dependable markets to succeed. Our common national goal is to significantly reduce poverty and hunger around the world, so our trade policies must reflect the fact that a productive agriculture is essential to the growth and prosperity of any country.

There are times when opening relations with new markets is beneficial – the pending legislation to normalize trade with Cuba gives American farmers access to a readily available market. We must choose our trading partners carefully, for gaining unrestricted access to overseas markets can come at a high cost, as those same countries would demand the same access to our domestic marketplace at the expense of our strong food safety, environmental, labor and human rights standards.

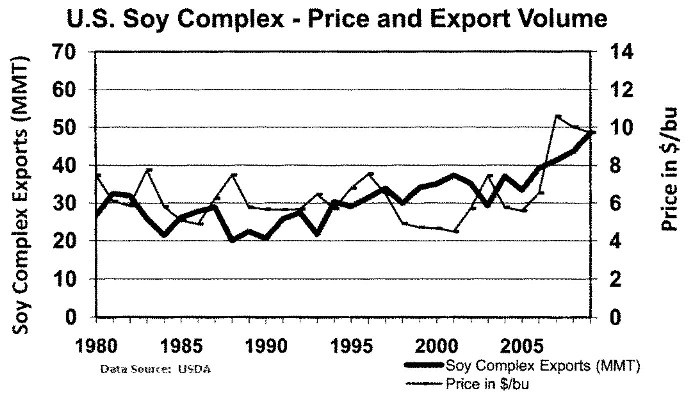
The following graphs help to illustrate how efforts to increase agricultural prices through exports have not brought long-term prosperity to farmers.



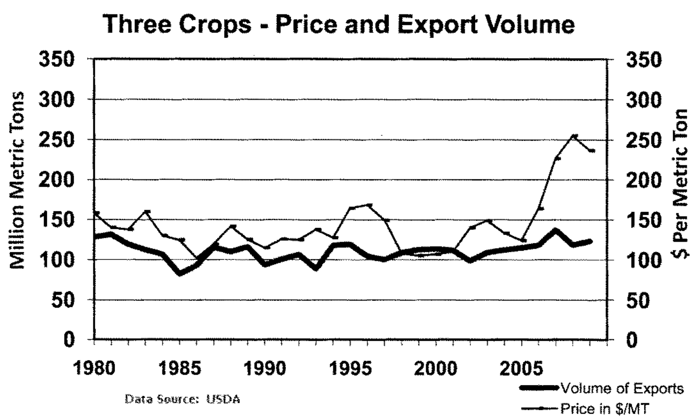
Since 1980, U.S. corn export volumes have remained relatively stable, averaging about 2 billion bushels annually. Corn prices had been relatively flat until the rapid ascent of 2007 and 2008, but volume did not increase in turn.



Wheat prices had hovered around $3.50 per bushel since 1980, but spiked a little earlier than corn in response to oil price volatility and speculation in 2007 and 2008. Export volume has trended slowly downward, averaging about 1.2 million metric tons a year during the study period.



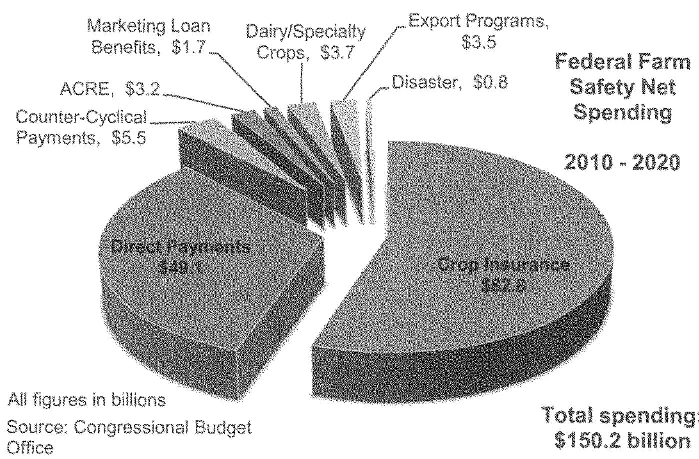
Soybean prices have averaged near $6 per bushel and spiked in the later parts of the last decade. Exports have grown steadily since 2005, and appear to have reached a peak in the last year.



Economic trends over the last 30 years show export-driven policies have failed to bring any meaningful or sustained increases in neither export volume nor commodity prices. Agricultural market prices for the three top U.S. export agricultural commodities – corn, soybeans and wheat – have been mostly flat. The exception to this trend is the spike in the late 2000s, which had more to do with market speculators and extremely volatile energy costs than trade policies. The sudden doubling in the value of agricultural exports for the three commodities has proven to be unsustainable. Even in 2009, the total value of U.S. exports dropped precipitously as the volume of exports rose slightly. Economists are predicting a steady decline in the value of our agricultural exports.

Thirty years of evidence shows export volumes will remain largely unchanged even with multiple efforts to increase export volumes through farm programs. Persistently low farm income, despite unfettered free trade, shows that American farmers cannot rely on export markets as the principal solution to the problems of agricultural economics. This is why we need a domestic safety net in the next farm bill.

Federal Farm Safety Net Spending



The 2008 Farm Bill and related agricultural programs comprise less than one-quarter of one percent of total federal expenditures. According to projections from the Congressional Budget Office for the years 2010 to 2020, farm bill programs will account for about $1.1 trillion of federal spending. However, only 14 percent of that money – $150.2 billion – will be spent on farm income stabilization efforts. Of this, 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.[2]

In terms of disposable income, Americans spend the least amount of money on food in the world In 2008, 9.6 cents of every dollar earned by the average American was used to pay for food[3].

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[1] Congressional Budget Office, March 2010 Projections for Fiscal Years 2010 – 2020.
[2] USDA Risk Management Agency, 2011 Standard Reinsurance Agreement. June 10, 2010.
[3] USDA Economic Research Service, Food and CPI Expenditures 1929 – 2008.

Annual spending on farm safety net programs, as enacted by the 2008 Farm Bill, amounts to roughly another one-tenth of one cent ($150.2 billion of federal farm program spending over the next ten years, divided by ten, then divided by total domestic disposable income). If the farm safety net was removed, many farmers would fall victim to the volatility that often befalls the agricultural marketplace and would be unable to produce food, thereby reducing supply. Even with the low percentages of spending that is used to buy food in our country, American farmers receive, on average, only about 19 cents of every dollar spent on food.[4] NFU has tracked this statistic carefully, and a June 2010 breakdown of "Food Prices and the Farmer's Share" is attached. American consumers get the most in the world out of their food dollars, even when essential safety net spending is included in the calculations.

Investments in the farm safety net programs will keep American family farmers in the business of providing consumers with affordable, domestically-produced, safe and nutritious food. NFU believes these programs are currently out of balance and need adjustments in the 2012 Farm Bill. The overriding purpose of the safety net should be to help farmers through tough times – periods of low prices or disastrous productive losses. Accordingly, we believe the Congress should focus its limited resources on improving those programs which help in such a fashion.

Average Crop Revenue Election (ACRE)

During the 2008 Farm Bill process, calls to reform the safety net came from many angles and interests. ACRE is the product of these efforts to try something new in farm policy. An optional, revenue-based program, it was designed to provide assistance only when farmers suffer an earnings loss and to reduce market fluctuations by basing payments upon market rather than target prices. Farmers who participate in the ACRE program remain eligible for reduced direct payments and marketing assistance loans.

As an experimental program, it was a challenge to educate farmers about the costs and benefits of enrolling in ACRE before the deadline of August 2009. NFU and our state organizations worked hard to offer information to producers about the program. About 136,000 farms elected to participate in ACRE, which represents about 33.15 million acres of productive land.[5] This is still a very small portion of the total land in production and the enrollment process must be simplified if similar sign up periods are to be more effective.

Despite its countercyclical payment structure and anti-market fluctuation measures, ACRE has some shortcomings. It is based on a state-by-state yield structure, so that irregularities could develop for states with minimal production of the enrolled crop, or for states with wide regional variations in weather and production method. This could be improved by basing the trigger on yield levels for counties rather than by state production levels. Another problem is that farmers must show a revenue loss to receive payments. This is often difficult to do for farmers and administrators alike – the next farm bill would do well to eliminate the revenue loss provision. If

[4] National Farmers Union, Food Prices and the Farmer's Share, June 2010.
[5] USDA Farm Service Agency

modifications were made to ACRE so that individual farm factors would serve as the trigger for payments, the program would operate more closely to what was intended in the 2008 Farm Bill.

Direct Payments

Of all the safety net programs included in the 2008 Farm Bill, direct payments are the least effective way to smooth the highs and lows of the agricultural marketplace. The federal dollars that go to direct payments would be better spent among the other programs, most of which have been under-funded. 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 offer important assistance to many farmers, but they are not available to all and provide just as much assistance in the good times as they do in the bad. They are difficult to justify to an increasingly skeptical public, and given the other, more-effective options available to policy-makers, direct payment funds would be better spent elsewhere.

Countercyclical Payments

In the 2008 Farm Bill, countercyclical payments were expanded to include pulse crops in addition to the commodity crops that have been part of the program since the 2002 Farm Bill. Target prices were adjusted for a few of the eligible crops, most notably for wheat beginning in 2010. A total payment cap for counter-cyclical payments was set at $65,000 per producer, which NFU appreciates because it allows more funds to be channeled to family farmers who most need the assistance.

The current farm bill provides about nine times more support to the safety net in direct payments than through countercyclical payments.[1] This is not an effective means to stabilize the agricultural marketplace. The next farm bill should focus on programs that help to boost prices and farm income in tough times, not all the time, and certainly not in good times.

The World Trade Organization (WTO) has placed limitations on government assistance for domestic agricultural production and we know policymakers must consider the implications of our own farm policy on trade. However, 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.

NFU urges the committee to place more emphasis on countercyclical payments by raising target prices and expanding eligible crops. Increased assistance ought to be provided when commodity prices fall well-below the cost of production, not when prices are higher. When used in combination with effective payment limitations, countercyclical payments are cost-effective while helping farmers in tough times.

Disaster Program

NFU has 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 weather can have on crops and livestock without waiting for piecemeal disaster assistance.

SURE was a hard-won victory for family farmers and ranchers and it ought to be properly utilized. It is not uncommon to hear from farmers who have had claims pending since the beginning of the program and are still awaiting relief. As of March 2010, $37 million in SURE funding has been distributed, but there is much more assistance yet to be provided.[6] NFU urges Congress to fully fund the program and adopt partial advance payments so assistance can be quickly provided in times of need.

In the next Farm Bill, policymakers need to make sure that the work that was done with the SURE program in 2008 is continued. The distribution of disaster aid must remain linked to crop insurance participation, which should encourage farmers who have not traditionally taken out crop insurance policies to consider doing so. NFU members welcome more suggestions and discussion about how to boost the efficiency of the program but, at the same time, we challenge this committee to make sure that any improvements in SURE do not come at the expense of program delivery. The county Farm Service Agency (FSA) staff who service these programs are already pushed to the limits of their resources. Any unnecessary difficulties to their jobs should be avoided. 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 that 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 order to be a truly national program, crop insurance needs to be functional in all parts of the country, including traditionally-underserved areas and crops for which insurance has been expensive in the past. As other parts of the farm safety net shrink, policymakers 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, it is important to consider the use of the actual production history (APH). The APH should be the basis of all risk management programs. 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 county FSA calculations. Establishing APH yield floors would also protect farmers in the event of successive crop disasters. These measures will help to ensure the productive potential of a farm is appropriately represented in risk management contracts.

[6] USDA Risk Management Agency, The New Producer Safety Net: Disaster Programs and ACRE.

The administration's stated goal to make substantial increases in child nutrition funding is a move which NFU has long supported. 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.[7] Investment in a stable food supply should not come at the expense of healthier diets for young people. Both of these causes should be advanced in tandem.

Supply Management

Americans have been fortunate to have an agriculture industry that routinely produces more food than is consumed domestically. Agriculture remains one of the few industries in which the United States maintains a consistent trade surplus.[8] We have an abundant supply of food, but if we can manage that supply to be produced at the most appropriate times, our agricultural marketplace would be less volatile and more amenable to family farmers.

Changes in policy in the 1985 and 1996 Farm Bills eliminated floor prices, supply management tools, price stabilization and reserves from the safety net. By 2008, very few functioning farm programs that address the issues of supply management remain and the agricultural economy has suffered as a result. We allow farm policies, such as marketing assistance programs and commodity promotion boards, that work to affect the demand side of the agricultural marketplace, but have done less and less to adjust the supply side – the portion of the market farmers actually control. Because this hearing is an opportunity for all aspects of the 2008 Farm Bill to be reviewed, I urge the committee to consider adding meaningful supply management functions in the next national farm policy.

Without even a rudimentary system of supply management, our existing farm programs could be overwhelmed by a bumper crop. High production and low prices could result in huge countercyclical payments or revenue insurance payouts. 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.

Grain reserves should be considered as part of a supply management system that would serve our national strategic interests. Federal policy places high value on energy; we keep enough oil in strategic petroleum reserves that would fuel our country without imports for 75 days.[9] Food is

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[7] Congressional Budget Office, March 2010 Projections for Fiscal Years 2010 – 2020.
[8] USDA Economic Research Service, Total Value of U.S. Agricultural Trade and Trade Balance, Monthly. Updated June 10, 2010.
[9] U.S. Department of Energy, Office of Strategic Petroleum Reserves, "Quick Facts and Frequently Asked Questions."

even more important, and an American food reserve system would help ensure our food security as well as smooth the peaks and valleys of agricultural prices.

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 stock ratios reach a predetermined trigger level and subsequently would 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. Additionally, supply management methods should not be unfairly burdensome for new farmers to enter the industry, but should balance any swings that may cause unacceptable price volatility.

There are examples of commodities that are using or would like to use supply management techniques. The sugar program, as it was continued in the 2008 Farm Bill, has been successful in leveling the playing field for sugar producers and moderating price fluctuations. It has provisions that manage supply and accommodate world trade concerns, yet the program prevents foreign competitors from undercutting domestic supply. It is also worth noting that the vast majority of dairy industry proposals for the 2012 Farm Bill will include elements of supply management. More agriculturists are realizing the potential of supply management techniques to better stabilize farm incomes and you are likely to hear more about this idea in coming years.

Proposals for a national reserve, to be used as part of a supply management system, deserve serious consideration in the 2012 Farm Bill. When used in combination with other supply management techniques and target loan rates, reserves can bring stability to the market and prosperity to the countryside.

Conclusion

On behalf of the members of NFU, I urge the committee to keep in mind the aforementioned concerns as you continue your work to review the 2008 Farm Bill and begin to draw up the concepts for the next bill. You will hear from thousands of farmers and ranchers across the country in the next two 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 family farmers and ranchers to find prosperity in an ever-changing rural economy.

Farmer's Share of Retail Food Dollar

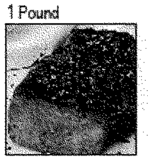
Did you know that farmers and ranchers receive only 20 cents of every food dollar that consumers spend on food at home and away from home?

According to USDA, off farm costs including marketing, processing, wholesaling, distribution and retailing account for 80 cents of every food dollar spent in the United States.

Bacon
1 Pound

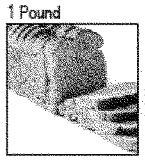
Retail: $3.89
Farmer: $0.63

Top Sirloin Steak
1 Pound



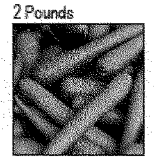
Retail: $4.99
Farmer: $0.97

Bread
1 Pound



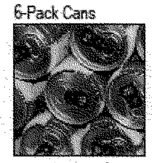
Retail: $3.79
Farmer: $0.09

Fresh Carrots
2 Pounds



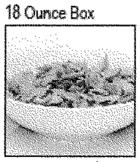
Retail: $1.98
Farmer: $0.82

Beer
6-Pack Cans



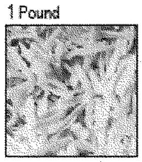
Retail: $5.49
Farmer: $0.10

Cereal
18 Ounce Box



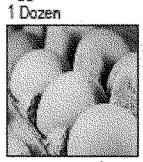
Retail: $5.09
Farmer: $0.07

Cheddar Cheese
1 Pound



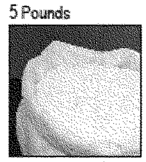
Retail: $3.29
Farmer: $1.35

Eggs
1 Dozen



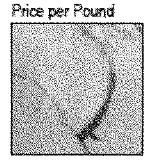
Retail: $2.39
Farmer: $0.63

Flour
5 Pounds



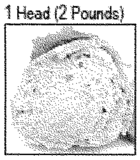
Retail: $2.59
Farmer: $0.46

Boneless Ham
Price per Pound



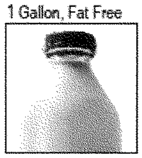
Retail: $1.99
Farmer: $0.63

Lettuce
1 Head (2 Pounds)



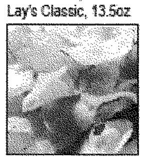
Retail: $1.99
Farmer: $0.53

Milk
1 Gallon, Fat Free



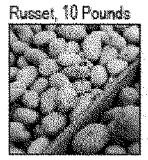
Retail: $4.39
Farmer: $1.26

Potato Chips
Lay's Classic, 13.5oz



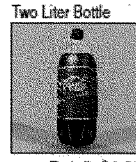
Retail: $4.39
Farmer: $0.10

Fresh Potatoes
Russet, 10 Pounds



Retail: $2.49
Farmer: $0.40

Soda
Two Liter Bottle



Retail: $1.09
Farmer: $0.06

Farmer's share derived from USDA, NASS "Agricultural Prices," 2010.
Retail based on Safeway (SE) brand except where noted.

Farmers Union
www.NFU.org

June 1, 2010

Statement of Christopher Pawelski of Pawelski Farms
Before the United States Senate Committee on Agriculture, Nutrition & Forestry
Farm Bill Reauthorization Hearing 1
"Maintaining Our Domestic Food Supply through a Strong U.S. Farm Policy"
Wednesday June 30th, 2010

I would like to first thank Chairman Lincoln, Ranking Member Chambliss, members of the Committee, and especially my Senator, Senator Kirsten Gillibrand, for affording me this opportunity and privilege to address you today as a small family specialty crop farmer from New York State who has had extensive experience with the federal crop insurance program, specifically the Multiple Peril Crop Insurance (MPCI) policy the past 15 years. Allow me to also state that though I am testifying alone today my wife Eve has been my full partner these past fourteen years in working on this issue and making the various improvements we have to the policy and without her and her hard work and imagination I would not be here today.

As a point of introduction I'm a fourth generation onion farmer from Orange County, New York. My great grandfather arrived in the United States in 1903 and bought a farm in the rich muck soils or "black dirt" region of Orange County. "The Black Dirt Region" is the second largest collection of muck soils in the United States, after the Florida Everglades. My father Richard and my younger brother Brian and I currently grow together 99 acres of onions and 8 acres of butternut squash.

On Monday I received a letter from the head of RMA Bill Murphy who soundly rejected my wife and my reform proposals for the MPCI policy. I have included it for the record. Bottom line, when you read this letter you walk away with the notion there is absolutely nothing wrong with the MPCI policy and all is functioning well. Of course this doesn't explain why Congress the last 15 years had to pass multiple crop loss programs as well as create a permanent disaster aid program as part of the last Farm Bill or why I could have 70-100 coverage last year, pay a $10,000 premium and the taxpayer pay a $20,000 premium, suffer a $115,000 loss and I collect a $6,000 indemnity.

Since 1996 our region has been struck with a series of catastrophic weather events, including 4 "50 year" floods of the Wallkill River, 2 large scale hail storms and numerous other weather events. Over the years Eve and I have done our very best to work towards creating an MPCI policy for onions that has real value. The expected market price for our crop was initially set at less than half of what it should have been. We worked with FCIC, RMA, AMS and NASS so that our price now accurately reflects the market. The replanting payment was set artificially low. We gathered data from our seed and chemical companies and worked with RMA to increase the replant payment. A staged production guarantee was added to the onion MPCI policy where it pays only a percentage of the policy based on the growth stage of the plant. For example, if you lost your crop in Stage 1 the most you could possibly collect is 26% of the value of the policy. Thanks to political pressure brought to bear by our congressional representative at the time, Ben Gilman, a pilot program was created so our growers in NYS have the option to purchase insurance without a staged production guarantee.

Unfortunately, there are two main facets of the MPCI policy that we have made no headway on, and it is for this reason that for the first time since 1996 we have NOT purchased buy up coverage for our crop this year (nor have many of our neighbors from Orange County). We believe that the minimal catastrophic coverage is virtually worthless, but we have paid the administrative fee for this coverage so that we have access to other USDA programs.

Crop insurance reform over the years has typically involved increasing the federal subsidy rates to make the policies cheaper to the farmer. But there has been very little discussion as to why these policies don't pay out, which is a primary reason why farmers are reluctant to participate. Farmers wonder why anyone would think making a problematic policy cheaper would entice them to buy it. When will someone address the various problematic policy provisions or what I call gimmicks that quite often make the policies resemble more of a "shell game" than insurance?

Hopefully without getting too technical, there are two main provisions that are disproportionately decreasing the value of MPCI policies. All MPCI policies, not just the onion policy specifically, have a facet called Production To Count and all decrease drastically in value when a farmer's Actual Production History, or APH, starts to plummet due to successive weather disasters. What happened to me last year perfectly illustrates the problem.

In 2009 I grew 41 acres of onions. I had purchased crop insurance at the buy-up level of 70/100 coverage, 70% of my crop was insured at 100% of the expected market price. The total premium for this policy was $29,507. My portion was $9,924; the rest was taxpayer subsidized. Last season we had 28 inches of rain that led to significant losses. Many onions never matured to make a bulb while many others were rotten.

The first problem I face is that due to successive disaster years, the average that I insure my crop on (APH) is artificially low. My loss, in real world terms, was in the neighborhood of $115,000. But, thanks to successive disaster years production to count my insurance indemnity was: $6,729. I did not even make back my premium. The insurance company pocketed the $22,778 difference as an "underwriting gain." I suffered a crop loss and still owed them $3,195! What is the purpose of this policy? Obviously it isn't working.

<u>Suggestion for crop insurance reform</u>: allow farmers to throw out 1 bad year out of 5 or 2 bad years out of 10 when calculating their APH, or allow farmers to insure their crop using the county average yield in place of their production history for the year in which the disaster designation occurred.

In a hearing held in 2009 by the House Subcommittee for Risk Management the topic of "shallow losses" repeatedly came up. No one seemed to understand why shallow losses are a problem with MPCI policies. The cause behind shallow losses not resulting in a crop insurance indemnity is the policy provision of production to count. Production to count is a feature of all MPCI policies, yet the basis for it is found nowhere in the statute. We believe that unless it is removed or drastically changed serious reform to the MPCI policy is not possible.

In implementing the statute on which the MPCI policy is based the FCIC decided that the farmer should have shared risk. They determined that the "deductible" would be the portion of the crop that is not covered which when salvaged is subtracted against the portion of the crop that is covered. The result is that when the farmer needs to rely upon his crop insurance policy it is no longer a shared risk. It is a guaranteed loss. This is where your shallow losses are--in what amounts to a shell game.

Essentially production to count acts as a deductible unlike any other form of insurance. First, FCIC does not provide 100% coverage. The highest level for most policies is 75%. Whatever you happen to salvage and sell is subtracted from your indemnity to create FCIC's version of a deductible.

Bottom line, as the current policy exists the farmer only receives full value of their policy if they lose 100% of their crop. The problem is that in most situations 100% of a crop is not lost. So, since if in most cases the producer never gets full value of the policy in claims situations, are the premiums being rated accordingly? Or are producers being charged a rate reflective of the 75% coverage they have selected but with the understanding that for overwhelming majority of claims a 100% loss will never occur? I have had numerous insurance policies over the years, health, auto, homeowner, etc ... and none of them have a "deductible" facet like what exists for the MPCI policies. For under the MPCI policies the deductibles are not fixed dollar amounts but are percentages that exist on a sliding rate that grows larger as the damage percentage decreases. For example, if someone has 75% coverage and experiences a 100% loss their "deductible" under this creative interpretation is 25%. If the damage is 75% then the "deductible" becomes 50%, for that same supposed 75% coverage. If the farmer has a 25% loss then the "deductible" becomes 100%, for theoretical 75% coverage of the crop. They collect NOTHING!

<u>Suggestion for crop insurance reform</u>: use a loss threshold instead of production to count.

Our reform proposal for production to count is that whatever one salvages and sells plus their indemnity, which is based on their percentage level of coverage, cannot exceed 100% of their APH. Simple. To deal with the moral hazard issue a crop loss percentage would be established as a loss threshold to file a claim. The concept of a loss threshold has already been used in private crop hail insurance policies. The farmer would have the ability to choose their coverage level and their loss threshold. For example, a farmer may want 75% coverage but to get a less expensive policy choose a loss threshold percentage of 40%. This means their coverage and the ability to make a claim would not kick in unless they met the 40% loss threshold. It seems that this proposed solution would potentially equal less exposure for the insurers, whether it be the government or the reinsurance "partners." The premiums would be adjusted accordingly based on the percentage levels selected (please see the other submitted materials for further details and additional examples).

We have had this reform proposal for a number of years now and have presented it to RMA officials multiple times but what we have found over the years is that while the political appointees in Washington DC have been sympathetic if not supportive, we have found that the bureaucrats that appear to make the real decisions in Kansas City, Raleigh, etc..., are resistant, reluctant to change, suspicious, etc.... The arguments are always the same. "Farmers have to pay a deductible." "We can't provide 100% coverage." "That would be an income transfer program for farmers." "The farmer should have bought buy-up coverage." "The farmer should have purchased at a better subsidized level of coverage." The stonewalling and arguments over semantics are endless, usually ending with it being the fault of the farmer. And yet the problem is still there, crop insurance, specifically the MPCI policy, **<u>which is the primary tool available to mono cropping specialty crop farmers</u>**, is an inadequate safety net that has resulted in the need for perpetual ad hoc disaster aid programs and now a permanent disaster aid program. You will never address shallow losses, you will never have true crop insurance reform unless you address this problem of production to count. Increasing the subsidy rates making it cheaper for the farmer is not the solution. The solution is to fix the gimmicks in these policy provisions. Do that and disaster aid programs will be unnecessary.

Let me add this one final example related to production to count and the Kafkaesque ways of the RMA. The following language in the Onion Crop Provisions of the MPCI policy is used to determine whether or not there is sufficient damage to warrant destroying the crop in the field. It states:

"if the damage to harvested or unharvested onion production exceeds the percentage shown in the Special Provisions for the type, no production will be counted for that unit or portion of a unit unless such damaged onion production from that acreage is sold."

For the onion policy the percentage is 50%. So, simply put, if the damage in a crop exceeds 50% you have the option to destroy the crop in the field. If the damage occurs when the plants are *immature* and you decide to destroy the crop, the remaining undamaged plants are counted as production and deducted from your indemnity. Even though what remained was destroyed and not sold, RMA counts those plants as "production to count" and subtracts those plants from your indemnity. If the damage occurs when the plants are *mature* and you decide to destroy the crop, no production is counted against your indemnity. Why the difference? Why does RMA do this? In a letter to the New York Commissioner of Agriculture & Markets, Patrick Hooker, RMA Administrator Eldon Gould explained that, "since immature onions are not of recoverable size and condition, in accordance with the Onion Crop Provisions, they are not considered onion production. The percentage shown in the Special Provisions only applies to onion production as defined by the Onion Crop Provisions. Therefore, since onion production only consists of onions of recoverable size and condition, the percentage referenced in the crop provisions and shown in the Special Provisions only applies to mature onions." Does this make any sense? This is all another unintended consequence of production to count.

Conclusion

Thank you once again for this hearing and inviting me to appear before you. My wife and I have spent a great deal of time and energy trying to improve the MPCI policy. We firmly believe that if true Actual Production History (APH) reform would take place and our proposal to reform production to count were implemented, the MPCI policy would be a valuable tool and integral part of a specialty crop producer's safety net.

My name is Bob Stallman. I am president of the American Farm Bureau Federation and a rice and cattle producer from Columbus, Texas. 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 6 million member families.

I would like to thank Chairman Blanche Lincoln (D-Ark.) and Ranking Member Saxby Chambliss (R-Georgia) for holding this hearing. I appreciate the invitation to speak this morning to the Senate Agriculture, Nutrition and Forestry Committee. 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 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 re-insurance 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 rewrite 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 specifically on safety net programs available to our nation's farmers and ranchers, 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 Assurance 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 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 two-year historical price average and yield coverage based on a five-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, our Illinois Farm Bureau President purchases 85 percent coverage for his 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.

[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.

Mississippi

Other farmers in other circumstances could face a completely different situation, and the state of Mississippi provides a good comparison. 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 1 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 Illinois. Only 41 percent of Mississippi's crop acres are covered by 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 in

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

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

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 rice is an irrigated crop and the 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.

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 committee 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.

Testimony of Thomas J. Vilsack
Secretary of Agriculture
Before the Senate Committee on Agriculture, Nutrition and Forestry
June 30, 2010

Madam Chairwoman, Ranking Member and Members of the Committee, thank you for the opportunity to appear here today to discuss the implementation of the Food, Conservation and Energy Act of 2008, as well as to discuss future directions for farm policy. This hearing provides us with a chance to reflect on the 2008 Farm Bill and discuss its implementation, while thinking ahead to its reauthorization in 2012. I look forward to working with Members of this Committee, and other Members of the House and Senate, to help develop policy that will support a robust and thriving farm sector in this country.

Before I begin, I want to acknowledge the hard work of the Members of this Committee and your staff. Having worked diligently over the past 17 months to implement the bill, I can now fully appreciate the months of hard work that went into crafting this important piece of legislation. The farm safety net is a vital set of tools that supports our food security and the ability of our farmers and ranchers to be the most efficient and productive in the world.

2008 Farm Bill Implementation

For the last 17 months, the Department of Agriculture (USDA) has expedited vital farm safety net programs authorized under the 2008 Farm Bill, and has worked diligently to ensure proper administration of other, non-Farm Bill, programs. USDA has disbursed more than $1.3 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, approximately $12.5 billion has been paid under the "traditional" Farm Service Agency (FSA) - administered safety net programs. Direct payments, counter-cyclical payments, and marketing loan benefits account for 80 percent, 11 percent, and 9 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 $930 million through the Milk Income Loss Contract Program and $290 million through last fall's Dairy Economic Loss Assistance Program. In addition, our Rural Development mission area alone invested $460 million in over 1,600 energy projects that will assist nearly 3,000 businesses and create nearly 7,000 jobs. Many of our programs are currently in proposed final rules and I expect most of them to be completed by the end of the Fiscal Year.

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, as well as an update on our energy programs as these are important efforts working side-by-side with our traditional safety net programs to strengthen our rural economies. Together, these programs complement existing farm support programs, and ultimately form the backbone of the farm safety net.

Twenty regulations are associated with Title I and disaster-related programs in the 2008 Farm Bill, of which fifteen have been published to date. 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. We currently expect two regulations - one on various dairy provisions (including the Dairy Indemnity Payment Program), and the other on the Durum Wheat Quality Program – to be the first of these completed.

Much work has gone into including the voices of farmers, ranchers, and other constituents in the development of these regulations. In addition, we have tried to thoroughly assess the economic analyses and environmental impact considerations, as well as civil rights and business impacts, of these rules.

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

Average Crop Revenue Election (ACRE) Program

ACRE is a new program designed to protect against both declines in price and yield, as opposed only to price risk. In 2009, the first year of the program, 8 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 is a fairly complicated program that takes time to understand and it requires producers to estimate the potential economic impact of participating in the program. In addition, the program requires producers to participate in the program for the duration of the Farm Bill, which presents a difficult choice to producers.

Overall, ACRE participation has been strongest for corn, soybeans and wheat.
For the 2009 crop year, we expect about $435 million in ACRE payments to be made (based on the June 2010 USDA's *World Agricultural Supply and Demand Estimates* report). Wheat accounts for about 70 percent 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 $435 million in ACRE payments, about $305 million are expected for wheat, $100 million for corn, $14 million for barley, $10 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.

Supplemental Revenue Assistance Payments (SURE) Program
Another key safety net program, SURE, or the Supplemental Revenue Assistance Payments Program, provides assistance to crop producers for eligible losses in times of natural disasters.

As of June 24, 2010, payments for 2008 crop losses totaled more than $930 million (about $599 million under the SURE program, and $331 million under the Recovery Act supplement to the SURE program). Major recipient states include Iowa ($183 million), North Dakota ($120 million), and Texas ($97 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.

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 the 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

The 2008 Farm Bill authorizes disaster assistance programs for livestock losses and tree losses. For 2008-10 losses, more than $87 million has been paid out under Livestock Indemnity Program (LIP), and as of June 24, 2010 more than $313 million for Livestock Forage Disaster Program (LFP). 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 has completed compiling applications for 2008 Emergency Assistance for Livestock, Honeybees, and Farm-Raised Fish Program (ELAP) losses. ELAP payments in excess of $10 million will be issued beginning today, and 2009 ELAP payments will be issued shortly thereafter. ELAP funding is limited to $50 million per calendar year; we will not need to factor a producer's payment for either 2008 or 2009 losses, as this amount will not be exceeded in either year.

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 taken a series of steps designed to respond to a very challenging marketplace for dairy farmers and to try to prevent producers from going out of business. Altogether, USDA 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 $930 million under the Milk Income Loss Contract Program (MILC), authorized under the 2008 Farm Bill. Although the 2008 Farm Bill kept the same basic structure for the MILC 3program, it also included a "feed cost adjuster," which increases the size of the payment depending on ration costs. The feed cost adjuster had an impact on the payment in 5 of 11 months of payments that have been triggered under the MILC program since February 2009.

USDA has also expedited emergency non-Farm Bill action to aid dairy 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. Of the total, $270 million was paid in near-record time—with payments beginning within 60 days of the bill being signed into law. The $17 million reserve amount was paid out in June, the remainder is an administrative set aside for appeals. 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. 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 USDA 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. We have also used our full administrative flexibility to make alternative loan servicing options available to dairy producers under Farm Service Agency loan programs.

Given the complexity of current dairy policy and the search for new directions, I am pleased by the progress of the USDA's Dairy Industry Advisory Committee as they search for policy recommendations regarding ways to reduce dairy price volatility and improve profitability. This Committee 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.

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 raw cane sugar tariff-rate quota volume this spring.

Despite the almost doubling of sugar prices since 2008, sugar users in the United States 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 in the near term for the use of the Feedstock Flexibility Program, which was designed to utilize the expected surplus sugar for bio-fuel production.

The Federal Crop Insurance Program

Crop insurance is a vital part of the farm safety net. 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 that provides coverage for a decline in yield or price.

In 2009, the Federal crop insurance program provided about $80 billion in protection on over 264 million acres. 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.

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. To date, the Federal Crop Insurance Corporation (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.

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 and should be made available in the near future.

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.

In response to criticisms about the cost of the Federal crop insurance program and concerns delivery system, USDA recently undertook a renegotiation of the Standard Reinsurance Agreement that governs the relationship between the Federal government and the Insurance Companies that deliver risk management products to producers. Several reports issued by the widely respected firm Milliman, Incorporated were used to determine a reasonable rate of return for the crop insurance companies.

On June 10, USDA released the final draft of the new Standard 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 third will support high priority risk management and conservation programs. The agreement provides for a reasonable rate of return for crop insurance companies, increases the incentive for companies to serve areas that are currently considered under-served by crop insurance, and provides for a reasonable and sustainable level of agent commissions. These changes will also ensure the sustainability of the crop insurance program for America's farmers and ranchers for years to come.

Renewable Biofuels

I want to spend a brief moment highlighting our energy programs, specifically focusing on building domestic capacity to produce renewable biofuels, which is a particularly important economic opportunity for American agriculture and our rural communities.

Last week USDA released a report outlining both the current state of renewable energy efforts in America and a plan to develop regional strategies to increase the production, marketing and distribution of biofuels.

The Renewable Fuels Standard (RFS2) mandates that there will be 36 billion gallons of renewable fuel per year in America's fuel supply by 2022. I am confident that we can meet this threshold, but to do so we must make further investments in areas including research and development of feedstocks; sustainable production and management systems; efficient conversion technologies and high-value bioproducts and analysis tools.

In addition to production of corn-based ethanol, we are also gearing up research efforts to assist growers of advanced biofuels to produce energy from new feedstocks on a regional basis and in an environmentally sustainable manner.

Renewable energy development not only promotes energy independence; the regional strategy we've outlined sets the stage for job creation in rural communities that are often located in distressed areas and persistent poverty counties.

In the past year, USDA has used 2008 Farm Bill programs to work towards meeting the mandate set by the RFS2. We have:

- Provided loan guarantees and grants to help biorefineries expand and promote the commercialization of biofuels;
- Expedited funding to encourage production of next-generation biofuels;
- Offered guidance and support for advanced biofuel and biomass conversion facilities;
- Provided funding to support the efforts to raise and provide energy crops to conversion facilities;
- Helped existing biorefineries retrofit their facilities to utilize biomass instead of fossil fuels for their heat generation and power needs.

- But our work goes further:
  - Our new National Institute for Food and Agriculture will accelerate our research efforts, focusing science dollars on rapidly improving plant-based feedstocks.
  - We have partnered with the U.S. Navy to help them meet their energy goals and support the development of markets for renewable energy.
  - A new interagency agreement with EPA is promoting renewable energy generation and slashing greenhouse gas emissions from livestock operations.
  - And as members of the Biofuels Interagency Working Group we are coordinating with partners across the federal government on efforts to advance biofuels research and commercialization. Our Farm Bill programs alone are providing hundreds of millions of dollars to support this goal.

The Importance and Challenges of Rural America and its Future

I strongly believe that a healthy American economy depends on a prosperous rural America. Farmers and ranchers in rural America produce the food, feed and fiber that the rest of our nation depends on. Rural communities play a significant role in science, innovation and implementing new technologies to move us towards our energy independence. And rural America is also home to our values. Even though only one in six citizens call rural America home, 44 percent of our nation's military is composed of Americans from rural areas. And children in rural communities are often the first to learn that hard work is its own reward – and the importance of looking after your neighbor.

Since becoming Secretary of Agriculture, I have traveled the country, visiting nearly 40 states– including more than 20 stops for rural forums on President Obama's Rural Tour. And what I have seen is a silent crisis in rural America.

Rural communities have higher poverty rates than the rest of the country, with average per capita income of approximately $11,000 below their urban and suburban counterparts. Nearly 90% of America's 'persistent poverty' counties are rural. And rural unemployment figures rose as we weathered the current recession.

Rural infrastructure is more likely to be outdated. And rural Americans are less likely to have health insurance – or convenient access to health care facilities.

Compared to their urban counterparts, rural Americans are more likely to be older than 65 and are less likely to have college degrees. Many small towns are watching their young adults move away because they don't see opportunities to make a good living. As a result, a majority of rural counties have seen declining populations in the past decade.

My travels also showed me that despite the most severe recession since the Great Depression and new challenges presented by an ever-changing agricultural economy, America's farmers and ranchers continue to be the most productive in the world.

For decades, the willingness of America's farmers and ranchers to embrace science has led to productivity gains that are nothing short of astonishing. While in 1940 a farmer produced enough food to feed 19 of his neighbors, today they feed 155. This means an affordable food supply that allows Americans to spend 10 to 15% more of their income on a home, a vacation, or a college education for their children than folks in most other countries.

The American agriculture economy supports 1 in 12 jobs in America. And agriculture is one of the only industries where our nation enjoys a large trade surplus – more than $20 billion last year, and expected to rise to $28 billion for this year.

But among these measures of the strength of our agricultural economy, the dynamics are changing. In the past 40 years, the United States lost more than 1 million farmers and ranchers. Today, only 11 percent of family farm income comes from farming and fewer than half of our nation's farmers and ranchers list farming as their primary occupation. Even for those farms with more than $250,000 in annual sales, which account for the vast majority of our agricultural output, nearly 30% of farm family income comes from off-farm sources.

The Obama Administration and USDA care deeply about our farmers and ranchers. We are looking to time-tested programs as well as new approaches to maintain a strong farm safety net for America's producers and investments in the rural communities they call home. And we work every day to keep farmers on the farm and to support their efforts to provide us with a safe and nutritious food supply.

But to keep farmers on the farm we will have to build a thriving companion economy to compliment production agriculture in rural America. That is to say, our efforts to support farmers, ranchers, and communities in rural America must also embrace innovative new ideas for generating wealth on and off the farm.

From traveling around the country, I have seen that the elements of this new 21st century rural economy are already in place. What we heard and saw from folks in small towns is that they see the potential for more opportunity for economic growth in Rural American than at any time in decades. The tools that Congress provided to USDA in the 2008 Farm Bill and American Recovery and Reinvestment Act are working to make rural America stronger – but we must go further in the next Farm Bill to embrace new strategies to help foster sustainable and significant economic growth in rural America for the long-term.

The elements of a new rural economy will be built on a combination of the successful strategies of today and the compelling opportunities of tomorrow. And that is why USDA is working to pioneer five pillars to build the foundation for growth and opportunity in rural communities in the decades to come:

- We must develop new markets to provide new income opportunities for American producers by improving access and promoting exports abroad, by supporting domestic local and regional food systems that keep wealth in rural communities, and by facilitating the creation of ecosystems markets that reward landowners for taking care of the environment;
- We must create new opportunities for prosperity and small business growth with investments into rural broadband access;
- We must create green jobs that can't be exported by promoting the production of renewable energy in communities across the country;
- We must stimulate rural economies by encouraging natural resource restoration and conservation and by promoting recreational uses like hunting, fishing and other activities that create jobs;
- And we must continue to strengthen farm income by investing in critical research to ensure our farmers remain world leaders in providing a reliable, affordable, safe and abundant food supply.

One other area of particular concern to me is the need to ensure that new farmers find a way to be part of 21st Century agriculture. These new agricultural entrepreneurs are a key to a vibrant rural America and to the future of all of agriculture.

Working Toward the Next Farm Bill

Madam Chairwoman, 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. If we set our goals appropriately, we can properly assist and strengthen production agriculture, while also building and reinforcing the future of rural communities. Every opportunity for bettering rural America should be considered. We need to adopt innovative approaches and listen to the needs of production agriculture and rural communities. Again, I believe it is important to be ambitious and set our goals as high as possible. Rural America deserves no less from the next Farm Bill.

In the coming months as we engage in development of the next Farm Bill, I look forward to bringing the experiences of these rural Americans, and others I have worked with to the table. I look forward to working with you, Madam Chairwoman, and every Member of the Committee on that endeavor.

I would be happy to respond to any questions that Members might have.

Thank you.

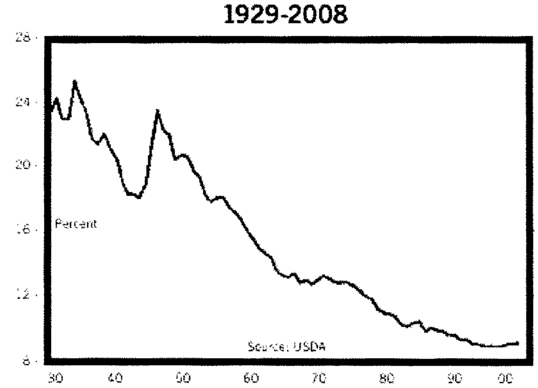
Farm Policy Testimony
Senate Agriculture Committee
Presented by Mark Watne
June 30, 2010

Thank you, Chairperson Blanche Lincoln and members of the Senate Agriculture Committee, for this opportunity to testify representing farmers in North Dakota.

My name is Mark Watne and I farm 1500 acres of cropland in north central North Dakota. We are a family farm operation and would be consider at about average in size in the state of North Dakota. We primarily raise wheat, barley and canola. We occasionally plant oats, sunflowers, peas and soybeans if market conditions appear to be attractive. Typically, our crop planting decisions are based on profit potential, rotation and the window of time the weather allows for crop production in North Dakota. In 2009 North Dakota led the nation in the production of 12 commodities so we have a number of commodities we can consider.

The first consideration for development of a farm bill is to identify the reason for its existence. I believe the reason we have a farm bill is to provide a functioning food production and security system for our nation. When we look at the abundance of top quality, inexpensive food currently in our nation, we can only assume that the current farm bill is achieving that goal. This is apparent as shown by the chart from the USDA, which I have provided in this testimony that has been distributed to you, showing Americans spend only about 10% of their disposable income on food.

Food Expenditures
Share of Disposable Personal Income
1929-2008

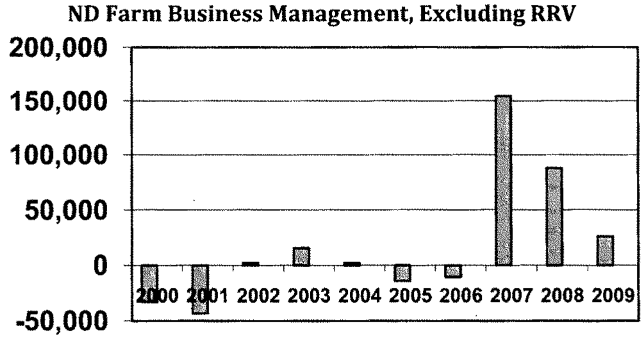


The fact that we have an abundant food supply and excess commodities, which keep food prices low for consumers, is a burden to the market and the prices farmers receive. Commodity prices reflect the small amount of over supply beyond demand that is produced each year. This unique supply and demand scenario creates the need for a farm program that addresses overproduction, which leads to lower commodity prices hurting, farmers. The demand for food does not necessarily increase when there is an excess supply. For example, a family does not add an extra meal just because food costs less. If individual farmers and ranchers, or even small sections of the country, attempted to shift supply to match demand trying to increase commodity market prices, the impact would be entirely ineffective due to our ability to over produce.

The nation and consumers would be negatively impacted if we had the food system that was based on just-in-time inventory, which would hold no surplus to meet needs in case of natural disasters. Commodity price fluctuations could cause food prices to rise rapidly and not level off in time to keep our current inexpensive food system, which American consumers enjoy. Few places in the world can offer consumers the diversity and amount of food at such incredibly affordable prices that the farm bill is able to provide. If we compare our farm program to our current energy program, we can see the wide market variations on pricing when we rely on outside sources for our energy supply. If food costs were to fluctuate the way gasoline prices do, our economy would suffer due to the increased expenditures on food the same way consumers suffer when energy costs rise. The small portion we spend on the U.S. agriculture budget may be one of the best investments we make for the benefit of our nation.

The second consideration is how the farm bill is able to provide a safety net for farmers and ranchers when the market prices or environmental conditions do not allow for adequate return to cover the operational costs. Our land grant university in Fargo tracks 537 producers and has shown (see chart below) if farm program payments and crop insurance coverage were removed from farm income these producers would have lost money or not had significant income from their operations 7 out of 10 years.

Net Farm Income Excluding Government & Insurance Pmts.
ND Farm Business Management, Excluding RRV



The current Food Conservation, and Energy Act of 2008 and the previous farm bill have been relatively successful and generally accepted by farmers and ranchers. The main concern from farmers regarding previous bills is that there has not been an adjustment to counter-cyclical payments and loan rates to reflect the higher costs of production that we, as farmers and ranchers, are currently facing.

To continue this success, farm policy must be based on the following:

1. Our nation's agricultural policy must not conform to the present course of industrialization and consolidation, but rather be directed toward an economic system that provides citizens the opportunity to own, control and work their own land and remain contributing members to their communities and country.

2. National farm policy must ensure that control of agriculture is vested with the family farm and reverse the decline in the number of family farms. It should foster a fair and competitive environment that allows farmers and ranchers to increase their net farm income, improve the quality of rural life and continue to provide a safe, reliable supply of food and fiber to this country and the world.

Farm policy should also provide price and production protection, be targeted toward family farmers, contain stock control mechanisms that do not push stocks onto the market at the point when prices are the lowest and ensure competition in the marketplace. The following objectives should be included in farm policy to ensure that family farmers and ranchers can secure net farm income equivalent to families in other sectors of our national economy:

- A safety net that is counter-cyclical and indexed to current production costs.

- Directed program benefits or targeting support to the production levels of family farmers. Targeting would reduce government costs, further the sustainability of family farms and rural communities and limit further consolidation.

- Realistic and meaningful payment limits need to be implemented. It's clear that payment limits, as they are currently formulated, are ineffective. This situation undermines public support for farm programs, so realistic and meaningful payment limits need to be implemented.

- The removal of marketing loan caps and the upward equalization of commodity marketing loan rates, based on the historic price relationship between commodities and equal to USDA's cost of production.

- Maintain planting flexibility. Farmers should be given the right to update acreage bases and proven yields on all crops for each farm. Beginning farmers and farmers raising new crops on which they have no production history should have special consideration if disaster assistance is based on crop insurance losses because they have to use T-yields until they establish proven yields.

- The SURE (Supplemental Revenue Assistance Payments program), LIP (Livestock Indemnity program), LFP (Livestock Forage Disaster program) and ELAP (Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish program) programs in the farm bill should be continued and fully implemented in a timely manner.

- Establish a revolving, two-year, farmer-owned reserve of commodities to provide an adequate supply of raw materials for use as emergency food or renewable energy. Also, the establishment of international food reserves, which means both importing and exporting nations share the costs of maintaining these reserves and making necessary production adjustments in times of surplus.

- In order to adequately cover a farmer's expenses, we need the continuation and improvement of all crop insurance and coverage on all North Dakota crops.

- Farm bill should encourage the development of renewable energy, primarily ethanol and biofuels, as these can be tools to enhance income and lower agricultural budget costs.

To conclude, if we are to make major changes to the farm bill, we should strengthen the crop insurance coverage to include lower premiums for greater coverage or other revenue and production concepts to more directly represent the cost of production and inflation. The permanent disaster program SURE and the livestock disaster programs LIP, LFP and ELAP are excellent tools for farmers and ranchers. In the last few years, we have had an incredible amount of extreme weather from ice storms to rain storms that would be considered an abnormal pattern. We have had and continue to have large amounts of prevented plant and drowned out crop. Farmers are paying taxes and other maintenance costs on land that has been out of production for years. It is essential to have these permanent disaster programs that allow for some recovery to these uncontrollable disasters to help defray costs without having to visit D.C. for emergency spending on a regular basis.

If change is necessary I would suggest that we consider supporting a shift of direct or decoupled payments to a new or better program that reflects cost of production plus inflationary safety nets. The Average Crop Revenue (ACRE) program was an attempt to begin this process, but was complicated from a farmer's perspective. Farmers were also concerned that it took two levels of payment triggers to be met before it would make payments. It also involved a commitment from all landlords and a commitment for the life of the program that may not match the land rent agreement. A program like ACRE may work if the state payment trigger could be moved to a much smaller region or even to just an individual farm payment trigger.

Counter-cyclical program payments that only pay when prices fall are much more accepted by taxpayers than direct payments. I would like to see any new farm program maintain the current agriculture budget baseline and would it have to meet a number of the above stated criteria to truly meet the needs of American consumers and American agriculture.

Thank you for you allowing me to testify.

DOCUMENTS SUBMITTED FOR THE RECORD

JUNE 30, 2010

Farm Bill Proposal

Crop Insurance Reform

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Permanent Disaster Aid Program

With great interest we've been reading some of the recent articles regarding Crop Insurance and the establishment of a Permanent Agricultural Disaster Aid Program as part of the next Farm Bill. My wife Eve and I have a great deal of experience regarding the crop insurance issue and have worked a great deal on improving our MPCI onion policy. We are responsible for the "no staged production" pilot program (which was extended for 3 years by the FCIC Board in 2006); the language regarding the "quality adjustment factor", which Eve essentially wrote; the increase to our replant feature; and the increase in our established market price. Our experience has taught us that merely increasing the coverage level and/or making the policies cheaper WILL NOT solve the problem. Neither will the establishment of a permanent agricultural disaster aid program.

We are firmly opposed to the creation of a Permanent Agricultural Disaster Aid Program.

We are, however, encourage by the fact that the discussion of a Permanent Disaster Aid Program is evidence that there is, at last, recognition that supporting farmers during times of crop failure will not always be "actuarially sound". Unfortunately, while this discussion addresses a real need, it stops short of acknowledging the root of the problem: the current, flawed crop insurance program.

It is disconcerting that anyone would consider keeping the crop insurance program the way it is, still heavily funded by the federal government, and add a disaster aid program that would also be federally funded, would not even be remotely "actuarially sound" and would discourage farmer participation in the crop insurance program. The fundamental reality is this:

Agricultural crop losses caused by weather events and other perils are extremely expensive.

Instead of having a crop insurance program that is "actuarially sound" but has policies that do not provide realistic coverage, coupled with a permanent disaster aid program that will not generate any self-support (via grower premiums), why not instead modify the current crop insurance program in a way that creates policies that provide significant and realistic indemnities when real losses occur and, though is not "actuarially sound", encourages grower participation and financial support through grower paid premiums?

The amount paid in indemnities may end up being significantly greater then the amount paid in premiums, but there is no "free lunch." If the government is sincere about providing realistic support for farmers that suffer weather-related losses, then it must accept the reality that those losses can be very expensive. The current policy isn't working. Hence the call not only for occasional ad-hoc disaster bills but now the call for a permanent disaster aid program.

We suggest that

1. The "actuarial soundness" mandate should be dropped and the MPCI policies should be fixed per our suggestions (see attached pages).
2. The "public-private partnership" for the federal crop insurance program should end as well. The policies, though not "actuarially sound," would still produce some revenue via grower paid premiums. Real losses due to various perils associated with farming would be more realistically covered and farmers would no longer have to rely on ad-hoc disaster aid programs. Further, farmers would be encouraged to purchase buy-up coverage and participate within the system. No longer would private reinsurance companies continue to, year after year, reap "underwriting gains," despite crop losses totaling in the billions of dollars. The FSA and the RMA could administer this program (as the FSA did previously, prior to the crop insurance reforms passed in the 1990's) and continue to address, aggressively and comprehensively, the waste, fraud and abuse that was part of past disaster aid programs.

Specific Proposals for Crop Insurance Reform

In an article entitled "USDA to lower cotton insurance rates", appearing in the online publication Pro Farmer Headline News on Wednesday July 7, 1999, the final sentence made a very important point concerning crop insurance reform:

"While important, rates are just one factor determining the overall value of any insurance product to the producer. Commodity prices, policy provisions, program oversight and a host of other factors contribute to the overall value and acceptance of the product."

Though many of the reform proposals that have been presented the past few years have done much to address the issue of affordability, reducing premium rates, adjusting the federal subsidy rates, etc..., these proposals have focused less attention on how the established market prices used, various policy provisions which render the policies virtually worthless, and program oversight. By virtue of our experiences of dealing with the issue of crop insurance due to the weather related disasters of 1996 and 1998, the vegetable and fruit growers of New York State believe we can offer a number of useful suggestions for reforming the Federal Crop Insurance Program. There are three areas we would like to draw to your attention.

I. The policy provision of "Production to Count" which appears in all Multiple Peril Crop Insurance (MPCI) policies.
II. The policy provision of a "Staged Production Guarantee" which appears in the Onion Provisions and is slowly spreading to other fruit and vegetable crops.
III. Discontinue or drastically change the "Catastrophic" (CAT) coverage found in MPCI policies.

I. Production to Count

Production to Count is a feature of all MPCI policies, yet the basis for it is found nowhere in the statute. This feature is destroying the value of crop insurance. We believe that unless it is removed or drastically changed serious reform to crop insurance is not possible.

The statute 7U.S.C.1508 under section 508(b) simply reads "in the case of each of the 1999 and subsequent crop years, catastrophic risk protection shall offer a producer coverage for a 50 percent loss in yield, on an individual yield or area yield basis, indemnified at 55 percent of the expected market price, or a comparable coverage (as determined by the Corporation).

This should mean exactly what it says: if a farmer purchases catastrophic crop insurance (CAT) and suffers a 50% loss in yield they can expect a check covering that 50% lost yield at 55% of the expected market price. This is NOT how FCIC is interpreting the statute. FCIC has interpreted this to mean that the other 50% of the crop which is not covered by crop insurance is a DEDUCTIBLE, a term which appears NOWHERE in the statute. This means that if you suffer a 50% loss in yield you will receive NO INDEMNITY because, FCIC reasons, you still have half a crop.

This same interpretation is used for buy-up policies. If you purchase 65% coverage, the other 35% is viewed by FCIC as a deductible. If you suffer a 35% loss in yield you will receive NO INDEMNITY. We do not believe that Congress ever intended for the idea of crop insurance to be twisted into a guaranteed loss. We believe what Congress intended was that the portion of your crop that is not insured is at your own risk.

Our solution for Production to Count is fair and equitable. Rather than guaranteeing a loss and limiting the farmers overall production to only the amount that was insured, we believe the intent of Congress was to guarantee a minimum amount of production. Concern has been expressed that by making this adjustment the farmer might be able to unfairly profit above his APH. We believe that this concern could be alleviated by capping the farmer's overall production to 100% of his APH in a disaster year. This means that if a farmer collects on his insurance, the combination of his production guarantee plus any salvaged production for that year cannot exceed 100% of his APH. In addition, we recommend that for buy-up policies, an indemnity only be paid on a loss in yield greater than 15%. This is NOT a deductible. A loss in yield of 45% would result in a payment on the full 45% loss in yield. This is similar to current private crop insurance policies offered in our area.

With farming expenses so high and prices so low, farmers do not need crop insurance that starts out by guaranteeing a loss. Farmers are purchasing buy-up policies for two reasons: coverage of the full expected market price and for the lower "deductible." Consider this point. What is the likelihood of the insurance companies paying out the full 70% and 75% in the two highest levels of buy-up coverage? But the farmer and the taxpayer are paying the insurance companies to cover that liability. Our solution to Production to Count would decrease the amount of liability that needs to be covered and greatly increase the farmers ability to manage his risk.

Here is Eve and I's proposed reform measure/solution in more detail.

Proposal: Removal of Production to Count

In the current buy-up policies, Production to Count, the idea of a deductible and the concept of guaranteeing rather than insuring the crop all go hand in hand. This is because any salvaged production that you might have is counted towards your "deductible" and then deducted from your production guarantee. It must be emphasized that t these are not principles or concepts or even language ("Production to Count") which can be found in the statute or crop insurance "Act."

Example
APH=400
Let's say you have purchased coverage at the 75% level.
Production guarantee= 300
You have a 25% deductible = 100. You must suffer a loss greater than 25% to collect on your insurance.

You suffer a crop loss of 40%. You are able to salvage the remaining 60%.
Salvaged production= 240
You will receive a check for 15% of your APH.

This is because the first 25% loss is considered yours. Thereafter, the insurance only "guarantees" that you will have production of 300. Since you were able to salvage 240, you will only receive an indemnity on the amount that was short of your production guarantee, 60 or 15% of your APH.

75% coverage is the highest level of coverage you can purchase, and regardless of the subsidy, it is still going to be the largest dollar outlay for the farmer. A 40% crop loss is a substantial loss for any type of crop. Yet this policy will only pay out 15% of the farmer's APH?!

For any crop insurance reform to have a positive effect, this aspect of the MPCI policy must be reformed.

Principles that should guide reform
• Crop insurance must be just that INSURANCE, not a minimum guarantee.
• Crop insurance should help the farmer in a disaster year, provide an incentive to live off his efforts and encourage good farming practices as stewards of the land.

Recommended Reform

The percentage level of coverage should no longer be a minimum guarantee for the farmer but the maximum percentage the insurance company is liable for. Rather than guarantee the farmer a loss by limiting him to his production guarantee (in the above example, once the farmer has met his deductible the policy ensures he will not make more than his production guarantee), our proposal would instead allow the farmer to have the potential to make his APH, but not exceed it. Indemnified production + salvaged production ≤ 100% of APH

Example 1: Percent of damage is less than coverage level.
APH = 400
Let's say you have purchased coverage at the 75% level.
Insured = 300
You suffer a crop loss of 40%.
You will receive a check for 40% or for the 160 that you lost.

To verify the loss, if your salvaged production exceeds 60% of your APH your indemnity will be adjusted down accordingly.
Indemnified production + salvaged production ≤ 100% of APH

Example 2: Percent of damage exceeds coverage level.
APH = 400
Let's say you have purchased coverage at the 50% level.
Insured = 200
You suffer a crop loss of 60%.
You will receive a check for 50% of your APH.
The remaining 10% was not insured, therefore the insurance company is not liable for it.

As the farmer purchases higher or lower levels of coverage the only thing that really changes is the liability to the insurance company.

We also suggest that there should be a minimum loss requirement of 15%-20% to receive an indemnity. This is not a deductible. It is a minimum loss requirement to collect on the policy. If you suffer a 20% loss you will receive payment on the full 20%. If you suffer a loss of 10% you cannot collect on the policy.

II. Staged Production Guarantee

Though a Staged Production Guarantee is currently only in 7 or so MPCI policies, it is rumored that it soon will be expanded to many other crops, especially minor or specialty crops. Basically, the growing season is divided into various growth stages of the crop, where the insured only receives a percentage of their elected coverage level, dependant on the stage when the damage to the crop occurs. For onions, the 1998 growing season was divided into three (3) stages. If your crop was damaged in the first stage you received 35% of your final production guarantee; second stage, 60%; third stage, 100%. (So if a farmer has purchased CAT and his crop is damaged in the second stage he would receive 60% of 50% of his production guarantee.) These stages exist for both CAT and buy-up coverage.

These stages are completely unrealistic for our growing situations. Onions in our area, and for many specialty crops, are a heavily front-end loaded crop. (For onions in our area, upwards of $1000/acre is invested just to put the seed in the ground.) The effect of a Staged Production Guarantee is that it also greatly increases the loss threshold one has to qualify to receive an indemnity.

EXAMPLE: In 1998 our area was struck by a severe hailstorm on May 31st. The onions were in the second stage (the period of three leaves to the beginning of stage 3). So, since CAT is 50% of your crop indemnified at 60% of the established price. Stage 2 is 60% of your coverage, or, 60% of 50% of 60%. Confused? This translates into 18% of your gross crop value (which assumes your APH is not unusually low and the established market price is accurate, which it wasn't). The reality was closer to 11% coverage. Coverage equaled about $500 an acre, though expenses at that stage are over $1,200 an acre. The highest level of buy-up coverage (75-100) would only provide about $1,000 an acre in coverage).

Even more frustrating is that the third stage, according to the policy language, exists from the point the onions are topped or lifted until harvest time. In New York, the third stage exists for approximately 3-4 days in August or September, when the onions are drying briefly before they are harvested. In reality, this is a three to four day period which will likely never occur for no farmer lifts and tops his onions when it looks like its going to rain/storm since this would completely defeat the purpose of this farming technique. As a result it can safely be said that New York onion farmers will NEVER collect 100% of this policy, whether a CAT or Buy-Up policy.

III. Discontinue or drastically change the "Catastrophic" (CAT) coverage

CAT coverage is the minimum coverage offered by the federal government in the MPCI policies. For an administrative fee of $100 producers receive a policy which covers 50% of their crop at 55% of the established market price. If this were truly effective coverage for producers who suffer a one time catastrophic loss, everyone would buy it and disaster aid would not be necessary. That's not the reality. In fact, despite an historical minimum cost to the producer (administrative fees ranging from $60 to $100) quite often the USDA has had to force producers to sign up for CAT coverage via a linkage requirement (to qualify and receive supplemental disaster aid the farmer that received disaster aid was required to sign up for CAT coverage for subsequent crop years). The inadequacy of this coverage level is further demonstrated by the fact that even the disaster aid programs recognize the need to provide a higher coverage level. Typically, the rate has been 65% coverage at 65% of the price.

The only entities benefiting from the current CAT policy are the private reinsurance companies that sell and administer the policies. They are receiving premiums, significant premiums, paid for by the government/tax payer, and are paying little to no indemnities to farmers, despite extensive and substantial crop losses. This is because a farmer must incur a loss greater than 50% to receive an indemnity. The initial 50% loss is often referred to as the farmer's "deductible." So if a farmer has a 60% crop loss, his CAT coverage will pay him, after the "deductible," a premium based on 10% of his crop at only 55% of the price (once again "Production to Count" significantly reduces the actual coverage levels). No one should think that a crop loss of 60% is not catastrophic, and no one should think that a payment based on 10% of a crop is sufficient coverage. This level of coverage is so low that it is essentially meaningless to the producer/farmer.

This program is not a shared private/public partnership in risk. Instead it has become nothing more than an income transfer program to the insurances companies who happily pocket the premiums paid by the government year after year while paying out little to no indemnities (which are also subsidized by taxpayers).

Please stop this waste of funds that farmers badly need by either eliminating or revising this program in one of the following ways:

* Change the coverage level to match that of the disaster programs (65% coverage at 65% of the expected market price).
* Eliminate the "deductible" and reform "Production to Count" as we suggest.
* Let the farmer choose a dollar amount for the deductible instead of a % of the crop, similar to health and car insurance policies. (What if health insurance was administered like crop insurance? Gee, we're sorry you lost your leg but since the other one is fine we're not going to pay you anything.)
* Use a "threshold" instead of a "deductible." For example if a farmer chose a policy with a 35% threshold, if the producer sustains a 40% loss on the crop the producer would receive a payment on 40% of the crop. If the producer sustains a 30% loss, the farmer would not receive a payment because the producer had not crossed the threshold of a 35% loss.

USDA

United States
Department of
Agriculture

Farm and Foreign
Agricultural
Services

Risk
Management
Agency

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Mr. and Mrs. Christopher Pawelski
Pawelski Farms
736 Pulaski Highway
Goshen, New York 10924

Dear Mr. and Mrs. Pawelski:

Thank you for the paper titled "Farm Bill Proposal, Crop Insurance Reform" recommending elimination of the 'actuarial soundness mandate' and the 'public-private partnership', and changing or discontinuing the catastrophic coverage provided by the Catastrophic Risk Protection Endorsement, and the policy provisions of policy deductibles, production to count, and staged production guarantees.

The Federal Crop Insurance Act (the Act) defines the parameters under which the Risk Management Agency (RMA) administers the crop insurance program. Among the parameters put forth in the Act are the notions of 'actuarial soundness', the 'public-private partnership', and the level and terms of catastrophic coverage made available in the Catastrophic Risk Protection Endorsement. All of these are compelling and integral components of the current program with broad-based support.

The policy deductible is a necessary component of an insurance product. It helps to control premium rates and assure actuarial soundness by eliminating small claims and discouraging moral hazard. Premium rates are based on the amount of expected indemnity relative to insured liability over a period of time, not just the level of liability. A policy deductible reduces the frequency of losses paid by eliminating coverage of smaller losses, while still providing coverage for the more substantial losses that can threaten the financial viability of the firm, or in this case farm. In addition, because catastrophic losses are relatively rare, the cost of providing insurance coverage for such losses is relatively small.

Regardless of the insurance design, the notion of 'production to count' is also a common and necessary component of a crop insurance product. In a loss situation, the degree of loss must be determined. In the construct of crop insurance, production to count provides the mechanism to value production or revenue relative to the insurance guarantee. In addition, production to count provides a mechanism to adjust for losses due to poor quality to the benefit of the insured. By design, crop insurance efficiently provides increasing levels of benefits as production or revenue to count decreases. The existence of a policy deductible together with the production to count mechanism for determining salvaged production encourages good management practices and serves to mitigate losses.

The purpose of staged production guarantees is to efficiently tailor insurance coverage to mirror the unique production characteristics of a crop, reducing the likelihood of overinsurance and managing premium costs. Obviously, staged production guarantees must be carefully constructed to accurately reflect costs of growing a crop to a specific stage. As you are experienced with onions, RMA is most interested in identifying improvements in the design of stage guarantees, or as the case may be, the appropriateness of using stage guarantees.

It is RMA's goal to design the most appropriate risk transfer tool possible for the crop in the area where it is grown. Feedback from producers, extension specialists and others is crucial to achieving this goal. Comprehensive program reviews are completed on a routine basis for the purpose of identifying program effectiveness and developing recommendations for program improvements. In addition, Section 508(h) of the Act provides a mechanism whereby a person may propose other policies, provisions of policies, and rates of premium for consideration and independent professional review, without regard to the limitations contained in the Act.

Thank you for your continued interest in the Federal crop insurance program. I look forward to hearing from you in the future.

Sincerely,

for William J. Murphy
Administrator

QUESTIONS AND ANSWERS

JUNE 30, 2010

<u>Questions for USDA Secretary Tom Vilsack</u>
Submitted by Chairman Blanche L. Lincoln
"Expanding Our Food and Fiber Supply through a Strong U.S. Farm Policy"
June 30, 2010

(1) I understand that you will be able to commit $2 billion of the savings from the new SRA to additional spending on expanding certain crop insurance policies and enrollment in the CRP. I would ask you to provide additional details on how these funds will be allocated, and remind you of the need to devote resources to expanding crop insurance participation in the South, where many farmers find existing policies less than fully satisfactory. Will you be devoting some of these funds on a policy for cottonseed and for an endorsement for downed rice?

(2) Section 12023 of the 2008 farm bill requires the Federal Crop Insurance Corporation to make a decision on whether to eliminate or reduce the premium surcharge for organic production, based on whether or not "significant, consistent, and systemic variations in loss history" exist between organic and nonorganic crops. The farm bill is very explicit that the evidence mounted to support such a decision must be based on "the widest available range of data collected by the Secretary and other outside sources of information" and may "not be limited to loss history under existing crop insurance policies."

Your written testimony on organic crop insurance notes that "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." Are we to assume this means that you are dissatisfied with the contracted research and believe that further work is now required to be done by the Department directly in order for you to comply with the farm bill's directive to eliminate or reduce the surcharge in the absence of convincing, scientifically valid data indicating there is any overwhelming reason for its continued existence?

If that is indeed the case, can you indicate to the Committee what your timeline is for collecting the additional research and data and for making your decision on the premium surcharge issue?

Questions for USDA Secretary Tom Vilsack
Submitted by Senator Saxby Chambliss
"Expanding Our Food and Fiber Supply through a Strong U.S. Farm Policy"
June 30, 2010

1. The President's FY 2011 Budget proposed to reduce direct payments and adjusted gross income limitations. The justification was that this "would allow USDA to target commodity payments to those who need and can benefit from them most". Do you believe those larger farmers who are producing the majority of the food and fiber consumed in this country are any less worthy of access to the safety net we developed in the 2008 farm bill? After all, if they are producing more, they are certainly subjected to more input costs and risks. Can you provide the committee an analysis regarding the number of producers impacted by the proposed changes, the total dollars saved and the reduction in benefits by crop?

2. In a recently released proposal from the National Milk Producers Federation, the existing Federal support programs would be replaced by a Dairy Producer Margin Protection Program (DPMPP). The DPMPP would act as a margin insurance program with no payment limitations based on income and/or size of a producer's herd. Given the Administration's support for stricter payment limits, do you support the concept of waiving payment limits for a new dairy program? Would the Administration support eliminating payment limits if existing row crop safety net programs behaved more like revenue insurance programs administered either through the Risk Management Agency or the Farm Service Agency?

3. As was briefly discussed during the hearing, USDA has partnered with the IRS to monitor compliance with the income level restrictions for farm program participation, I am curious to know if the list of those flagged by the IRS and then supplied to the USDA will be subject to release under the Freedom of Information Act? While I realize that tax information is not subject to release, I also understand that the list transmitted to USDA from the IRS will actually have no tax data contained therein. I appreciate your commitment during the hearing to address this question after you learn the answer.

4. We are always appreciative of the time and effort of FSA personnel in delivering farm programs to our producers. While FSA staff can make great strides to ensure good service, a critical component of the job that is out of their control is the information technology (IT) system. We often hear complaints from farmers about the availability of software, concerns about computer systems, and as in many cases last year, a number of farm payments that were directed to the wrong bank accounts. Do you have confidence

in the ability of FSA's information technology (IT) systems to effectively and efficiently deliver the current farm programs? What steps are being taken to improve the delivery system for the current suite of programs to ensure readiness for the 2012 farm programs?

5. Writing a farm bill is a complex process with many interests to balance, including the need for our programs to provide an effective safety net for producers and to meet our trade obligations. Domestic farm policy has undergone a lengthy challenge by Brazil in the WTO. As a result, a number of folks have suggested that we "trade-proof" our programs. In your opinion, is it possible to "trade-proof" our programs, that is, write them in a way that will prevent WTO challenge?

6. What is the status of SURE program signup for 2009? Are there ways in which this program might be improved to simplify administration and deliver benefits in a timely manner to producers?

7. We appreciated you meeting recently with Committee members concerned about various issues with the Standard Reinsurance Agreement (SRA). You are aware of our concerns that remain with respect to the depletion of the ag baseline, the magnitude of the cuts, and the cap on commissions to agents who are not a party to the agreement. We were surprised to find a new provision tucked into the third draft with respect to litigation. If the Federal Crop Insurance Corporation's (FCIC) actions are found by a court to be in violation of the Federal Crop Insurance Act, then the crop insurance companies are going to pay FCIC for any losses associated with FCIC's misapplication of the law, irrespective of whether the company was involved in the suit or not. Because the provision is so offensive, we understand that USDA lawyers have revised the provision so that it now prohibits companies and agents from suing USDA. Can you shed any light on the need for such a provision as well as the legal authority of FCIC to include this provision?

8. During development of the 2008 farm bill, attention was given to a very sensitive issue: the issuance of farm program payments to deceased individuals. Recognizing the complexity in passing a farm on to the next generation and achieving the settlement of estates in a timely manner, Congress directed USDA to issue regulations regarding appropriate circumstances for the issuance of payments in the name of a deceased producer as well as precluding the issuance of payments to those ineligible to receive them. The farm bill also directed USDA and the Social Security Administration to reconcile social security numbers of those receiving farm program payments twice a year. What steps has USDA taken to ensure that farm program payments are being made to legitimate estates and individuals?

Agriculture Committee Hearing
June 30, 2010
Expanding Our Food and Fiber Supply through a Strong U.S. Farm Policy
Questions for the Record
Senator Robert P. Casey, Jr.

Panel 1: Administration

1. There have been many ideas proposed by many people and groups to reform current dairy policy. Some of these proposals would overhaul the entire way the system currently works, including getting rid of the Dairy Product Price Support Program or the Milk Income Loss Contract program. What are your thoughts about these proposals? How about programs to manage milk supply, and how could we manage domestic supply and imports? What about proposals to guarantee a cost of production or a margin?

2. Groups in Pennsylvania are working to connect local growers with local markets as a way to strengthen their local economies and improve the environment. In the 2008 Farm Bill, we created some programs that would lead us down that path. You created the "Know Your Farmer, Know Your Food" program to assist in that process. For the next Farm Bill, How can we continue to work on increasing local production and purchase opportunities? Do you have suggestions for further ways to help local communities through existing authority USDA already has and possible new authorities that may be needed?

3. The 2008 Farm Bill included a program for the Chesapeake Bay watershed. In the first year of implementation, you directed funds solely into the EQIP program, as that program is very popular and could get funds out quickly through that process. What are your plans for the future of the Chesapeake Bay program, and how has it been received so far?

4. The Department recently put out a rule for the Biomass Crop Assistance Program (B-CAP). I've heard concerns from some constituents that even though the Farm Bill disallows BCAP payments for renewable biomass that would not be otherwise used for higher value products, payments have been made in violation of that prohibition. How has the Department fixed this issue?

5. As you state in your testimony about the SURE (Supplemental Revenue Assistance Payments) program, SURE sign up and payments will occur in 2011 for 2010 crop losses because of the need to calculate actual farm revenue. I have grape growers in Erie County who have already experienced as much as 80% loss to their 2010 crop due to frost this spring, but they won't be able to get SURE payments for another year. The whole county is probably not yet eligible for a disaster declaration because it has not experienced 30% loss across the county, due to different topographic and climate conditions affected by Lake Erie. I've also been told that because the SURE program is based on whole farm income, it is quite cumbersome, and due to that, in Chautauqua County, New York, which is also a grape-growing region, over 100 farmers applied for

SURE and only 15 qualified. How do you think we could improve the time lag issue? How could we design a permanent disaster program that would pay more immediately and be less cumbersome?

6. Later we will hear American Farm Bureau President Bob Stallman testify about crop insurance use in different states, and how for example, Illinois farmers use crop insurance more widely than those in Mississippi. Crop insurance participation is even lower in Pennsylvania. How do we make crop insurance work better in the underserved states?

Panel 2: National Organizations

Johnson, National Farmers Union; and Stallman, American Farm Bureau Federation

1. There have been many ideas proposed by many people and groups to reform current dairy policy. Some of these proposals include a supply management component. What are your thoughts about milk supply management? How about proposals to guarantee a cost of production or a margin?

Stallman, American Farm Bureau Federation

1. In your testimony, you highlight many failures and challenges that exist as a result of unresolved complexities within whole farm revenue insurance programs. I agree with you on the importance of getting insurance programs right and am glad you pointed out issues that exist. As we evaluate what price risk protection and crop insurance products are available to our farmers, we must make sure that we don't destroy the parts that are working and are benefiting farmers. What have farmers throughout the country told you is essential to the way they are currently running their farms? How would you structure a whole farm revenue safety net? How would you change products like AGR and AGR-Lite to make them easier to use while still protecting the integrity of the crop insurance program? How could SURE be reformed?

Agriculture Committee Hearing
June 30, 2010
Expanding Our Food and Fiber Supply through a Strong U.S. Farm Policy
Questions for the Record
Senator Thad Cochran

Secretary Vilsack:

1. We are talking today about the implementation of the 2008 Farm Bill in preparation for the next farm bill. Unfortunately, USDA has yet to complete its work on the old before Congress starts work on the new. Can you please update the committee on the status of publishing a rule on the catfish inspection issue?

2. There have been a few occasions this year, where the Department has tried to implement FY2010 items that were requested in your FY2011 budget. (A regional rural initiative and a bioenergy research proposal, are two examples). As you know, the Appropriations Committee has the responsibility to review these proposals and then determine if they should receive funding when considered with all the other activities for which the department needs funds. Why did the Administration try to circumvent the appropriations process, and what are you doing to improve communications with the Appropriations Committee?

3. I understand that Scott Steele from the Office of Budget and Program Analysis (OBPA) is retiring shortly. Scott has ably served the department for many years and leaves quite a void.

   - Who is responsible for hiring Scott's replacement?
   - Will the position be filled by a civil servant?
   - Since this is a very important position at the department, what skills would you like the next director to bring to the position?
   - What role do you envision OBPA playing in the department in the future?
   - Will OBPA continue its historical role of budget development or will it shift emphasis to focusing on regulation drafting?
   - Do you have any plans for OBPA's role in the development of the FY2012 budget?
   - Who is your point person for the FY2012 budget process?

Agriculture Committee Hearing
June 30, 2010
Expanding Our Food and Fiber Supply through a Strong U.S. Farm Policy
Questions for the Record
Senator Thad Cochran

Bob Stallman:

1. Mr. Stallman, in your role as President of the American Farm Bureau, you represent farmers from all areas of the United States. While the last Farm Bill has not been fully implemented, there was a noted shift in the way this Congress expects the farm safety net to work. Changes to Crop Insurance through the Standard Reinsurance Agreement, the introduction of a permanent disaster program (SURE), and a shift to revenue based assistance through the Average Crop Revenue Election (ACRE) program. In the last two years Farm Bureau has had time to do analysis and hear from the producers they represent.

   Can you please give the committee your analysis about how these new national programs are working in various areas of the country?

Questions for the Record 2012 Farm Bill Hearing
Senator Chuck Grassley
June 30, 2010

<u>Panel 1: Secretary Vilsack</u>

SURE

1) Since USDA is still working on the 2008 payments, any idea when 2009 may begin? Do you anticipate the same amount of time as it's taken for 2008 to make 2009 payments? Using this year's example, sign up began in January and its now almost July and we still have a lot of payments to make.

2) Previous ad hoc disaster payments required a 30 or 35% loss threshold. SURE only required 10% on one crop. Should Congress consider raising that threshold? Clearly that would lower the number of payments being made – do you have any rough estimates by about how much these payments would be reduced?

CIVIL RIGHTS

1) The Office of the Assistant Secretary for Civil Rights has only been in existence since the 2002 Farm Bill and it carries a large responsibility.

   a. In a report released by the U.S Government Accountability Office (GAO) in October 2008, the GAO determined that the USDA has continued to struggle to meet its basic responsibilities to guarantee the civil rights of its personnel and ensure that minority farmers and ranchers are served without discrimination. The report found that USDA has: (1) difficulty resolving discrimination complaints (2) a significant backlog of pending complaints, (3) a statutory mandate to publish reports on the participation of minority farmers and ranchers in USDA programs but those reports are riddled with unreliable data, and (4) not taken critical steps to "ensure USDA provides fair and equitable services to all customers and upholds the civil rights of its employees."

      My staff recently spoke with GAO and has been informed that actions to address these recommendations have not yet been fully implemented. Can you discuss when you think they will be fully implemented and what specific actions you are taking to ensure that this backlog of cases is finally and once and for all resolved?

   b. The recent USDA reorganization has put the Assistant Secretary for Civil Rights reporting to the Assistant Secretary for Administration. I'm concerned that by lowering the elevation and prestige of this office, you will not have the same oversight abilities as when the ASCR reported directly to you. Can you explain to me how and why you think this reorganization will improve the ASCR?

RENEWABLE FUELS

I'm pleased to hear of USDA's work to promote renewable fuels. Your support for renewable fuels as Governor of Iowa and as Secretary of Agriculture has been very strong, and I appreciate your support for ethanol and biodiesel very much.

Unfortunately, that support doesn't seem to exist at the Department of Energy or the Environmental Protection Agency. EPA again delayed action on approving ethanol blends of 15 percent, or E15. If we're going to meet the requirements of the Renewable Fuels Standard, we need to blend ethanol higher than 10 percent.

1) What is USDA doing to push DOE and EPA to approve higher blends? Is there a bias among DOE and EPA officials against corn ethanol? What assurances can you give to our domestic ethanol producers that there will be a market beyond the 10 percent "blend wall?"

SEC 502 SINGLE FAMILY HOUSING LOANS

1) Many in Iowa (both lenders and borrows) are concerned about the funds for the Section 502 Single Family Housing guaranteed loans running out soon, if they haven't done so already. I recognize that we don't re-authorize these in the 2012 farm bill, but this is one of the few programs out there able to help people finance their homes since because the private lenders are more cautious lending in rural areas. Why did the funding for this program run out so quickly? I know you are going to allow conditional commitments, but what is the strategy for keeping this program afloat until the end of the fiscal year?

Panel 2: Roger Johnson, National Farmers Union and Bob Stallman, American Farm Bureau Federation

SURE

As I mentioned to Secretary Vilsack, if there is anything that I hear the most complaints about from the 2008 Farm Bill, that's the implementation and complexity of SURE.

1) Previous ad hoc disaster payments required a 30 or 35% loss threshold. SURE only required 10% on one crop. Should Congress consider lowering that threshold? Clearly that would lower the number of payments being made – do you have any rough estimates by about how much these payments would be reduced?

2) A complaint I've heard a lot about in Southern Iowa was that their hay or mixed forage acres were being taken into account for their revenue, which aren't crops they typically sell, but instead feed. One area of consideration is removing the requirement on crop insurance for crops that aren't true risk crops. In other words, allowing producers to decide what their risk crops are, and whether they want to purchase insurance on them, and then only being eligible for SURE on those acres and crops they have chosen to insure. What are your thoughts on a proposal like that?

ACRE

1) Recognizing that we aren't even one full year into ACRE, we can talk about the challenges with signup. Signup was considerable lower than I think many of us expected. How do you suggest we improve ACRE to generate not only greater participation, but also the best revenue protection possible for producers?

Questions for USDA Secretary Tom Vilsack
Submitted by Senator Tom Harkin
"Expanding Our Food and Fiber Supply through a Strong U.S. Farm Policy"
June 30, 2010

BIOBASED PRODUCTS

Mr. Secretary, the 2002 farm bill and the 2008 farm bill both directed the Department of Agriculture to develop and carry out an initiative to approve labels that may be used to designate biobased products so that consumers, businesses, government agencies, or other purchasers can identify and buy biobased products in the market.

1. I would like to clarify the status of the USDA regulations to carry out this biobased labeling initiative and know when it will finally be up and running. It is my understanding that the label proposed last year is still with the USDA lawyers and has not gone to the Office of Management and Budget, which has an additional 90 days to review it.

When will the final regulations be issued and labels be approved for use on biobased products?

How does USDA plan to get national attention brought to this label when it is released?

2. I want to thank you, Mr. Secretary, for writing to other Cabinet members urging them to see that their departments and agencies purchase biobased products.

What is the response to that letter and how will USDA make sure that Federal agencies are buying biobased?

CONSERVATION RESERVE PROGRAM ACREAGE AND FUNDING

Mr. Secretary, the 2008 Food, Conservation, and Energy Act provided for and intended an enrollment level of 32 million acres in the Conservation Reserve Program and the Congressional Budget Office's budget score for CRP in the 2008 bill was the estimated cost of having 32 million acres in CRP. We fully paid for 32 million acres in CRP in the 2008 farm bill.

There is clearly plenty of demand and interest among farmers and ranchers to enroll the full 32 million acres in the Conservation Reserve Program and the Conservation Reserve Enhancement Program. I'm grateful you announced at the Pheasant Fest in Iowa earlier this year that USDA will carry out a new round of CRP enrollment this year.

Now, the Office of Management and Budget at the White House says that its budget baseline assumes no more than 30 million acres in CRP. Consequently, according to OMB, the Department of Agriculture cannot enroll the 32 million acres in CRP and CREP that we provided and paid for in the farm bill unless USDA somehow comes up with budget savings from elsewhere in the USDA budget to offset the cost of enrolling 32 million acres rather than just 30 million.

What that effectively means is that getting from 30 million CRP acres to the full 32 million acres must be paid for twice: first, when we wrote and paid for the 2008 farm bill, and second, through offsets out of other agriculture programs at USDA. As it turns out, the administration plans to transfer savings from the crop insurance program over to CRP.

Mr. Secretary, I am very worried that this sort of maneuver could be applied to any number of agriculture programs in order to cut back and simply not carry out what we wrote into law and fully paid for here in Congress. This approach is especially troubling since it comes on the heels of proposals in the President's budget to cut back the funding we dedicated and paid for in the farm bill for the Conservation Stewardship Program, the Environmental Quality Incentives Program, the Wetlands Reserve Program, the Wildlife Habitat Incentives Program, and the Farmland Protection Program.

To sum up, I do not understand how OMB can lawfully throw up this obstacle to carrying out the 2008 farm bill and require that at least some portion of CRP, and perhaps other programs, be paid for twice – once when the farm bill was written and a second time out of other agriculture programs at USDA.

Would you respond to my concerns please?

Agriculture Committee Hearing
June 30, 2010
Expanding Our Food and Fiber Supply through a Strong U.S. Farm Policy
Questions for the Record
Senator Pat Roberts

Secretary Vilsack:

1. Mr. Secretary, your third draft of the Standard Reinsurance Agreement (SRA) cuts $6 billion out of the crop insurance program. This is on top of the $6 billion cut included in the 2008 Farm Bill. You propose targeting $2 billion to be put back into USDA programs - some of that within crop insurance programs and some in conservation programs - and $4 billion for deficit reduction. I support efforts to reduce the deficit. However, production agriculture has consistently taken more than its fair share of reduction efforts. Unfortunately whenever production agriculture programs are cut, that funding is spent elsewhere; just as you have proposed in this SRA. Publicly and privately you and your staff have offered a commitment to retaining the funding cuts from the SRA renegotiation for the preservation of the Farm Bill baseline. We've yet to see a specific proposal on how to accomplish this. Does USDA have a specific proposal and if not, when will you produce one? Additionally, please provide a specific breakdown of the agriculture programs receiving the additional $2 billion.

2. Recently the Grain, Inspection, Packers and Stockyards Administration published proposed rules dealing with livestock and poultry production. Some of the proposals came at the direction of the Farm Bill, however much of them are eerily similar to provisions Congress either explicitly voted down on the floor or chose not to include in the conference committee report. How does the department justify expanding on the authority given by Congress through the Farm Bill? Furthermore, the deadline to submit comments to this sweeping proposal ends before you and the Department of Justice are scheduled to conclude all of your public workshops on competition. What is the administration's intent with these joint workshops? Why did you publish these rules before the workshops are concluded and the administration has an opportunity to consider the responses of those who took and will take precious time to attend or submit information? Such a decision gives the impression that these proposed regulations were predetermined, regardless of the outcome of the workshops.

3. I've heard from many producers that implementation of the Conservation Stewardship Program varies from state to state, affecting participation rates in different areas. What efforts does the department take to ensure that national programs, specifically CSP are administered equally in each state?

NATIONAL FARMERS UNION

August 6, 2010

The Honorable Blanche Lincoln
Chairman, Committee on Agriculture, Nutrition and Forestry
United States Senate

The Honorable Saxby Chambliss
Ranking Member, Committee on Agriculture, Nutrition and Forestry
United States Senate

Members of the Senate Committee on Agriculture, Nutrition and Forestry:

Thank you for the opportunity to testify before your committee during the June 30, 2010, hearing to review the 2008 Farm Bill. National Farmers Union (NFU) is always pleased to discuss the policies adopted by our grassroots organization. I look forward to working with you during the preparation for and writing of the next farm bill

NFU received several additional questions from members of the committee. Those questions are printed in bold and the answers are listed below for entry into the record.

From Senator Casey:

> **"There have been many ideas proposed by many people and groups to reform current dairy policy. Some of these proposals include a supply management component. What are your thoughts about milk supply management? How about proposals to guarantee a cost of production or a margin?"**

NFU has long favored the creation of a nationwide plan to wisely manage the supply of all farm commodities. Comprehensive inventory management has proven to be successful for other agricultural commodities in the past and some sectors of agriculture are even using these methods today. The sugar program, for example, uses low-cost supply management tools that are highly-effective in smoothing the peaks and valleys of sugar prices. Supply management tools have a proven track record of being useful and it is time that policymakers add that tool to the farm safety net toolbox.

Because of the complexities of dairy pricing and the many inputs necessary to produce milk, the federal dairy program has used several different techniques over the years to stabilize income for dairy farmers. In recent years, the Milk Income Loss Contract (MILC) has been used as a form of a counter-cyclical payment that assists farmers when the milk prices fall below a certain price. The trigger price is intended to reflect the cost of production for milk and it provides a lifeline to dairy farmers in the event of a "worst-case scenario," as was experienced in 2009. Milk prices dropped to historically low levels, even falling below the MILC activation level. However, the trigger price was not adjusted to reflect the unprecedented high cost of energy and feed that occurred in 2008 and farmers only received a percentage of the difference between the actual milk price and the MILC level. Even when dairy farmers were receiving MILC payments, they were still losing money.

Countercyclical programs help guarantee some of the cost of production and might even ensure a margin of return for dairy farmers. However, the current MILC program is usually only useful as an aid of last resort. Any meaningful reform of the program must make the trigger price more flexible to react appropriately to input price spikes and rapid gyrations in milk prices. Unfortunately, those changes would likely be expensive, and the realities of the farm bill baseline will probably make those adjustments unfeasible.

Executed properly, additional supply management tools would be an effective alternative to the current dairy policy. A comprehensive dairy program should allow dairy producers to receive a profitable return on their investment, even without payments from the federal government.

From Senator Grassley:

> **"As I mentioned to Secretary Vilsack, if there is anything that I hear the most complaints about from the 2008 Farm Bill, that's the implementation and complexity of SURE.**
>
> **"Previous ad hoc disaster payments required a 30 or 35% loss threshold. SURE only required 10% on one crop. Should Congress consider lowering that threshold? Clearly that would lower the number of payments being made – do you have any rough estimates by about how much these payments would be reduced?"**

The Supplemental Revenue Assistance Program (SURE) is still a very new program. It was a hard-fought victory to have an established federal program to help farmers to weather extreme circumstances beyond their control.

In the two years since the passage of the last farm bill, it has been difficult for USDA staff to bring this plan into action. Unfortunately, major crop disasters did not wait to strike until SURE was fully implemented and many important components of the program have undergone a trial by fire. With more time and more resources, SURE can be streamlined to better serve the needs of farmers who have been struck by weather disasters.

Yes, previous ad hoc disaster programs often had a 30 or 35% loss threshold, but once it was reached, there were too many cases where the total of disaster payment, crop insurance indemnity, and crop sales were greater than what a normal (or projected) crop would have generated. This phenomenon led those who designed SURE to construct a program that should never pay out more than what a "normal crop" would have paid.

SURE was designed on a whole farm revenue basis so that if a producer had a "disaster" on one crop but generated a "surplus" on another crop, these two results would be netted. This was done as an appropriate cost saving move for the government but also to target payments to those producers who suffered disaster related revenue losses on the entire farm. For example, if a farm suffered a loss on one crop but made up for that loss on other crops, no disaster payment should be made. On the other hand, if a farm suffered a general disaster related revenue loss of more than 10% after insurance indemnities and crop sales, the SURE program would be triggered while preventing "profiting" from disasters.

Because the SURE program requires all revenue sources for payment determinations, we believe Congress should consider modifying the SURE program to allow USDA to make early estimated advance payments.

From Senator Grassley:

> **"A complaint I've heard a lot about in Southern Iowa was that their hay or mixed forage acres were being taken into account for their revenue, which aren't crops they typically sell, but instead feed. One area of consideration is removing the requirement on crop insurance for crops that aren't true risk crops. In other words, allowing producers to decide what their risk crops are, and whether they want to purchase insurance on them, and then only being eligible for SURE on those acres and crops they have chosen to insure. What are your thoughts on a proposal like that?"**

The reasoning for requiring SURE participants to insure all insurable crops was two-fold. First, it was believed that crop insurance should be the primary safety-net for disaster related losses. Past efforts to require crop insurance for ad-hoc disaster assistance were not successful since the requirements usually applied to crop years subsequent to the disaster rather than the disaster year itself. Further, producers would purchase minimal insurance coverage simply to meet the requirement. SURE is designed to require crop insurance purchases and incentivize higher levels of insurance coverage.

Secondly, SURE is designed to provide assistance on a whole farm revenue basis. To maintain the integrity of the program and keep crop insurance as the primary disaster protection, it was believed that mandatory insurance coverage was necessary for the SURE program to function in a whole farm revenue manner. Because a determination of "risk crops" is highly variable from farm to farm, there would likely be disagreement among farmers and policymakers about what constitutes a risk crop and what does not. It is all together possible that one cornfield may be chopped for silage and an adjacent field will be harvested and sold. This is certainly not a dismissal of considering the risk crop issue, but is a conflict that would likely arise. If a number of different crops were to be excluded from the insurance requirement, the whole farm concept of SURE could quickly become diluted and ineffective. Despite the possible difficulties, this idea merits further investigation as the farm bill discussion progresses.

Because the current farm bill will not expire until a little more than two years from now, all realistic options for the future of the farm safety net ought to be considered. The flexibility provisions mentioned in the above question for crops that are not true risk crops merit additional consideration. As an organization of farmers, NFU welcomes any initiative that allows farmers to farm in the best way they know how. Creating flexible programs that meet the needs of the producer as well as the greater good should be the intent of all policy decisions and we appreciate the proposal mentioned above.

From Senator Grassley

Recognizing that we aren't even one full year into ACRE, we can talk about the challenges with signup. Signup was considerably lower than I think many of us expected. How do you suggest we improve ACRE to generate not only greater participation, but also the best revenue protection possible for producers?

The Average Crop Revenue Election (ACRE) program represents a possible future for the farm safety net. The sign-up and enrollment process was very complicated. Even with the best efforts of USDA and many commodity and producer organizations, NFU included, to inform farmers about the advantages of ACRE participation, the numbers were somewhat lower than expected. As was mentioned in the written testimony, the Farm Service Agency (FSA) reported that about 136,000 farms elected to participate in ACRE, representing about 33.15 million acres of productive land. With some modification, ACRE has the potential to reach many more farmers.

Beyond the passage of time and the resulting greater familiarity, the most helpful change to ACRE would be to change from a statewide yield structure for each crop to a yield structure based upon county histories or, if possible, individual farms. With the current structure there are often wide variations in the yield of a specific crop within a state due to climate, soil, hydrology and other factors. Irregularities also appear for states with a low level of production for the enrolled crop. By narrowing the yield level trigger to a county or farm basis, the geographic leeway that plagues the current ACRE could be substantially reduced and could thus become more responsive to the needs of an individual farmer. FSA has access to farm-by-farm data which can be used to make a highly personalized farm program function effectively in today's world.

Another difficulty with ACRE is that the farmer must show a revenue loss in order to receive payments. Demonstrating negative revenue is not always as straightforward as it might appear. As was discussed in the written testimony, the next farm bill would do well to remove the revenue loss requirements as well as change the statewide yield level trigger to county or farm information. If these changes are made to the ACRE program, enrollments are likely to increase. Of course, if these changers are made, ACRE would begin to operate somewhat similarly to SURE. It would also likely cost significantly more. As such Congress may wish to look at the possibility of combining these two programs to reduce farm program complexity.

Thank you again for your early attention to the next farm bill. If you have any questions regarding my testimony or NFU's policy, please do not hesitate to contact the NFU headquarters in Washington, D.C.

Sincerely,

Roger Johnson, President
National Farmers Union

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Agriculture Committee Hearing
June 30, 2010
Expanding Our Food and Fiber Supply through a Strong U.S. Farm Policy
Questions for the Record
Senator Robert P. Casey, Jr.

Panel 2: National Organizations

Bob Stallman, American Farm Bureau Federation

1. In your testimony, you highlight many failures and challenges that exist as a result of unresolved complexities within whole farm revenue insurance programs. I agree with you on the importance of getting insurance programs right and am glad you pointed out issues that exist. As we evaluate what price risk protection and crop insurance products are available to our farmers, we must make sure that we don't destroy the parts that are working and are benefiting farmers. What have farmers throughout the country told you is essential to the way they are currently running their farms? How would you structure a whole farm revenue safety net? How would you change products like AGR and AGR-Lite to make them easier to use while still protecting the integrity of the crop insurance program? How could SURE be reformed?

Our farmers believe that a safety net is important to the future of their operations. However, different producers in different regions that grow different crops will vary in which portions of the safety net they find most useful. As mentioned in our testimony, corn and soybean farmers in the Midwest might find crop insurance and ACRE to be the most beneficial risk management tools on their operations, while cotton farmers in Mississippi might consider direct payments and the marketing loan program as the most important components of the safety net for their operations. It will be critical to consider these regional and crop differences when crafting the 2012 farm bill.

In terms of a whole-farm revenue safety net, we believe challenges that have arisen with current whole farm programs such as the Adjusted Gross Revenue and the Adjusted Gross Revenue Lite plans can be very instructive if the concept is further pursued in the context of the 2012 farm bill. While both of these programs are 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.

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 fluctuate 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, straightforward to administer and needs to provide producers with risk management tools before we commit to such a path.

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 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.

However, one of our most critical concerns with SURE is that the program is based off of crop insurance, which does not serve all crops in all regions equally. For farmers who operate in regions or who grow crops that are not well-serviced by the current crop insurance program, SURE provides little or no assistance when emergencies occur. Unless the underlying problems with crop insurance are addressed, it will be extremely difficult to tweak the SURE program in a way that will provide true disaster coverage across the country.

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Agriculture Committee Hearing
June 30, 2010
Expanding Our Food and Fiber Supply through a Strong U.S. Farm Policy
Questions for the Record
Senator Thad Cochran

Bob Stallman:

1. Mr. Stallman, in your role as President of the American Farm Bureau, you represent farmers from all areas of the United States. While the last Farm Bill has not been fully implemented, there was a noted shift in the way this Congress expects the farm safety net to work. Changes to Crop Insurance through the Standard Reinsurance Agreement, the introduction of a permanent disaster program (SURE), and a shift to revenue based assistance through the Average Crop Revenue Election (ACRE) program. In the last two years Farm Bureau has had time to do analysis and hear from the producers they represent.

   Can you please give the committee your analysis about how these new national programs are working in various areas of the country?

Farmers that farm different crops in different parts of the country rely most heavily on different pieces of the safety net. For example, a corn and soybean farmer in the Midwest might have a multitude of layers of protection for both price and yield risk exposure: first through the ACRE program, then through buy-up crop insurance and then through the SURE program. In fact, the Midwest has some of the highest levels of ACRE participation, buy-up crop-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 cotton farmer in the South with the same depth of safety net coverage, and this Southern cotton farmer might rely on different safety net programs. For example, ACRE has not proven to be a useful program in the South for a variety reasons. Many farmers in the region, particularly cotton farmers, experienced low prices in 2007 and 2008, which were the base years for setting the support level for ACRE. For cotton farmers the direct payment and marketing loan portions of the traditional safety net are critical, and the cuts required to this portion of the safety net were too steep to attract farmers to ACRE.

The use of buy-up crop insurance is also not as prevalent in many parts of the South as it is throughout the Midwest. Again, there are a lot of reasons a farmer in the South might 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 farmers. Without the purchase of buy-up crop insurance, the value of SURE as a disaster program is also minimized.

Again, almost all of our farmers can find at least one component of the commodity title that works for their farm. But it depends on what kind of farmer and in what part of the country they farm as to which programs work best and are utilized most. It will be critical to consider these regional and crop differences when crafting the 2012 farm bill.

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Questions for the Record 2012 Farm Bill Hearing
Senator Chuck Grassley
June 30, 2010

Panel 2: Roger Johnson, National Farmers Union and Bob Stallman, American Farm Bureau Federation

SURE

As I mentioned to Secretary Vilsack, if there is anything that I hear the most complaints about from the 2008 farm bill, that's the implementation and complexity of SURE.

1) Previous ad hoc disaster payments required a 30 or 35% loss threshold. SURE only required 10% on one crop. Should Congress consider lowering that threshold? Clearly that would lower the number of payments being made – do you have any rough estimates by about how much these payments would be reduced?

Requiring a higher threshold for payment could decrease the number of payments being made under the SURE program, although we do not have enough detailed information on the SURE program at this time to determine exactly how much money such a change would save. It is important to consider, however, that SURE is a revenue program, so it will likely take more than a 10 percent yield loss or a 10 percent loss combined with significant price decreases in order to trigger a payment.

Farm Bureau believes there are other, more critical problems with the SURE program as it is currently written. For example, the program does not provide assistance to farmers until at least a full year after the end of the crop year in which they experienced a disaster. For those farmers who have experienced devastating crop losses due to adverse weather, this assistance is often too late. We are also concerned that the SURE program is based off of crop insurance, which does not serve all crops in all regions equally. For farmers who operate in regions or who grow crops that are not well-serviced by the current crop insurance program, SURE provides little or no assistance when emergencies occur.

2) A complaint I've heard a lot about in Southern Iowa was that their hay or mixed forage acres were being taken into account for their revenue, which aren't crops they typically sell, but instead feed. One area of consideration is removing the requirement on crop insurance for crops that aren't true risk crops. In other words, allowing producers to decide what their risk crops are, and whether they want to purchase insurance on them, and then only being eligible for SURE on those acres and crops they have chosen to insure. What are your thoughts on a proposal like that?

Such a proposal would address some of our farmers' concerns – particularly concerns from farmers who grow crops for which only NAP coverage is available (as is the case with hay and forage in most states). Given that the SURE guarantee is based on crop insurance purchase levels or NAP, these producers are at an inherent disadvantage because their SURE guarantee for NAP crops is going to be pegged at a low level that would require extreme losses in order to trigger a payment.

Although some of our producers would certainly applaud this type of change to the SURE program, such a proposal would not address the underlying problems that we see with the SURE program – namely the timeliness of payments and the reliance on crop insurance as a basis for SURE payment calculations.

ACRE

1) Recognizing that we aren't even one full year into ACRE, we can talk about the challenges with signup. Signup was considerable lower than I think many of us expected. How do you suggest we improve ACRE to generate not only greater participation, but also the best revenue protection possible for producers?

Farm Bureau believes that while making modifications may improve participation in some crops in some parts of the country - namely those parts of the country and crops already most inclined to sign-up for ACRE - some crops and regions are simply unlikely to be drawn into the program.

As noted in our testimony, some of the concerns our farmers have expressed include:

- Some farmers, particularly those growing cotton, experienced 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 are 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 crops such as cotton and peanuts.[1]

We have heard some claims that making ACRE a county-level program will draw greater participation to the program. While this may be true on the corn, soybean and wheat farms that are already most inclined to participate in the program, this change is unlikely to attract cotton, peanut and rice farmers who have shown little interest in the program. The direct payment and marketing loan rate cuts will still be too steep, and the base years will still

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

provide a disadvantage to these producers. In addition, in those areas of the country where there have been significant shifts in the crops produced (such as the Southeast where there has been a shift from cotton acres to corn and soybean acres), county average yields are likely to be outdated and woefully low as they do not reflect the improved technologies and production practices available to today's producers.

In sum, there are some changes that could be made to the ACRE program to attract more producers, but the general structure of the program will simply not attract a large portion of America's farmers.

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Questions for USDA Secretary Tom Vilsack

Submitted by Chairman Blanche L. Lincoln, Senator Saxby Chambliss, Senator Tom Harkin, Senator Chuck Grassley, and Senator Robert P. Casey, Jr.

"Expanding our Food and Fiber Supply through a Strong U.S. Farm Policy"

June 30, 2010

Chairman Lincoln:

[Question 1] I understand that you will be able to commit $2 billion of the savings from the new SRA to additional spending on expanding certain crop insurance policies and enrollment in the CRP. I would ask you to provide additional details on how these funds will be allocated, and remind you of the need to devote resources to expanding crop insurance participation in the South, where many farmers find existing policies less than fully satisfactory. Will you be devoting some of these funds on a policy for cottonseed and for an endorsement for downed rice?

A: USDA and particularly the Risk Management Agency remains committed to evaluating opportunities to improve or expand crop insurance coverage. Approximately $500 million over ten years has been allocated for the highest priority Conservation Reserve Program (CRP) initiatives.

Risk Management Agency is focused on evaluating opportunities to improve coverage of crops grown in the southeastern United States, in particular, the cottonseed endorsement, a product approved by the FCIC Board of Directors under the authority of section 508(h) of the FCIC Act, is targeted for 2011 crop year implementation. Because of the mandatory nature of products approved under the authority of section 508(h), none of the $2 billion was needed for this effort. We are anticipating a proposal for an endorsement for "downed rice" to be submitted under the authorities of section 508(h), which, if approved by the Board, would not require the use of funds from the $2 billion.

[Question 2] Section 12023 of the 2008 farm bill requires the Federal Crop Insurance Corporation to make a decision on whether to eliminate or reduce the premium surcharge for organic production, based on whether or not "significant, consistent, and systemic variations in loss history" exist between organic and nonorganic crops. The farm bill is very explicit that the evidence mounted to support such a decision must be based on "the widest available range of data collected by the Secretary and other outside sources of information" and may "not be limited to loss history under existing crop insurance policies."

Your written testimony on organic crop insurance notes that "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." Are we to assume this means that you are dissatisfied with the contracted research and believe that further work is now required to be done by the Department directly in order for you to comply with the farm bill's directive to eliminate or reduce the surcharge in the absence of convincing, scientifically valid data indicating there is any overwhelming reason for its continued existence?

A: The Risk Management Agency recently completed the contract work as required by the Farm Bill, and plans to post the reports to its website in the near future. The contractor concluded that RMA's own data was the sole source of this type of loss experience, and thus restricted their review to RMA's loss experience data. The contractor concluded that the data does not provide sufficient evidence that organic production results in significant, consistent or systemic variations in loss history versus nonorganic production in all circumstances. However, at the same time the contractor notes that the differences between the two practices observed so far are too great to dismiss, offering several alternative recommendations that have varying consequences to organic producers. RMA is currently evaluating those recommendations and the effect they may have on the crop insurance program and organic producers. The report related to the premium surcharge does provide RMA with a framework for taking prudent actuarial actions in the future for offering an appropriate rate for organic production, along with RMA annually reviewing its loss experience.

[Question 3] If that is indeed the case, can you indicate to the Committee what your timeline is for collecting the additional research and data and for making your decision on the premium surcharge issue?

A: RMA plans to act on the report's findings beginning with the 2011 crop year for certain crops where policy coverage specifies a very limited set of causes of loss, primarily independent of management or production practices and supported by favorable loss experience. RMA also plans to annually monitor its experience and continue to evaluate crops to assess whether any premium surcharge is appropriate or may warrant removal.

Questions for USDA Secretary Tom Vilsack

Submitted by Chairman Blanche L. Lincoln, Senator Saxby Chambliss, Senator Tom Harkin, Senator Chuck Grassley, and Senator Robert P. Casey, Jr.

"Expanding our Food and Fiber Supply through a Strong U.S. Farm Policy"

June 30, 2010

Senator Chambliss:

[Question 4] The President's FY 2011 Budget proposed to reduce direct payments and adjusted gross income limitations. The justification was that this "would allow USDA to target commodity payments to those who need and can benefit from them most". Do you believe those larger farmers who are producing the majority of the food and fiber consumed in this country are any less worthy of access to the safety net we developed in the 2008 farm bill? After all, if they are producing more, they are certainly subjected to more input costs and risks. Can you provide the committee an analysis regarding the number of producers impacted by the proposed changes, the total dollars saved and the reduction in benefits by crop?

A: As you indicate, the FY 2011 President's Budget proposed reducing limits on direct payments and imposing further adjusted gross income limitations. Rather than deeming producers "worthy" or "not worthy," these proposals were submitted in the spirit of allocating scarce Federal dollars to those most in need. The President's Budget recommended that the direct payment limit be reduced to $30,000 per program year for individuals and applicable entities, down from the current limit of $40,000. As a statutory condition of Average Crop Revenue Election (ACRE) program participation, farms enrolled in ACRE would be subject to a corresponding 20 percent reduction in direct payments. Thus, an individual with all farms enrolled in ACRE would be eligible for no more than $24,000 (=80% * $30,000) under the President's Budget recommended reduction on payment limits. The non-farm and farm adjusted gross income (AGI) criteria would each be reduced by $250,000 over a three-year period—with the non-farm AGI declining to $250,000 and the farm AGI declining to $500,000.

Projected savings associated with these two proposals would be $2.2 billion over ten years. Roughly 30,000 individuals out of 1.4 million beneficiaries (2%) would be affected. The table immediately below provides year-by-year cost estimates, while the following table provides a state-by-state estimate of crop year 2011 savings associated with the proposed $30,000 direct payment limit.

($ in millions)

	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	5-YR	10-YR
AGI Change	-1	-4	-34	-74	-78	-191	-764
DPP P.L. Change	0	-168	-167	-167	-167	-668	-1,498
Total 1/	-1	-172	-201	-241	-245	-860	-2,263

1/ Totals may not add due to rounding.

Crop Year 2011 Savings From a Proposed $30,000 Limit

on the Direct Payment Program (DPP) 1/

State	Total DPP Payment ($)	Total DPP Savings, $30,000 Limit, Adjusted for ACRE Participation ($)	Share of DPP Payment Affected By $30,000 Limit (Percent)	Total DPP Beneficiaries (Count)	Total Beneficiaries Affected By $30,000 Limit (Count)	Share of Beneficiaries Affected By $30,000 Limit (Percent)
Alabama	40,689,030	1,565,164	3.8%	17,083	254	1.5%
Alaska	101,605	0	0.0%	63	0	0.0%
Arizona	32,490,526	2,876,240	8.9%	2,095	409	19.5%
Arkansas	239,659,316	22,904,222	9.6%	25,469	3,149	12.4%
California	160,454,556	14,298,413	8.9%	16,059	2,031	12.6%

Crop Year 2011 Savings From a Proposed $30,000 Limit on the Direct Payment Program (DPP) 1/

State	Total DPP Payment ($)	Total DPP Savings, $30,000 Limit, Adjusted for ACRE Participation ($)	Share of DPP Payment Affected By $30,000 Limit (Percent)	Total DPP Beneficiaries (Count)	Total Beneficiaries Affected By $30,000 Limit (Count)	Share of Beneficiaries Affected By $30,000 Limit (Percent)
Colorado	73,293,805	2,300,669	3.1%	20,274	357	1.8%
Connecticut	635,254	0	0.0%	429	0	0.0%
Delaware	5,541,337	124,920	2.3%	1,391	19	1.4%
Florida	10,535,138	424,799	4.0%	3,646	62	1.7%
Georgia	94,718,013	6,631,633	7.0%	19,173	962	5.0%
Hawaii	0	0	0.0%	0	0	0.0%
Idaho	56,243,520	1,558,305	2.8%	15,449	241	1.6%
Illinois	441,711,589	8,773,756	2.0%	118,787	1,651	1.4%
Indiana	222,470,767	5,038,967	2.3%	62,848	900	1.4%
Iowa	485,248,618	7,770,394	1.6%	102,839	1,447	1.4%
Kansas	317,293,857	7,026,121	2.2%	101,933	1,223	1.2%
Kentucky	52,730,537	1,457,630	2.8%	49,113	246	0.5%

Crop Year 2011 Savings From a Proposed $30,000 Limit on the Direct Payment Program (DPP) 1/

State	Total DPP Payment ($)	Total DPP Savings, $30,000 Limit, Adjusted for ACRE Participation ($)	Share of DPP Payment Affected By $30,000 Limit (Percent)	Total DPP Beneficiaries (Count)	Total Beneficiaries Affected By $30,000 Limit (Count)	Share of Beneficiaries Affected By $30,000 Limit (Percent)
Louisiana	118,027,213	7,542,751	6.4%	29,533	1,149	3.9%
Maine	848,478	0	0.0%	1,308	0	0.0%
Maryland	16,488,337	310,590	1.9%	5,051	50	1.0%
Massachusetts	388,038	0	0.0%	555	0	0.0%
Michigan	85,011,193	1,627,940	1.9%	28,895	284	1.0%
Minnesota	295,059,131	5,429,980	1.8%	54,286	1,049	1.9%
Mississippi	118,403,806	11,832,584	10.0%	20,448	1,606	7.9%
Missouri	175,087,951	5,407,659	3.1%	66,702	858	1.3%
Montana	99,284,278	2,109,762	2.1%	27,905	360	1.3%
Nebraska	322,782,584	6,385,069	2.0%	71,741	1,172	1.6%
Nevada	641,036	17,396	2.7%	472	2	0.4%

Crop Year 2011 Savings From a Proposed $30,000 Limit on the Direct Payment Program (DPP) 1/

State	Total DPP Payment ($)	Total DPP Savings, $30,000 Limit, Adjusted for ACRE Participation ($)	Share of DPP Payment Affected By $30,000 Limit (Percent)	Total DPP Beneficiaries (Count)	Total Beneficiaries Affected By $30,000 Limit (Count)	Share of Beneficiaries Affected By $30,000 Limit (Percent)
New Hampshire	327,636	0	0.0%	407	0	0.0%
New Jersey	2,585,177	16,009	0.6%	938	3	0.3%
New Mexico	15,418,438	508,375	3.3%	3,756	74	2.0%
New York	26,152,614	216,719	0.8%	12,297	45	0.4%
North Carolina	63,866,392	2,272,132	3.6%	21,659	370	1.7%
North Dakota	214,023,088	6,123,102	2.9%	33,830	1,149	3.4%
Ohio	161,556,189	2,452,576	1.5%	53,972	442	0.8%
Oklahoma	119,849,248	2,078,811	1.7%	41,890	359	0.9%
Oregon	27,936,041	737,477	2.6%	9,041	117	1.3%
Pennsylva	23,339,303	112,122	0.5%	13,543	23	0.2%

Crop Year 2011 Savings From a Proposed $30,000 Limit

on the Direct Payment Program (DPP) 1/

State	Total DPP Payment ($)	Total DPP Savings, $30,000 Limit, Adjusted for ACRE Participation ($)	Share of DPP Payment Affected By $30,000 Limit (Percent)	Total DPP Beneficiaries (Count)	Total Beneficiaries Affected By $30,000 Limit (Count)	Share of Beneficiaries Affected By $30,000 Limit (Percent)
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Rhode Island	23,598	0	0.0%	40	0	0.0%
South Carolina	25,832,858	1,166,492	4.5%	10,198	200	2.0%
South Dakota	152,514,416	3,414,248	2.2%	36,824	550	1.5%
Tennessee	50,522,437	1,702,952	3.4%	31,353	287	0.9%
Texas	392,107,745	20,156,738	5.1%	88,428	3,173	3.6%
Utah	6,012,252	21,048	0.4%	4,166	3	0.1%
Vermont	1,793,957	3,706	0.2%	1,918	1	0.1%
Virginia	22,842,299	730,017	3.2%	12,649	110	0.9%
Washington	69,285,209	1,356,588	2.0%	16,881	235	1.4%
West Virginia	1,698,430	12,731	0.7%	2,432	2	0.1%

Crop Year 2011 Savings From a Proposed $30,000 Limit on the Direct Payment Program (DPP) 1/

State	Total DPP Payment ($)	Total DPP Savings, $30,000 Limit, Adjusted for ACRE Participation ($)	Share of DPP Payment Affected By $30,000 Limit (Percent)	Total DPP Beneficiaries (Count)	Total Beneficiaries Affected By $30,000 Limit (Count)	Share of Beneficiaries Affected By $30,000 Limit (Percent)
Wisconsin	108,094,165	1,260,639	1.2%	44,513	223	0.5%
Wyoming	6,665,997	25,157	0.4%	4,211	6	0.1%
U.S.	$4,958,287,000	$167,782,604	3.4%	1,308,491 a/	26,852 b/	2.1%

1/ All 2011-crop savings from the proposed payment limit of $30,000 are assumed to be realized in fiscal year 2012.

a/ Total beneficiaries based on prior crop year participation (crop year 2011 data not yet available). Total adjusted beneficiaries estimated to be about 1.4 million. Note: In 2009, about 1.7 million "farms" were enrolled in DCP/ACRE program; however, some payees receive benefits from multiple farms.

b/ Number of beneficiaries affected by payment limit proposal only; when AGI eligibility changes are included the total impacted beneficiaries is estimated to total about 30,000.

[Question 5] In a recently released proposal from the National Milk Producers Federation, the existing Federal support programs would be replaced by a Dairy Producer Margin Protection Program (DPMPP). The DPMPP would act as a margin insurance program with no payment limitations based on income and/or size of a producer's herd. Given the Administration's support for stricter payment limits, do you support the concept of waiving payment limits for a new dairy program? Would the Administration support eliminating payment limits if existing row crop safety net programs behaved more like revenue insurance programs administered either through the Risk Management Agency or the Farm Service Agency?

A: USDA has been on record in recent President's Budget submissions supporting stricter direct payment limits for crop commodity programs. However, with regard to the crop insurance program where growers pay a portion of the cost, such payment limits have not been proposed. We are early in the process of evaluating the National Milk Producers Federation (NMPF) proposal and have not addressed the issue of payment limits for this type of revenue insurance product. We appreciate greatly the work that the NMPF and other dairy groups have put into developing policy proposals and continue to work through the details of the programs with the Dairy Industry Advisory Committee (DIAC) that I formed earlier this year. USDA looks forward to continuing to work with the DIAC to develop recommendations for future dairy programs.

[Question 6] As was briefly discussed during the hearing, USDA has partnered with the IRS to monitor compliance with the income level restrictions for farm program participation, I am curious to know if the list of those flagged by the IRS and then supplied to the USDA will be subject to release under the Freedom of Information Act? While I realize that tax information is not subject to release, I also understand that the list transmitted to USDA from the IRS will actually have no tax data contained therein. I appreciate your commitment during the hearing to address this question after you learn the answer.

A: It is our position that the list of names flagged by IRS as potentially exceeding one or more of the average AGI limitations is not subject to disclosure under the Freedom of Information Act.

[Question 7] We are always appreciative of the time and effort of FSA personnel in delivering farm programs to our producers. While FSA staff can make great strides to ensure good service, a critical component of the job that is out of their control is the information technology (IT) system. We often hear complaints from farmers about the availability of software, concerns about computer systems, and as in many cases last year, a number of farm payments that were directed to the wrong bank accounts. Do you have confidence in the ability of FSA's information technology (IT) systems to effectively and efficiently deliver the current farm programs? What steps are being taken to improve the delivery system for the current suite of programs to ensure readiness for the 2012 farm programs?

A: IT modernization in the Farm Service Agency is a top priority of USDA. FSA is incrementally deploying new capabilities and major upgrades across the Agency. As planned, major upgrades will occur primarily in FY2011 through FY2014.

In 2009, Congress provided funding for the multi-year information technology stabilization and modernization initiative. The FY 2011 budget proposal includes the resources to move ahead on schedule with IT modernization for FSA. It will support the continuation of the Modernize and Innovate the Delivery of Agricultural Systems (MIDAS) project as planned along with necessary conversion of software for supporting activities to facilitate transition of FSA IT from the obsolete legacy system.

In addition, USDA's budget provides for a needed refreshment of the Common Computing Environment to support the continued modernization process for FSA and the other service center agencies. All of these activities will prepare FSA to deliver any new programs created by Congress more quickly, more efficiently, and with less burden on FSA field office staff and the farmers they serve.

As this process moves forward, 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. 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.

> **[Question 8]** Writing a farm bill is a complex process with many interests to balance, including the need for our programs to provide an effective safety net for producers and to meet our trade obligations. Domestic farm policy has undergone a lengthy challenge by Brazil in the WTO. As a result, a number of folks have suggested that we "trade-proof" our programs. In your opinion, is it possible to "trade-proof" our programs, that is, write them in a way that will prevent WTO challenge?

A: While we cannot prevent challenges from other countries in the WTO to our farm programs, I do believe it is possible for Congress to write a farm bill that is consistent with our WTO obligations, thereby reducing the likelihood of potential future challenges and increasing the chances of prevailing in those instances when programs are challenged. In the coming months as the farm bill process moves forward in Congress, I look forward to offering the insights and expertise of our professional USDA staff on these issues. It is my pledge to appropriately assist the Congress and provide technical assistance in areas that are most important to our producers.

> **[Question 9]** What is the status of SURE program signup for 2009? Are there ways in which this program might be improved to simplify administration and deliver benefits in a timely manner to producers?

A: FSA is expecting to start accepting 2009 SURE applications in late 2010. There are two statutory reasons why SURE payments cannot be made up to a year and a half after the year of loss. The first is the requirement that a 12 month National Average Market Price must be established to determine the value of actual production in determining the crop revenue. The 12-month time period begins after the crop is harvested. The second statutory reason requires the inclusion of 15 percent of any direct payments, the total amount of any counter cyclical payments, and the total amount of any loan deficiency payments or marketing loan gains as part of determining total farm revenue which is part of the SURE calculation. Due to the timing of when these payments or marketing loan gains can be calculated delays the agency's ability to finalize any SURE payments. SURE is a complex program, and is based on a whole farm concept. I can offer a few provisions that add complexity in administering SURE:

- Utilizing the various coverage elections, policy options, and endorsements offered under the crop insurance programs require significant detail in understanding how those crop insurance policies impact a producer's eligibility for SURE;
- Comparing the adjusted actual production history yield to a producer's counter cyclical yield is an added complexity to the calculation of yields;
- Determining loss is complex because all crops and farms a producer has an interest in nationwide must be considered.

FSA has improved in the administration of SURE and has overcome significant obstacles in implementing this program. Since State and county FSA offices should be more familiar with SURE we are hoping the administration of SURE will become easier.

[Question 10] We appreciated you meeting recently with Committee members concerned about various issues with the Standard Reinsurance Agreement (SRA). You are aware of our concerns that remain with respect to the depletion of the ag baseline, the magnitude of the cuts, and the cap on commissions to agents who are not a party to the agreement. We were surprised to find a new provision tucked into the third draft with respect to litigation. If the Federal Crop Insurance Corporation's (FCIC) actions are found by a court to be in violation of the Federal Crop Insurance Act, then the crop insurance companies are going to pay FCIC for any losses associated with FCIC's misapplication of the law, irrespective of whether the company was involved in the suit or not. Because the provision is so offensive, we understand that USDA lawyers have revised the provision so that it now prohibits companies and agents from suing USDA. Can you shed any light on the need for such a provision as well as the legal authority of FCIC to include this provision?

A: During the SRA negotiations, the companies prepared a legal brief that questioned the legality of changing the A&O structure in the new SRA. The USDA Office of General Counsel (OGC) responded by showing that the companies' legal interpretation was out of context with the rest of the Farm Bill section and, in fact, contradicted other Farm Bill provisions in which Congress specifically directed RMA to consider alternative A&O structures in SRA negotiations. Based on the comments from the companies counsel, RMA believed the issue had been resolved. After the second draft was released, the issue was raised again and some companies provided reservation of rights documents to RMA when providing their comments to the second draft. Several companies continued thereafter to threaten lawsuits against RMA.

In the third draft, RMA elected to include an economic disincentive to sue but it did not prohibit such suits. The companies argued that this provision may have been too broad and too severe. On reflection, RMA agreed. The companies actually offered the covenant not to sue provision as an alternative. Given that the companies proposed the covenant, RMA considered it a viable alternative. This proposal reflected a good faith effort by the companies to resolve this situation.

When such legal issues arise in the private sector and the parties wish to resolve the dispute and complete the negotiation of a deal, it is not uncommon to include a covenant not to sue regarding a particular legal issue in question. Because the situation was similar here, RMA was not opposed to using the covenant not to sue to resolve its dispute with the companies. While they may not be as common in agreements with the government, there is no legal authority prohibiting the use of covenant not to sue provisions in government contracts. Further, the courts have upheld covenant not to sue provisions when they are negotiated by the parties and consideration is given.

With respect to the application of the covenant not to sue to the agents, RMA had a legitimate concern. With their proposal, the companies had agreed to include a covenant not to sue. However, the agreements that the government and the companies had reached could still be the subject of litigation through lawsuits filed by their agents. Although agents do not sign the SRA, they are included in the definition of "affiliate" in the SRA, which means they are bound by many of the same provisions as the companies.

It is important to note that agents act on behalf of the companies in carrying out the companies' responsibilities under the SRA. They are representatives of the companies, not true independent third parties. Therefore, companies and their agents had to be treated the same or the negotiated covenant not to sue would have had no meaning. It should also be noted that the covenant not to sue by companies and agents is relatively narrow in scope; it applies only to the A&O subsidy.

[Question 11] During development of the 2008 farm bill, attention was given to a very sensitive issue: the issuance of farm program payments to deceased individuals. Recognizing the complexity in passing a farm on to the next generation and achieving the settlement of estates in a timely manner, Congress directed USDA to issue regulations regarding appropriate circumstances for the issuance of payments in the name of a deceased producer as well as precluding the issuance of payments to those ineligible to receive them. The farm bill also directed USDA and the Social Security Administration to reconcile social security numbers of those receiving farm program payments twice a year. What steps has USDA taken to ensure that farm program payments are being made to legitimate estates and individuals?

A: A regulation on payments due persons who have died has been set forth at 7 CFR Part 707 since 1965. FSA is in the process of promulgating a rule that will make slight modifications to the existing regulation in accordance with the 2008 Farm Bill. However, our regulations have never authorized the issuance of payments to an ineligible individual or entity.

USDA has taken the following steps to ensure farm program payments are made to estates and individuals legally entitled to a payment:

- Each quarter (twice the frequency required by the 2008 Act), USDA matches the social security number of individuals who receive FSA program payments (directly or indirectly) with data provided by the Social Security Administration (SSA) to determine if any program recipient is deceased;
- Deceased individual listings are investigated through local county FSA offices. If it is determined that a payment was issued (directly or indirectly) to a social security number associated with an individual who had died before the payment was issued, it is determined whether or not the payment was earned by the individual while living, who is now deceased. A common example involves counter-cyclical payments which, by their nature, are made well after the contract period for producer compliance has ended.
- When FSA discovers any incorrect payment, corrective action is taken.
- County FSA committees are directed to review estates that are kept open more than 2 years after the date of death, to ensure that they are being kept open for reasons other than the receipt of program payments.

Questions for USDA Secretary Tom Vilsack

Submitted by Chairman Blanche L. Lincoln, Senator Saxby Chambliss, Senator Tom Harkin, Senator Chuck Grassley, and Senator Robert P. Casey, Jr.

"Expanding our Food and Fiber Supply through a Strong U.S. Farm Policy"

June 30, 2010

Senator Casey:

> **[Question 21]** There have been many ideas proposed by many people and groups to reform current dairy policy. Some of these proposals would overhaul the entire way the system currently works, including getting rid of the Dairy Product Price Support Program or the Milk Income Loss Contract program. What are your thoughts about these proposals? How about programs to manage milk supply, and how could we manage domestic supply and imports? What about proposals to guarantee a cost of production or a margin?

A: USDA appreciates greatly the work that numerous dairy groups have put into developing policy proposals in response to the recent dairy crisis. The Dairy Industry Advisory Committee (DIAC) that I formed earlier this year continues to work through the details of the programs and is in the process of developing recommendations. USDA looks forward to hearing these recommendations for future dairy programs and will evaluate the proposals presented for both economic effects and consistency with our international trade obligations.

> **[Question 22] Groups in Pennsylvania are working to connect local growers with local markets as a way to strengthen their local economies and improve the environment. In the 2008 Farm Bill, we created some programs that would lead us down that path. You created the "Know Your Farmer, Know Your Food" program to assist in that process. For the next Farm Bill, how can we continue to work on increasing local production and purchase opportunities? Do you have suggestions for further ways to help local communities through existing authority USDA already has and possible new authorities that may be needed?**

A: To clarify, the Know Your Farmer, Know Your Food (KYF2) is not a program, it does not have dedicated staff or funding, but rather it is a department-wide initiative that promotes collaboration and coordination among existing USDA programs to support local and regional food system development, as well as to encourage a national conversation on what we eat and where our food comes from.

We have been looking across the Department to identify which programs can facilitate this dialog. For example, within the Agricultural Marketing Service (AMS), we have identified the Wholesale, Farmers, and Alternative Market Development; grant activities under the Farmers Market Promotion Program; the Federal-State Marketing Improvement Program; and the Specialty Crop Block Grant Program which will be instrumental in getting this message to the public.

The KYF2 Initiative includes launching new efforts within existing program authorities. Our Wholesale, Farmers, and Alternative Market Development Program provides technical assistance to States, municipalities and nonprofit groups interested in creating or upgrading markets and marketing facilities and conducts research to address marketing concerns of small/ mid-size farm producers, with emphasis on the information needs of the direct farm marketer.

For FY 2011, the President's budget request includes an increase of $920,000 in the Wholesale, Farmers, and Alternative Market Development Program to improve access to local and regionally produced foods through technical assistance or research projects that address product trends, buyer specifications, consumer preferences, distribution practices and requirements, and marketing strategies; development of conceptual designs for and gauging estimated costs of planned construction or renovation projects; and preparing demographic assessments of market trade areas.

The budget also includes an increase to $2.6 million for the Federal-State Marketing Improvement Program, nearly doubling the 2010 funding level. The program funds matching grants to assist in addressing barriers, challenges and opportunities in the marketing, transport, and distribution of U.S. food and agricultural products domestically and internationally. These new funds can be used for projects that focus on local food and other marketing initiatives.

We look forward to working with Congress during the development of the next Farm Bill to ensure the local food systems have the tools necessary to foster economic growth in rural America.

> **[Question 23]** The 2008 Farm Bill included a program for the Chesapeake Bay watershed. In the first year of implementation, you directed funds solely into the EQIP program, as that program is very popular and could get funds out quickly

through that process. What are your plans for the future of the Chesapeake Bay program, and how has it been received so far?

A: In Fiscal Year (FY) 2010, NRCS is using various programs, initiatives, and grants to deliver Chesapeake Bay Watershed Program funds. These efforts include Environmental Quality Incentives Program (EQIP), Wildlife Habitat Incentive Program (WHIP), Cooperative Conservation Partnership Initiative (CCPI), and Conservation Innovation Grants.

In Fiscal Year (FY) 2011, NRCS plans to utilize the Environmental Quality Incentives Program (EQIP) and the Cooperative Conservation Partnership Initiative (CCPI) to deliver conservation assistance funded by the Chesapeake Bay Watershed Program (CBWP). These two programs (EQIP and CCPI) allow the flexibility to address water quality resource concerns through a targeted approach to conservation.

In May 2009, USDA was identified as a leader in Executive Order (EO) 13508 - Chesapeake Bay Protection and Restoration, which called for a more cooperative and targeted approach for conservation treatment in the Chesapeake Bay Watershed. Through this EO, NRCS developed a strategy for administering increased conservation, technical, and financial assistance in the Bay. With this approach, watersheds that had the highest nutrient loads received priority for outreach, technical, and financial assistance. The total size of the FY 2009 watershed area prioritized for conservation treatment was approximately 10.5 million acres.

As of July 13, 2010, over 97% of the $ 33.6 million in FY 2010 Chesapeake Bay NRCS funds had been obligated.

We are also working to create win-win conservation treatment opportunities throughout the Chesapeake Bay Watershed through the use of the CCPI. The CCPI leverages Federal dollars with partner dollars to provide technical and financial assistance to agricultural producers in the watershed. Four CCPI projects in the Chesapeake Bay Watershed were selected for funding in FY 2010 totaling approximately $1.3 million.

Also in FY 2010, NRCS announced Requests for Proposals (RFPs) for Conservation Innovative Grants (CIG) for the Chesapeake Bay Watershed. Through CIG, NRCS is seeking innovative conservation solutions to reduce excess nutrients and sediments that are highly transferrable to other regions of the watershed. Thirty pre-proposals were submitted to NRCS. Selected proposals will be announced soon. In FY 2009, 22 pre-proposals were submitted with six funded for $2.15 million.

For FY2011, we are working with state and local partners to determine the appropriate mix of programs to use in the Bay Watershed.

NRCS records indicate the Chesapeake Bay Watershed Program has been well received. In FY 2009, there were 826 financial assistance conservation contracts that resulted from 1,211 applications. In FY 2010, through July 28, 2010, there were 895 contracts from 3,206 applications. NRCS will continue to assess the impacts of the adoption of conservation practices and we expect to release the Chesapeake Bay Conservation Effects Assessment Project draft report this fall.

[Question 24] The Department recently put out a rule for the Biomass Crop Assistance Program (B-CAP). I've heard concerns from some constituents that even though the Farm Bill disallows BCAP payments for renewable biomass that would not be otherwise used for higher value products, payments have been made in violation of that prohibition. How has the Department fixed this issue?

A: The "higher-value" restriction in the 2008 Farm Bill applies only to renewable biomass from federal lands, not private lands. In the proposed BCAP rule, FSA recommended extending this qualifier to private lands as well, and sought public comment on that proposal. USDA is working to publish the final rule soon.

[Question 25] As you state in your testimony about the SURE (Supplemental Revenue Assistance Payments) program, SURE sign up and payments will occur in 2011 for 2010 crop losses because of the need to calculate actual farm revenue. I have grape growers in Erie County who have already experienced as much as 80% loss to their 2010 crop due to frost this spring, but they won't be able to get SURE payments for another year. The whole county is probably not yet eligible for a disaster declaration because it has not experienced 30% loss across the county, due to different topographic and climate conditions affected by Lake Erie. I've also been told that because the SURE program is based on whole farm income, it is quite cumbersome, and due to that, in Chautauqua County, New York, which is also a grape-growing region, over 100 farmers applied for SURE and only 15 qualified. How do you think we could improve the time lag issue? How could we design a permanent disaster program that would pay more immediately and be less cumbersome?

A: Removing or narrowing the amount of time in establishing the National Average Market Price for crops would decrease the amount of time in waiting to establish those rates. Also, reconsidering the program payments included in determining revenue could decrease the amount of time necessary for finalizing the total farm revenue in the SURE calculation.

> **[Question 26]** Later we will hear American Farm Bureau President Bob Stallman testify about crop insurance use in different states, and how for example, Illinois farmers use crop insurance more widely than those in Mississippi. Crop insurance participation is even lower in Pennsylvania. How do we make crop insurance work better in the underserved states?

A: In April 2008, the FCIC Board of Directors provided a comprehensive report to Congress on program participation. This report documents the considerable progress that has been made towards improving participation among the underserved states and crops. The report also provides a blueprint for achieving targeted improvements in program participation, particularly among the underserved states. For example, greenhouse/nursery and pasture, rangeland, and forage (PRF) account for a significant portion of the currently uninsured crop value among the 15 underserved states, with low greenhouse/nursery participation particularly notable in the underserved states of the Northeast and low PRF participation dominant in the Mountain states. Recently we announced the expansion of the PRF products to a number of new states. This will have significant impacts on program participation. In addition, we are beginning a process to review our nursery products and thereby provide more effective and desirable risk management tools to nursery producers. We anticipate working closely with nursery producers, particularly those in the Northeast, to identify problematic areas in the current nursery program and potential solutions to producer concerns.

Also, the new Standard Reinsurance Agreement contains a number of features that are designed to expand and continue the availability of crop insurance to places where there are currently few companies and agents selling policies, while ensuring that a high level of service will be maintained for those who have come to depend on it. The new SRA rebalances the program's underwriting performance to level the playing field across the United States by dividing the states into groups in the Commercial Fund and improving the reinsurance terms for underserved and less-served States. The new SRA also includes a provision to give back a portion of the Net Book Quota Share to those insurance providers that sell and service policies in underserved or less-served States. Together, these provisions will provide strong financial incentives for companies to foster enhanced service in underserved and less-served areas. Pennsylvania will benefit from both of these rebalancing efforts. Managing risk is critical for all producers and every farmer and rancher deserves access to this important national program.

Questions for USDA Secretary Tom Vilsack

Submitted by Chairman Blanche L. Lincoln, Senator Saxby Chambliss, Senator Tom Harkin, Senator Chuck Grassley, and Senator Robert P. Casey, Jr.

"Expanding our Food and Fiber Supply through a Strong U.S. Farm Policy"

Sen. Thad Cochran:

[Question 27] We are talking today about the implementation of the 2008 Farm Bill in preparation for the next farm bill. Unfortunately, USDA has yet to complete its work on the old before Congress starts work on the new. Can you please update the committee on the status of publishing a rule on the catfish inspection issue?

A: USDA is currently in the midst of developing a regulation that implements the provision of the Farm Bill that establishes a catfish inspection program at USDA. We look forward to continuing to work on this issue with Congress, other federal agencies, and stakeholders through the rulemaking process.

[Question 28] There have been a few occasions this year, where the Department has tried to implement FY2010 items that were requested in your FY2011 budget. (A regional rural initiative and a bioenergy research proposal, are two examples). As you know, the Appropriations Committee has the responsibility to review these proposals and then determine if they should receive funding when considered with all the other activities for which the department needs funds. Why did the Administration try to circumvent the appropriations process, and what are you doing to improve communications with the Appropriations Committee?

A: The Department fully understands and respects the responsibilities of the Appropriations Committees regarding the review and approval of budget proposals. USDA is committed to ensuring the Committees are kept fully informed of ongoing progress in implementing programs. USDA did not intend to circumvent the appropriations process with respect to the rural innovation initiative and biomass research centers you cited. After the Department notified the Committees of actions being considered for 2010 and the Committees expressed concern over these items, we provided additional information and in the case of the rural innovation initiative, did not proceed with the reprogramming of funds. We will continue to work with the Appropriations Committees as plans evolve to ensure the Committees are fully aware of any changes so that we can most effectively deliver programs and services to USDA constituents. In addition, in order to improve communications with the Committees OBPA and OSEC staff met with each of the mission areas to review the guidelines covering notification of the Appropriations Committees of proposed changes. My office is committed to improving communications within USDA, and will continue to work to ensure agencies follow the proper planning and notification process.

[Question 29] I understand that Scott Steele from the Office of Budget and Program Analysis (OBPA) is retiring shortly. Scott has ably served the department for many years and leaves quite a void.

- Who is responsible for hiring Scott's replacement?

  A: As Secretary I review and approve all appointments to the Senior Executive Service.

- Will the position be filled by a civil servant?

  A: The Budget Officer is and will remain a career reserved position.

- Since this is a very important position at the department, what skills would you like the next director to bring to the position?

  A: The Budget Officer will be required to have in-depth knowledge of Federal budgetary and regulatory processes and a demonstrated ability to develop and communicate thorough and objective analyses on the full range of budgetary, regulatory, legislative, and programmatic decisions to the Office of the Secretary, the Office of Management and Budget, and the Appropriations, Budget and Authorizing Committees. A successful candidate will also demonstrate the capacity to understand the complex nature of programs delivered by the Department and to provide expert advice.

- What role do you envision OBPA playing in the department in the future?

A: A strong analysis function is key to formulating sound policy and sound budgets. The OBPA budget and program analysis staff will continue to assist me and my senior leadership team in setting and meeting our goals. Integration with our other management organizations will continue making the decision making process faster and better as we leverage our strengths and information sources across the team.

- Will OBPA continue its historical role of budget development or will it shift emphasis to focusing on regulation drafting?

  A: The budget and program analysis staff will continue to perform its traditional role in the development of the budget as well as providing analytical support to the Office of Secretary, which includes overseeing the Departmental regulatory review process. I plan to continue utilizing the expertise of the staff to fulfill these critical needs.

- Do you have any plans for OBPA's role in the development of the FY2012 budget?

  A: Our budget development process continues to follow previous practices. The budget and analysis staff continues to be an integral part of my team and will continue to play a critical role in the development of the Department's 2012 budget.

- Who is your point person for the FY2012 budget process?

  A: The Acting Director of Budget and Program Analysis will be our point person on the 2012 budget process.

Questions for USDA Secretary Tom Vilsack

Submitted by Chairman Blanche L. Lincoln, Senator Saxby Chambliss, Senator Tom Harkin, Senator Chuck Grassley, and Senator Robert P. Casey, Jr.

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June 30, 2010

Senator Grassley:

> **[Question 15]** Since USDA is still working on the 2008 payments, any idea when 2009 may begin? Do you anticipate the same amount of time as it's taken for 2008 to make 2009 payments? Using this year's example, sign up began in January and its now almost July and we still have a lot of payments to make.

A: As indicated in Senator Chambliss's question on SURE status, FSA is expecting to begin accepting 2009 SURE applications in late 2010. Other than the statutory language that requires making calculations based on data that is not immediately available after the end of a crop year, as referenced in Senator Chambliss's question, FSA expects county offices to be able to issue SURE payments more timely based on the fact that most county offices are now more familiar with SURE administration.

> **[Question 16]** Previous ad hoc disaster payments required a 30 or 35% loss threshold. SURE only required 10% on one crop. Should Congress consider raising that threshold? Clearly that would lower the number of payments being made - do you have any rough estimates by about how much these payments would be reduced?

A: Raising the current loss threshold from 10 percent on one crop to 30 percent on one crop would decrease total SURE payments by an estimated 25 percent annually or $184 million for crop year 2009, $177 million for crop year 2010 and $187 for crop year 2011. Whereas, raising the loss threshold to 35 percent would decrease total SURE payments by an estimated 30 percent annually or $221 million for crop year 2009, $212 for crop year 2010 and $224 for crop year 2011. Based on the current loss threshold of 10 percent, SURE payments for crop years 2009, 2010 and 2011 are forecast at $735 million, $706 million and $746 million, respectively.

> **[Question 17]** The Office of the Assistant Secretary for Civil Rights has only been in existence since the 2002 Farm Bill and it carries a large responsibility. In a report released by the U.S Government Accountability Office (GAO) in October

2008, the GAO determined that the USDA has continued to struggle to meet its basic responsibilities to guarantee the civil rights of its personnel and ensure that minority farmers and ranchers are served without discrimination. The report found that USDA has: (1) difficulty resolving discrimination complaints (2) a significant backlog of pending complaints, (3) a statutory mandate to publish reports on the participation of minority farmers and ranchers in USDA programs but those reports are riddled with unreliable data, and (4) not taken critical steps to "ensure USDA provides fair and equitable services to all customers and upholds the civil rights of its employees."

My staff recently spoke with GAO and has been informed that actions to address these recommendations have not yet been fully implemented. Can you discuss when you think they will be fully implemented and what specific actions you are taking to ensure that this backlog of cases is finally and once and for all resolved?

A: As you are well aware, USDA has a checkered past involving issues of discrimination in its program delivery.. It is for that reason that I issued a memorandum to all USDA employees outlining my vision for the New Era of Civil Rights in USDA on April 21, 2009. As part of my strategy for achieving that vision, I have tasked the Assistant Secretary for Civil Rights (ASCR) to implement an improvement plan to reduce claims of discrimination and ensure that the Department's programs are delivered fairly and equitability. As part of this plan, the ASCR is also addressing the six recommendations that the Government Accountability Office (GAO) provided in its October 2008 report. To date, the ASCR has successfully addressed three of the six recommendations (developed a results-oriented strategic plan that is linked to USDA's departmental goals addressing the concerns of stakeholders; conducted a legal examination of prior investigations resulting in Statute of Limitations legislation which is pending Senate approval; and developed an improvement plan for resolving discriminiation complaints with set time frames and management controls). tems. Departmental Management's Office of Advocacy and Outreach is working with OMB to obtain approval for a common data collection form to be used by field based agencies to collect demographic data. The Civil Rights Enterprise System (ASCR database) is being upgraded to provide reliable data and time-sensitive reports with completion of upgrades slated for the end of fiscal year 2011.

[Question 18] The recent USDA reorganization has put the Assistant Secretary for Civil Rights reporting to the Assistant Secretary for Administration. I'm concerned that by lowering the elevation and prestige of this office, you will not have the same oversight abilities as when the ASCR reported directly to you. Can you explain to me how and why you think this reorganization will improve the ASCR?

A: A: We are committed to making sure that civil rights is a key element in the Department's activities. Including the Office of the Assistant Secretary for Civil Rights in the new Departmental Management will improve necessary focus and coordination with the new Office of Advocacy and Outreach and the Office of Human Resource Management.

[Question 19] I'm pleased to hear of USDA's work to promote renewable fuels. Your support for renewable fuels as Governor of Iowa and as Secretary of Agriculture has been very strong, and I appreciate your support for ethanol and biodiesel very much.

Unfortunately, that support doesn't seem to exist at the Department of Energy or the Environmental Protection Agency. EPA again delayed action on approving ethanol blends of 15 percent, or E15. If we're going to meet the requirements of the Renewable Fuels Standard, we need to blend ethanol higher than 10 percent. What is USDA doing to push DOE and EPA to approve higher blends? Is there a bias among DOE and EPA officials against corn ethanol? What assurances can you give to our domestic ethanol producers that there will be a market beyond the 10 percent "blend wall?"

A: As I have publically stated numerous times, I support a higher percent blend. However, approval of the E15 waiver request, which would allow for a 15 percent ethanol blend level in gasoline, is primarily a technical issue. USDA has been discussing with EPA and DOE at the policy level the various effects of E15. Strong consumer confidence in E12 and E15 is imperative if increased ethanol blends are to be successful in the marketplace, and that confidence is rooted in the testing conducted by the Department of Energy to identify cars and trucks that can use higher ethanol blends without problems. If insufficient testing results in engine misfires and lead to a consumer backlash against higher ethanol blends, it would be far more damaging to our national biofuels strategy than rushing these tests. It's important that we get this right the first time, which is why USDA is working closely with DOE and EPA to ensure that this work is completed expeditiously -.but thoroughly.

In addition, USDA is evaluating ways our programs can support utilization of ethanol even within the current E10 blend restriction such as increasing the number of blender pumps to allow Flex Fuel Vehicles (FFV) to be able to have access to higher blended fuels. In the Growing America's Fuel Report prepared by the President's Biofuels Interagency Working Group (co-chaired by the Secretaries of USDA and DOE and the

EPA Administrator and released by the President in February 2010), it was recognized that corn ethanol will continue to play a role in accomplishing the RFS2 mandate of 36 billion gallons per year of renewable fuels by 2022.

> **[Question 20]** Many in Iowa (both lenders and borrows) are concerned about the funds for the Section 502 Single Family Housing guaranteed loans running out soon, if they haven't done so already. I recognize that we don't re-authorize these in the 2012 farm bill, but this is one of the few programs out there able to help people finance their homes since because the private lenders are more cautious lending in rural areas. Why did the funding for this program run out so quickly? I know you are going to allow conditional commitments, but what is the strategy for keeping this program afloat until the end of the fiscal year?

A: Due to the strong demand rising from the housing and economic crisis, all SFHGLP funds were exhausted on May 17, 2010.

The Administration's desired solution was to be granted authority to charge an additional up front fee in 2010, similar to our 2011 Budget proposal, and be granted additional lending authority for 2010. The most recent supplemental bill granted this authority, which allows Rural Development to provide a lending level in 2010 to a level that meets demand. If default rates stay current or are improved, RD should be able to continue lending without needing an appropriation for Budget Authority, because we will have a negative subsidy rate.

Questions for USDA Secretary Tom Vilsack

Submitted by Chairman Blanche L. Lincoln, Senator Saxby Chambliss, Senator Tom Harkin, Senator Chuck Grassley, and Senator Robert P. Casey, Jr.

"Expanding our Food and Fiber Supply through a Strong U.S. Farm Policy"

June 30, 2010

Senator Harkin:

[Question 12] Mr. Secretary, the 2002 farm bill and the 2008 farm bill both directed the Department of Agriculture to develop and carry out an initiative to approve labels that may be used to designate biobased products so that consumers, businesses, government agencies, or other purchasers can identify and buy biobased products in the market. I would like to clarify the status of the USDA regulations to carry out this biobased labeling initiative and know when it will finally be up and running. It is my understanding that the label proposed last year is still with the USDA lawyers and has not gone to the Office of Management and Budget, which has an additional 90 days to review it. When will the final regulations be issued and labels be approved for use on biobased products? How does USDA plan to get national attention brought to this label when it is released?

A: We expect to publish the voluntary "USDA Certified Biobased Product" label rule in the *Federal Register* this fall.

USDA is currently developing a comprehensive, integrated biobased product label communications and marketing strategy to raise awareness about this labeling initiative with a variety of audiences including the biobased industry supply chain, Federal government buyers, various "green" organizations, and general consumers. The implementation of this communications strategy will commence when the rule is published in the *Federal Register* this fall. After the label's initial launch, USDA will continue to implement targeted marketing and communications activities for the uptake of this new labeling initiative across a variety of sectors and markets.

[Question 13] I want to thank you, Mr. Secretary, for writing to other Cabinet members urging them to see that their departments and agencies purchase biobased products. What is the response to that letter and how will USDA make sure that Federal agencies are buying biobased?

A: I sent letters to my fellow cabinet members urging support for the BioPreferred Program in February 2009 and again in April 2010. The latest call for action is being well received; thus far six cabinet level agencies have responded and pledged their strong support for the purchase and use of biobased products. These include the Departments of Defense, Commerce, Treasury, Education, the Interior, and Energy. These response letters are being posted on the BioPreferred web site for public viewing (see http://www.biopreferred.gov). USDA believes this high level commitment to the program from other Federal agencies will allow vendors seeking to supply biobased products to inform procurement officials of the commitment of their departments' top management to the BioPreferred Program. USDA anticipates additional letters of support, which will also be posted as they are received. USDA also continues the education process regarding Farm Bill biobased product purchase requirements at all levels of the Federal government. BioPreferred program staff are designing training with the Federal Acquisition Institute and the Defense Acquisition University to assure new and existing procurement officials are aware of the strong government-wide support for biobased products. These cabinet response letters will be part of that training.

[Question 14] Mr. Secretary, the 2008 Food, Conservation, and Energy Act provided for and intended an enrollment level of 32 million acres in the Conservation Reserve Program and the Congressional Budget Office's budget score for CRP in the 2008 bill was the estimated cost of having 32 million acres in CRP. We fully paid for 32 million acres in CRP in the 2008 farm bill.

There is clearly plenty of demand and interest among farmers and ranchers to enroll the full 32 million acres in the Conservation Reserve Program and the Conservation Reserve Enhancement Program. I'm grateful you announced at the Pheasant Fest in Iowa earlier this year that USDA will carry out a new round of CRP enrollment this year.

Now, the Office of Management and Budget at the White House says that its budget baseline assumes no more than 30 million acres in CRP. Consequently, according to OMB, the Department of Agriculture cannot enroll the 32 million acres in CRP and CREP that we provided and paid for in the farm bill unless USDA somehow comes up with budget savings from elsewhere in the USDA budget to offset the cost of enrolling 32 million acres rather than just 30 million.

What that effectively means is that getting from 30 million CRP acres to the full 32 million acres must be paid for twice: first, when we wrote and paid for the 2008 farm bill, and second, through offsets out of other agriculture programs at USDA. As it turns out, the administration plans to transfer savings from the crop insurance program over to CRP.

Mr. Secretary, I am very worried that this sort of maneuver could be applied to any number of agriculture programs in order to cut back and simply not carry out what we wrote into law and fully paid for here in Congress. This approach is especially troubling since it comes on the heels of proposals in the President's budget to cut back the funding we dedicated and paid for in the farm bill for the Conservation Stewardship Program, the Environmental Quality Incentives Program, the Wetlands Reserve Program, the Wildlife Habitat Incentives Program, and the Farmland Protection Program.

To sum up, I do not understand how OMB can lawfully throw up this obstacle to carrying out the 2008 farm bill and require that at least some portion of CRP, and perhaps other programs, be paid for twice – once when the farm bill was written and a second time out of other agriculture programs at USDA. Would you respond to my concerns please?

A: Administrative Pay-as-You-Go (Admin PAYGO) has been in effect for Executive Branch agencies since May 2005. Administrative PAYGO is an effort to enforce the same type of budgetary discipline on the Executive Branch agencies that Congress imposed on itself in the Budget Enforcement Act (BEA) of 1990.

The BEA required that when Congress enacted legislation that would increase the cost of a mandatory program, additional legislation was required to reduce mandatory spending elsewhere or to increase revenues so as to not add to the Federal deficit. Similarly, Administrative PAYGO requires that when an agency undertakes a discretionary action that would increase mandatory spending, the agency must include one or more proposals that would comparably reduce mandatory spending. It is important to note that mandatory programs are only subject to Administrative PAYGO to the extent that an agency makes a discretionary policy decision that increases spending on that program.

Congress usually provides Executive Branch agencies with discretion in how the terms and conditions of a mandatory program are set, and how it is operated. Having that discretion is important because it often makes the program easier to implement and it allows the agency to more quickly react to changing economic conditions and the needs of its constituents. However, at times, those discretionary decisions can increase the costs of mandatory programs. Administrative PAYGO helps to ensure that those decisions are weighed carefully and are in the best interests of taxpayers.

Specifically, with respect to the Conservation Reserve Program (CRP) it is the policy of this Administration to maintain CRP as close as possible to the 32 million acre enrollment cap. Toward that end, USDA and OMB are in agreement that, in general, a CRP general sign-up is not subject to Administrative PAYGO. However, in 2009, the Administration proposed to extend certain contracts on CRP acreage set to expire at the end of that year. Given that the contract extensions fell outside of a general sign-up, it was determined that Administrative PAYGO offsets would be required. While it was a difficult decision, the Administration determined that it was appropriate to limit the size of the 2010 CRP general sign-up to pay for the additional costs of the 2009 CRP contract extensions. It is important to note that this decision did not affect the size of CRP general sign-ups beyond 2010.

The recent USDA announcement indicated that a portion of the $2 billion in crop insurance savings would be used to pay for anticipated above-baseline enrollment in the 2010 CRP general sign-up and new CRP initiatives. Accordingly, the baseline today reflects that the 2010 (and future) CRP general sign-ups will be bound only by the statutory 32 million acre cap.

Questions for USDA Secretary Tom Vilsack

Submitted by Chairman Blanche L. Lincoln, Senator Saxby Chambliss, Senator Tom Harkin, Senator Chuck Grassley, and Senator Robert P. Casey, Jr.

"Expanding our Food and Fiber Supply through a Strong U.S. Farm Policy"

Sen. Pat Roberts:

[Question 30] Mr. Secretary, your third draft of the Standard Reinsurance Agreement (SRA) cuts $6 billion out of the crop insurance program. This is on top of the $6 billion cut included in the 2008 Farm Bill. You propose targeting $2 billion to be put back into USDA programs - some of that within crop insurance programs and some in conservation programs - and $4 billion for deficit reduction. I support efforts to reduce the deficit. However, production agriculture has consistently taken more than its fair share of reduction efforts. Unfortunately whenever production agriculture programs are cut, that funding is spent elsewhere; just as you have proposed in this SRA. Publicly and privately you and your staff have offered a commitment to retaining the funding cuts from the SRA renegotiation for the preservation of the Farm Bill baseline. We've yet to see a specific proposal on how to accomplish this. Does USDA have a specific proposal and if not, when will you produce one? Additionally, please provide a specific breakdown of the agriculture programs receiving the additional $2 billion.

A: Throughout the SRA negotiation process, officials from every level of the USDA and the Obama Administration have worked to strengthen the farm safety net and protect taxpayers from higher costs in the future. The savings that result from eliminating windfalls in government payments to insurance companies will be used to strengthen programs that directly benefit production agriculture and to reduce the national deficit. Specifically, as you mentioned, $2 billion will be allocated to programs that help farmers and ranchers and $4 billion will be allocated to the important task of deficit reduction. We firmly believe that the $2 billion dedicated to boosting farm programs will be captured in the Farm Bill baseline.

The $2 billion will be allocated to target additional funding for important risk management tools and agriculture conservation programs, directly benefitting America's farmers and ranchers. As a result of the SRA savings, RMA has already expanded the Pasture, Rangeland and Forage pilot program to 24 states and plans to expand this pilot to more states in the future. With these savings, RMA also plans to release other risk management products as they are approved by the FCIC board, and pay for crop county expansions for several crops. RMA is also finalizing the details of a performance-based discount or refund, which will reduce the cost of crop insurance for certain producers. All of these crop insurance improvements were subject to administrative Pay-Go rules, and will now be possible with the savings from the SRA.

USDA is also increasing Conservation Reserve Program (CRP) acreage to the maximum authorized level, and investing in new and amended Conservation Reserve Enhancement Program initiatives. USDA recently announced a new sign up for CRP.

> **[Question 31]** Recently the Grain, Inspection, Packers and Stockyards Administration published proposed rules dealing with livestock and poultry production. Some of the proposals came at the direction of the Farm Bill, however much of them are eerily similar to provisions Congress either explicitly voted down on the floor or chose not to include in the conference committee report. How does the department justify expanding on the authority given by Congress through the Farm Bill? Furthermore, the deadline to submit comments to this sweeping proposal ends before you and the Department of Justice are scheduled to conclude all of your public workshops on competition. What is the administration's intent with these joint workshops? Why did you publish these rules before the workshops are concluded and the administration has an opportunity to consider the responses of those who took and will take precious time to attend or submit information? Such a decision gives the impression that these proposed regulations were predetermined, regardless of the outcome of the workshops.

A: The Grain Inspection, Packers and Stockyards Administration (GIPSA) is delegated authority to administer and enforce the Packers and Stockyards Act. With this responsibility comes authority to propose rules and regulations to carry out the provisions of the Act. The 2008 Farm Bill directed USDA to promulgate specific rules. Each of the proposed rules published seek to address specific concerns in the livestock and poultry industry that have been expressed by producers to USDA, and through filed complaints. USDA seeks to address these concerns within both the jurisdictional framework of the Act and the authority of the Secretary.

The competition workshops hosted by USDA and the Department of Justice are intended to explore competition issues affecting the agriculture industry in the 21st century and the appropriate role for antitrust and regulatory enforcement in that industry. These workshops are designed to facilitate an open public dialogue on competition issues and improve our understanding of the views of producers, industry, and other stakeholders on this matter.

Although it is customary for comment periods for rules to be 60 days, we certainly recognize the need for comments for the proposed rule. The Department has received a number of requests to either extend or not extend the comment period. In order to provide opportunity for those interested in submitting comments, but who feel additional time is needed to adequately prepare a meaningful comment, GIPSA has extended the comment period an additional 90 days. The comment period will now end November 22.

> **[Question 32]** I've heard from many producers that implementation of the Conservation Stewardship Program varies from state to state, affecting participation rates in different areas. What efforts does the department take to ensure that national programs, specifically CSP are administered equally in each state?

A: USDA is making efforts in the areas of policy development, training, and quality assurance to ensure that the new Conservation Stewardship Program is administered and implemented equally in each State. The program's national policy contained in the final CSP rule was published in the Federal Register on June 3, 2010. The final rule guides the national implementation of the program and was effective upon release. From the final rule, the NRCS's procedural guidance was drafted and distributed in the Conservation Programs Manual Part 508.

To roll-out program policy in preparation for the 2009 initial ranking period, which was implemented under an interim final rule, NRCS conducted a national train-the-trainer workshop in July 2009. Follow up national net conferences and webinars were conducted with States in conjunction with final rule release in 2010 to train State and field staffs on program changes and updates for the 2010 ranking period.

In addition, the new Conservation Stewardship Program varies from the nationwide competition for application approval that occurred with the old Conservation Security Program. The NRCS allocates acres and associated funds to States based on each State's proportion of eligible acres compared to the number of eligible acres in all States, along with consideration of the extent and magnitude of conservation needs associated with agriculture production in each State.

The State Conservationist, in consultation with the State Technical Committee and local work groups, focus program impacts by establishing ranking pools for their State, and by identifying the natural resources that are of specific concern for each ranking pool.

Applications are evaluated, ranked, and approved by ranking pool to facilitate a competitive funding process among applicants who face similar resource challenges. The State Conservationist allocates acres to ranking pools based on the same factors used in making State allocations.