STATEMENT BY JOHN HOFFMAN
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before the

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY
UNITED STATES SENATE

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Good morning, Mr. Chairman and Members of the Committee. I am John Hoffman, a soybean farmer from Waterloo, Iowa, and First Vice President of the American Soybean Association. ASA appreciates the opportunity to present our views on economic opportunities and challenges facing U.S. soybean producers, and how they can be addressed in the 2007 Farm Bill.

Mr. Chairman, one of the biggest challenges facing U.S. agriculture is uncertainty about commodity prices and production caused by increased volatility in energy markets. While farm prices today are high by historical standards, they could drop suddenly if world petroleum production were to rise and prices fall. Additionally, we should not underestimate the ability of producers worldwide to increase production in response to higher prices, thereby causing prices to fall. In this environment, it is critical for our producers to have an adequate safety net to protect farm income.

U.S. soybean farmers support the basic structure of the 2002 Farm Bill, with some minor adjustments. We believe the "three-legged stool" that includes the marketing loan, the counter-cyclical program, and direct payments, combined with crop insurance and disaster assistance, can provide an adequate safety net for farmers in years of low prices and reduced production.

I say "can" because the 2002 Farm Bill established target prices and marketing loan rates at levels that do not provide an adequate safety net for producers of oilseed crops, and are out of balance with the support provided to other program commodities. The soybean target price of $5.80 per bushel triggers counter-cyclical payments only when season average soybean prices fall below $5.36. The difference reflects the soybean direct payment of $0.44. We believe that $5.36 per bushel is inadequate in protecting soybean producer income. Prices have not fallen below $5.36 during the past four years under the current farm bill. Even if they had, counter-cyclical payments are made on only 85 percent of a production formula that uses outdated payment yields from the early 1980's. This safety net is too low to be meaningful to soybean producers.

Our proposal for the Commodities Title of the 2007 Farm Bill would adjust target prices for all program crops to a minimum of 130 percent of the Olympic average of season average prices in 2000-2004. This period was selected because it includes years of both lower prices and higher prices for most commodities. The 130 percent level was selected because it would increase income support for all crops, except cotton and rice. Since target prices for these crops under the 2002 Farm Bill are higher than 130 percent, they would not be affected under our proposal.

At 130 percent, the soybean target price would be increased from $5.80 to $6.85 per bushel. Subtracting the $0.44 direct payment, the effective target price would be $6.41. Considering the target prices for other program crops, we consider this to be an adequate and reasonable level of income support for soybean producers.

Our proposal would also adjust marketing loan rates to a minimum of 95 percent of the same five-year Olympic price average. These adjustments would only marginally affect soybeans - the increase would only be one cent, from $5.00 to $5.01 per bushel. However, marketing loan rates must reflect the current market value of commodities. If they are out of sync with each other, planting decisions can be distorted in years when prices at harvest are expected to be near or below loan levels. Some current loan rates do not reflect recent market price relationships between crops, and they need to be adjusted.

Mr. Chairman, attached to my written statement is a table showing current and our proposed marketing loan rates and target prices for all program crops. Also attached are tables showing the cost of these adjustments for individual commodities, and a table showing the overall cost for all target price and loan rate adjustments of about $900 million per year.

We understand the Subcommittee has limited resources to accommodate these or any other proposed changes in the current Commodities Title. However, we strongly believe our proposal is the best way to correct major deficiencies in the 2002 Act. We also strongly support funding these adjustments in farm support levels through the reserve account for the 2007 Farm Bill, expected to be included in the FY-2008 Budget Resolution. However, to the extent new funding is not available, we encourage you to consider making these adjustments using resources from within the Commodities Title.

A second economic opportunity facing U.S. soybean farmers is development of a domestic biodiesel industry. Biodiesel is a key new market for U.S. soybean oil, which has historically been in surplus, resulting in lower soybean prices. Efforts to establish biodiesel as a viable renewable fuel received a major boost when Congress enacted the biodiesel tax incentive in the JOBS bill, and extended the incentive in the Energy Act of 2005. ASA strongly supports a further extension of the biodiesel tax incentive by the 110th Congress.

While domestic biodiesel production has expanded in response to the tax incentive, so too has the likelihood of significant biodiesel imports. Unlike ethanol, biodiesel imports do not face an offsetting tariff equal to its tax incentive. Moreover, foreign biodiesel is often produced and exported through the benefit of government subsidies. These imports can enter the U.S. at less than the production cost of domestically-produced biodiesel, endangering the growth of our industry.

Our biodiesel industry is also extremely vulnerable to sudden shifts in petroleum and diesel prices. Farmers and other investors who have responded to enactment of the biodiesel tax incentive by building biodiesel plants in areas of the country that produce soybeans and other oilseeds need protection against the current volatility in global energy markets in addition to further extension of the tax incentive.

In order to respond to the import situation and to ensure against volatile energy markets, ASA supports authorization of a Biodiesel Incentive Program under which U.S. biodiesel producers would receive a commodity reimbursement from the Commodity Credit Corporation equal to subsidies paid to foreign biodiesel exporters. This program would ensure the competitiveness of domestically-produced biodiesel, protect this new industry against adverse economic conditions, and support its continued development and growth.

A third challenge facing U.S. soybean producers is the shift by food companies away from partially hydrogenated vegetable oils, which contain trans fats. The Food and Drug Administration began requiring food product labels to include trans fat content at the beginning of 2006, and cities and states are considering banning trans fats in food service operations.

In response to this trend, ASA and other oilseed organizations are encouraging increased production of high-stability soybeans and other oilseeds that contain oil that do not require hydrogenation. Because these varieties have higher initial production costs that must be offset through grower premiums, we support authorization of a Healthy Oils Incentive under which CCC would cover up to one-third of the premium paid by oilseed marketers for up to five years of commercialization. It is estimated that a CCC premium of $0.25 per bushel could increase production of high-stability soybeans by 12 million acres, raising soybean prices and reducing potential farm program costs by $150 million per year. These savings would offset the cost of the Healthy Oils Incentive program.

Mr. Chairman, in addition to these soybean and oilseed-specific challenges and opportunities, ASA supports increased funding of a national Conservation Security Program, but not at the expense of the farm income safety net provided through the commodity title of the Farm Bill. ASA supports conservation programs directed toward working lands rather than land retirement, and believe that non-environmentally sensitive land currently enrolled in the Conservation Reserve Program should be allowed to return to production to meet rising demand for biofuels, food, and feed.

ASA supports authorization and funding of Permanent Disaster Assistance in the 2007 Farm Bill. We also strongly support increased funding of the Market Access Program, the Foreign Market Development Program, and both Title I of P.L. 480 and the McGovern-Dole Food for Education Program.

Thank you again for the opportunity to testify today.