

STATEMENT OF SECRETARY MIKE JOHANNNS
U.S. DEPARTMENT OF AGRICULTURE
BEFORE THE U.S. SENATE COMMITTEE ON AGRICULTURE,
NUTRITION AND FORESTRY

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Chairman Harkin, Ranking Member Chambliss and Members of the Committee, I appreciate the opportunity to testify today to discuss the Administration's proposals for the 2007 farm bill. The Department has worked hard on these proposals, and I am proud to present them.

In addition to my comments today, I would ask you to carefully review the book on the dais that contains a full explanation of each of our proposals. In fact, I would ask that it be entered into the Committee record in its entirety. Many important changes lie within those pages - too many for me to detail today.

Let me just for a moment describe the foundation of these proposals. As we started to think about developing a comprehensive farm bill proposal almost two years ago, we wanted to know what actual farmers and other stakeholders were thinking. So we came up with the idea of the Farm Bill Forums. As we traveled across the country, we received great insight from our nation's farmers, ranchers, and rural residents.

Although we originally thought it would be most helpful to hear responses on six broad questions, we soon discovered it was best to let farmers, ranchers and others speak about whatever was on their minds.

Often, after traveling several hours, farmers would walk up to the open microphone and say things that were quite remarkable. I would jot down notes, as would those leading other sessions, and we would come back to the USDA and start comparing notes about what we were hearing from farmers, ranchers and other stakeholders. We learned a tremendous amount from them, and that information became the foundation upon which we built these policy recommendations.

I owe a great deal of gratitude to all those farmers and ranchers and others, who took the time to step up to the microphone and share great wisdom.

I have read many of the statements regarding your initial reactions to our proposals, and I very much appreciate your comments. I realize there are provisions and recommendations in here some of you will want to discuss further, but I do appreciate the fact that you are interested in learning more about our thoughts.

Reauthorizing the farm bill is a responsibility that I do not take lightly, and I look forward to working with you to craft this new farm policy. I hope that after today, USDA continues to have an open dialogue with Congress about the best farm policy to ensure the future of American agriculture.

As you have heard me say before, I have a history with the 2002 farm bill. I was the Governor of Nebraska when it was written. I was lead governor for Western Governors on the reauthorization of the farm bill, and I was co-lead with the Governor of Iowa for Midwestern Governors. The 2002 farm bill, I believe, was the right policy for the times. I supported it.

Why was it the right policy for the times? Commodity prices were low, exports had declined for several years, and the debt-to-asset ratio was about 15 percent for farmers. So the 2002 farm bill provided needed support. It was the first-ever farm bill with an energy title, and it was a farm bill that really stepped forward in the conservation arena, adding 80 percent in funding.

But like everything, times do change, and times have changed. In 2007, commodity prices are strong for most of the program crops. Exports have increased every year since 2000. Last year, in 2006, exports were about \$68 billion, and we are projecting another record this year at about \$77 billion. In the six years that President Bush has been in office, farm exports have set records three out of those six years. The President's trade agenda has made a difference in the country.

Looking at the balance sheet, we have the lowest debt-to-asset ratio in recorded history, 11 percent for farmers-- really remarkable. And although renewable fuels have been around a long time, the last couple of years have shown exponential growth and biofuels have gained strength as a significant contributor to the economy of rural America.

As we started thinking about how we wanted to approach the next farm bill, who we should listen to, who we should consult, we came to the conclusion that it should be the people most affected-- farmers and ranchers.

We conducted 52 Farm Bill Forums in 48 states with 4,000 comments received. Forty-one summary papers condensed all those comments into categories. Then, Dr. Keith Collins and our economists authored analysis papers on five themes. We posted all this information on our website and asked for people's input.

The folks that came to the microphone really made us think. I would be sitting on the stage, listening intently, jotting some notes, and think to myself -- is what they are saying really happening with our farm policy? For example, a gentleman at our farm bill forum, in Lubbock, Texas said, "While the current farm program has served its purpose for the last several years, it is time to move on and craft a new, better farm bill. To create such we need to look at the success and failures of the current farm bill with a goal of improving upon this bill."

In Missouri, I did a Farm Bill Forum, a gentleman by the name of Larry said, "We urge you... to carefully review how well the current farm act is working for U.S. agriculture and consider ways to maintain the current farm act's structure as we go forward to begin debate on the 2007 bill."

That was a pretty consistent theme across the country -- not unanimous especially in the commodity area - the current policy may not be getting the job done here or there, but we like the overall structure. We paid attention to that testimony.

Len from Wisconsin said something that we heard a lot about - Section 1031 of the tax code and its effect on land prices. He said, "The 1031 is just driving our land rents and land prices to where the average producer, even big producers, can't compete."

In my home state of Nebraska, we did a Farm Bill Forum at Husker Harvest Days, and we had a gentleman by the name of Ernie say, "Too often our farm policy focus is only on prices. The focus, we feel, should be on revenue which takes into account both prices and yields... [The current farm bill] tends to overcompensate when it should not and under compensate when more assistance is needed..."

Well, this testimony took me off-guard; it seemed counterintuitive to me. But then we kept hearing that theme. John from Kansas said, "We didn't raise anything because of drought. The prices went up and we didn't get any payment; we didn't have anything to sell..."

When these people were coming to the forums and saying these things, it sounded counterintuitive because I was thinking the 2002 farm bill had gone a long way to help solve this safety net problem, when in fact it had not at all. Farmers were saying to us -- I cannot get a LDP for a crop that I don't raise. And they are absolutely right. To add insult to injury, if the crop isn't there, supply goes down, and prices go up -- simple supply and demand. The market price climbs above the target price and no countercyclical payment is triggered.

Several forum participants wanted to talk about trade. For example, a gentleman from Georgia said something very important. He said, "If we're going to play in this free trade game and continue to support our farmers, then we need to trade proof our programs..." Farmers really know about trade. When I talk to a cotton farmer about trade, approximately 75 percent of the cotton raised in the United States is exported. When I talk to a rice farmer about trade, 50 percent of the rice grown in the United States is exported. For the major row crops, every third row grown in the U.S. (e.g., corn, wheat, soybeans, cotton and rice) is exported.

Ellen in North Dakota, said, "As the program exists right now, there are in fact no limits on commodity payments that can be received..." This was a very interesting debate, with regional differences.

Then James from New York said, "Historically, the farm bill has benefited a small but crucial group of farmers. However, by supporting expansion [of fruit and vegetable purchases]... we have the unique opportunity to use the 2007 farm bill to directly and positively impact the health of our children and begin to reverse a dangerous trend toward obesity." Again, we listened to James and several like him.

As we started working our way through all of these comments, some guiding principles became apparent. These principles of reform and fiscal responsibility guided us through our decision-making - leading to a farm bill proposal that is:

? More Predictable -- These market-oriented proposals provide support when revenue is low despite high prices.

? More Equitable -- These proposals distribute resources more equitably among producers and among commodities.

? Better Able to Withstand Challenge -- These proposals transition toward market-based programs and away from programs tied to price or production.

? Wisely and effectively spend taxpayer dollars -- We have to keep that support among the people who pay the bill -- the taxpayers. I have to be able to go to any city in America where there are no farmers and ranchers and effectively make the case that our farm policy is a wise federal investment, which I maintain. These proposals consolidate and streamline USDA programs to increase effectiveness and focus on providing a strong safety net.

Now, let me get into the specifics of our proposals. I'd also like to say for the record that all of the cost/savings estimates I refer to in this statement are over 10 years unless otherwise noted.

Commodity Title

Payment Limits and Eligibility

We have a proposal on payment limits that would end our commodity program subsidies to producers who are among the top 2.3 percent of Americans who file federal tax returns. We are taking a different approach to payment limits than what you've seen in the past. Under our proposal, if you have an Adjusted Gross Income of \$200,000 or more, your participation in the farm bill commodity title programs would cease. Keep in mind that this is adjusted gross income which is gross income minus expenses and deductions. It is a net number.

We are proposing to eliminate the three-entity rule and transition to direct attribution. Under our proposal, a farmer can receive payments from any number of entities as long as your adjusted gross income is below \$200,000 and you have not exceeded the annual payment limit of \$360,000. This provision is projected to save about \$1.5 billion over ten years.

Revenue-Based Countercyclical Program

As I mentioned earlier, I thought the safety net was pretty well resolved in the 2002 bill, but farmer after farmer said - I am getting a lot of money when I am producing a lot; I am not getting a safety net when my yields dwindle.

In fact, during some of the best years, USDA paid out the highest payments. We listened very seriously, we took that to heart. Thus, we are proposing a countercyclical program that is based upon revenue, instead of only price. This new program will actually work better across the commodities to provide a true safety net. A system based solely on a price trigger, without regard for yield, deals people out of the safety net when they need it the most.

Loan Deficiency Payments and the Marketing Loan Program

In the marketing loans, USDA is proposing to adjust the loan rates down to more reflect the actual market. We are actually basing loan rates on a methodical formula. We set the loan rates at the five-year annual average price of the commodity, throwing out the highest year and the lowest year, and take the average price.

We propose a cap on these formula-based loan rates, again not by picking a number out of the air, but by using the loan rate approved by the House of Representatives when they passed the 2002 farm bill. As you may remember, those loan rates were fairly broadly supported by commodity groups.

Direct Payments

We are proposing to increase the direct payment for the commodities. The members of the Committee know as well as anyone that we have been struggling with the WTO cotton case. It is real. Direct payments that are decoupled from price and production as a general rule are compliant with international trade rules. As I have said previously farmers understand the importance of trade, and I believe they will embrace a move to greater reliance of direct payments that are more predictable and protected from challenge. We want this Committee to write the farm bill, not have the WTO dismantling it piece by piece.

Enhanced Direct Payment for Beginning Farmers

We heard a lot from beginning farmers about formidable barriers to entry, including high land and cash rent prices and high input costs. Our idea was that a beginning farmer who qualifies for this program will get an increased direct payment -- in addition to anything else we're doing -- of 20 percent for their first five years. We wanted to make sure they had certainty and could plan for a period of time as they start farming. This proposal is projected to cost \$250 million over ten years; so if a beginning farmer signs up for this in the last year of the farm bill, they would get an entire five years of enhanced payments.

Conservation Enhanced Payment Option

I could not be more excited about this proposal, and again the wisdom for this proposal did not come from here in the beltway, but from farmers. We are proposing to provide a conservation enhanced payment option, the option to replace commodity support payments with an enhanced direct payment for conservation efforts.

Let me explain how this new option would work. Maybe a farmer raising a given commodity looks out over the life of this farm bill and decides that the marketing loan and counter-cyclical payment programs are not as appropriate to his operation as they once were and would prefer to do some additional conservation on their farm. If farmers find themselves in this situation, they would be very interested in this option.

This program would be a voluntary program - a farmer can choose it or not choose it. If it works for their operation, great; if it doesn't, that's fine too. We simply say to the farmer -- if you want to place that farm into a conservation program with standards to be reached and agree during the life of the farm bill to forego marketing loans and the countercyclical payments, we will enroll you in this option and we will enhance your direct payment by 10 percent.

Again, this proposal makes a lot of sense from a trade standpoint, but it really makes sense for that farmer who wants to implement more conservation on the land. They could still grow whatever they want because this is a working lands proposal.

1031 Tax Exchanges

I would bet that if I would have started every forum with just a couple of words - 1031 tax exchange - I would get a debate for the next three hours. From earlier in my testimony, I noted a farmer at a Farm Bill Forum saying that 1031 exchanges were making it hard for even the big producers to compete for land. Land values have gone up, cash rent has gone up. Our proposal to help remedy this situation is to eliminate the commodity program payments on all new land

acquired through a 1031 tax exchange. Our proposal does not intend for this requirement to be retroactive, but just to apply to all newly acquired land.

To be absolutely clear, we are not suggesting that Congress rewrite Section 1031 of the tax code. If you sell an apartment building here in Washington and you decide that you want to shelter your profits through buying Nebraska ranchland with your profits, great. Our proposal does not impact anyone's ability to use the 1031 tax exchange. We are saying that if you utilize a 1031 tax exchange when purchasing farmland, that land will not be eligible for commodity title program payments.

Dairy

We will continue the \$9.90 price support program for milk and we do not propose changing the existing milk marketing orders. However, we are proposing to revise the Milk Income Loss Contract (MILC) program to make it consistent with other countercyclical programs, making it based on historical instead of actual production. Additionally, the MILC payment rate would stair-step down from the current level of 34 percent to 20 percent in the last year.

Sugar

We are proposing to keep the sugar program with one important policy change. Currently if we import more sugar than 1.532 million short tons, we are obligated to lift the marketing allotments in the sugar program. Now literally, under current law, the government has no supply management tools in this situation; we literally tell producers -- let it go, if you've got sugar, sell it if you choose to.

Now that situation creates a problem for the no net cost sugar program that sugar producers have long supported. We are obligated by current law to administer this program with no net cost to the taxpayer, but if prices fall to the loan rate, people will forfeit sugar to the government at great cost to the taxpayer.

To remedy this situation, we are proposing to keep that program intact with one policy change -- if we go over 1.532 million short tons of imported sugar, we can continue to impose marketing allotments.

As you know, the North American Free Trade Agreement (NAFTA), which was negotiated and approved by the Congress now a decade ago, has been ratcheting down the duties on sugar. Essentially it is an open market now, and it is absolutely an open market during the life of this next farm bill.

Mexico produces a lot of sugar, but they use a lot of sugar, and typically have a pretty strong price. We are likely not going to get a significant amount of sugar from Mexico every year, but there may be years that we get enough sugar imported to push us over 1.532 million short tons. Therefore, we are asking Congress for the authority not to lift the marketing allotments, but to leave those marketing allotments in place. Lifting these marketing allotments would simply collapse the no net cost sugar program, and lead to a projected \$1.4 billion in forfeiture costs over the next ten years.

Planting Flexibility

Continuing with our commodity title, we are proposing to allow planting flexibility of fruits, vegetables, and wild rice on program base acres. As you know, the WTO, in the Brazil cotton case ruling, found that tying direct payments to production puts into question the green box status of our direct payments. We are addressing that problem with this proposal.

Retiring Base Acres When Sold for Non-Agricultural Use

We propose to require base acre retirement when all or a portion of a farm's cropland is sold for non-agricultural purposes. If a farmer wants to sell agricultural land for a shopping center, you can do that. But we propose retiring, rather than shifting, those base acres.

Conservation Title

We propose to increase conservation funding by \$7.8 billion. This is a significant and needed investment to manage and preserve our natural resources. We also propose to streamline and consolidate like programs to improve efficiency and decrease the complexities for participants.

Environmental Quality Incentives Program

We would consolidate existing cost-share programs, including the Wildlife Habitat Incentive Program, into a newly designed Environmental Quality Incentives Program that continues and expands restoration and enhancement of fish and wildlife habitat as a program purpose. Additionally, we propose an increase of \$4.2 billion over the ten year baseline for this important program. Within the increased EQIP funding, we recommend a new \$1.7 billion Regional Water Enhancement Program, to address water conservation and water quality projects at the watershed or irrigation basin level.

Private Lands Protection Program

We consolidate and streamline our working lands easement programs into one Private Lands Protection Program and increase funding by about \$900 million over the ten-year baseline. This proposal eliminates redundancy and overlap that result in confusion among producers and less environmental benefit per dollar invested. This proposal will also continue efforts to protect and restore native grasslands and important fish and wildlife habitat.

Wetlands Reserve Program

This Administration is committed to wetlands as you know, and we propose reauthorizing and increasing the Wetlands Reserve Program funding by \$2.1 billion and increasing the maximum enrollment to 3.5 million acres.

Conservation Security Program

We propose increasing the funding for the Conservation Security Program -- actually smoothing out the baseline and adding \$500 million over ten years. Our proposal modifies the program to emphasize incentives for implementing higher levels of conservation practices, including practices benefiting fish and wildlife. USDA would open the program to nationwide enrollment and expand its current 15.5 million acres to an estimated 96.5 million acres over the next 10 years. Additionally, we propose reducing the complexity of the program and increasing the level of conservation by moving from three tiers to two; removing base, maintenance, and cost-share payments; and allowing the program to reward the best stewards in the nation. These changes would continue to protect the program from WTO challenges, result in more equity in

the availability and distribution of the program, and provide a greater environmental return.

Conservation Reserve Program

We reauthorize the Conservation Reserve Program with added focus on the most environmentally sensitive areas. We also recommend giving priority within whole field enrollments to lands utilized for biomass cellulosic ethanol production.

I am really excited about this biomass reserve. Our proposal simply says - while preserving the environmental benefits, including the broad fish and wildlife purposes of the program, such as meeting all of the nesting requirements for birds and other criteria -- we will give priority to your application if you are devoting a piece of that land for biomass production for cellulosic energy. This proposal is consistent with our discussions on conservation and biomass production with farmers as we traveled across the country.

Market-based Approach to Conservation

We recommend authorizing USDA and other federal agencies to accelerate the development of private markets for the trading of ecosystem benefits associated with conservation. The proposal would help to ensure that environmental goods and services produced by agriculture and forests can be used as offsets in regulatory, voluntary partnership and incentive programs, consistent with existing law and regulations. Additionally, existing programs should be amended to allow for market-based and price discovery mechanisms, such as bidding and reverse auctions.

Emergency Lands Conservation Service

We propose consolidating two emergency response programs into a new Emergency Landscape Program. These are great programs - the Emergency Watershed Protection (EWP) and Emergency Conservation Program (ECP) - but it seems everybody is confused, probably here and outside, as to where they apply and where they do not; where one ends and the other begins. Our proposal would consolidate them into a one-stop-source.

Conservation Access Program

We heard a lot about our conservation programs from beginning farmers and socially disadvantaged farmers at our Farm Bill Forums. In response, we are proposing to set aside 10 percent of all farm bill conservation program spending for beginning and socially disadvantaged farmers. As you know, socially disadvantaged farmers is defined basically as minorities and women, while beginning farmers is defined in law under the Consolidated Farm and Rural Development Act.

Expanding Conservation Compliance with Sodsaver

To expand conservation compliance, we recommend eliminating certain USDA program payment eligibilities on grasslands and native rangelands that are converted into crop production. We do not have a lot of grasslands left in this country; we believe they are worth preserving. You can choose to still tear up grasslands, but under this proposal you will not get program payments on that land. This will compliment the current wetland conservation compliance provisions.

Trade Title

Farmers do understand trade. Admittedly, we have great debates about trade. I can still get a great debate by going to just about any coffee shop in rural America, but they care about and understand trade. As you have probably heard me say before, cuss it, discuss it, but the reality is we are farming in an international economy.

A number of proposals in this title are very, very positive for farmers, but especially specialty crop producers. We are proposing to increase funding by \$68 million for the Technical Assistance for Specialty Crops program (TASC), and we suggest increasing the allowable project awards to \$500,000. We propose increasing funding for the Market Access Program by \$250 million over the ten-year baseline, and we are proposing to target that increase toward the non-program commodities.

We are establishing a new grant program to address emerging sanitary and phytosanitary issues-- again, another theme that we heard from our specialty crop producers, and others like beef and pork producers. USDA recommends enhancing our U.S. presence within international standard-setting bodies. I have continuously said our trading partners need to live by international standards. We believe in living by international standards, we expect our trading partners to do the same, and we are proposing to increase funding in this area.

USDA recommends that we increase our analytical support and technical assistance to help limited resource U.S. agricultural groups when they face unfair trade situations. This proposal would clarify that we have broad authority to provide technical assistance and expertise to such groups. It is not a mandatory money thing, but it would give us very clear authority to work with these groups to help them solve their problems.

Additionally, we are doing some things to expand trade capacity, food safety, and agricultural extension programs into the fragile regions around the world -- Afghanistan comes to mind, Iraq would come to mind. Additionally, this kind of investment can make a huge difference in other parts of the world as well.

Finally, we propose reforming the Commodity Credit Corporation's Export Credit Guarantee programs to better withstand challenge and repealing a couple of trade authorizations that are dormant or redundant.

Nutrition Title

We have a number of proposals in the nutrition title to simplify and modernize the Food Stamp Program, while maintaining its integrity. Our proposals would improve access to the working poor and the elderly and would help to better reflect the needs of these recipients. In particular, we propose to exclude retirement and education savings accounts from the determination of food stamp eligibility to help low-income households save for their and their children's future even when they have an immediate, but perhaps temporary need for food stamps.

Advocates have been asking for a change in the food stamp program name and it is long overdue. The name "food stamps" is really a remnant of the past. While there was a day when recipients walked around with a paper stamp, we have now converted to electronic benefit cards resembling debit cards. We propose a more appropriate name for the times - the Food and

Nutrition Program.

We are proposing grants to States to fund initiatives to address obesity among low income Americans" - a five-year \$20 million per year competitive grant demonstration program to develop and test solutions to the rising problem of obesity.

We recommend several changes to our other food assistance programs to improve their administration and efficiency - specifically the Emergency Food Assistance Program (TEFAP), the Food Distribution on Indian Reservations Program, and our Senior Farmers' Market Nutrition Program.

In the nutrition area, we also have a number of proposals targeted to fruit and vegetables. We heard a lot in the Farm Bill Forums saying - your dietary guidelines promote eating more fruits and vegetables; is your farm bill proposal going to promote those healthy eating habits? Again, we listened and our proposals respond affirmatively.

We will provide \$2.75 billion out of Section 32 funding to purchase additional fruits and vegetables for distribution in our nutrition assistance programs. This will be in addition to the section 32 funds that have been historically spent on fruits and vegetables. In addition to the increased availability of section 32 funds, we are proposing an increase of \$500 million in commodity purchases of fruits and vegetables for schools. These commodities will be purchased and distributed through the National School Lunch Program and will support schools' efforts to offer meal based on Dietary Guidelines for Americans in the lunch, breakfast and after school snack programs. Finally, we are proposing some funding to conduct a study of foods purchased by schools. This study will inform USDA's efforts to provide technical assistance to support school efforts to offer meal that meet the most recent Dietary Guidelines; better manage the types and varieties of commodities procured by USDA of behalf of schools; and assess the economic impact of school food purchases on various commodity sectors.

Credit Title

Our credit programs are especially important to certain segments of agriculture. For example, young farmers at our Forums were asking us to figure out creative ways to assist them in getting started in production agriculture.

We propose to increase the limits for direct farm ownership loans and direct farm operating loans to a combined total of \$500,000. USDA recommends doubling the direct operating loans target for beginning and socially disadvantaged producers and increasing to 100 percent the direct farm ownership loans target for beginning and socially disadvantaged farmers.

Finally, we are proposing to provide greater down payment loan access and flexibility to beginning farmers and ranchers. Again, a theme we heard often out there. We would cut the loan interest rate in half, defer the first payment for one year, decrease the minimum contribution of the property purchase price from 10 to 5 percent, and eliminate the \$250,000 cap on the value of property that may be purchased. All things we heard about in Farm Bill Forums or in comments off the stage.

Rural Development Title

I could not be more excited about our proposals in the rural development area. One thing that was clear from our cross-country travels, the people are excited about rural development -- not a single negative comment in any Farm Bill Forum I conducted.

We are proposing some consolidation of the Rural Development programs to increase our flexibility and efficiency. This proposal is designed to make USDA operate better and most importantly better serve our customers.

Additionally, we recommend \$1.6 billion in loan guarantees to complete the rehabilitation of 1,283 certified Rural Critical Access Hospitals. These designated hospitals are in very rural and remote areas where emergency hospital care is desperately needed because of long distances. These local communities simply do not have the money to complete their rehabilitation. Like you, I have been to some of these hospitals in rural areas. Without that hospital, people simply do not have adequate health care which adversely affects the quality of life and the economic vitality of those areas. We are proposing a loan program with enough money to completely rehabilitate them all -- every single one of those hospitals.

We are also proposing an additional \$500 million to reduce the backlog of rural infrastructure projects, hugely popular programs with always more demand than our ability to meet. Thus, we decided to take a step forward and attempt to address a significant portion of this backlog. Communities really appreciate these programs and we are stepping up to the plate to provide further assistance -- Water and waste disposal loans and grants, Emergency water assistance grants, Community Facilities loan and grant programs, and Distance Learning and Telemedicine grants.

Research and Related Matters Title

We are very excited and proud of our research related proposals. We are proposing to provide an additional \$1 billion for specialty crops research. One of the messages that we heard from our specialty crop farmers is -- we need additional research in this area. Focus research areas are expected to include fundamental work in plant breeding, genetics, and genomics to improve crop characteristics such as environmental responses, and tolerances, nutrient management, pest and disease management, enhanced phytonutrient content, as well as safety, quality, yield, taste, and shelf life.

Additionally, we are proposing to provide \$500 million to create the Agricultural Bioenergy and Biobased Products Research Initiative. Enhancing the production and conversion of biomass to renewable fuels and related products is vital to our rural communities and our move toward alternative sources of energy; this proposal will go a long way to helping us meet these goals.

Finally, we are proposing to reorganize and revitalize the USDA's Research, Education and Economics mission. The goal is to better coordinate our efforts in-house with USDA funded university research. I appreciate the efforts of the land grant community and others in bringing innovative ideas such as CREATE-21 and the National Institute for Food and Agriculture. Our approach is a little different, but has similarities that I think everyone can agree is a positive step forward.

Forestry Title

We heard from people living in forestry-dependent communities as we traveled the country. We are proposing to initiate a new \$150 million Wood to Energy Program. Again, this is part of the President's mission to expand the use of renewable and alternative fuels - a mission I know that many on this committee share. This program would accelerate the development of new technologies to use low-value woody biomass to produce energy. We have an abundance of this wood waste around the country, and it would be better for our forests if we could turn this waste into a marketable product. This program is designed to be a creative and environmentally sensitive use of this low value product to advance our energy independence.

Additionally, we are proposing several forestry related authorizations that are fully-detailed in the proposal book to develop innovative solutions to local and landscape-scale forest management issues.

Energy Title

I discussed most of these proposals when they were unveiled as part of the President's State of the Union address. However, I will provide some detail here for the Committee. As I indicated earlier, we are proposing to provide \$500 million to create a new Bioenergy and Bioproducts Research Initiative. Additionally, our proposal would provide \$500 million for rural alternative energy and energy-efficiency grants, going directly to farmers, ranchers and rural small businesses.

We are proposing to provide \$2.1 billion in loan guarantees to support cellulosic ethanol projects in rural areas. This provides the needed funding to actually build plants and make cellulosic ethanol a real contributor to our energy independence. As I have said before, these loan guarantee programs are very well-received in rural America. These loan guarantees can often be the difference between getting a project off the ground and watching it flounder. I have seen it happen when I was Governor of Nebraska; these loan guarantees can really kick-start a project leading to good jobs and a more vibrant rural economy.

We are also recommending \$150 million for biomass research and development act competitive grants, focusing exclusively on cellulosic ethanol. This funding is in addition to and complementary with our \$500 million research title proposal.

Miscellaneous Title

We have a number of miscellaneous title proposals - too many to detail here. However, I would like to highlight a few especially in the risk management area. First, we propose to create a supplemental insurance program to improve our risk management tools for farmers. This new product is crop insurance gap coverage. Currently you can buy crop insurance for up to 85 percent of your loss. For some well-established farmers, that 15 percent or greater deductible is an acceptable risk; they can withstand a 15 percent loss; they would not like it, but it is not going to put them out of business. Other farmers feel they cannot withstand that deductible. We listened to these farmers and are proposing literally "gap coverage" where you can buy insurance to cover up to 100 percent of your loss under the crop insurance program. We hope this will help with the annual debate about ad hoc disaster assistance. We're proposing to increase the efficiency and effectiveness of our crop insurance program with a number of

proposals, some of which you have seen in previous budget submissions.

Additionally, we are revising the dairy assessment requirements to create a more fair system. Currently, the law requires us to collect dairy research and promotion assessments in the 48 contiguous United States, but not in Alaska, Hawaii, Puerto Rico, or on imported dairy products. It is a fairness issue for U.S. dairy farmers and this proposal would solve the problem. We are also proposing a number of initiatives to help a fast growing segment of American agriculture - increasing research, data collection, and certification of organic agriculture.

Disaster Assistance

As I mentioned earlier in my testimony, our countercyclical proposal is a revenue-based system, providing a better safety net than what we have now. Our gap coverage in crop insurance will deal with this issue of crop insurance deductibles; this proposal will give producers the right tools to solve that problem.

We are proposing that if a producer receives program payments, they must have crop insurance. Crop insurance is widely accepted; some states have 90 percent-plus participation. We want to get that last piece enrolled. If a farmer gets subsidies from the program, we feel strongly that crop insurance is appropriate to help manage their risk. Finally, we have the new Emergency Landscape Restoration Program which is actually a consolidation of two existing programs.

We believe that these proposals in tandem will go a long way toward eliminating the need for an annual debate over ad hoc disaster assistance. It simply will not be needed.

Beginning and Socially Disadvantaged Farmers

As noted throughout this testimony, a number of provisions are targeted at beginning farmers and socially disadvantaged farmers. The changes to our payment systems, our loan program adjustments, and our new Conservation Access Program will be especially beneficial to our beginning and socially disadvantaged farmers. These proposals and others are highlighted on pages 175-179 in our proposal book.

Specialty Crops

We provide \$2.75 billion more in Section 32 funds to purchase fruits and vegetables for food assistance programs, an additional \$500 million for fruits and vegetables in schools, and \$250 million to increase the Market Access Program, with increase targeted to our non-program commodities.

We are recommending \$20 million to address sanitary and phytosanitary issues. We are proposing to increase our ability to offer technical assistance, and we are making specialty crop waste eligible under our cellulosic bioenergy program. All these improvements are highlighted on pages 171-173 in our proposal book.

Conclusion

As stated earlier in my testimony, and it bears repeating, our guiding principles in the Administration's farm bill proposals are: more predictable, more equitable, better able to

withstand challenge, and wisely and effectively spending taxpayer dollars.

These proposals demonstrate fiscal responsibility. They save about \$10 billion over the cost of the 2002 farm bill, even when you exclude disaster aid spending. I will also assure you that they uphold the President's plan to eliminate the deficit within five years. It also fits within our budget plan that we released earlier this week.

Yet, the good news for farmers and rural America is that we provide \$5 billion more than would be provided if the 2002 farm bill were just simply extended. Remember a year ago, people were saying, we should do a straight extension of the farm bill. The USDA proposal actually will provide \$5 billion more over that 10-year score. However, it will still fit within our balanced budget plan.

Our proposals support emerging priorities. We increased funding for renewable energy, conservation, research, rural development, and trade. We target nearly \$5 billion in funds to support our specialty crop farmers, and we provide \$250 million to enhance the direct payment for beginning farmers. We support socially disadvantaged farmers with a number of our programs, and we simplify and modernize the Food Stamp program. We tightened the payment limits as I have described, and we ensure a strong safety net for our producers.

To wrap up, let me tell you a story that kind of defines for me what the vision of the 2007 farm bill should be. My own father grew up right on the edge of the Depression years. His productivity was limited to the number of cows he could milk by hand. When he got to 12 or 13 cows, he had hit his maximum.

Somewhere along the line, someone had the vision to electrify the countryside from the most remote farm in North Central Iowa or the most remote ranch in Arizona. They built the infrastructure to deliver them electricity. And all of a sudden my family's ability to be productive literally doubled with the flip of a switch, and my father's world changed when he bought electric milking machines. All of a sudden it was not 12 cows, it was 30 cows. And he and my mother provided a better life for our family.

Now I make that point to you because I believe so strongly in what farmers have said to us. They like the structure of this farm bill, but they have a big vision for the future. It may be energy in their part of the country, it may be a different crop that they raise, or it may be the fantastic increases in cotton yields due to enhanced varieties that did not exist 20 years ago. It may be a thousand different things.

However, after listening to farmers all across this country, I came back committed to offering a farm bill proposal that did what they asked me to do -- keep the structure, they like the certainty of the structure; change where it is not working; and give farmers the opportunity to expand their vision for the future.

We believe this farm bill proposal, America's farm bill proposal, does exactly that. Thank you for your time. I look forward to addressing your questions today and working with you closely throughout the year as you work to craft visionary farm policy for today's and tomorrow's

generation of American agriculture