

Statement of

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Before the

Committee on Agriculture, Nutrition and Forestry

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Economic Challenges and Opportunities Facing American Agricultural Producers Today

On behalf of the more than 69,000 family farms and ranches that produce sheep in America, I am very appreciative of this opportunity to discuss our nation's agricultural policy with the agriculture leadership of the United States Senate.

I am Burdell Johnson and currently serve as president of the American Sheep Industry Association (ASI), the national trade organization of the nation's sheep industry. I am a fourth-generation sheep producer from Tuttle, North Dakota.

The sheep industry produces lamb and wool in every state. The industry provides half a billion dollars to the American economy and is a mainstay of many rural communities in which sheep are a key use for grazing and pasture land.

Sheep producers have been aggressive and creative in their approach to national initiatives that strengthen the domestic industry.

In 2005, the sheep industry approved a national referendum to continue our American Lamb Board checkoff program. This lamb promotion program is entirely funded by the industry and I am pleased to say that of those who voted, 80 percent voted in favor of the referendum. We collect over \$2 million annually from sheep sales with producers, feeders and lamb companies all paying a share of the checkoff.

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We are the first livestock industry to use the standing authority for checkoff programs as was

authorized in the 1996 Farm Bill and can report to you the system does work.

The American Wool Council launched a wool production, information and marketing program for American wool in early 2001. Our international initiatives have improved competition for American wool. International marketing programs have exposed U.S. wools to the world and exports have grown rapidly to over 60 percent of our annual production. Total exports represented less than a third of production prior to these programs. We now sell into eight or more international markets each year.

In addition to expanding market opportunities for producers, the Wool Council has developed new fabrics and treatments for textiles with U.S. companies and America's armed services. We are proud to help provide clothing and uniforms for the men and women of our military. Nearly one-fourth of our wool production is consumed by the U.S. military.

2004 marked the first growth in the U.S. sheep inventory since 1990. We grew our industry again in 2005, the first year-on-year increase in sheep numbers since 1987 - 1988. Industry growth improves competitiveness for all segments of the industry from lamb feeders to lamb meat companies, wool warehouses to wool mills, feed suppliers, trucking firms and shearing companies. Inventory declined slightly in 2006 which analysts contribute to severe drought conditions, impacting lamb survival and ewe lamb retention.

Additionally, the sheep industry recognized that Livestock Risk Protection programs (LRP), as authorized by Congress, would be of assistance to sheep farmers and ranchers. I am pleased to state that the Federal Crop Insurance Corporation approved a twenty-seven state pilot project for LRP-Lamb expected to be available this summer. Currently, there are no price risk management tools available to sheep producers, so a successful pilot with this price insurance product is important.

I am pleased to comment on the positive impact of the current Farm Bill as it included the new Wool Loan Deficiency (LDP) program which provides the only safety net for wool producers in our business. I encourage the Committee to re-authorize the wool LDP at a base loan rate of \$1.20 per pound in order to provide the benefit of the program as intended. While nine loan rates are available, essentially all wool LDP applications are in one non-graded rate category. The research provided in 2002 by the Food and Agriculture Policy Research Institute (FAPRI) supported a \$1.20 per pound base loan rate, however, the legislation lowered the base to a \$1 per pound with a budget score of \$20 million annually. The total payments for each of the 2002 through 2006 crop years was \$7.8 million, \$7 million, \$7.3 million, \$6.1 million and \$7.5 million respectively.

The significant difference between the annual cost estimate and the actual payment total each year combined with the fact that nearly all participation has been in only one loan rate category out of nine, supports the request that the program be authorized at the base rate of \$1.20 per pound rather than \$1 in the current legislation. With a loan rate of \$1.20 per pound, total payments are projected to remain under \$20 million annually.

I urge the Committee to support re-authorization of the National Sheep Industry Improvement

Center.

As established in the 1996 Farm Bill in the Rural Development program of USDA, the National Sheep Industry Improvement Center provided loans and grants to business ventures for financing programs where normal commercial credit or funds were not available. The authorization for this program expired in the fall of 2006.

The program would not provide funds for individual producers or for the purchase of sheep or land, but rather for projects to strengthen the sheep business including loans to wool warehouses, lamb slaughter and processing ventures, and wool. During the ten years of operation, the Center provided 56 loans to 38 entities in 21 states. The total volume of dollars that have been loaned since 2000 totals approximately \$15.5 million. The Center made 58 grants equaling \$20,754,529 plus the final investment this year of nearly \$6 million to help deliver Livestock Risk Program-Lamb coverage to the U.S. Sheep Industry.

Re-authorization of the Center for the life of the next Farm Bill is crucial to the efforts to continue re-building the U.S. sheep inventory and infrastructure. \$20 million of funding would complete the \$50 million authorization of the 1996 legislation.

Additionally, the sheep industry actively participates in the USDA Foreign Market Development, Market Access Program and Quality Samples Program and we encourage inclusion of these in the Farm Bill.

The United States has no barriers to lamb meat imports and as such has become the market of choice for lamb exporters from around the world. Lamb was never part of the Meat Import Act so other than the brief period of temporary restrictions in late 1999 - 2001, lamb meat has and is freely traded. However, the playing field is not equitable for U.S. sheep producers. The European Union continues to provide over \$2 billion annually in government price support and subsidies to their sheep producers. The European Union maintains strict and effective tariff rate quotas on lamb imports. Our industry looks to both the Agriculture Committee's role in industry programs in the next Farm Bill and the Committee's role in pushing for aggressive reform of Europe's agriculture programs and barriers to assist the domestic sheep business.

Our industry supports enhancement of the conservation title of the next Farm Bill with support of prescriptive grazing with sheep.

Weed invasion into rangeland communities often results in reduced biodiversity, increased soil erosion, degradation of wildlife habitat and water quality and reduced carrying capacity for livestock.

Due to the fact there are many challenges when controlling invasive plants on rangeland, including vast roadless areas that limit access for weed control and lands of low economic value that make chemical and mechanical control impractical, these challenges favor biological control methods. One biological control method that is an under-exploited, readily available tool is prescribed livestock grazing, which is quickly proving to be very effective for weed control.

Prescribed grazing is the application of livestock grazing at a specified season, duration and

intensity to accomplish specific vegetation management goals. Scientific studies and on-the-ground experiences have clearly demonstrated that livestock are a promising tool in the battle against weeds in pastures, rangeland and forests.

We believe the conservation title should address programs and direction to support prescriptive grazing with sheep both for invasive species and noxious weed control.

Cost-share programs could be directed to prescriptive grazing projects to provide financial and technical assistance through our industry to promote grazing contracts with federal, state, municipal, tribal or private lands for prescribed grazing. I add that our industry believes prescribed grazing can be expanded to become a revenue option for farmers and ranchers which in turn strengthen the economies of rural areas of the country.

As evident in the listening sessions on the Farm Bill that USDA Secretary Johanns conducted last year, a number of comments were provided by producers in support of a retained ewe lamb program in the next Farm Bill. The growth of the U.S. sheep industry can in part be credited to the USDA retained ewe lamb program that was in effect for 2002 - 2004. The incentive payment to producers to keep ewe lambs in their breeding herd rather than sell them for slaughter encouraged producers to expand breeding herds which, in the longer term, will provide increased market lambs to help U.S. producers maintain and increase their share of the American meat case.

As requested by the Committee, I provide comments on competition related issues of the sheep industry.

Mandatory Price Reporting for Livestock made a positive impact on the U.S. Sheep Industry and is in a large part credited for less price volatility in the lamb market of recent years. Mandatory reporting implementation came at a great cost to the industry however in April 2001 through the end of that year, neither a voluntary nor a mandatory reporting system was in place and the live lamb market price suffered. 2002 through October 2005 proved successful for the new reporting system but unfortunately, compliance has now been voluntary for nearly eighteen months. The Department of Agriculture announced last fall following the re-authorization by Congress that rulemaking was required so we await the publishing of regulations. Over 40 percent of wholesale lamb cut prices are not reported, the retail price series for lamb is still not available and some lamb companies refuse to participate voluntarily.

I add that during the congressional consideration of the legislation in 2006, the American Sheep Industry did not find producer interest in the various proposals to change the mandatory price reporting system.

ASI strongly supports the interstate movement of state inspected meat as a way for sheep producers to compete with additional opportunities for lamb slaughter and processing. We ask the 110th Congress to approve legislation this year allowing interstate movement of state inspected meat.

The sheep industry opposes the use of USDA quality and yield grades of lamb on imported lamb. The U.S. industry has invested heavily in the grading system including the coupling of

quality and yield grades in 1992. Nearly 90 percent of American lambs are federally graded and in some years, imported graded lamb exceeds 100,000 carcasses.

The American Sheep Industry Association board of directors two years ago, voted to delete the organizations' long standing policy opposing packer ownership of livestock.

Country of Origin Labeling is of course supported by the American sheep industry. Product mixing of domestic and imported lamb in boxes can allow price discounting against domestic product and only mandatory labeling would require disclosure. Regarding the implementation date of labeling in 2007 versus the existing statutory date of 2008, the rulemaking situation at the Department of Agriculture with Mandatory Price Reporting would cast doubt on official rules being available for labeling this year anyway.

Two issues of international competition for the sheep industry include the need to address the tremendous subsidies and import protections afforded the European sheep industry that create serious disadvantage to American producers. Our industry believes sheep meat trade reform should be included as a priority in the negotiations of the World Trade Organization. Sheep meat trade reform would provide a more equal footing for trade around the world and equity for domestic agriculture producers.

The Centre for International Economics of Canberra, Australia, provided an extensive report on the global benefits of Sheep Meat Trade Report dated January 11, 2006, and we provide that report as supporting documentation in development of the United States trade policy with the WTO.

Secondly, American producers' ability to compete is hampered by the lack of pharmaceuticals and biologics for sheep health care that are licensed for use overseas but not in the United States. The American Sheep Industry Association strongly supports a tax credit for pharmaceutical firms to conduct the required research and testing to label sheep health products in this country particularly those that they already make available to our international sheep producing competitors.

Thank you for the opportunity to provide the sheep industry priorities for the next Farm Bill.