Testimony of Roger Johnson
Agriculture Commissioner
2007 Farm Bill
Senate Committee on Agriculture, Nutrition and Forestry
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Senator Conrad and members of the Committee, I am Agriculture Commissioner Roger Johnson. I am also currently serving as President-elect of the National Association of State Departments of Agriculture (NASDA). Following two years of deliberation and work, NASDA adopted 2007 Farm Bill Recommendations in September, 2006. The entire document contains over 200 specific recommendations addressing nine broad categories and can be found online at www.nasda.org. NASDA's 2007 Farm Bill Highlights are attached at the end of this testimony as Attachment A.

On behalf of NASDA and myself, I want to thank you for the opportunity to provide testimony on this extremely important piece of upcoming legislation. I also want to thank Senator Conrad for his leadership and tenacity in passing the recent ad hoc disaster program for 2005, 2006 and 2007 losses.

I will be focusing my testimony today on major issues important to North Dakota producers, most of which are also supported by NASDA.

Background

Agriculture is the largest sector of North Dakota's economy, generating more than $4.7 billion in cash receipts in 2006. North Dakota is home to more than 30,000 farms and ranches and we lead the nation in the production of 14 commodity categories including spring wheat, durum, barley, canola and various pulse crops.

North Dakota is also an energy state. We have vast traditional energy resources and a myriad of renewable energy industries that are taking shape. North Dakota is currently home to four operating ethanol facilities with a combined annual production capacity of 135.5 million gallons. Additional projects totaling 300 million gallons of production capacity have also been announced. An 85 million gallon canola-fed biodiesel facility will open in the next few months at Velva and additional biodiesel projects are in the planning or construction stages in Minot, York and Munich.

There is also great potential to develop the biomass industry in North Dakota, ranging from the production of energy crops for delivery to an ethanol conversion facility to the utilization of crop aftermath to produce cellulosic "nanowhiskers" to the utilization of wood waste or chips to feed boilers for energy production. According to a report from the Oak Ridge National

Laboratory, North Dakota ranks first in the nation in potential to produce perennial energy crops.

The new energy opportunities for agriculture are going to present many excellent economic opportunities for farmers and ranchers in the coming years; however, a solid safety net and federal farm program are still of critical importance to our industry.

Retain Marketing Loan and Countercyclical Programs

The current marketing loan and counter-cyclical payment programs have been generally well-received and have performed quite well. It makes sense to deliver economic assistance when commodity prices fall below pre-determined levels; thereby providing economic security when it is most needed. I believe that producers as well as the general public understand and support this model for providing farm economic assistance.

CCC outlays for the current commodity programs have been around $23 billion less than projected at the time of the current bill's implementation due to stronger commodity prices during the last few years. This is testament to the current commodity programs' successful counter-cyclical formulation. Secretary Johanns acknowledged the savings in the following recent statement to the House Budget Committee.

"The reduction in CCC outlays in 2007 to 2008 is driven largely due to higher crop prices. Prices are higher because of the dramatic increase in the demand for corn for ethanol production. Additionally, most of the other major commodities are also at relatively high price levels. These high commodity prices have lead to a significant reduction in CCC outlays, which indicates that farmers are relying more on the market for revenue than payments from the Government. Both the Administration and the Congressional Budget Office January baselines for CCC commodity programs show this effect. The rising demand of farm products for biofuel production coupled with strong export demand are expected to keep prices of most of the major CCC supported commodities at high levels for the coming years."

What is troubling in the Secretary's statement is the supposition "The rising demand of farm products for biofuel production coupled with strong export demand are expected to keep prices of most of the major CCC supported commodities at high levels for the coming years." This similar prognostication of projected and continuing high commodity prices led to the miserably failed Freedom to Farm Act of 1996. While we all hope commodity prices remain strong, I don't believe anyone desires to again "bet the farm" on this assumption.

Producers have experienced dramatic increases in operating costs, particularly for farm fuels and petroleum-related inputs since the current farm bill was implemented. The North Dakota Farm Business Management Education Program compiles yearly data on over 400 statewide farms/ranches enrolled in the program. The records indicate significantly rising costs in fuel, fertilizer, chemicals and total cash expenses for the four-year period of 2002 through 2005. Fuel and fertilizer costs alone have increased 85 and 79 percent respectively during the period. Data for 2006 is not yet available; however, indications are that costs will again show hefty increases this past year. The following table shows the average farm's cost increase for each category.

	2002	$/Acre	2005	$/Acre	Per Acre Increase
Fuel	$10,698	6.50	$20,967	12.02	85 %
Fertilizer	$18,135	11.01	$34,411	19.72	79 %
Chemicals	$19,755	11.99	$29,056	16.65	39 %
Total Expense	$192,922	117.14	$269,394	154.38	32 %

Because marketing loan and countercyclical payment programs are based on commodity loan rates, target prices, and market values, there is no direct correlation between program benefits and costs of production. Therefore, the new farm bill should increase and balance the loan rates and target prices among program crops to better reflect the overall increased and respective crops' costs of production. Loan rates and target prices should be indexed to individual crops' costs of production and/or based on Olympic averages.

Re-allocate Direct Payment Program Resources

The direct payment program should be reconsidered. It is a program that draws considerable public criticism by delivering payments to producers regardless of production or prices. The Administration is proposing to increase direct payments as follows:

"The Administration proposes increased direct payment rates. In addition, the Administration proposes increased direct payment rates for commodities other than upland cotton in the 2010-2012 crop years to reduce the risk of weaker markets, with this increase totaling $1 billion over the three years."

It is generally accepted that direct payments are capitalized into land values and rental rates, thereby indirectly benefiting landowners, many of whom are not active producers and are absentee landowners. This is not detrimental to producers who own all or most of the land they farm. However, it becomes a serious competitive disadvantage for beginning and other farmers who need to rent substantial amounts of land and/or desire to purchase land. The direct payment program's financial resources would be better utilized for funding a permanent disaster program and improving loan rates and target prices.

Enact Permanent Disaster Assistance Program

Crop and livestock disaster situations, whether widespread or localized in scope, are inevitable. It is not possible for a crop insurance product to indemnify the high-risk "first losses" of production in an actuarially sound yet affordable manner.

Relying on ad-hoc disaster assistance programs has proven to be unpredictable and frustrating for producers, their creditors, and the "main streets" that rely on their business. The nature of ad-hoc assistance also lends itself to "blanket" approach delivery, leading to possible inequities among recipients.

A permanently authorized disaster assistance program, covering both crops and livestock, should be included as a major component of the next farm bill's safety net. During NASDA's

February, 2006 meeting, I proposed and NASDA adopted the following policy language regarding a permanent disaster program:

Eligibility for disaster assistance should be triggered by evidence of producer loss based upon total farm revenue. Disaster assistance should focus on the gap between expected farm revenue (including insurance indemnities) and the farm's insurance guarantee.

Disaster assistance should be designed in a fashion that does not cause disincentives to purchase buy-up insurance coverage or NAP policies. Limits should be established to prevent producers from receiving more in crop sales, insurance indemnities, and disaster assistance than would be expected in a normal production year. However, producers must not be financially penalized for carrying higher insurance coverage. Disaster assistance eligibility should be premised on carrying buy-up insurance if available, excluding participation in pilot insurance programs.

NAP insurance coverage should be improved with buy-up coverage available for additional premiums. The buy-up level for NAP should be capped at 65% of yield and 65% of price. NAP coverage for grazing must be improved to be commensurate with similar coverage on annual planted crops.

A permanent disaster program proposal and examples, based on the above NASDA policy, is attached as Attachment B at the end of this testimony. I and the nation's state Agriculture Commissioners strongly encourage you to make this recommendation a part of the next farm bill.

One criticism of the current commodity programs is the scenario of losing crop production to weather related disasters, thereby having little or no production to sell. If the commodity prices are high, the producer receives no countercyclical payment, yet has little or no production to sell into the strong market.

In response, the Administration is proposing a revenue-based counter-cyclical program as a replacement for the current price-based counter-cyclical program. The proposal states in part:

"Replace the current price-based counter-cyclical payment program for a commodity with revenue-based counter-cyclical payments for that commodity. The revenue-based payment for a commodity would be triggered when the actual national revenue per acre for the commodity is less than the national target revenue per acre."

This is a valid issue. However, basing assistance on national revenue per acre would still do nothing for producers in local or regional disaster situations when the program is not triggered. For this Administration proposal to be effective, it must base assistance on local revenues per acre rather than national ones.

The Administration also proposes a supplemental insurance product to cover all or part of the crop insurance deductible in the event of a county or area wide loss. If this is an affordable and practical solution, it would likely have already been developed and implemented long ago. The

Administration's proposals also do not address livestock losses.

A comprehensive, permanent and predictable disaster program seems a much better solution and would accomplish the Administration's goals of providing assistance to producers experiencing crop losses during times of strong commodity prices.

Review and Strengthen Payment Limitations
Payment limitations must be clearly established and enforceable. Although complex and controversial, this issue needs to be addressed if the negative and often misleading information being disseminated by farm policy opponents is to be suppressed. The criticism of current payment limits is not totally unjustified. The following excerpt from the USDA Economic Research Service indicates dramatic trends in commodity program payments:

"Commodity Payments Are Shifting to Higher-Income Households
In 1989, half of commodity payments went to principal operators whose households earned more than $45,808 (in 2003 dollars), and half went to principal operators whose households had incomes below that figure (table 1). To further summarize the distribution of payments in 1989, one quarter went to households earning more than $94,784 (also in 2003 dollars), while 10 percent went to households with incomes above $189,149.

Since then, payments have shifted sharply to higher-income farm households. By 2003, half of commodity payments went to households with income above $75,772. One quarter went to households earning more than $160,142, and 10 percent of payments went to households earning more than $342,918."

The Administration is proposing that aggregate payment limits remain relatively unchanged but that a "means test" be implemented based on a recipient's adjusted gross income for program payments eligibility. There may be some validity to this approach. However, establishing reasonable limits, revising the "three entity rule" and closing generic certificate and other limitation loopholes should be of higher priority. Reasonable and enforceable payment limits would significantly nullify the need for the "means test" approach.

Payment limits should be reviewed and revised to appropriate levels. Gains through the use of generic certificates must be subject to payment attribution. The three-entity rule should be reviewed and eliminated in favor of "direct attribution."

Energy Provisions
Programs and incentives for next generation technologies
The convergence of agriculture and energy provides exciting opportunities in both areas. The corn ethanol industry continues to mature and the biodiesel industry is also taking shape. The next generation of biofuels and biobased products is also on the horizon and we need to include programs and incentives in the 2007 farm bill that will allow for the technological advancements necessary to commercialize these new technologies.
25x25 Agriculture Energy Initiative
NASDA strongly supports the development of biobased industries with specific emphasis on energy production. NASDA and my office is a founding member of the 25x25 agriculture

energy initiative, which aims to generate 25 percent of our country's energy from agricultural sources by the year 2025.

Cellulosic/energy feedstock production

The next generation of biofuels will likely utilize other feedstocks in addition to corn and oilseeds including perennial energy crops, crop aftermath and wood wastes. NASDA supports allowing the use of Conservation Reserve Program (CRP) lands for the production of energy and biobased crops with commensurate payment reductions. NASDA also supports the development of a cellulosic/energy feedstock production base enrollment program using long term contracts to support that industry.

On-farm energy and federal biofuels incentives

NASDA supports the establishment of on-farm incentives to produce and utilize solar, wind and biobased energy and making permanent the federal tax credits for ethanol and biodiesel.

Other Recommendations

Livestock

? Country Origin of Labeling (COOL) must be immediately implemented.
? A livestock indemnity program should be included in a permanent disaster program.
? The ban on interstate shipment of state-inspected meat should be repealed.

Crop Insurance

? Crop insurance improvements are a continuing and needed work-in-progress with major legislation historically addressed separately from the farm bill. Establishment of a comprehensive, predictable, and permanent disaster program would alleviate substantial pressure from crop insurance to address "shallow losses" and disaster situations.

Conservation

? Inadequate funding for conservation programs such as the Conservation Security Program and Environmental Quality Incentive Program has precluded full producer participation. The scope and eligibility of all conservation programs should be expanded. However, adequate funding must be available to bring these programs to full potential.

Summary

A comprehensive economic safety net is critical for production agriculture in the next farm bill. The current commodity programs have been working well and as intended. They provide economic assistance when most needed and save taxpayer dollars in times of better commodity prices. We should not abandon what has been working well. Rather, we should build on successful fundamental programs by updating and improving them to meet current and future economic challenges.

Agriculture's role in the biofuels industry should be advanced in a manner that continues to financially contribute to individual producers and local economies. Local ownership of processing plants and related enterprises must be encouraged if agriculture and rural communities are to share in the wealth and revitalization that the renewable fuels industries offer.

Senator Conrad and members of the Committee, this concludes my testimony. Thank you for this opportunity. I would be pleased to take any questions.

National Association of State Departments of Agriculture
2007 Farm Bill Highlights

Introduction

Agriculture is an important force in the economic, social, and political fabric of America and is considered one of the protected "critical assets" of this Nation as outlined by the Department of Homeland Security (DHS). The commissioners, secretaries, and directors of the state departments of agriculture are keenly aware of the changing dynamics in food, fiber and fuel production around the world. As the chief agricultural officials in their states, they understand the importance of the entire food and agricultural sector, not only to their states but to the national economy as well. From this vantage point the National Association of State Departments of Agriculture's (NASDA) puts forward a comprehensive set of strategic policy initiatives designed to enhance U.S. agricultural competitiveness and profitability and to ensure the survivability of U.S. producers.

NASDA's purpose is to contribute to a wide-ranging and constructive debate on agricultural policy and the next farm bill. As representatives of the state departments of agriculture, NASDA members seek to outline what issues must be addressed in the next farm bill for the United States in order to allow the best avenue for protecting agriculture as a critical asset to the safety and security of this Nation and its people.

NASDA's recommendations offer a broad, opportunity-based agricultural policy focusing on expanding and improving the safety net for farmers and ranchers. NASDA's recommendations also outline bold, new ideas to address environmental and food safety challenges. For the first time, NASDA's recommendations emphasize development of renewable energy resources, nutrition initiatives, and an expanded invasive species program.

NASDA's Farm Bill recommendations encompass 209 specific recommendations in nine general policy areas. The recommendations in this paper are the highlights of NASDA's full recommendations. For the full text of NASDA's recommendations, please go to www.nasda.org/fb2007/.

Economic Safety Net for Producers

- Maintain marketing loans and counter-cyclical payments
- Expand crop insurance options with an emphasis on whole farm revenue insurance
- Enact a permanently authorized disaster assistance program

- Payment limits must be clearly established and enforceable; the "three-entity rule" needs to be revised.
- GAO needs to study and report on the impact of direct payments on land values to provide a baseline for future policy discussions.

Access to International Markets for U.S. Agricultural Products
- Support continuation of trade promotion authority
- Continue funding for Market Access Program (MAP) and Foreign Market Development Program
- Maintain and enhance FAS Agricultural Trade Offices overseas
- Market Access for US biotech crops is important

Support for Specialty Crops
- Block grants to states, including a base grant of $2 million to each State
- Ensure that specialty crop producers have comparable access to USDA benefits

Enhancing Environmental Quality through Partnerships with States
- Expand scope and eligibility of Conservation Security Program (CSP)
- Enact stewardship partnership agreements with States
- Enhance the Farmland Protection Program
- Improve current USDA conservation programs
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Rural Development
- Enact farm/ranch profitability grants
- USDA-Rural Development programs need to be available for rural areas in proximity to metropolitan areas

Providing Safe, Healthy, and Nutritious Food
- Expand the DoD Fresh and USDA Fruit and Vegetable pilot programs to all states
- Improve funding and delivery of nutrition programs
- Allow interstate sales of state-inspected meat and poultry
- Enact pre-harvest food quality assurance partnerships with States

Support for Bio-industry Development with Emphasis on Energy Production
- Implement the 25x25 agriculture energy initiative with emphasis on the development of alternative fuels from agriculture commodities and other biomass
- Make permanent the tax credits for ethanol and biodiesel
- Establish on-farm incentives to produce and utilize solar, wind, and biobased energy, including allowing use of CRP land for production of energy and biobased crops with commensurate payment reductions
- Develop a cellulosic/energy feedstock production base enrollment program using long term contracts

Identification and Removal of Invasive Species
- Enhance non-native pest and disease identification and eradication/control programs

consistent with safeguarding principles, e.g. expand prevention and early detection and rapid response programs
- Expand funding sources through a streamlined, dedicated appropriation with block grants to states to expand programs
- Continue emphasis on sound-science and SPS harmonization in trade agreements
- Improve inspection of cargo arrivals

All-Hazards Security Programs
- Expand state emergency programs for food and agriculture consistent with federal emergency preparedness and response programs
- Enhance animal identification programs to assure state and federal animal health objectives are met

Research and Information
- Ensure data collection needs are met
- Increase funding in research, extension, and education programs

Biotechnology
- Create a federal office to assure communications, cooperation and coordination of information between federal and state agencies

Other Critical Issues - Labor and Transportation
- Availability of agricultural labor force through guest worker program
- Rivers, Rails and Roadways: Critical investments needed to maintain agriculture's competitiveness in world marketplace

Role of States
- State departments of agriculture should be full partners with USDA in program delivery to producers through partnership agreements, block grants, and pilot projects

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PERMANENT DISASTER PROGRAM PROPOSAL
Based on NASDA Policy

Principles

? Should not undermine crop insurance or NAP coverage.

? Focus on the gap between insurance guarantee and the whole-farm's "expected revenue".

? Should provide equitable assistance based on individual risk management decisions.

? Should be predictable.

Example Benchmarks

? Livestock losses covered under companion indemnity program.
o Forage/grazing covered by this proposal.

? Participation in crop insurance and/or NAP programs is required for disaster assistance eligibility.

o The exception to crop insurance participation is pilot programs. However, once a pilot program is off pilot status and is a standard available product, participation is required.

? Expected revenue is projected on the whole farm's total combined revenue based on each crop's insurance APH, price, and planted acreage at 100%.

o Revenue protection is 90% of the whole-farm's expected revenue.

o 75% insurance level is the preferred level which provides 100% of revenue protection

o For insurable crops, revenue protection is factored according to level of insurance purchased other than the 75% level.

o NAP is not factored since "buy-up" coverage is not currently available. Should NAP buy-up coverage be established, basic NAP coverage would also be factored.

? Assistance eligibility is on an individual whole-farm basis by producer proof of loss as determined by FSA.

o Eligibility is not triggered until all revenue from crops and insurance indemnities fall below the revenue protection level.

o Receipt of insurance indemnities do not necessarily mean disaster assistance is triggered (whole-farm revenue may be offset by other crop revenue and insurance indemnities).

o FSA to have the ability to make an upward adjustment to the revenue protection level percentage in counties receiving a Presidential or Secretarial Disaster Designation. Individual farms would still be required to demonstrate a qualifying loss.

SUMMARY

This proposal is premised on the need for a permanent solution for dealing with agricultural disaster situations. Ad-hoc disaster assistance is unpredictable and tends to be delivered in a "blanket" approach leading to inequitable assistance distribution. Development of "affordable" crop insurance coverage for the actuarially high-risk upper end of production seems unlikely.

Disaster assistance should focus on those losses that crop insurance is unable to cover at a premium rate affordable to producers. This means that disaster assistance must be complimentary to and directly relative to the crop insurance program.

It is critical that disaster assistance not undermine the benefits of purchasing higher levels of insurance. Likewise, the combined revenue of crop sales, insurance indemnities, and disaster assistance should not exceed what would be expected in a normal production year.

Basing disaster assistance on the whole-farm's revenue and by factoring assistance according to insurance levels provides producers with incentives to purchase insurance, and consequently disaster protection, at levels to meet their management needs. It also diminishes financial penalties for high-level insurance purchasers that can result from simple revenue caps.