

I am Kendell W. Keith, president of the National Grain and Feed Association. The National Grain and Feed Association is a voluntary trade association comprised of 900 companies involved in country elevator operations, feed milling, integrated livestock production, grain processing and exporting operations. Our members handle and process over two-thirds of the grain moving through the commercial marketplace. In this testimony today, I am also representing a wide range of other agri-business organizations that comprise the Alliance for Agricultural Growth and Competitiveness (AAGC). AAGC is comprised of national and state organizations representing a broad cross-section of meat, livestock and poultry production; agricultural input; and grain marketing, handling, processing and exporting interests.

Conservation programs, in particular the Conservation Reserve Program, have assumed an expanded role and become increasingly important in overall farm policy. While an increased focus on conservation has many positive features, it can also become an impediment to growth in the U.S. agricultural sector if not administered properly. This statement pertains primarily to the U.S. Department of Agriculture's current plans to address the large number of acres enrolled under CRP contracts expiring between 2007 and 2009. But a few of our recommendations touch on future legislative matters we believe Congress should address as it considers different approaches to conservation in the next farm bill.

The principal points that we wish to make in this testimony are:

1. The legislated cap of 39.2 million acres is not a mandate, but an absolute maximum for acreage enrollment in the program. Filling the CRP to its legislative mandate with a given allocation of funding does not necessarily equate to maximizing environmental benefits.
2. Automatic long-term extensions or re-enrollments of existing CRP contracts without critical evaluation likely will waste government funds and achieve less-than-optimal environmental results.
3. Long-term commitments that keep land out of active crop production and grazing may hamper economic growth, particularly in traditional agricultural sectors such as livestock and poultry production.
4. CRP enrollment now is focused on Western states, and as such, has contributed to a long-term decline in U.S. wheat acreage. The reduction in bushel output in that region has caused, and will continue to cause, further disinvestments in marketing and transportation services to the production agriculture sector, making the region even less profitable for future grain production.
5. There appears to be excessive focus in the CRP program on wildlife and game bird production for the purpose of subsidizing commercial hunting enterprises, at the expense of achieving more improvements in water quality.
6. USDA's decisions with respect to expiring CRP contracts should not tie Congress' hands in amending the CRP in the next farm bill, nor hamper Congress' ability to reshape the CRP in the context of overall conservation policy that focuses more conservation resources on working farmlands. With biofuel demand for grain growing rapidly and with yield-robbing plant

diseases like soybean rust invading the United States, there may well be a need for non-environmentally sensitive farmland to be freed up for production. Congress should have the flexibility to consider a more optimal mix of conservation programs to achieve overall national policy goals.

7. USDA's administration of the CRP program caps on acreage idled in individual counties needs to be reevaluated to ensure that the program does not create excessive local economic distress. There is evidence that this is occurring in some regions.

1. The legislated cap of 39.2 million acres is not a mandate. In the June 3, 2005, Federal Register notice, USDA states that "(USDA) is committed to full enrollment up to the authorized level of 39.2 million acres." The 39.2-million-acre cap is not a mandate; it simply sets the maximum number of acres established by Congress to be enrolled in the CRP, given funding limitations and other program goals. In our view, if the goal of this program is to maximize environmental benefits, such an unconditional, over-arching commitment to enroll a specified number of acres is misguided. There clearly are tradeoffs in the CRP program between the total number of acres enrolled and a multitude of other factors that need to be managed to maximize environmental benefits. Putting a narrow strip of land along a waterway into the CRP may be considerably more expensive on a per-acre basis than the average CRP acre. But it may provide environmental benefits many times that of enrolling flat land in drier climates. We submit that given the multiple goals of the CRP program (to reduce erosion, to protect water quality and to enhance wildlife - all within a finite budget), it is inappropriate to view the legislated maximum acreage cap as a singular policy "goal."

2. Automatic long-term extensions or re-enrollments in the CRP without critical evaluation likely will waste government funds and achieve less-than-optimal environmental results. USDA's June 3, 2005 Federal Register notice references the large number of acres expiring from the CRP program during the 2007-10 period. The notice further suggests that to alleviate administrative burdens, and to keep enrolled acres at or near the maximum, the administration might consider non-competitive and/or automatic re-enrollments or extensions.

While we acknowledge the administrative burden is real, USDA's Farm Service Agency has proven to be adept in the past of mobilizing to meet the challenge of responding to programmatic needs. Indeed, it did so laudably in implementing the provisions of the 2002 farm law, and it is not unreasonable to expect that the agency can do so again. Every private business also encounters "crunch times" that require extraordinary performance and additional manpower and hours.

We believe there is some logic to offering very short-term extensions, in the one- to two-year range to begin spreading out the expiration dates of the CRP contracts so that we do not make short-term decisions that have long-term implications. However, automatic long-term extensions or reenrollments, in the name of easing administrative burdens, would be a very troubling development. Some of the CRP land includes whole farms, and extensive land tracts that have been enrolled for the entire existence of the program - more than 15 years. And many of these lands were enrolled under much less stringent environmental criteria - and at much higher rental rates - than exist today. Is it good policy to automatically reenroll such land? Or should other landowners with environmentally sensitive ground that have not participated

previously be given at least equal opportunity to participate? Is it good policy for the government to pay rent for such idled land for three decades without a periodic, thorough review of the environmental benefits of individual plots that are enrolled in the program? Is it good policy to simply rely on idling large tracts of land as a conservation policy, or are there other conservation programs that could accomplish many of the same goals without completely removing the land from active farming? For these reasons, we think the CRP enrollments during the 2007-10 period need to be subjected to a competitive bidding process and be very selective judged on the basis of environmental benefits. Further, we believe USDA should consider how some partial fields might replace whole-farm enrollments with a goal of achieving the maximum environmental benefits per acre at the most reasonable taxpayer expense.

3. Long term commitments for keeping land out of active crop production and grazing may hamper growth, particularly of traditional agricultural sectors, such as livestock and poultry production. Corn used for ethanol production now represents 14% of the U.S. corn supply. Plans for constructing new ethanol plants seem to be announced daily, and Congress currently is considering an energy bill that could mandate an 8 billion gallon renewable fuels standard. As soybean rust invades the United States, there is concern as to how this new factor will affect per-acre productivity in soybeans. And the U.S. wheat industry has clearly already been squeezed by the concentration of CRP acres in Western states. Wheat acreage has shrunk by more than 10 million acres in the last seven years. Land-use patterns, with the expansion of development in urban areas and other factors, are causing some shrinkage in total lands available to agriculture. Total CRP and land planted to major crops declined from 275 million acres in 1997 to 266 million acres in 2004. If the United States ultimately does not have the land base to stay internationally competitive in the major grains and oilseeds, other related industries, such as livestock and poultry which traditionally consume 50% to 60% of U.S. corn production, and the vast majority of soybean meal will have a very difficult time growing and competing internationally. Given this economic setting, we conclude that signing up the maximum number of acres in the CRP program and locking them away for 10 years might prove to be a very short-sighted, detrimental policy, and directly at odds with a U.S. policy intended to facilitate growth in the traditional agricultural sector.

4. The CRP is concentrated in Western states, contributing to a long-term decline in wheat acreage and disinvestments in marketing and transportation infrastructure. Class I railroads continue to abandon miles of track in regions where CRP is concentrated - the Dakotas, Idaho, Montana and the state of Washington. As bushels of grain available for hauling become scarcer, track maintenance for every branch rail line becomes less feasible. The Red River Valley & Western Railroad, a regional railroad in North Dakota, submitted a letter to the NGFA explaining that two branch lines in that state had been abandoned in areas that had a high concentration of CRP ground (a copy of that letter is attached). Loss of such infrastructure means that it becomes more expensive to move the remaining grain to market, effectively lowering market prices on the remaining grain that is produced. And rail lines, once abandoned, are rarely rebuilt. Idling large tracts of productive farmland for extended periods is not good policy for encouraging supporting businesses to maintain investments. The marketplace will not keep blindly pouring money into maintaining marketing infrastructure in the hope that some day the government's land-idling payments will stop, permitting active farming to resume once

again.

5. There appears to be excessive focus in the CRP program on wildlife and game bird production at the expense of achieving more improvements in water quality. The three major goals of the CRP program are erosion control, wildlife and water quality enhancement. Yet, USDA estimates that water quality improvements represent only 8% of the non-market benefits of the CRP program. We think this is clear evidence that additional emphasis needs to be placed on water-quality improvement. This means more emphasis on stream buffers. It also means that rather than automatically enrolling whole farms and large land tracts, the government needs to evaluate whether enrollment of only a partial field could contribute substantially to water quality, thus saving government money for other enrollments that could contribute to water-quality enhancement. Another challenge in addressing water quality is that in counties that already have a maximum number of acres enrolled because so many whole farms were taken out of production, USDA is prevented from enrolling stream banks and making other contributions to water quality because of the 25% limit on per-county enrollment. In general, the need for greater emphasis on water quality means that there should be less emphasis on whole-farm enrollments, in particular where the land creates few concerns about run-off into streams or underground water supplies.

6. Administration of the CRP program should not limit Congress' discretion to amend the program in the next farm bill. As already noted in point #3, because of the rapidly growing bio-fuel sector, and yield-robbing production threats like soybean rust that defy accurate impact assessment at this stage, traditional U.S. agricultural sectors like livestock, poultry, grain processing and exporting face considerable uncertainty regarding long-term supplies of whole grain feed stocks. Because of this consideration, and the fact that technology advancements now permit more effective conserving uses to be implemented on land that remains in active farming, we think that Congress should have as much flexibility as possible to determine the future direction of the CRP program, as well as the context of the CRP within overall conservation programs. Excessive early reenrollments and automatic extensions by USDA could restrict the options available to Congress in the next farm bill to fully evaluate and consider a more optimal mix of conservation programs. CRP idles productive farmland. Can we spend some of the funds now used in CRP for conservation on working lands, and thereby maintain the productivity of the traditional rural economy? Should more of the available conservation program dollars be invested in programs like EQIP that have a real focus on water quality? Should CRP be less concentrated in Western states where the bulk of CRP ground is today? Should the overall acreage cap be reduced given the challenges we face in producing grain for both new and traditional uses? All of these very significant issues need to be investigated by Congress in the next farm legislation.

7. The administration of the program with regard to the 25% cap on acreage in any given county needs to be thoroughly evaluated as to whether performance conforms with intentions of Congress. It appears that because outdated data on cropland is being used to determine the per-county cap acreage, the total acreage being removed from production far exceeds 25% of a modern-day "normal cultivated acreage" (in the absence of a CRP program) for a given county. [Two examples of this are presented in the appendix. Harmon County, OK has 51,000 acres in the CRP, but only harvests 84,000 acres of cropland. Ellis County, OK has 63,000 acres in the

CRP with current plantings of crops of 97,000 acres. Both of these examples suggest the 25% cap, as being administered by USDA, has not successfully limited the potential economic damage to rural areas.] In addition, as noted previously, because so many counties already have reached the 25% limit as now being administered, USDA is being prevented from enrolling valuable filter strips in such counties that could contribute meaningfully to water-quality objectives. This is another important reason not to rush to judgment on reenrollments of existing CRP acreage.

## Conclusion

The economic damage caused by heavy acreage idling is real. Several letters testifying to local market impacts are included in the appendix. From Idaho, the local co-op manager in Moscow, as he was resigning from the NGFA for financial reasons, states, "the CRP program is a major reason for the downfall of our company. Over 45,000 acres in our service area are now in CRP." From the state of Washington, the elevator manager from Lind, in Adams County, says that about one-third of the acres in his marketing area are out of production, much due to CRP. In Lind, WA, the population has dropped nearly 30%. School enrollment has dropped 40%. They've lost two farm equipment dealerships, a bank, an insurance broker and a hardware store. In a neighboring town in the same county, the school has half the enrollment it had 12 years ago.

The CRP program's main financial benefits flow to landowners. But it sometimes is forgotten that the unintended side effects probably do the most economic damage to the producers that many policy makers would most like to help - beginning farmers and tenant farmers trying to earn a reasonable income from active farming. Land values are increased by the CRP, but so are rental values that reduce the profitability of tenant farming. Reducing the farm acreage available to rent means it also is more difficult for beginning and tenant farmers to put together an efficiently sized production unit that will provide for a reasonable income. USDA's own Beginning Farmer and Rancher Advisory Committee has recommended to the Secretary of Agriculture to "direct ERS, FSA and NRCS to research policy options for the CRP program to enhance beginning farmer and rancher opportunities as the next big wave of CRP contract expirations begin in FY 2006-2008." This recommendation was made in March 2004. We have not seen any USDA statements that reflect whether this proposal has been actively considered by the Department.

We appreciate the opportunity to testify about the Conservation Reserve Program, and would be pleased to respond to questions.

## Appendix

### I. Letter from Grain Merchandiser in Lind Washington

May 25, 2004

Kendell W. Keith, President

National Grain & Feed Association

kkeith@ngfa.org

Dear Kendell:

Concerning the impact that the CRP Program has had on local economies: All any person would have to do is drive around Lind, Washington for 10 minutes to see the detrimental impact that CRP can have on a community. Half the stores in downtown are closed. A significant number of houses are abandoned. In the immediate vicinity it looks like half the farm ground is idle. Our grain elevator at the Main Office in Lind does not come close to filling up at harvest. We have to truck wheat in from other stations to utilize the storage capacity. In truth about 200,000 acres in our service area are in CRP. Since it most likely would be dryland summer fallow that amounts to 100,000 acres per year of lost production. At 40 bushels per acre that totals 4,000,000 bushels. 4,000,000 bu. that is not harvested, not stored, not fertilized and not farmed. The farm families needed to farm the 4,000,000 bushels are gone. The people needed to service the equipment are gone. The people needed to handle and market the grain are gone.

As a result of the loss of population, the non-agricultural businesses also are impacted. That's why half of downtown is gone. That's why the businesses that remain are struggling. That's why the local schools have lost 40% of their enrollment and have to partner up with neighboring schools in order the its students to participate in after school activities. That's why the crime rate is higher. And that's why the quality of life is worse.

Sincerely,

Pearson Burke

Grain Merchandiser

Union Elevator & Warehouse Co.

## II. Letter from Grain Elevator Manager in Lind, Washington

Dear Kendell:

I believe that our area would be a good example of how devastating the CRP has been to our rural economy.

Our service area covers most of Adams County in Washington State. Although Adams County has 25% of its acreage in CRP, closer to 1/3 of the acres in our service area are now out of production. Adams County has the most acres of any county in the nation in CRP, over 200,000. Within our service area are two small farm communities. If we look at the changes that have taken place in just the last 10 years since the full effect of CRP has taken hold, it is obvious that CRP has literally destroyed both of these communities. In Lind, where our office is located, the population of the town has dropped nearly 30%. School enrollment has dropped 40%. Businesses that have closed include one of the two farm equipment dealerships, the drugstore, a tavern, a bank, an insurance office, and a hardware store with the remaining one in the process of a close-out sale. Those few businesses still operating are, without exceptions, barely hanging on. In Washtucna, where we have a grain receiving station, the main street, which once was home to a grocery store, drug store, hardware store, and a barbershop is

completely empty! The school has 1/2 of the enrollment it had just a dozen years ago. It is our believe that CRP is the only reason that these communities have seen such a total downward spiral. Less acres to farm means less equipment to sell, less money circulating to purchase goods locally, less people to support not only the local economy but to contribute to local programs and activities that are the lifeblood of small communities. What CRP has done to these small towns should not be a surprise to anyone. It was predicted by many once it was known that whole farms would be eligible for CRP enrollment. Our company lost 1/3 of our customers after the first few rounds of CRP enrollment in the early 90's. Our survival has been dependent on enlarging our service area into the irrigated farmland, storing grain for the CCC, and by reducing expenses in any way possible without comprising customer service. The double whammy of losing customers due to CRP and loss of grain storage income because of CCC's liquidation of some of their stocks is not what we would consider equitable and responsible policies from our government. Our own government has done more to hurt rural economies and small town existence than anything else anyone could imagine. We would invite anyone, including those who conducted the USDA's Economic Research Report, to visit our area to see first person what CRP has done to our way of life. Our communities will never recover from the damage done by CRP. To conclude that CRP has not had a long-term impact on jobs, the local economy and local services is not only ludicrous, it puts the validity of the entire report by the USDA's Economic Research Service in question. It would be interesting to know if any of the people conducting this study actually visited any of the areas with the highest CRP acres in person.

Randy Roth  
Manager  
Union Elevator and Warehouse Co.  
Lind, Washington

(Note: Adams County, Washington has 215,000 acres in the CRP. Total harvested cropland is 413,000 (1997 Census of Ag. Total cropland is 808,000.)

V. Letter from Elevator Co-operative Elevator Manager in Moscow, ID

January 20, 2004

(to) National Grain and Feed Association (NGFA)  
attn: Randy Gordon

Dear Randy:

The purpose of this letter is to notify NGFA that we will no longer be able to be a member (of

the Association) starting in 2004. As I told you in my letter last February, the economic situation with our Company continues to erode. The Board of Directors and I are working toward a merger or sale of the Company within this calendar year. Most likely, it will be a merger with another cooperative.

The \$600 minimum dues bill is not a "make or break" expense on its own. But, I am under the directive of the Board of Directors to make sweeping reductions across the board. NGFA has, and will continue to, provide value to the grain industry. I have no doubt about that. This cancellation is not based on the value the Association provides.

USDA's CRP program is a major reason for the downfall of our Company. Over 45,000 acres in our service area is now in CRP and probably will be for the foreseeable future. The impact to our Company as a result of this program is approximately \$600,000 annually in lost income. A mini-drought in 2002 and a major drought in 2003 reduced our income on the acres that are still in production. The winter wheat looks really good at this time, and with decent spring and early summer weather, maybe we will do better this year. That remains to be seen.

In closing I want to tell you that I have appreciated the work you and others in the NGFA have done for all of us over the years. I wish the Association good fortune in the future. Please share this letter with Kendell and Todd. Thank you!

Sincerely yours,

Dave Strong  
Manager  
Latah County Grain Growers, Inc.  
Moscow, Idaho

## VI. Letter from Red River Valley and Western Railroad Company

May 25, 2004

Dear Mr. Keith:

The Red River Valley & Western Railroad Company (RRV&W) is a 500-mile short line Railroad headquartered in Wahpeton, North Dakota. Our small railroad provides rail service to approximately 60 customers in some of the most rural and agricultural regions of North Dakota. Many of these rural areas have high concentrations of agricultural lands enrolled in the Conservation Reserve Program. These rural areas have lost their rail service due in part to the removal of large volumes of grain from the grain marketing system. Two branch lines have been abandoned in central North Dakota, right in the midst of some of the highest concentrations of CRP in North Dakota. While many factors have undoubtedly contributed to abandonment of these branch lines, loss of these grain volumes is a significant contributor.

Many businesses and the jobs they support are dependent on the volumes of grain produced

and moved through the marketing chain. With the advent of the CRP program, and especially in areas with higher proportions of participant acres, the jobs formerly generated by the seed dealers, fertilizer dealers, grain elevators, and other businesses are lost.

The Red River Valley & Western Railroad supports the position of the National Grain and Feed Association in reducing the number of acres in the CRP program through early exit, and an overall change in the use of the CRP program to concentrate on the most environmentally sensitive areas. The RRV&W asks that this be a part of the record with NGFA's presentation before the USDA.

Sincerely,

Dan Zink  
Red River Valley & Western Railroad Company