

Good morning. My name is Keith Olsen. My family and I own and operate a dryland wheat and corn farm near Grant in Southwest Nebraska. I serve as President of the Nebraska Farm Bureau Federation, the state's largest farm organization.

Mr. Chairman and members of the Committee, we commend you for holding these field hearings on the 2007 farm bill and for taking time to listen to those who have most at stake in this debate - our nation's farmers and ranchers.

The landscape of agriculture has changed considerably since the enactment of the 2002 Farm Bill. Unpredictable weather conditions and markets, uncertainties involved with international trade and variable input costs have produced turbulent times for production agriculture. This year has been particularly difficult for Nebraska producers as widespread drought will likely result in severe losses of crop, hay and livestock production. In addition, production costs have significantly increased due to the skyrocketing price of fuel, fertilizer and other energy-related inputs.

Our long-term policy goal is to "level the playing field" in production agriculture around the world so farmers and ranchers are allowed to compete in open markets without tariff and non-tariff barriers, without export subsidies, without currency manipulations and without production-distorting domestic subsidies. Frankly, most, if not all producers in Nebraska will state that they would rather get their income from the marketplace rather than government payments which could occur if we removed all barriers of trade and leveled the playing field for U.S. producers.

However, bridging the gap between where we are now and where we want to be in the future will require time and transitional policies. The short-term reality is that we will continue to need a safety net in years that revenues decline due to low yields and/or low prices combined with the high costs of doing business - which is currently the case for many producers raising crops today.

As we look to the 2007 farm bill it is important that Congress and USDA build upon the success of the current farm bill and put into place policies that help make the United States a place where producers have the ability to remain in production agriculture and expand their operations if so desired. Considering the average age of producers continues to increase, we need to identify ways to assist beginning farmers and ranchers who are interested in production agriculture as well.

#### Farm Bill Extension

Since the WTO talks were indefinitely suspended in July and it is uncertain when the talks will resume, Farm Bureau is calling for an extension of the current farm bill for at least one year after making minor adjustments to comply with recent WTO rulings. While we continue to support the Doha Round, we believe the U.S. should not unilaterally disarm our farm programs or give up negotiating opportunities when our trading partners remain unwilling to take the same steps.

While we support a one-year extension of the Farm Bill, that should not prevent those of us in

agriculture to continue to further policy discussions in preparation of the next farm bill. It is fairly safe to say that Nebraska producers are generally pleased with the current farm program. The 2002 Farm Bill has worked well in providing a safety net for producers when commodity prices are low. In fact, the Loan Deficiency Payment and Counter-Cyclical Payment are good mechanisms for a safety net when a producer raises a crop. The question I have is, what happens with the safety net when producers raise little or no crop. We have worked hard to put in place a strong safety net in the 2002 Farm Bill but it tends to over compensate producers in years when they raise a big crop and prices are low, which requires more government spending. On the other hand, in years when producers raise little to no crop and the need for the safety net is high, the LDPs and CCPs help very little.

### Farm Program Safety Net

Consequently, most Nebraska producers who have faced multi-year droughts will seriously question whether we have an adequate safety net in place under our current farm program coupled with the crop insurance program. There are many risks facing agriculture which would include both price risks and production risks which in combination determines the financial risks for producers. Unfortunately, many producers are currently experiencing a severe financial risk because of a significant hole that has been developing in the safety net.

The problem lies in the fact that while crop insurance is a useful tool to deal with production risks, coverage levels continue to decline in times of multi-year droughts which many producers are currently experiencing. Since the amount of coverage depends on the average yields of previous years, every consecutive year of drought drives down the amount of insurance farmers can buy for their crops.

For example, on my farm, the insurable yield for wheat on some of the fields has declined from 31 bushels per acre to 24 bushels per acre which is a 23 percent decline in coverage. The insurable yield on my corn acres has declined nearly 30 percent. This loss of coverage amounts to more than \$30 per acre loss of risk protection. This declining coverage effect under the crop insurance program has impacted producers throughout much of state with certain areas of the state actually experiencing their sixth or more consecutive year in a drought.

The inadequacy I just described in our safety net is why we strongly urge that emergency disaster assistance needs to be approved by Congress. Without its passage, we could very well see many producers, particularly younger farmers and ranchers, financially forced to get out of the business of production agriculture because of the drought. With that being said, I think the discussions this Committee will have on the next farm bill should include the development of policy that truly addresses the risks we face in agriculture in order to avoid what has become an annual request from various areas of the United States to have Congress approve disaster assistance. In short, the safety net is crucial for long-term financial health of producers but it is currently inadequate and it needs fixed.

To address the issue of supporting revenue rather than prices, maybe consideration should be given to combining the farm program with the crop insurance program that pays producers based on revenue shortfalls. The Risk Management Agency has expanded a couple of pilot

programs called the Adjusted Gross Revenue (AGR) and the Group Risk Income Protection (GRIP) policies that attempt to address revenue needs of a producer rather than just prices. In addition, programs such as these could be structured in a way that would be more WTO friendly as we deal with rules governing domestic trade distorting subsidies.

### Unintended Consequences

There has been a great deal of discussion in farm policy circles about the unintended consequences of the current and past farm bills and how that impacts the next generation of farmers. Clearly, government support has had an impact on land costs and cash rents which is often cited as a factor limiting opportunities for young farmers entering agriculture.

If traditional farm policy is reformed to address these unintended consequences, we will have to "go the extra mile" to be careful and cautious on changes that may impact the value of farmland. A majority of farmers' own personal retirement investments are tied up in the value of their land. A sudden decrease in land values would wreak havoc on producers' balance sheet as well as the balance sheets for the entities which provide agricultural financing. Therefore, if movement is made away from these traditional payments, that movement will need to occur over a period of time.

### Payment Limitations

Much focus in Nebraska continues to be centered on tighter payment limitations. While Farm Bureau opposes payment limitations from a philosophical standpoint, the whole discussion of payment limitations oversimplifies a deeper policy question as it relates to the unintended consequences of higher land costs and cash rents. Our current farm program system is based on production on the land and maybe consideration should be given to providing assistance to support producers' revenue rather than land-based production. Again, policy changes addressing this issue will be difficult and a transition to this type of reform should be over a period of time.

### Conservation Programs

Continued examination should be given to enhance society's environmental objectives through the farm bill. Voluntary and incentive-based programs have historically worked the best for producers. As more producers and policymakers begin to discuss ideas to move towards more "green payments," a word of caution may be in order on how these payments will be distributed in Nebraska particularly in the flat, irrigated areas that rely heavily on farm program payments at this time.

### Rural Development

Rural development should continue to be a key ingredient in farm policy particularly as we look towards providing some supplemental employment opportunities for younger producers entering agriculture and small operations needing outside income. This policy objective would even be more beneficial if these rural development programs focused on value-added projects

such as the development of bio fuels and the spin-off jobs associated with those industries.

### Livestock Production

Livestock production is often overlooked as organizations prepare for the next farm bill. While the farm bill does not directly deal with programs to support livestock impact, the type of farm policy we develop should enhance livestock production across the U.S. In addition, federal, state, and local regulations that negatively impact opportunities for livestock producers should be reexamined in the context of a broader strategy to reverse the decline of livestock numbers not only in Nebraska but across the U.S.

### Tax and Regulatory Policy

In addition to sound farm policy, the U.S. must also enact tax policies that stimulate investment and growth, promote domestic energy security through the development of traditional and renewable sources, invest in infrastructure and create a regulatory environment that does not stifle crop and livestock production. These are issues that warrant the attention of Congress, as they have a significant impact on the competitiveness, profitability and overall livelihood of production agriculture.

### International Trade

International trade continues to be important to the agriculture industry. With 96 percent of the world's consumers living outside our borders, we must continually look for ways to increase U.S. exports by reducing barriers to trade and opening new foreign markets. Nebraska's agricultural exports totaled \$3 billion in 2004, accounting for one-fourth of farm cash receipts. Nebraska ranked second in live animals and meat exports, third in feed grains and products and fifth in soybeans compared to other states in the U.S.

Our ability to compete in the global marketplace will be affected greatly by the outcome of the Doha Round which is why we believe we should continue to work toward an agreement in WTO as well as continue our efforts to seek bilateral and regional trade agreements that will accomplish our objectives to liberalize trade. We continue to believe these arenas represent the best opportunity to reduce trade-distorting domestic subsidies, eliminate export subsidies and increase market access for U.S. agricultural products around the world.

### Transportation

Farmers rely heavily on an efficient and competitive transportation system to move their products to domestic and foreign markets and to bring agricultural inputs to their farms. The locks, dams and ports vital to the movement of agricultural commodities must be maintained and updated to preserve efficient and cost-effective waterborne transportation. This includes modernizing the system of locks and dams on the Mississippi River and maintaining navigation

on the Missouri River.

While we debate the need of investing in our transportation system, Brazil, Argentina, China and other countries are building infrastructures with the goal of lowering transportation costs while increasing exports and their overall world market share. Argentina, for example, has invested over \$650 million in agricultural transportation. Brazil is reconstructing its waterway system in an effort to reduce the shipping cost of agricultural commodities by 75 percent. Due in large part to transportation advancements, these two countries have captured 50 percent of the total growth in world soybean sales during the past three years. If U.S. agriculture expects to continue to effectively compete in the global marketplace, we must preserve and enhance our transportation system.

## Energy

Whether it is gasoline, diesel, electricity or natural gas, farmers and ranchers must have access to reliable and affordable energy inputs. Since 2004, Nebraska farmers and ranchers have experienced a substantial increase in input costs due to higher prices of fuel and fertilizers. Therefore, Congress needs to continue to advance legislation to expand our domestic production of oil and natural gas supplies such as drilling in the Outer Continental Shelf and the Arctic National Wildlife Refuge.

Nebraska farmers and ranchers are doing their part in terms of helping address our domestic energy supplies. Nebraska ranks second in the U.S. in ethanol production capacity and currently there are 12 plants producing 574 million gallons of ethanol. Approximately 20 to 25 percent of the state's corn crop goes into production of ethanol. It is anticipated that if proposals to build ethanol plants and expand existing facilities occur over the next two years, about 50 to 55 percent of Nebraska corn would be delivered to ethanol plants.

Passage of the Energy Policy Act of 2005, our first comprehensive energy policy in decades, is a step in the right direction. The Renewable Fuels Standard and tax incentives for renewable energy will provide opportunities for producers and stimulate economic development in rural America. However, further action is needed to address the vulnerabilities of the energy sector and the resulting impacts on farmers and ranchers.

Mr. Chairman and Members of the Committee, thank you for the opportunity to share our thoughts with you and I look forward to any questions you may have.