# STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION TO THE SENATE COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY REGARDING: ECONOMIC CHALLENGES AND OPPORTUNITIES FACING AMERICAN AGRICULTURAL PRODUCERS TODAY

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TABLE OF CONTENTS

Page

Principles3
The Farm Bureau's Recommendations 4
The Farm Bill10
Trade Implications15
Commodities18
Standing Catastrophic Assistance30
Dairy37
Conservation38
Exports45
Competition Issues48
Energy50
Research51
Credit52
Nutrition:53
Miscellaneous Activities54
Budget Effects55

## FARM BUREAU'S RECOMMENDATIONS FOR THE 2007 FARM BILL

### I. Principles

In preparing its 2007 farm bill proposal, Farm Bureau was guided by several key principles. As a general farm organization, the overriding goal of Farm Bureau's proposal is to maintain balance and benefit all of the farm sectors, while remaining within the budget constraints Congress must use to draft the new law.

Following is a summary of the key principles underlying Farm Bureau's proposal:

The proposal is fiscally responsible. The Congressional Budget Office (CBO) baseline for agriculture programs in the farm bill in 2008-2013, potentially the six-year span of the next farm bill, is less than 50 percent of what Congress committed to spend in the 2002 farm bill. Yet the goals for the farm bill continue to grow. Our proposal addresses this by proposing offsets for all funding increases within a title. For example, our proposal offsets a $250 million annual increase in conservation funding for fruit and vegetable producers by capping spending on the Conservation Security Program (CSP) in 2016 and 2017.
The basic structure of the 2002 farm bill should not be altered. Farm Bureau's proposal for the 2007 farm bill maintains the baseline balance between programs. For example, we support

strong conservation programs, but adequate conservation funding should not come at the expense of adequate funding for commodity programs. Our proposal does not shift any funding from title to title.
The proposal benefits all of the sectors. Farm Bureau is a general farm organization, with members who produce everything from apples to peanuts. It's easy for a commodity group to say Congress should allocate more funding for programs that benefit its producers, without worrying about whether that will take funds away from producers of other commodities. Farm Bureau's proposal seeks balance for all producers.
World trade rulings are considered. The Farm Bureau proposal includes changes to comply with our existing agreement obligations and World Trade Organization (WTO) litigation rulings, but it does not presuppose the outcome of the Doha round of WTO negotiations, which are far from complete. Farm Bureau supported last year's reforms of export credit and food aid programs, and elimination of the "Step 2" cotton program. Our proposal includes elimination of the prohibition on planting fruits and vegetables on farm program crop acreage. However, it also maintains U.S. negotiating leverage in the ongoing Doha round by continuing strong domestic support for agriculture until a WTO agreement is reached that increases foreign market access for U.S. farmers and ranchers.
II. The Farm Bureau's Recommendations
THE FARM BILL:

It is imperative that baseline funding for the commodity title ($7 billion per year) and for the conservation title ($4.4 billion per year) currently available for 2008-2013 spending be maintained. These budget guidelines already incorporate sizable cuts in their combined support for American agriculture.

TRADE IMPLICATIONS:

U.S. farm policy should continue to help level the playing field in the global market with assistance to America's farmers.

The 2007 farm bill should not be written to comply with what someone assumes will be the "outcome" of the WTO negotiations.

We are not far enough along in the negotiations to anticipate a likely WTO outcome and to make fundamental changes to the farm bill.

Farmers and ranchers are willing to lower farm program payments via the WTO negotiations if--and only if--we can secure increased opportunities to sell their products overseas.

COMMODITIES:

Farm Bureau supports continuation of the "three-legged stool" safety net structure of the commodity title. (i.e. direct payments, counter-cyclical support and marketing loan payments).

Farm Bureau supports modifying the counter-cyclical program to have payments triggered by a shortfall in state crop revenue rather than a shortfall in the national average price.

Given the determination in the Brazil cotton case, Farm Bureau supports elimination of the fruit and vegetable planting prohibition. However, we only support eliminating the restriction on direct payments. We support continuing the restriction for counter-cyclical payments. We do not believe it is necessary, nor is there anything to gain, from removing the restrictions on counter-cyclical support.

A realistic amount of funding to compensate specialty crop growers for the elimination of the planting prohibition on program crop acres is $250 million annually.

The specialty crop industry has indicated that it does not want support in the form of direct payments to growers.

The State Block Grants for Specialty Crops program originally authorized in the Specialty Crop Competitiveness Act of 2004, and funded through appropriations in the fiscal year (FY) 2006 agricultural appropriations bill, should be discontinued.

Farm Bureau opposes any changes in current farm bill payment limitations or means-testing provisions.

STANDING CATASTROPHIC ASSISTANCE:

Farm Bureau supports establishing a county-based catastrophic assistance program focused on the systemic risk in counties with sufficient adverse weather to be declared disaster areas.

Farm Bureau supports elimination of the catastrophic crop insurance program (CAT) and the Noninsured Assistance Program (NAP) when a standing catastrophic assistance program is enacted.

DAIRY:

Farm Bureau supports a proposal to change the structure of the dairy price support program from the current program that supports the price of milk to one that supports the price of butter, nonfat powder and cheese. Farm Bureau supports this change only if total federal government funding does not increase by moving to the new program.

Farm Bureau supports continuation of the Milk Income Loss Contract (MILC) program or another form of counter-cyclical payments and opposes reductions in the program payments.

Farm Bureau supports implementation of the dairy promotion assessment on imports.

CONSERVATION:

Adequate funding for conservation programs should not come at the expense of full funding for commodity programs.

Farm Bureau supports strong conservation programs in the farm bill with an emphasis on working lands conservation programs rather than retirement programs.

Farm Bureau supports allowing haying, but not grazing, on Conservation Reserve Program (CRP) acreage with a reduction in the rental rate to partially offset the economic gains.

Similarly, we support the use of selected CRP ground for grasses raised for cellulosic feedstock production. Again, farmers would need to utilize production practices to minimize environmental and wildlife impacts. Producers would forgo a portion of their CRP rental payment. To aid in establishing cellulosic feedstock crops, producers would be eligible for cost-share assistance for establishment and the first four years of maintenance costs associated with the grasses.

Farm Bureau supports the current 39.2 million acre level for the CRP.

We strongly support the CSP program. However, the sharp increase in funding in the baseline for 2016 and 2017 would be difficult to spend efficiently and effectively. Farm Bureau supports a CSP program capped at $1.75 billion in 2016 and 2017, with the savings invested in other near term conservation activities. This five-fold increase provides room for steady and efficient expansion in the program.

Farm Bureau proposes using some of the savings gained from capping the CSP to expand the Environmental Quality Incentives Program (EQIP) aid to fruit and vegetable producers. These funds should be used to provide a $250 million annual increase in EQIP funding and to earmark 17 percent of all mandatory EQIP funding for fruit and vegetable production.

Farm Bureau supports continuation of the conservation cost-share differential for young and beginning farmers.

Farm Bureau supports increasing the EQIP baseline funding by $125 million annually for hog and broiler operations.

Farm Bureau supports the provision for cost-sharing for GPS technology as a way to enhance the effectiveness of the EQIP and CSP programs and to boost overall farm profitability.

EXPORTS:

Funding for the Foreign Market Development (FMD) Program and the Market Access Program (MAP) should be maintained at their current levels of $34.5 million and $200 million per year.

The Emerging Markets Program, Export Credit Guarantee Program and all food aid programs (including P.L. 480 Titles I and II, Food for Progress and the McGovern-Dole International Food for Education Program) should be reauthorized.

Farm Bureau opposes requiring food aid be given as "cash only" instead of allowing nations to provide food directly as an emergency and developmental assistance program.

Farm Bureau supports expansion of the $2 million Technical Assistance for Specialty Crops (TASC) program to mandate an annual level of $10 million - a five-fold increase.

We support a pilot initiative aimed at expanding international understanding and acceptance of the U.S.'s system of sanitary and phytosanitary (SPS) practices in an effort to boost export opportunities, ensure safe imports and promote adoption of science-based SPS regimes around the world.

COMPETITION:

AFBF supports strengthening enforcement activities to ensure proposed agribusiness mergers and vertical integration arrangements do not hamper producers' access to inputs, markets and transportation. The Department of Agriculture (USDA), the Department of Justice (DOJ) and other appropriate agencies should investigate any anti-competitive implications that agribusiness mergers and/or acquisitions may cause.

More specifically, AFBF supports enhancing USDA's oversight of the Packers and Stockyards Act (PSA). Grain Inspection, Packers and Stockyards Administration (GIPSA) investigations need to include more legal expertise within USDA to enhance anti-competitive analysis on mergers. USDA, in conjunction with DOJ, should closely investigate all mergers, ownership changes or other trends in the meat packing industry for actions that limit the availability of a competitive market for livestock producers. We support establishing an Office of Special Counsel for Competition at USDA.

AFBF supports amending the PSA and strengthening producer protection and USDA's authority in enforcing the PSA to provide jurisdiction and enforcement over the marketing of poultry meat and eggs as already exists for livestock. This includes breeder hen and pullet operations so they are treated the same as broiler operations.

AFBF supports efforts to provide contract protections to ensure that a production contract clearly spells out what is required of a producer. In addition, we support prohibiting confidentiality clauses in contracts so that producers are free to share the contract with family members or an outside advisor, lawyer or lender.

Farm Bureau supports legislation to prohibit mandatory arbitration so that producers are not prevented from going to the courts to speak out against unfair actions by companies.

Farm Bureau supports allowing meat and poultry inspected under state programs, which are equal to federal inspection and approved by USDA, to move in interstate commerce.

Farm Bureau supports voluntary country-of-origin labeling.

Farm Bureau supports the establishment and implementation of a voluntary national animal identification system capable of providing support for animal disease control and eradication.

ENERGY:

The expiring Commodity Credit Corporation (CCC) Bioenergy Program should be reauthorized.

The Biodiesel Fuel Education Program should be reauthorized.

The Bio-based Products and Procurement Program should be revised and reauthorized to promote development and increased use by federal agencies of existing and new soy-based products.

We support $5 million in funding for demonstration projects to streamline the collection, transportation and storage of cellulosic crop residue feedstocks.

The Value-Added Agricultural Product Market Development Grants should be reauthorized.

The Biomass Research & Development Program should be reauthorized.

RESEARCH:

We encourage Congress to call for establishment of clearer priorities for the agricultural research program based on increased input from key stakeholders such as farmers.

Regarding specific priorities:

Congress should prioritize research initiatives to commercialize technologies to make ethanol from cellulosic biomass.

Congress should prioritize research on modifications of Dried Distillers Grains (DDGs) and other byproducts to expand their use, especially in non-ruminant animals.

Congress should prioritize research on development of renewable energy sources, such as power generation using manure.

Congress should increase funding for research on mechanical production, harvesting and handling techniques for the fruit and vegetable industry. Growing problems with identifying labor supplies make this type of research imperative.

Congress should provide increased funding for research on methyl bromide alternatives.

Congress should also mandate an in-depth USDA study of the air quality issue, as it relates to agriculture.

CREDIT:

Farm Bureau supports the initiative undertaken by the Farm Credit System to evaluate credit availability. We support the Farm Credit System concepts and will thoroughly review and consider the specificity of those recommendations to ensure that the credit needs of farmers, ranchers and those serving production agriculture are met.

We support the administration's proposal to increase from 35 percent to 70 percent the targeting of the Farm Service Agency (FSA) direct loan portfolio to beginning and socially

disadvantaged farmers.

We support the administration's proposal to enhance the beginning farmer down-payment program to make it easier for beginning farmers to buy property by lowering the interest rate charged from 4 percent to 2 percent and eliminating the $250,000 cap on the value of the property that may be acquired.

NUTRITION:

Farm Bureau supports expansion of the School Fruit and Vegetable Snack Program to 10 schools in every state. This should only cost about $7.5 million annually but will provide significant benefits to fruit and vegetable producers now and in the long term, while promoting healthy eating habits among children.

We support the administration's proposal to provide an additional $50 million a year for the purchase of fruits and vegetables specifically for the school lunch program.

MISCELLANEOUS ACTIVITIES:

Farm Bureau supports increasing funding by $2 million annually for the U.S. Trade Representative (USTR) Office of Agriculture and Office of the Agricultural Ambassador.

III. The Farm Bill
The "farm bill" encompasses much more than just issues that affect farmers and ranchers. It covers issues in which all Americans have a stake - alleviating hunger and poor nutrition; securing our nation's energy future; conserving our natural resources; producing food, fuel and fiber; and promoting rural development.

The farm bill is a good policy that provides a measure of stability in our food production system. U.S. consumers spend less than 11 percent of their disposable incomes on a nutritious, safe, quality food supply. CBO projects that commodity program spending will average only $7 billion per year between 2008 and 2013. This translates to only $23 per American per year or about 6 cents a day.

The basic structure of the 2002 farm bill should not be altered. The current farm bill is working and working well overall, not only for farmers and ranchers, but also for the environment and consumers. The track record of success from the current farm program is overwhelming.

--Agricultural exports continue to set new records, hitting $69 billion in 2006,

accounting for one-fourth of farm cash receipts.

--Government outlays are considerably lower than what Congress said it was willing to provide as a farm safety net when the 2002 bill was signed, and significantly less than outlays during the life of the 1996 farm bill. CCC outlays decreased from a record-high of $32 billion in 2000 to $20 billion in 2006, and are trending toward $13 billion in 2007. Using the March 2007 CBO baseline, the farm program components cost $16 billion less than projected over the first five years of the bill. It is anticipated to be $21 billion less over the six-year life of the bill

than the projected cost when the bill became law. That is 18 percent less spent on supporting our nation's farmers and ranchers than Congress believed in 2002 was an appropriate amount of support.

2002 2003 2004 2005 2006 2007P TOTAL
Projected Cost in 2002 19.3B 21.3B 20.9B 20.0B 18.7B 17.8B 118.1B
Actual Cost in March 2007 15.5B 17.4B 10.6B 20.2B 20.2B 13.0B 96.9B
Difference 3.8B 3.9B 10.3B -0.2B -1.5B 4.8B 21.2B

--Farmers' average debt-to-asset ratio is the lowest on record: about 11 percent in

2006

--Farmers have access to a dependable safety net.

Congress must extend the current farm bill or write a new one that fits within very limited resources. In 2002, Congress committed to spend $465 billion to fund the farm bill from 2002 to 2007. Of that, $99 billion (21 percent) was designated for commodity programs. Over two-thirds of that bill's spending (68 percent) - $318 billion - was dedicated to nutrition programs. The March 2007 CBO baseline for 2008-2013, potentially the six-year life of the next farm bill, only provides $421 billion. Outlays in the commodity title are projected at only $42 billion (10 percent) of total farm bill funding.

In this setting, it is imperative that baseline funding for the commodity title ($7 billion per year) and for the conservation title ($4.4 billion per year) currently available for 2008-2013 spending be maintained. These budget guidelines already incorporate sizable cuts in their combined support for American agriculture.

This is important for four reasons. First, there is significantly less funding for the commodity safety net than provided in the 2002 bill. As already noted, the baseline for 2008-2013 is already less than 50 percent of what Congress agreed, when it passed the last farm bill, to spend over 2002-2007.

Second, funding levels for nutrition have remained constant while funding for conservation is up significantly over the last five years. Both are predicted to rise even further during the next six years. It does not make sense to further reduce commodity spending to enhance the already-growing nutrition and conservation titles.

Third, the agricultural economic setting heading into the debate is uncertain at best. U.S. farm income levels set a record in 2004 at $82 billion, followed in 2005 by an income level of $72 billion. Farm income for 2006 fell to $67 billion. The major reason for this decrease was a rise in input costs including:

--Fuel and fertilizer costs. As recently as 2003, production agriculture spent

$6.8 billion on fuel and oil. In 2006, USDA estimates that expense reached $11

billion.

--Manufactured inputs. USDA estimates costs for manufactured inputs reached

$57.8 billion in 2006, nearly a $10 billion rise from 2003 levels.

--Interest costs. Farmers' outlays on interest expenses were $12.7 billion in

2003, with USDA estimating $17.2 billion for 2006.

Fourth, it is important to note that keeping the 2002 farm bill structure does not mean that we are keeping a status quo safety net for farmers. Continuation of the 2002 Farm Bill continues the trend in reductions in support included in the last four farm bills and ensures that farmers will absorb more and more of the risks involved in agriculture for a growing share of their production at the same time that the sector is being called on to supply more of the country's energy needs. This is a result of both erosion in support rates (due to rising costs of production) and to freezing the volume of production eligible for direct and counter-cyclical support despite increases in output.

Looking first at support rates and production costs, the 2002 bill froze target prices and loan rates. However, costs of production continued to rise. This means that supports adjusted for cost increases will be 15 percent to 20 percent lower at the end of the 20022007 period covered by the legislation than they were at the start of the legislation. Continuation of the 2002 bill's frozen target price and loan rates through 2013 will reduce effective support another 10 percent to 15 percent based on USDA's projected cost increases. To put this into perspective, increasing the 2008-2013 target prices and loan rates to put them back where they were at the start of the 2002 period relative to cost increases would add $3 billion in both counter-cyclical payments and marketing loan payments to the CBO baseline. Figure A makes this point graphically by comparing the $2.63 nominal target price for corn at the start of the 2002 period with the real, cost-adjusted target price in 2013 likely if the 2002 bill is continued.

The support provided farmers has also eroded because of the 2002 bill's continued use of frozen yields and reduced base acres to determine how much of producers' output is eligible for direct and counter-cyclical payments. The 2002 bill limited direct and counter-cyclical payments to output from 85 percent of producers' base acreage and calculated production from eligible acres using frozen historical yields set at l986-88 actual levels. Hence, output from the 15 percent of excluded base acres and increased output due to yield growth after the mid l980s do not get direct or counter-cyclical support. Compared to output in the mid l980s, about 72 percent of production was eligible for direct and counter-cyclical payments over the life of the 2002 bill and only 65 percent of production will be eligible over the life of a 2008-2013 bill assuming trend growth in yields. Figure B makes this point graphically using corn as an example.

It is important to note the difference between direct and counter-cyclical payments and loan payments. Loan payments have been subject to the same erosion in effectiveness due to cost

increases. But all production is eligible for loan payments under the 2002 bill. Loan support has not eroded along with direct and counter-cyclical support due to yield increases. Continuing this provision is critical in maintaining at least some bounce in the farmer's safety net. But with loan payments making up less than a quarter of total commodity payments historically and less than 10 percent of the projected 2008-2013 budget, this loan benefit is overshadowed by erosion in direct and counter-cyclical payments.

Figures A and B make these two points graphically using corn as an example.

Figure A: Corn Target Prices Adjusted for Cost of Production Increases

Dollars

2.7

2.5

2.3

2.1

1.9

1.7

1.5 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013

IV. Trade Implications

U.S. farm policy should continue to help level the playing field in the global market with assistance to America's farmers.

A significant expansion of trade opportunities is the only acceptable outcome of the WTO negotiations. An agreement on agriculture must achieve a balanced outcome in which the benefits from new market access and the removal of trade-distorting policies provide net gains for U.S. agriculture. An agreement that is positive for U.S. agriculture requires a balance between the gains in exports due to the lowering of tariffs around the world and the reductions in income to producers from lower spending on certain farm programs.

The 2007 farm bill should not be written to comply with what someone assumes will be the "outcome" of the WTO negotiations. We must negotiate a WTO agreement that accomplishes our objectives and then modify our farm bill accordingly - and to the extent necessary - based on the final outcome of the negotiations. At the same time, we should ensure that the next farm bill complies with all of our existing obligations.

This approach provides U.S. negotiators the strongest negotiating leverage. U.S. agriculture does not compete on a level playing field. In today's world market, the anti-competitive trade practices employed by foreign governments against U.S. farmers are not fair. Foreign tariffs

average 62 percent on our agricultural exports - more than five times higher than the average U.S.-imposed agricultural tariff of 12 percent. Additionally, the European Union uses 87 percent of the world's export subsidies, which severely disadvantages U.S. exports. The U.S. utilizes only 3 percent and the rest of the world uses the remaining 10 percent.

Each year, the Organization for Economic Cooperation and Development (OECD) estimates average subsidy levels to producers for the world's 30 richest countries. The OECD defines the Producer Support Estimate (PSE) as support as a percentage of farm receipts. This calculation is likely the most comprehensive and accurate way to truly measure the support provided to a nation's agriculture through tariffs, export subsidies, export credits, domestic support programs and the various other ways countries provide support to their producers. In June 2006, OECD released its projection for percentage of PSE by country for 2005. The average PSE for the world's 30 richest countries is 29 percent. The U.S. falls far short of the average - at only 16 percent. The European Union and Japan - two countries that are critical to successful completion of the WTO negotiations - both far exceed the average OECD number for support to their producers.

OECD PSE Percentages
Projected for 2005
Switzerland 68
Iceland 67
Norway 64
South Korea 63
Japan 56
European Union 32
OECD 29
Turkey 25
Canada 21
United States 16
Mexico 14
Australia 5
New Zealand 3

The primary component the U.S. has to offer in the negotiations is reductions in our farm programs. The leading component for many other countries is primarily reductions in high tariffs. If we reduce our domestic supports in the farm bill, we have less leverage to use to convince other countries to reduce their tariffs and exports subsidies. Our strongest negotiating leverage is to maintain our current programs until a WTO agreement is reached that benefits U.S. agriculture.

We are not far enough along in the negotiations to anticipate a likely WTO outcome and to make fundamental changes to the farm bill. Critics of our farm bill say that any successful WTO negotiation will require reductions in our farm programs near the 60 percent of trade-distorting domestic support level offered by the U.S. 18 months ago. While Farm Bureau strongly supports conclusion of a successful WTO round, we should not support a unilateral cut in our domestic programs without a commensurate reduction in tariffs, supports and

subsidies from other countries.

In addition, we do not know what will be agreed to at the end of the negotiations. There may be smaller average tariff cuts and a larger number of sensitive products than the U.S. had previously sought. If that is the case, we must look again at whether the market access gains we receive from those reductions outweigh the impact of losses in allowable domestic supports by 60 percent. Altering our farm programs now to reduce supports by 60 percent--just in case that is what is included in the final agreement--makes no sense. That is what is meant by the term "unilaterally disarm." It is important to remember that a similar "stalemate" in negotiations to today's Doha Round occurred during the Uruguay Round. The stalemate lasted three years. In the end, the impasse was broken after an agreement was forged that was less than what many had expected or wanted. If that happens in these negotiations, we could be looking at reducing our authority for domestic supports far less than 60 percent.

Reforming the farm bill now, absent a final agreement, offers no assurance that additional reforms would not be required when an agreement is finalized. The U.S. has already offered a bold reduction in our trade distorting domestic supports only to have it viewed as a "starting point" for the negotiations rather than a down payment. If we attempt to pre-judge our contributions to a successful WTO round in an upcoming farm bill, we could face a second and possibly a third round of farm bill changes.

Farmers and ranchers are willing to lower farm program payments as part of the WTO negotiations if--and only if--we can secure increased opportunities to sell their products overseas.

V. Commodities

Farm Bureau members are clear about their support for maintaining the basic structure of the 2002 farm bill. The "three-legged stool" combination of marketing loans, direct payments and a counter-cyclical program supports farm income during times of low prices for the major program commodities - that is wheat, rice, feed grains, soybeans, cotton and peanuts. Farm Bureau, like Congress, must balance the interests of all sectors of American agriculture. Farm Bureau members are cognizant of that fact and have said they think the basic structure of the current program represents the largest measure of fairness they are likely to receive in any farm program. Farm Bureau supports continuation of the "three-legged stool" safety net structure of the commodity title

(i.e. direct payments, counter-cyclical supports and marketing loan payments).

As stated earlier, continuing the basic 2002 farm bill structure does not provide the same "effective" safety net as it did in 2002. Maintaining that structure, however, will keep agriculture policy moving in the same reform direction in place for more than a decade and a half toward gradually lower levels of support for a smaller and smaller share of production.

Please note that we have limited our comments on commodity programs to those areas of the program where the Farm Bureau proposes significant changes. Hence, while large sections of Title I are addressed, many important areas are not. We support continuation of the current programs for these areas. The sugar program is a good example of this distinction. Farm

Bureau supports continuation of the current sugar production and marketing program.

Direct Payment Program:
Direct payments to farmers should be included in the 2007 farm bill. The $5.2 billion in annual direct payments provided in the CBO baseline helps farmers meet the day-to-day capital requirements on their farms and helps support net farm income. Without direct payments, farm income would be reduced.

Revenue-Based Counter-cyclical Program:
Counter-cyclical payments (CCPs) were adopted in the 2002 farm bill as a way of providing certainty and stability to ad hoc emergency market loss payments enacted after three years of low market prices. There is a continuing need for an effective system to help agricultural producers survive the vagaries of markets and weather. CCPs are made when the season average farm price of a program crop is below the effective target price. The payment is made on 85 percent of base acres without regard to what or how much of any crop is grown on the base acres.

Erosion in support is particularly sharp for CCPs. CBO projects Congress will only have $1 billion annually from 2008 - 2013 compared to a projected $4.5 billion when the 2002 bill was passed and the $2.5 billion per year actually spent on the CCP element of the farm safety net during the first five years of the program. This is the result of at least two factors.

First, the CBO baseline projects much stronger commodity prices, which reduces payments.

Second, the $1 billion CCP level is the direct result of the declining effective support described earlier. Figures A and B have already made the case for corn. Looking more broadly at an average for all the program crops (wheat, rice, feed grains, soybeans, cotton and peanuts), Figure 1 indicates that the target prices used to calculate CCPs covered an average of 83 percent of total production costs in the 1997-2001 period immediately preceding the 2002 farm bill, but only 77 percent of total production costs for the 20022007 period preceding the next farm bill. Using USDA's projected cost increases through 2013, target prices will only cover about 70 percent of farmers' total production expenses.

Figure 2 uses an all-program crop average to show that the 77 percent support rate in effect for 2002-2007 was applicable to only 72 percent of farmers' output and, assuming continuation of the current farm bill and yield growth, the support rate likely for CCPs during 2008-2013 will only apply to 65 percent of production.

Figure 1: Percentage of Production Costs Covered by Target Prices

1997 - 2001 2002 - 2007 2008 - 2013
All Program
Commodities 83% 77% 70%

Figure 2: Percentage of Production Eligible for Support

1997 - 2001

2002 - 2007

2008 - 2013 All Program Commodities
79%

72%

65%

As already noted, if adjustments were made to the target prices to keep the "effective" CCP support constant, CCPs would be $1.5 billion to $2.5 billion higher per year than the CBO baseline or $9 billion to $15 billion for the 2008-2013 period and $15 billion to $25 billion for the full 10 years in the CBO budget. This $1.5 billion to $2.5 billion per year is independent of additional loan program costs.

Since this additional funding does not appear to be likely, Farm Bureau looked at a counter-cyclical revenue-based program (CCR) to see if the limited dollars available could be spent more effectively to fund a farmer safety net.

Farm Bureau supports modifying the counter-cyclical program to have payments triggered by a shortfall in state crop revenue rather than a shortfall in the national average price. This change would bring crop yields and production into the equation. There have been years when prices were high but yields were low. Farmers were in need of support but there were no CCPs made to producers. This is especially true in years of drought and other adverse weather conditions. In contrast, there have been years when the price was low, but yields were high, so payments were made even when farmers may not have needed the support. Severe weather conditions for several consecutive years in many states have led to significantly lower yields or total failure. If crops are short due to weather issues, higher prices lead to little support in the form of CCPs.

A well-designed CCR program can deliver protection against low prices or low yields. -It can, therefore, ensure better protection against volatile commodity prices and significant crop losses. Payments would be made under a CCR program when a state's realized crop revenue is less than a crop's trigger revenue. When the actual per-acre revenue falls below the per-acre trigger revenue, producers would be compensated the difference. A farm's total CCR payment would equal the per-acre payment multiplied by 85 percent of the producer's base acres.

Current Counter-Cyclical Payment Calculation
CCP Triggered When:

Season Average Farm Price < Trigger Price

Where:

Trigger Price = Target Price - Direct Payment Rate

? Target Price and Direct Payment Rate fixed in 2002 legislation

Payment Rate Per Acre:

Trigger Price - Higher of Market Price or Loan Rate * Counter-cyclical yield

? Counter-cyclical yield fixed in 2002 legislation

Payment:

Payment rate per acre * 85 percent of base acres

Proposed Counter-Cyclical Revenue (CCR) Calculation
CCR Payment Triggered When:

Actual State Revenue / Acre < State Target Revenue / Acre

Where: State Target Revenue / Acre = (TP - DP Rate) * Fixed State Average Yield

? Target prices (TP) and direct payment rates (DP Rate) are the same as those set in the 2002 farm bill

? Fixed State Average Yield = Olympic Average of 2002-2006 state crop yield And: Actual State Revenue / Acre =

Actual State Average Yield * Higher of National Season Average Market Price or LR

Loan Rates (LR) are the same as those set in 2002 farm bill
Actual State Average Yield is the state yield for the current year
When payment is triggered, the producer payment per acre is the difference between the two Target and Actual Revenues. Producer Payment / Acre = State Target Revenue/Acre - Actual State Revenue/Acre Producer Payment = Producer Payment / Acre * 0.85 base acres

? Base Acres those used in 2002 farm bill CCP

Figure 3 provides the data necessary to develop an example of the costs and benefits of shifting from a counter-cyclical price payment to a counter-cyclical revenue payment. Currently, CCPs are made when market prices fall below a trigger price set by commodity in the 2002 legislation. This trigger price is the target price minus the direct payment, with the loan rate acting as a floor. The CCP payment rate is the difference between the trigger price and the market price or loan rate, whichever is higher. The payment is calculated as the CCP payment rate times a producer's base acreage eligible for support (85 percent) times the fixed counter-cyclical yield included in the 2002 legislation.

Using corn in 2005 as an example, the season average market price of $2 per bushel was $.35 below the target price ($2.63) minus the direct payment ($.28). That is, $2.00-($2.63-$.28) = $.35. The counter-cyclical payment rate was $.35 per bushel. For the sector as a whole, this translated into $2.5 billion in CCP payments--or $.35 times the national counter-cyclical corn

yield set at 114.4 bushels per acre times 85 percent of the corn base acreage or 73.8 million acres. All corn producers with base acreage received the payment based on their specific base acreage and counter-cyclical yields despite their very different market situations--whether their yields were excellent and their receipts were high despite low prices or whether their yields were low and their receipts off even more sharply than for the corn sector as a whole.

The modifications proposed by Farm Bureau add a yield variable to this calculation and determine support at the state rather than the national level. This effectively converts the CCP program from a national price support to a state revenue support program. For example, instead of a national drop in prices triggering payments, payments are made when state revenue per acre (state yield times national price) fall below target revenue (average state yield times national trigger price).

For example, Oklahoma wheat producers did not receive a CCP payment in 2006 despite a significant drop in yields that reduced their revenues. This is because the national price averaged $4.30 per bushel--well above the trigger price of $3.40 ($3.92-$.52 = $3.40). Hence, the CCP payment rate was $0 and wheat producers in Oklahoma and in all other states did not receive CCP payments. Had the CCR program proposed here been in place, Oklahoma's drop in revenues would have triggered a payment despite relatively high national prices. The calculation would have been as follows. Oklahoma's target revenue per acre would have been the state's Olympic average yield times the national trigger prices from the CCP program. This amounts to an average yield of 31.7 bushels per acre times a trigger price of $3.40, or a target revenue per acre of $107.67. For 2006, Oklahoma's actual yield of 24 bushels per acre times the actual price of $4.30 per bushel put actual revenues at $103.20 per acre. The CCR for Oklahoma would have been the difference between actual and target revenue, or $107.67-$103.20 ($4.47) per acre. An Oklahoma producer with 1,000 acres of wheat base would have received this $4.47 payment on 850 acres for a total of $3,799 compared to not receiving any payments under the existing CCP.

State payments would have been over $26 million. It is important to note that since there is no additional funding for the CCP in the 2007 farm bill baseline and assistance is targeted more to farmers who need it most to sustain revenues, some farmers will not fare as well with a CCR.

For example, in 2003, Kansas wheat producers reported an unusually high 48 bushel yield compared to an Olympic average of 36.7 bushels per acre. The national price for wheat was $3.40 or right at the national trigger price. Kansas' actual revenue per acre was $163.20. This compares to a target revenue of $124.67 from the trigger price times the average yield. Under a CCR, no payment would have been made to Kansas producers, despite the fact that poor yields in neighboring Oklahoma would have triggered a payment for Oklahoma producers for the same year.

As noted in the Standing Catastrophic Assistance section, this modified CCR would play a critical role in what would be an improved farm safety net. Common to the CCR, Standing Catastrophic Assistance and crop insurance elements of this proposal is the concept of targeting critical support dollars to farmers in greatest need.

Figure 3: 2006 Oklahoma Wheat Example of CCP and CCR

Basic Data
Target Price Direct Payment Loan Rate National Price (MYA) Wheat Payment Acres - Oklahoma

(0.85 * Base Acres)

CCP Details
CCP Rate CCP Yield Total State Payment

CCR Details
Average Yield Target Revenue per acre Actual Yield Actual Revenue per acre CCR Payment Rate per acre

(Target Revenue - Actual Revenue) Total State Payment (CCR Payment Rate * 0.85 Base Acres)

CCP (Current) CCR (Hypothetical)
$3.92 $0.52 $2.75 $4.30 $3.92 $0.52 $2.75 $4.30
6.05 mil 6.05 mil
$0.00 36.1 bu $0.00
31.67 bu $107.67 24 bu $103.20
$4.47
$27.04 mil

On the other hand, the CCR program will not always trigger in the same year or for the same farm as the CCP. As can be seen in figure 4, cotton prices were low enough in 2003 to result in a CCP totaling $36.6 million for the state of Mississippi. However, the state's yield of 934 pounds per acre was higher than the Olympic average of 873 pounds per acre. Combining these factors resulted in a state revenue equal to $577.22 per acre, which was higher than Mississippi's target revenue of $573.80 per acre. Thus, no CCR payment would have been distributed.

Figure 4: 2003 Mississippi Cotton Example of CCP and CCR

CCP CCR
(Current) (Hypothetical)
Basic Data
Target Price $0.724 $0.724
Direct Payment $0.067 $0.067
Loan Rate $0.520 $0.520
National Price (MYA) $0.618 $0.618
Cotton Payment Acres - Mississippi
(0.85 * Base Acres) 1.46 mil 1.46 mil
CCP Details
CCP Rate $0.0393

CCP Yield 638
Total State Payment $36.6 mil
CCR Details
Average Yield 873 lbs
Target Revenue per acre $573.80
Actual Yield 934 lbs
Actual Revenue per acre $577.22
CCR Payment Rate per acre
(Target Revenue - Actual Revenue) $0.00
Total State Payment
(CCR Payment Rate * 0.85 Base Acres) $0.00

A state CCR gets more money to farmers when they need it and less when revenues are high enough to minimize their need for support. We would have preferred to implement a county-based CCR to maximize responsiveness to farmer needs. However, the cost of the program was too great given a $7 billion limit on commodity spending. We view a state-based program as far superior to the USDA proposal, which used a national yield variable.

It is not a perfect program. Obviously, a producer's yields will vary from state-based yields. When that occurs, the program will be less effective. However, a revenue counter-cyclical program should help producers better manage their risk by making the payment higher in low-income or low-yield years. The bottom line is that producers would be better off receiving "a buck in bad years" rather than "a buck in good years."

The basics of the program would include USDA announcing a projected per-acre revenue for each program commodity at the beginning of each growing season. After harvest, USDA would calculate actual revenues based on market prices received and observed state average yields. If the revenue was below the earlier estimate, all producers in the state would receive a check to make up for the difference. The average revenue would be re-estimated every year and would therefore react to market prices.

A move to a state CCR program would cost approximately the same or slightly more than the current CCP. Any added cost could be accounted for, however, by adjusting the percentage of the base eligible for support (for example, a payment could be made on 83 percent of base acreage rather than 85 percent). Ultimately, the modification would transfer about the same amount of funds to producers. However, they would be paid in a manner that increased their usefulness to farmers facing a downturn in production and/or prices.

Planting Prohibition:
The specialty crop industry has rarely entered the mainstream of farm policy debate. With the exception of programs targeted at producers of dry peas and lentils, federal farm programs that provide income support to field crop producers do not apply to the specialty crop industry.

In general, government payments do not materially contribute to the long-term financial sustainability of U.S. specialty crop producers. Although growers of strictly specialty crops (except for dry peas and lentils) are not eligible for direct payments (other than ad hoc disaster relief), many specialty crop growers also produce such crops as small grains, soybeans or

cotton - crops that make growers eligible for participation in various government programs. Some also participate in conservation programs.

The industry does benefit from a number of federal programs that stabilize and enhance income, such as ad hoc disaster payments, the Noninsured Assistance program, crop insurance, marketing and promotion programs, food aid purchases, export promotion programs (like the Market Access Program or Trade Adjustment Assistance), tree replacement assistance, cost-share assistance and other assistance for implementing conservation programs.

Government investment in the agriculture sector is required to create a fair, level playing field with international competitors who do not face the regulatory burdens of U.S. producers. With the government's mandate that domestic producers must meet the very highest standards in environmental regulation, labor and other areas comes the responsibility to help those producers achieve cost-effective compliance. Without appropriate assistance, U.S. production will be displaced by production from less restrictive foreign growing areas.

Current law prohibits, except in certain limited circumstances, the planting of fruits, vegetables and wild rice on program crop base acres. Violation of this restriction results in the loss of direct and counter-cyclical payments. With the exception of these commodities, farmers have planting flexibility on base acres. This essentially means that corn base acres can be planted to any other subsidized crop and vice versa, but not to fruits and vegetables. The limitation was put in place because producers of unsubsidized, but high-value, specialty crops objected to potential competition from subsidized farmers.

Recently, the WTO determined that, because of planting restrictions, direct payments were not consistent with "green box" support (subsidies classified by the WTO as being minimally trade distorting). This means the planting prohibition will have to be eliminated or $5.2 billion in annual direct payments will have to be notified to the WTO as amber box spending. Such notification will likely cause the U.S. to exceed its amber box limits in some years and will certainly make it more difficult to reduce amber box spending in future potential WTO negotiations.

Fruit and vegetable producers are concerned that elimination of the planting prohibition will shift program crop production into specialty crop production, while producers continue to receive program crop support. In other words, producers of program crops would continue to receive direct payments and counter-cyclical payments while competing with some specialty crop producers who are entirely at risk in the marketplace.

Our members firmly support a policy that calls for our farm programs to comply without WTO obligations. Given the determination in the Brazil cotton case, Farm Bureau supports elimination of the fruit and vegetable planting prohibition. However, we only support eliminating the restriction on direct payments. We support continuing the restriction for counter-cyclical payments. We do not believe it is necessary, nor is there anything to gain, from removing the restrictions on counter-cyclical support. This should reduce the inequity that will exist among farmers and the amount of funding provided for those producers.

Several studies, including a USDA Economic Research Service (ERS)/Michigan State

University study, suggest shifts from program to specialty crops are likely to be small. With the exception of dry edible beans, there are significant barriers to entry into specialty crop production. The ERS/Michigan State study lists four main factors as limiting shifts. "These factors have been generally classified as: (a) capital investment;

(b) rotational requirements; (c) access to market channels; and (d) labor and management requirements." The report concludes by stating, "In most cases, a change in the fruit and vegetable restriction would provide a small (or no) positive incentive for direct and counter-cyclical payments for crop producers to enter the production of fruit and vegetable restricted crops."

One way to consider the amount of funding that "should" be provided to fruit and vegetable producers is to look at the potential economic impact on those growers from elimination of the planting restriction. The value of government payments a program crop producer would have to give up to make the switch in production is a good indicator of the value of the protection the prohibition affords fruit and vegetable producers. Direct payments to program crop producers totaled $5.2 billion annually under the 2002 farm bill. Spread across 268 million acres enrolled in the farm program, the average government direct payment per acre is $19.42. If that amount were budgeted over the 12 million acres of specialty crops, the equivalent annual payment would amount to $233 million per year. Hence, a realistic amount of funding to compensate specialty crop growers for the elimination of the planting prohibition and the loss of direct payments on those program crop acres is $250 million annually.

The specialty crop industry has indicated that it does not want support in the form of direct payments to growers. Rather, its emphasis is on building the long-term competitiveness and sustainability of U.S. specialty crop production. One approach to achieving these goals would be to invest in specialty conservation programs described later in this statement.

The State Block Grants for Specialty Crops program originally authorized in the Specialty Crop Competitiveness Act of 2004, and funded through appropriations in the fiscal year (FY) 2006 agricultural appropriations bill should be discontinued. It is important that assistance be provided to fruit and vegetable producers rather than allowing state governments to use the federal money to offset state budget shortfalls or to fund individual commodity programs.

Payment Limitations
Farm Bureau opposes any changes in current farm bill payment limitations or means-testing provisions. Simply stated, payment limits bite hardest when commodity prices are lowest. Our federal farm program is based on production. Time and time again, this has proved to be the best manner for distributing assistance to those who are most responsible for producing this nation's food and fiber. Farmers who produce more traditionally receive larger payments, but they also take larger risks and have significantly higher investments in their farms. When crop prices are depressed, no farm is immune to difficulty, especially those with greater risk. It is true that larger farm enterprises receive a larger percentage of total farm program payments than smaller ones. However, farm policy has always been production-based rather than socially-based. To reflect that our payments are following that concept, 38 percent of our nation's farms produce 92 percent of our food and receive 87 percent of program payments. We should only move to socially-based policy if we want to allow someone in Washington to decide "winners

and losers."

We oppose further reduction in the payment limit levels. We oppose any government policies that attempt to "means test" payments. To be a viable farm, we must use economies of scale to justify the large capital investment costs associated with farming.

Arbitrarily limiting payments could result in farm sizes too small to be economically viable.

The administration's proposal to reduce the current law's adjusted gross income (AGI) provision from $2.5 million, excluding those individuals who earn at least 75 percent of their income from farming, to $200,000 could have many serious consequences, one of which would be for rental agreements. It would force landowners to cash-rent their land rather than share production risks with producer tenants. This will likely hurt the producers actually doing the farming. By simply moving to a cash-rent system, large landowners won't suffer from this limit on AGI .

Supply Management:
Some are discussing returning to a farm program based on supply management. Over the last 50 years, the United States has tried agriculture policies that idled acreage as a means of improving farm income. They did not work. We idled acres, but we farmed the remaining acres more intensely to make up for the lost market opportunities from idling land. When we idled land, our competitors kept increasing acreage. We must not forget the lesson we learned 25 years ago. In the 1980s, the United States cut back production by 37 million acres and our competitors increased their production by 41 million acres. When we changed our policies in the 1996 farm bill to eliminate set-asides and paid diversions, the whole picture changed. From 1996 to 1999, the U.S. cut back production by just 2 million acres and our competitors reduced their production 28 million acres. We must not return to supply management programs.

Set-Asides Hurt American Farmers

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We also tried storing our way to prosperity. That did not work either. We tried having the CCC store grain in bins across the country. We tried having farmers store the grain on their farms. The results were the same. We stored grain and cut acreage while the rest of the world increased production and took our markets. We must not implement a farmer-owned reserve or any federally-controlled grain reserve with the exception of the existing, capped emergency commodity reserve.

Beginning Farmers:
The average age of farmers continues to climb while the number replacing them shrinks. Much thought has been given during the debate on the upcoming farm bill to how to help young and beginning farmers get started in the business.

The administration has suggested higher fixed payments for crops that the government subsidizes. This could mean $5 per acre in income per beginning farmer. While we applaud the emphasis, unfortunately that amount of money won't go very far. Most young farmers say that

land availability at reasonable prices is their biggest impediment to entering farming. In the Midwest, with corn prices significantly higher due to ethanol demand, some farmers are paying $80 per acre more for rent than they did in 2006.

Another big problem that arises with the administration's approach is the definition of a beginning farmer. For example, do "start-up" farmers who have worked in agriculture with their parents for years but are now taking over the farm as part of an intergenerational transfer qualify as beginning farmers? This is a huge problem fraught with loopholes that could indeed hurt those producers we are all trying to help.

Family Forestry Farms:
The Farm Bureau supports more active consideration of family forestry farms in USDA's operation of the conservation programs, particularly the CSP. The acreages in question are larger and the potential environmental payoff on CSP funds with a broadening of program guidelines is considerable. However, this would entail an outreach effort to a currently under-served client.

VI. Standing Catastrophic Assistance
Producers around the country suffer from droughts, floods, wildfires, freezes, blizzards and hurricanes. The ad hoc disaster bills passed in previous years took too long to pass. In some years, no assistance has been provided. A catastrophic assistance program is necessary to ensure that farmers and ranchers get support in a timely manner. Tying a catastrophic assistance program with a re-rated crop insurance program that reflects the new distribution of risk would provide the basis for a more effective safety net.

The farm sector of the U.S. economy is unique in its dependence on weather and its vulnerability to weather-related crop disasters. Virtually every year, weather somewhere in the U.S. is unfavorable enough to cut production dramatically and financially devastate producers if they were forced to depend on their own resources to address the problem. Losses in the areas hardest hit are often 50 percent to 75 percent of normal production and occasionally leave farmers with no crop to harvest at all. These losses are the result of what is referred to as systemic risk rather than individual risk because they are beyond the capacity of any one operator or group of operators to control.

Congress has recognized both the potentially devastating economic effects and the systemic nature of weather problems by passing ad hoc disaster assistance bills in many years. This has helped in the short term by keeping otherwise viable farms in business. It raises several troubling questions over the longer term about equity, risk management and farm program continuity.

Looking first at equity, farmers hit with a disaster in a relatively good year for the sector as a whole could find themselves without any ad hoc government disaster assistance to fall back on despite assistance having been available for comparable problems in previous years. There are years when no ad hoc disaster assistance legislation is passed despite the incidence of localized bad weather. In addition, provisions in individual ad hoc disaster acts change. This means that the commodity coverage, geographic focus, loss thresholds and compensation vary from year

to year even if there is ad hoc disaster assistance in place.

Looking at risk management, ad hoc disaster assistance can encourage questionable farm business management practices by allowing operators to choose between enrolling in risk management programs such as the crop insurance program and depending on no-cost, but unreliable, ad hoc programs. In years when disaster assistance is legislated, farmers who opted not to purchase crop insurance can often fare almost as well as farmers who bought insurance as part of a risk management package. As part of an effort to avoid double-dipping, farmers who have paid for crop insurance often find themselves at a disadvantage for disaster assistance payments. This situation does not promote good business management practices.

Lastly, with Congress' budget guidelines, ad hoc assistance has trended toward having to be offset by spending reductions in other programs under the Agriculture Committees' jurisdictions. This has derailed other programs such as the CSP and put the continuity of farm policy at risk, particularly in years when disaster program costs expand to account for as much as one-fifth of overall commodity program spending.

Farm Bureau supports establishing a county-based catastrophic assistance program focused on the systemic risk in counties with sufficient adverse weather to be declared disaster areas.

We have worked to ensure that a catastrophic assistance program does not duplicate the coverage offered by crop insurance. There are important differences. Many farmers purchase revenue insurance policies rather than yield policies. Crop insurance, therefore, provides coverage against price changes and yield losses while disaster programs typically cover only yield declines. In addition, crop insurance policies allow producers to choose their own deductible, whereas the catastrophic assistance program would have a deductible fixed at 50 percent. In addition, most producers purchase 65 percent or 70 percent coverage based on the price level, whereas this program would only cover 55 percent of price.

With the current commodity prices, the crop insurance program now costs more than any other program.

This recommendation would rule out the need for ad hoc legislation with its questions about equitable treatment of farmers across years, regions and commodities. Standing legislation would apply the same assistance criteria across years to all field crops, specialty crops and forage crops. It would also encourage improved farmer risk management by combining a consistent, well-defined-assistance-criteria disaster program with the crop insurance program. Farmers could depend on the systemic loss program and "buy-up" coverage with purchases of crop or revenue insurance to manage risk.

A standing catastrophic assistance program would focus on crop losses below 50 percent of normal production incurred by a producer faced with a natural disaster. Setting the loss threshold at 50 percent but including all crops--compared to the traditional approach of setting support at 65 percent and covering a narrower range of commodities--would cost approximately $2 billion per year compared to the $2.5 billion to $3 billion spent on average over the last five disaster programs. As demonstrated, expenditures could vary widely around this projection. Ad hoc disaster assistance is not included in the CBO budget for the 2008-2017

period. Hence, this $2 billion would have to be funded from savings from the crop insurance program or producer fees.

County-Based Standing Catastrophic Assistance Calculations
Payment triggered when:

County declared a disaster area by President or Secretary of Agriculture
Actual yields are less than 50 percent of five-year Olympic average of county yields
Where Payment Rate is:

County Average Yield - Actual Yield * five-year Olympic average national prices

Where Payment is:

Payment Rate * Normal Harvested Acres (planted acres minus any acreage not normally harvested)

Commodities Covered:

? Field crops, specialty crops and forage crops

Integrating a Re-Rated Crop Insurance Program:
The re-rated crop insurance program aligned with a standing catastrophic assistance program would be a critical part of farmer risk management programs and a source of funding. Farmers could purchase crop insurance policies designed to extend protection above the 50 percent level. Depending on the commodity, insurance levels have typically ranged from 65 percent to 80 percent. This would allow farmers to develop their own strategies for addressing risk related more to individual production practices and decisions than to systemic factors. However, crop insurance would have to be re-rated, with premiums adjusted to reflect the catastrophic assistance program's absorption of the risk associated with losses greater than the 50 percent level currently born by the crop insurance program.

Farm Bureau supports elimination of the catastrophic crop insurance program (CAT) and the Noninsured Assistance Program (NAP) when a catastrophic assistance program is enacted. CBO projects the crop insurance program costs $5.3 billion per year. Re-rating the program, plus savings from the elimination of CAT and NAP, could save $1 billion per year that would be available to fund half of the disaster assistance program. The remaining $1 billion shortfall would be covered by a producer fee, estimated to cost $0.80 per $100 in crop commodity receipts.

Ad hoc legislation might still be needed to address large-scale livestock losses from a Hurricane Katrina or an avian influenza outbreak. However, the permanent program would address the most common problems and make ad hoc emergency assistance the exception rather than the rule. Assistance to cattle producers in 2005-06 can serve as an example. Emergency assistance was provided to producers faced with a particularly severe situation in a large area in Texas through the Livestock Indemnity Program. Producers were paid a fixed indemnity fee per head lost. The important point to consider, however, is that this type of

program would be needed possibly one year every decade, rather than virtually every year as has been the case with ad hoc disaster assistance.

Combining Counter-cyclical Revenue, Standing Catastrophic Assistance and Re-rated Crop Insurance into an Integrated Farm Safety Net:
The Farm Bureau supports the integration of the proposed CCR, standing catastrophic assistance and re-rated crop insurance programs into what would effectively be a single farm safety net.

The importance of this integration is clear looking at a sample farm for Dewey County, Oklahoma, where an exceptionally bad situation would have triggered all three programs in 2002 and one to two years out of 10 over the longer term. The table below contrasts the economic situation facing a typical county wheat farmer with 1,000 acres of base absent program support with the situation assuming that the integrated support was in place.

Using actual data for 2002, this typical Dewey County farmer would have harvested a significantly smaller crop in 2002 than in 2001 due to a weather-related drop in yields. Planted yields for the county averaged 8 bushels per acre compared with an Olympic five- year average of 19.25 bushels per acre and a 2000 planted yield of 23.1 bushels. Yields across the state were also disappointing, down to 28 bushels per planted acre compared with an Olympic 5-year average of 31.6 bushels. The season average farm price for wheat hit $3.56 per bushel in 2002. As a result, absent support programs, the Dewey County farmer's gross income would have been $28,480 (8,000 bushels times $3.56 per bushel). This compares with $87,500 the previous year and an average of $69,780 over the previous five years.

The table below replays this 2002 situation assuming that the Farm Bureau's proposed combination of safety net programs was in place. First, the modified CCR would have kicked-in based on disappointing yields for the state despite relatively high market prices. Target revenue for the state (calculated as the trigger price of $3.40 based on the target price of $3.92 minus the direct payment of $.52 times the Olympic average state yield of

31.67 bushels per acre) would have been $107.67. Actual state revenue was $99.68 based on a low yield that more than offsets a relatively high price. The CCR payment rate per acre would have been $7.99 ($107.67 - $99.68). With payments made on 85 percent of the farmer's 1,000-acre wheat base, the payment would have been $6,792. It is important to note that the current CCP would not have been triggered since there is no provision for disappointing yields in the current calculation, with the payment based solely on the difference between the trigger price and the higher of the market price or the loan rate.

Second, the standing catastrophic assistance program would also have been triggered. Looking at the county rather than the state yield, the Dewey County farmer's planted yield would have been 8 bushels per acre. The 50 percent disaster threshold built into the catastrophic program would have triggered payments when the yield fell below 50 percent of the county's Olympic average yield of 19.25 bushels per acre. This puts the yield shortfall for the catastrophic program at 1.63 bushels per acre--50 percent of the l9.25 yield minus the actual 8 bushel yield). Using the five-year Olympic average market price ($3.46) as a reference, this 1.63 bushel disaster shortfall translates into a payment of $5.64 per acre and a total payment for the Dewey

County farmer of $5,640.

Third, the crop insurance program would have been in place for the farmer to add protection. It is safe to assume that the Dewey County farmer participated, particularly with the added incentive of no ad hoc assistance. Assuming the farmer chose the average insurance package for the county, the rate would have been 65 percent. This puts the farmer's insurance yield at 12.50 bushels (65 percent of the average 19.25-bushel yield). With the catastrophic program insuring yields below the 9.63 bushel level (50 percent of the 19.25 bushel average) the margin covered by the insurance program would have been

2.87 bushels per acre (12.50 bushels - 9.63 bushels). Using the same Olympic average price as a reference, this translates into a payment of $9.93 per acre (2.87 bushels times $3.46). For 1,000 acres, this translates into a payment of $9,930.

With crop insurance re-rated to reflect the risk absorbed by the catastrophic program, the same 65 percent policy would cost less than the current program. The difference, if applied to buying more crop insurance, could raise the selection to 70-75 percent. At the 70 percent level, the insurance payment would have been $13,304. That is an insurance shortfall of 3.85 bushels rather than 2.87 bushels times the $3.46 average price.

With regard to gross income, with the mix of programs proposed, the Dewey County farmer's return would have been $50,842 rather than $28,480 in 2002. Looking at the producer's five-year income average of $69,780, the initial loss due to the disaster would have been $41,300 ($69,780-$28,480). The mix of programs would have raised income to $50,842. The program would essentially indemnify the farmer for $22,362 of the loss and leave the operator with $28,480 of the loss to absorb. With the higher 70 percent selection for crop insurance, the farmer would have been indemnified $25,736 and would have to absorb $25,106. In effect this approximately 50-50 split on risk sharing is all the current CBO budget can support. Keeping in mind that farmers pay a significant amount of the safety net costs of the integrated program described, the cost of the re-rated crop insurance and catastrophic fee would have been about $3,000 per year.

It is also important to recognize that the three programs do not have to be triggered jointly. History suggests that the CCR would be triggered the most, followed by the crop insurance program and then the disaster program. This ensures that farmers get some kind of support when needed, with the amount of the support increasing directly with the severity of the need.

In addition, there is no new money for these three programs. Therefore, the increased support to operators faced with a serious, but presumably temporary, downturn comes at the expense of payments to operators with average or above-average revenue for the same year. Given the budget constraints that we face in the 2007 debate, this falls short of an optimal program that would address risk at the operator level. However, it maximizes the benefits possible with constrained budgets based on the principle that $1 of assistance in a bad year is worth more than $1 in a good year.

2002 Payments - Sample 1,000 Acre Wheat Farm in Dewey County, Oklahoma

Without Programs Proposed Programs
Base Acres Planted 1,000 1,000
Planted Yield 8.0 bu 8.0 bu
Production 8,000 bu 8,000 bu
Price - 2002 MYA $3.56 $3.56
Market Revenue $28,480 $28,480
CCR Details
Trigger Price $3.40
State Average Yield 31.67 bu
Target Revenue per acre $107.67
Actual State Yield 28 bu
Actual Revenue per acre $99.68
CCR Payment Rate -Revenue Deficit $7.99
Payment Acres (0.85*Base) 850
Payment $6,792
Disaster Details
Actual County Yield 8.0 bu
Average County Yield 19.25 bu
50% Average County Yield 9.63 bu
Yield Shortfall per acre 1.63 bu
Average Price $3.46
Payment Rate $5.64
Acreage Planted 1,000
Payment $5,640
Crop Insurance Details (65%)
Actual County Yield 8.0 bu
Average County Yield 19.25 bu
Insured Yield - 65% 12.50 bu
Disaster Yield - 50% 9.63 bu
Insurance Yield Shortfall 2.87 bu
Average Price $3.46
Payment Rate $9.93
Acreage Planted 1,000
Payment $9,930
Total Gross Income $28,480 $50,842

VII. Dairy
Price Support:
The National Milk Producers Federation (NMPF) has proposed replacing the current dairy price support program that supports the price of milk at $9.90/hundredweight to one that supports the price of specific dairy products such as butter, nonfat powder and cheese.

Farm Bureau supports a proposal to change the structure of the dairy price support program from the current program that supports the price of milk to one that supports the price of butter, nonfat powder and cheese. Farm Bureau supports this change only if total federal government

funding does not increase by moving to the new program.

MILC:
Farm Bureau supports a national counter-cyclical income assistance component such as the MILC program. We oppose discrimination against large producers in the MILC program. The MILC program was authorized in the 2002 farm bill to provide countercyclical support for dairy producers. Funds are distributed based on 34 percent of the difference between $16.94 and the Class I milk price per hundredweight in Boston. The program is capped at 2.4 million pounds of milk, which supports about a 120-cow operation. USDA has proposed extending the program but reducing the 34 percent figure to 31 percent in FY 2009, 28 percent in FY 2010, 25 percent in FY 2011, 22 percent in FY 2012 and 20 percent in FY 2013-2017. Farm Bureau supports continuation of the MILC program or another form of counter-cyclical payments and opposes reductions in the program payments.

Dairy Promotion Assessment on Imports:
Farm Bureau supports the collection of promotion fees on imported dairy products at the same rate as collected from U.S. producers. Virtually all U.S. dairy farmers pay $0.15 per hundred pounds of milk to the dairy check-off program. This program promotes overall dairy consumption in the U.S. Currently, foreign suppliers do not pay into the program.

Dairy products from foreign suppliers have benefited from a healthy and growing $90 billion U.S. dairy market. Since importers of foreign dairy products also benefit from selling into our market, they should also be subject to an equivalent assessment to help pay for the promotion program that helps boost the sales of all dairy products. This is already an established practice in the beef, cotton and pork check-off programs.

Farm Bureau supports implementation of the dairy promotion assessment on imports.

VIII. Conservation
Farmers and ranchers are excellent producers of traditional agricultural commodities. They are just as good at producing a healthy environment. Some critics haven't really looked at the benefits of what farmers are doing already under conservation programs. With each farm bill enacted since 1981, Congress has responded to the potential adverse effects of agricultural activities on the physical landscape by increasing the number, scope and funding of conservation programs.

Critics of farm programs like to say that conservation program funding continues to be cut. While budget cuts for conservation programs often have not been to conservationists'--or farmers'--liking over the last few years, cuts have also been applied to commodity, export and nutrition programs. The past few years have been challenging times in terms of competition for federal budget dollars. The reality is that, even in this competitive budget environment, conservation funding continues to increase each year.

Total conservation spending has grown from just a few hundred million dollars per year throughout the 1970s and much of the 1980s to nearly $3.5 billion in 2006. CBO projects significant additional growth in conservation spending - to $4.2 billion in the next four years.

Farmers' and ranchers' contributions to the environment continue to be on the upswing. In 1982, USDA estimated the average erosion from an acre of farm land totaled 7.3 tons. This same estimate for 2001 was down to 4.7 tons per acre. Surface water quality has also improved dramatically, largely through reductions in nutrient loading. Agriculture has contributed a large share of the 1 billion-pound reduction in discharge into the country's lakes, rivers and streams since l972 through reduced use and better management of chemical inputs. While more difficult to measure, EPA studies indicate that ground water quality has also improved due to decreased nutrient depositing. Wetland protection has expanded sharply, in large part due to farmer initiative and enrollment of about 3 million acres in the wetland reserve. Wildlife habitat has expanded due to improved farmer management of their land resources and the set aside of particularly sensitive acres. More broadly, agriculture remains the country's number one source of carbon sequestration, helping to offset the impact of the rest of the economy's contribution to greenhouse gas build-ups.

Conservation programs are an important component of the farm bill. They are proven, viable ways to promote sound, sustainable practices through voluntary, cost-share, incentive-based programs. However, conservation programs are not an effective substitute for the safety net provided by commodity programs.

Some retirement conservation programs, such as the CRP, actually displace farm income on a dollar-for-dollar basis. Farmers lose operating revenue or rental payments roughly equal to the payments they receive in return for long-term retirement. Some working lands conservation programs, such as EQIP or CSP, share the costs of environmentally friendly investments in farm capacity. In cases where the investment would not have taken place without the program, farmers actually incur higher costs that can dampen income in at least the short term. In cases where the investment would have taken place without the program, some EQIP and CSP dollars can make their way through to the farmers' bottom line. While conservation programs are critical, they have to work in conjunction with--rather than as a substitute for--current commodity programs.

Adequate funding for conservation programs should not come at the expense of full funding for commodity programs.

Farm Bureau supports strong conservation programs in the farm bill with an emphasis on working lands conservation programs rather than retirement programs.

CRP:
The CRP removes active cropland into conservation uses, typically for 10 years, and provides annual rental payments based on the agricultural rental value of the land and cost-share assistance. Conversion of the land must yield adequate levels of environmental improvement per the Environmental Benefits Index (EBI) to qualify.

We support the CRP; however, it should be limited to only those site-specific locations in critical need of conservation. General "whole-farm" enrollments are inefficient. Whole-farm enrollments take vital resources away from farmers and ranchers who could make good,

responsible use of the land.

Some advocate for CRP acreage to be reduced, especially livestock producers who want to mitigate the impact of growing ethanol demand on corn acreage. Given the advances and acceptance of the minimum and no-till farming methods in the 20 years since much of current CRP land was first enrolled, as much as 7 million to 10 million acres of land could be farmed in an environmentally sustainable manner for renewable energy development.

Farm Bureau supports allowing haying, but not grazing, on Conservation Reserve Program (CRP) acreage with a reduction in the rental rate to partially offset the economic gains.

This would allow additional feedstock for livestock producers currently facing very high feed costs and would also allow savings in acreage not considered "highly erodible" to be used for other higher-priority conservation programs. Our hay and forage supplies are dwindling. USDA reported that U.S. hay stocks had dropped to an 18-year low of 96.4 million tons. If dry conditions continue, we will further deplete tight storage stocks. Regardless, we will see high hay demands and prices as the drought will likely persist in at least part of the country and some hay acreage will almost certainly be converted to corn acreage.

Energy is critical to our national security and economic prosperity. In 2005, biomass renewable energy production accounted for only 2.8 percent of the total energy production nationwide. Now is the perfect time to do more on that front. In 2005, USDA concluded that 1.3 billion dry tons of biomass could be harvested annually from U.S. forest and agricultural land without negatively impacting food, feed and export demands. This biomass could produce enough ethanol to replace 30 percent of current U.S. petroleum consumption.

It is important to look beyond corn for ethanol. We must develop an industry that manufactures ethanol from cellulosic feedstocks. We can do this by breaking down wood chips, switchgrass, sweet sorghum and agricultural waste into cellulosic ethanol. We can also expand starch and vegetable oil feedstocks for biofuel. However, significant trial and error must be done to ensure these potential energy sources are adequately evaluated.

Similarly, we support the use of selected CRP ground for grasses raised for cellulosic feedstock production. Again, farmers would need to utilize production practices to minimize environmental and wildlife impacts. Producers would forgo a portion of their CRP rental payment. To aid in establishing cellulosic feedstock crops, producers would be eligible for cost-share assistance for establishment and the first four years of maintenance costs associated with the grasses.

Farm Bureau supports the current 39.2 million-acre level for the CRP.

We support adjusting the EBI for the CRP to ensure that the most environmentally sensitive lands continue to be enrolled. However, contract holders should be able to produce energy crops, like switchgrass or sweet sorghum, while still protecting against soil erosion. Additionally, only land that is environmentally suitable for limited use should be allowed this "hybrid" use. A cellulosic feedstock cover crop would be required to be established and

maintained following recommended farming practices.

This would allow for farmers to grow energy crops and yet not increase the costs of funding the program.

CSP:
CSP may represent an important means of supporting farm income in years to come. Unfortunately, the authorized ceiling for funding the CSP was reduced twice to pay for emergency disaster assistance, restricting the availability of the program to one watershed per state and undermining its effectiveness and acceptance as a national program. We must carefully evaluate this program to ensure it qualifies to be notified to the WTO as non-trade distorting. Adjustments must be made to the program if that is not the case.

We strongly support the CSP program. However, the sharp increases in funding in the baseline for 2016 and 2017 would be difficult to spend efficiently and effectively. Farm Bureau supports a CSP program capped at $1.75 billion in 2016 and 2017, with the savings invested in other conservation activities. This five-fold increase provides room for steady and efficient expansion in the program.

However, we also support a broadening of the CSP guidelines to include support for all farm management and input use practices. Funding decision criteria should be set up to encourage the broadest possible participation of farmers across commodity concentration.

Budget Authority for the CSP CBO March 2007 Baseline

Fiscal Year (in millions of dollars)

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| CBO | 259 | 396 | 480 | 562 | 636 | 740 | 769 | 769 | 780 | 2166 | 3602 |
| AFBF | 259 | 396 | 480 | 562 | 636 | 740 | 769 | 769 | 780 | 1750 | 1750 |

EQIP Mandate for Fruit and Vegetable Production:
Farm Bureau proposes using some of the savings gained from capping the CSP to expand EQIP to aid fruit and vegetable producers. These funds should be used to provide a $250 million annual increase in EQIP funding and to earmark 17 percent of all mandatory EQIP funding for fruit and vegetable production. This would alter the current requirement that 60 percent of EQIP funding go to livestock production and 40 percent to crop production. Instead, the new requirements would be 50 percent to livestock production, 33 percent to crop production and 17 percent to fruit and vegetable production. It is important to note that this increase in fruit and vegetable funding does not come at the expense of livestock and crop producers. The earmarked fruit and vegetable funds would be a net addition to the program along with the expanded hog and broiler outlays noted later.

EQIP provides incentive payments and cost shares up to 75 percent of the costs to implement conservation practices. EQIP activities are carried out according to a plan of operations developed in conjunction with the producer that identifies the appropriate conservation practice or practices to address the resource concerns. Contracts range from one to 10 years. An

individual or entity may not receive, directly or indirectly, cost-share or incentive payments that, in the aggregate, exceed $450,000 for all EQIP contracts entered into during the term of the farm bill.

In addition, it is difficult for many specialty crop producers to have access to high quality technical assistance, which can be a determining factor in whether they participate in conservation programs. Farm Bureau has entered into a cooperative agreement with USDA to determine the ability of technical service providers to adequately assist specialty crop producers and to ascertain if changes to the EQIP program are necessary to allow more specialty crop growers to qualify for assistance.

The 2002 farm bill authorized the Secretary of Agriculture to provide special incentives to beginning farmers and ranchers and limited resource producers to participate in federal agricultural conservation programs. The bill also established a maximum cost-share rate of 90 percent for beginning farmers and ranchers and limited resource farmers in the CSP and EQIP programs. This is a 15 percent cost-share differential or bonus relative to the regular maximum cost-share rate. The intent of these provisions was two-fold: to help new farmers and ranchers get started and to encourage them from the outset to adopt strong farm conservation systems. Adoption of sustainable systems is often far easier at the beginning of an operation's history than later on once a system is in place and then needs to be changed or retrofitted. Farm Bureau supports continuation of the conservation cost-share differential for young and beginning farmers.

Enhancing EQIP Funding to Support Expanded Livestock Coverage:
Farm Bureau supports increasing the EQIP baseline funding by $125 million annually for hog and broiler operations. This recommendation is based on several factors. The current EQIP program has been most effective in addressing environmental issues associated with bovine agriculture, with outlays for beef and dairy operations accounting for about three-fifths of total program spending. Building on these successes will depend on continuing base funding. However, funding for other livestock activities has lagged, with only 3 percent of funding going to hog initiatives and less than 5 percent going to broiler operations. To put this in perspective, with waste management possibly the biggest livestock challenge environmentally speaking, hogs and broilers produce about half of total livestock waste. In addition, many hog and broiler operations are located closer to urban areas and more sensitive water resources.

The rationale for more funding for hog and broiler operations is also based on a question of timing. Many hog and broiler producers were early adopters of improved livestock production technologies, particularly waste management practices. Major investments were made in these areas in the late l980s and early l990s as the scale of operation for many operators expanded dramatically. Consequently, they often did not qualify for EQIP assistance for facilities already in place when the program began. However, with the aging of facilities put in place 15-20 years ago and with industry consolidation, more funding is necessary to build new and upgrade aging facilities.

Spending this money effectively also depends on USDA rethinking EQIP guidelines to reflect more of the typical hog and broiler producer's concerns. Existing EQIP guidelines lend themselves well to beef producers making initial investments in qualifying facilities. Many of

the priorities for hog and broiler producers will be second-generation investments in innovations such as pooling waste management across groups of producers and exploring options that are only viable with a larger scale than most individual producers have. It is hoped that this package of expanded EQIP funding would be coordinated with expanded CSP activities in the hog and broiler sectors. Identifying it as a separate EQIP initiative from base funding for the EQIP program should also ensure that the targeting element of the initiative is met.

Supporting EQIP and CSP with Improved Cost Data:
Farm Bureau supports updating the farm cost information underlying the CSP payment schedule and often used as a reference in the EQIP program. This would serve two purposes. First, it would reinforce farmer interest in the programs by ensuring that payments reflected actual expenses and in the process simplify operation of both programs. Some of the cost information used in conservation program management predates the 2002 farm bill and does not reflect the cost run-up of the last two to three years. Second, updating and strengthening the link to empirical cost data would also reinforce the U.S.'s classification of the two programs--an increasingly large share of our farm program spending--as green box activity. In order to ensure green box classification, we have to maintain a viable link between program payments and the expenses incurred by producers adopting the practice in question or building new or upgrading existing facilities to meet environmental goals. The cost of such an initiative would be quite small (less than 1 percent of spending in the initial year of the new farm bill) relative to the spending proposed for the two programs, particularly if it were integrated into USDA's existing Agricultural Resource Management Survey conducted by the National Agricultural Statistics Service.

GPS Conservation Cost Sharing
Given the role GPS technology can play in increasing the effectiveness of EQIP and particularly the CSP and nutrient management programs, Farm Bureau supports including the provision for GPS cost-sharing in these conservation programs. The cost would be a fraction of the more than $2 billion being spent each year on these conservation initiatives. This cost-sharing would continue over the life of a farmer's enrollment in the programs. The impact on farm profitability would be even longer-lived as farmers integrate the technology into their day-to-day management and improve use of inputs

such as fertilizer and pesticides. Farm Bureau supports the provision for cost-sharing for GPS technology as a way to enhance the effectiveness of the EQIP and CSP programs and to boost overall farm profitability.

IV. Exports
Continuation of an adequately funded export promotion program, including MAP and the FMD program, is vital in an export-dependent agricultural economy. Individual farmers and ranchers do not have the resources to operate effective promotion programs to expand markets. However, the public/private cost-share approach of MAP and the FMD program has proven very effective.

Funding for the FMD program and MAP should be maintained at their current levels of $34.5 million and $200 million annually. FMD is a key trade promotion program. The program is

essential for growers to maintain long-term promotion of both value-added and bulk product exports to foreign countries. Similarly, MAP funds key shorter-term promotions of many commodities, including fruits and vegetables.

The Emerging Markets Program, Export Credit Guarantee Program and all food aid programs (including P.L. 480 Titles I and II, Food for Progress and the McGovern-Dole International Food for Education Program) should be reauthorized. The Emerging Markets Program funds technical assistance activities to promote exports of U.S. agricultural commodities and products to emerging foreign markets. The purpose of the program is to assist public and private organizations in enhancing U.S. exports to low- and middle-income countries that have or are developing market-oriented economies.

Under the GSM/Export Credit Guarantee programs, the U.S. government guarantees credits given to foreign buyers for repayment within 180 days.

The P.L. 480 Title I food aid program administered by USDA provides for concessional sales of food to needy countries through both governments and Private Voluntary Organizations (PVOs).

P.L. 480Title II, administered by the U.S. Agency for International Development, is the largest U.S. food aid donation program. It delivers both emergency and non-emergency humanitarian assistance through PVOs and the United Nations World Food Program.

Food for Progress was established in the 1985 farm bill as a means for rewarding countries moving toward democracy with humanitarian assistance. In the last decade, the program has been used to deliver food aid all over the world. The 2002 farm bill established a minimum of 400,000 metric tons of food to be procured annually, and increased funding for subsidized U.S.-flag cargo preference freight rates to $45 million. Program requirements to minimize displacement of commercial sales were strengthened.

Under the McGovern-Dole Food for Education program, USDA provides school lunches to children in developing countries. The program is funded through contributions of commodities and processed foods by several donor countries.

Farm Bureau opposes requiring food aid be given as "cash only" instead of allowing nations to provide food directly as an emergency and developmental assistance program.

Fruit, vegetables and tree nuts account for 17 percent of the value of U.S. agricultural exports. In 2005, the U.S. exported $10.7 billion in these commodities and imported $14.1 billion. The U.S. has had a negative net fruit and vegetable trade balance since 1998.

Increased overseas promotion of U.S. specialty crops has helped boost foreign sales despite the hindering effects of the strong dollar during much of the past 10 years. However, export markets for U.S. specialty crops have expanded at a much more subdued pace than import markets.

Farm Bureau also believes the TASC program should be significantly enhanced. USDA is

responsible for promoting U.S. agricultural exports, including advocating on behalf of

U.S. agricultural interests around the world as disputes arise. Funding for the Foreign Agricultural Service (FAS) staff and expenses to accomplish this and related objectives is provided through the annual appropriations process. The 2002 farm bill authorized the TASC program to fund projects that address SPS and technical barriers related to specialty crops. TASC is a mandatory program, authorized to be funded at $2 million annually for the life of the farm bill.

Farm Bureau supports expansion of the $2 million TASC program to mandate an annual level of $10 million - a five-fold increase. TASC is specifically targeted at dealing with non-tariff barriers to specialty crop trade. Examples of successful use of the program include providing information on Japanese maximum residue levels to initiate nectarine trade with Japan and to assist with organic standards issues with Europe.

Boosting Support for SPS Trade Programs:
Realizing the export gains possible from normal growth in world trade and from bilateral and multilateral agreements depends increasingly on resolving issues related to the U.S.'s SPS system. The U.S. has invested heavily to put the world's premier, science-based system into place. Despite this effort, SPS issues persist and prevent the U.S. from gaining the most from our trade--both export and import--opportunities.

The issue has at least three facets. First, foreign buyers continue to raise concerns-- presumably good-faith concerns--about the quality and safety of U.S. products. However, these questions are often based on only a limited understanding of U.S. practices or on bad or questionable science. Second, the U.S. imports an expanded volume of products--particularly specialty products--from developing countries with limited knowledge of U.S. standards and practices. With imports mixed with domestic production in most markets, lapses in production practices abroad affecting imported product can lead to questions about the safety of the entire supply, including domestic production. Third, more developing countries are embarking on efforts of their own or using links to international organizations and major country systems to develop SPS regulations. Improving the understanding of the U.S. system could help them adopt the science-based practices that are best for importers and exports alike.

We support a pilot initiative aimed at expanding international understanding and acceptance of the U.S.'s system of SPS practices in an effort to boost export opportunities, ensure safe imports, and promote adoption of science-based SPS regimes around the world. The Farm Bureau proposes using $63 million in savings from the elimination of export subsidies in the 2008-2013 budget in a two-year pilot program. The funding would be used by a consortium of existing agencies (i.e. FAS, the Food and Drug Administration and the Animal and Plant Health Inspection Service) with assistance from the university system. Their combined efforts would focus on using technical assistance, outreach, education and representation to: 1) Increase understanding of the U.S. system by existing trading partners; 2) Encourage incorporation of the U.S. SPS system in the production and handling of products destined for the U.S.; 3) Boost the U.S.'s role in international forums such as Codex Alimentarius and OIE (Office Internationale de Epizooties); 4) Work directly with developing countries to encourage wider adoption of a system of science-based SPS regulations; and 5) Provide support for SPS

trade dispute resolution.

Funding after the first two years would be based on an evaluation of the programs' success in these main problem areas.

X. Competition Issues

There has been considerable discussion about including competition issues in the upcoming farm bill. Increasing producer competitiveness and access to a transparent marketplace is vital to sustaining domestic production agriculture for farmers and ranchers.

Farm Bureau is concerned that consolidation, and subsequent concentration within the agricultural sector, could have adverse economic impacts on U.S. farmers and ranchers. As contractual production and marketing arrangements between producers and processors become more prevalent, we see less connection with traditional cash markets, which could result in reduced prices for all commodities paid to producers. It is imperative that markets are open to all producers and that these markets offer fair prices for their products.

AFBF supports strengthening enforcement activities to ensure proposed agribusiness mergers and vertical integration arrangements do not hamper producers' access to inputs, markets and transportation. USDA, DOJ and other appropriate agencies should investigate any anti-competitive implications that agribusiness mergers and/or acquisitions may cause.

More specifically, AFBF supports enhancing USDA's oversight of the PSA. GIPSA investigations need to include more legal expertise within USDA to enhance anti-competitive analysis on mergers. USDA, in conjunction with DOJ, should closely investigate all mergers, ownership changes or other trends in the meat packing industry for actions that limit the availability of a competitive market for livestock producers. We support establishing an Office of Special Counsel for Competition at USDA.

AFBF supports amending the PSA and strengthening producer protection and USDA's authority in enforcing the PSA to provide jurisdiction and enforcement over the marketing of poultry meat and eggs as already exists for livestock. This includes breeder hen and pullet operations so they are treated the same as broiler operations.

AFBF supports efforts to provide contract protections to ensure that the production contract clearly spells out what is required of the producer. In addition, we support prohibiting confidentiality clauses in contracts so that producers are free to share the contract with family members or an outside advisor, lawyer or lender.

Farm Bureau supports legislation to prohibit mandatory arbitration so that producers are not prevented from going to the courts to speak out against unfair actions by companies.

Farm Bureau supports allowing meat and poultry inspected under state programs, which are equal to federal inspection and approved by USDA, to move in interstate commerce. There are 28 states with nearly 2,000 state inspection facilities for meat products. All other products, such as milk, dairy products, fruit, vegetables, fish, shellfish and canned products, which are inspected under state jurisdiction, are allowed to be marketed freely throughout the U.S.

Movement of these products across state lines will increase marketing opportunities for farmers and ranchers.

Farm Bureau supports voluntary country-of-origin labeling. The costs associated with implementing a mandatory program, especially for meat products, would create a competitive disadvantage for our producers. USDA estimates the program will cost the industry between $500 million and $4 billion in the first year alone, with per head costs at $10.00 per cow and $1.50 per hog. Until a cost-effective program can be implemented, Farm Bureau opposes a mandatory labeling program for meat, fruits and vegetables and peanuts.

Farm Bureau supports the establishment and implementation of a voluntary national animal identification system (NAIS) capable of providing support for animal disease control and eradication. AFBF remains concerned about three major issues that will affect the success of this voluntary program and believes at least these issues must be resolved prior to the implementation of a mandatory program.

Cost: How much will animal identification cost and who will pay the price? The price tag for a national ID system could run as high as $100 million annually. The fiscal year 2007 agriculture budget provides $33 million to fund activities for system development, a level of funding insufficient to obtain satisfactory producer participation in a voluntary program. Producers cannot and should not bear an unfair share of the costs of establishing or maintaining an animal ID system. Implementation of a successful ID program depends on adequate and equitable funding.

Confidentiality: Who has access to the data used in the NAIS, and how can producers be assured protection from unintended use of the data they submit? Legislation is imperative to ensure the privacy of producers' information submitted to the NAIS, because producers must be protected from public disclosure under the Freedom of Information Act (FOIA). Otherwise, competitors or activist groups could exploit proprietary information. Furthermore, there must be clarity on which state and federal agencies will have access to the data.

Liability: Are producers appropriately protected from the consequences of the actions of others, after their animals are no longer in their control? Many producers worry they might be forced to share liability. Congress needs to pass legislation providing producers with protection - but not immunity - from litigation if their product, according to federal or state inspection processes, was wholesome, sound, unadulterated and fit for human consumption.

XI. Energy

A robust energy title of the farm bill will help establish new domestic markets for U.S. producers and help eliminate our dependence on foreign oil. While the Senate and House Agriculture Committees have limited jurisdiction over energy policy changes, enhancements and extensions, they do have the ability to further promote domestic energy uses.

We strongly support the production and use of agricultural-based energy products and promotion of bio-blended fuels. We support the "25x25" vision, which calls for 25 percent of America's energy needs to be produced from working lands by the year 2025.

We recognize that promoting more use of agriculture-based energy depends on demand initiatives as well as efforts to boost production.

The expiring CCC Bioenergy Program should be re-authorized. Under this program, the Secretary can make payments from the CCC to eligible bioenergy producers, both ethanol and biodiesel producers. The payment is based on any year-to-year increase in the bioenergy they produce.

The Biodiesel Fuel Education Program should be reauthorized. The program helps educate government, private vehicle fleet managers and the public about the benefits of biodiesel in order to increase biodiesel demand.

The Bio-based Products and Procurement Program should be revised and reauthorized to promote development and increased use by federal agencies of existing and new soy-based products. This should include a timely implementation of this market development program, allow feedstocks (intermediaries) to be designated as biobased products and implement the labeling program.

We support $5 million in funding for demonstration projects to streamline the collection, transportation and storage of cellulosic crop residue feedstocks.

The Value-Added Agricultural Product Market Development Grants should be reauthorized. This provision makes competitive grants available to assist producers with feasibility studies, business plans, marketing strategies and start-up capital.

The Biomass Research & Development Program should be reauthorized.

This provision extends an existing program--created under the Biomass R&D Act of 2000--that provides competitive funding for research and development projects on biofuels and bio-based chemicals and products.

XII. Research

Farm Bureau recognizes the key role that agricultural research plays in making and keeping the farm sector competitive, profitable and responsive to the country's changing food, feed and fiber needs. However, with research costs rising faster than funding, USDA will have to increase its efforts to prioritize research in order to continue its record of accomplishment. We encourage Congress to call for establishment of clearer priorities for the agricultural research program based on increased input from key stakeholders such as farmers. Organizations such as the Farm Bureau are prepared to help cast farmers' input in the most useful form for USDA and land grant universities.

Regarding specific priorities:

Congress should prioritize research initiatives to commercialize technologies to make ethanol from cellulosic biomass.

Congress should prioritize research on modifications of DDGs and other byproducts to expand

their use, especially in non-ruminant animals.

Congress should prioritize research on development of renewable energy sources, such as power generation using manure.

Congress should increase funding for research on mechanical production, harvesting and handling techniques for the fruit and vegetable industry. Growing problems with identifying labor supplies makes this type of research imperative.

Congress should provide adequate funding for research on methyl bromide alternatives.

AFBF also proposes that Congress mandate an in-depth USDA study of the air quality issue, as it relates to agriculture.

XIII. Credit

Farm Credit System:

The Farm Credit System has recommended three legislative changes. These include: (a) increasing the credit availability for farm- and commercial fishing-related businesses by relaxing restrictions on the types of businesses that can borrow from Farm Credit System lenders (The proposed legislation would allow businesses that farmers and aquatic harvesters depend on to support their farming or aquatic operations to be eligible for Farm Credit System financing); (b) increasing the rural home mortgage financing restriction from a community whose population is 2,500 or less to a population limit of 50,000; and (c) continuation of a requirement that borrowers purchase stock in order to be eligible for loans from the system, but that the minimum level of stock purchase required be left to the discretion of the local Farm Credit lender's board of directors.

Farm Bureau supports the initiative undertaken by the Farm Credit System to evaluate credit availability. We support the Farm Credit System concepts and will thoroughly review and consider the specificity of those recommendations to ensure the credit needs of farmers, ranchers and those serving production agriculture are met.

FSA:

FSA has made great strides in increasing the amount of loan funds for beginning farmers and ranchers and socially disadvantaged farmers. The FSA direct loan beginning farmer caseload increased from 3,474 in 1995 to 16,828 in 2006. The FSA guaranteed beginning farmer caseload increased from 3,617 in 1997 to 8,236 in 2006.

We support the administration's proposal to increase from 35 percent to 70 percent the targeting of the FSA direct loan portfolio to beginning and socially disadvantaged farmers . Currently, targeted loans are reserved for beginning farmers and ranchers for the first few months of the fiscal year. After the targeting period ends, any remaining funds are pooled across states and allocated to other qualified farmers.

We support the administration's proposal to enhance the beginning farmer down-payment program to make it easier for beginning farmers to buy property by lowering the interest rate charged from 4 percent to 2 percent and eliminating the $250,000 cap on the value of the

property that may be acquired.

XIV. Nutrition:
The School Fruit and Vegetable Snack Program was authorized to encourage increased consumption of fresh fruit and vegetables by children. The program offers fresh fruit and vegetables free of charge to children in 400 schools in 14 states. The program was funded at $6 million for the 2002-2003 school year and was extended through the 20032004 school year. Farm Bureau supports expansion of the School Fruit and Vegetable Snack Program to 10 schools in every state. This should only cost about $7.5 million annually but will provide significant benefits to fruit and vegetable producers now and in the long term, while promoting healthy eating habits among children.

In recent years, USDA has acquired an average of over $300 million a year in fruit and vegetables for schools. About $50 million is purchased and distributed through the Department of Defense Fresh Program, which supplies fresh fruits and vegetables to schools under contract with USDA. We support the administration's proposal to provide an additional $50 million a year for the purchase of fruits and vegetables specifically for the school lunch program. Some of this new spending could be through added funds for the Department of Defense Fresh Program.

XV. Miscellaneous Activities
Farm Bureau supports increasing funding for the USTR Office of Agriculture and the Office of the Agricultural Ambassador by $2 million annually.

Agriculture's recent experience with negotiating multilateral and bilateral agreements and litigating trade disputes highlights the importance of expanding USTR's staff. While USTR has effectively represented our interests in the past, the staff demands associated with negotiations continue to increase. It is also increasingly important that USTR have sufficient staff to ensure our trading partners live up to their commitments and to represent American agriculture in dispute resolution cases. An increase of $2 million per year in funding for staff would support a 25 percent increase in USTR staffing in the Agriculture Office and the Office of the Agricultural Ambassador, as well as staff working on agriculture-related issues in the SPS area.

XVI. Budget Effects
As noted in the introductory Principles section, Farm Bureau's proposals are fiscally responsible. The proposals recognize and respect the budget constraints facing Congress. The following budget summary highlighting the major Farm Bureau proposals indicates that the "package" is approximately equal in cost to the CBO baseline. In an era of tight funding, the Farm Bureau has emphasized spending the funds available as effectively as possible. The comparison focuses on the full 10-year budget Congress is working with and extends the 2008-2013 programs through 2017.

Budget Costs For Farm Bureau's 2007 Farm Bill Proposal ($ billion) (Comparison with CBO Baseline for 2008-2017) 1

CBO Baseline Farm Bureau

Proposal 2
I. Commodity Programs ($65.2 billion) plus 117.0 117.0
Crop Insurance ($51.8 billion)
Direct Payments 52.0 52.0
Counter-cyclical Program 10.0 10.0

(Shift to Revenue Program roughly cost- neutral, with any cost increase offset with a 1-2 percent adjustment in base acres)

Standing Catastrophic Assistance Program 51.8 51.8 And Re-Rated Crop Insurance Program (Cost above crop insurance savings paid by a small fee on crop producers)

Elimination of Planting Prohibition 0 0 ($2.3 billion in fruit and vegetable producer compensation and 80 million in TASC paid for from capping CSP and applying dollars to EQIP earmark for fruits and vegetables)

II. Conservation Programs 51.8 51.8

CRP 23.1 21.6

(Net savings of $1.5 billion from lower rental rates on haying/biofuel cropping)

CSP 10.9 8.6 (Net Savings of $2.3 billion from capping Program at $1.75 billion in 2016 and 2017)

EQIP 12.75 12.75
(Maintain Base Program)
EQIP 0 1.25
(Added earmarked activities for hog and broiler projects funded with savings from CRP and CSP)
EQIP 0 2.5
(Added earmark for fruits and vegetables funded with savings from CRP and CSP)
III. Nutrition 317.1 317.1
IV. Other 33.2 33.2
V. Total 519.2 519.2

Budget Estimates shown above are for the full 10 years included in CBO baseline, not just the six years in a new 2008-2013 farm bill.
Budget estimates for the Farm Bureau proposal are internal Farm Bureau estimates. CBO has not been