Testimony of Everett "Dusty" Tallman
Chairman of the National Association of Wheat Growers'
Domestic and Trade Policy Committee
before
the Senate Committee on Agriculture, Nutrition and Forestry
April 25, 2007

Mr. Chairman and members of the Committee, my name is Dusty Tallman. I am a wheat grower from Brandon, Colo., and am currently serving as chairman of the National Association of Wheat Growers' Domestic and Trade Policy Committee. Thank you for the opportunity to be here today to talk about challenges and opportunities within the wheat industry.

Since my time here today is limited, I would like to outline some of the major issues facing the wheat industry, and what federal farm policy can do to ameliorate these challenges for the good of farmers, the American economy and the American people. Since the main issue on everyone's minds right now is the 2007 Farm Bill, I have attached NAWG's full recommendations in my written testimony for your review and consideration.

Challenges

The members of the National Association of Wheat Growers realize that the U.S. wheat industry is suffering from both lower net returns and lower levels of support than other program crops, as well as a lack of access to advanced genetic technologies and stagnant demand. These challenges led to an industry-wide Wheat Summit in September 2006 that began with the goal of collaboration on issues ranging from domestic farm policy priorities and science and research to domestic utilization and exports. The second meeting of this Summit was held just last week to work toward industry-wide recommendations for forward movement. Today, I want to discuss one of the keys to future success in our industry - federal farm policy that provides an equitable safety net for wheat growers.

Over the term of the 2002 Farm Bill, wheat growers, like many farmers have seen some price increases for their commodities. While this is good news for growers, it does not alleviate one of the biggest challenges in the farming sector today- skyrocketing production costs.

A Food and Agricultural Policy Research Institute report from April 2006 indicated that fuel prices would be up 10 percent from 2005 and fertilizer prices would be up 10 to 15 percent from 2005. The FAPRI report also estimated that fuel and fertilizer costs for wheat growers would be up 24 to 27 percent from 2005 alone. Since 2002, the last time Congress examined comprehensive federal farm policy, the report estimated that fuel prices would be up 113 percent, and fertilizer prices would be up about 70 percent.

As you know, farmers, unlike most other businessmen and women, cannot pass on higher input prices or fuel surcharges. Farmers are "price takers," not "price makers"; farmers don't get to set the price they receive for their product. They also are responsible for increased transportation costs to and from the farm. These increases have serious effects on family farms; they lead to a loss of operating credit and profitability and, ultimately, the loss of farm infrastructure in rural America.

A Reliable Safety Net

One of the most important elements of any plan to restore the wheat industry's competitiveness is federal farm policy that provides an equitable safety net for growers while allowing them to take production cues from the marketplace and while avoiding challenges based on our World Trade Organization obligations. Since 2002, wheat growers have received little or no benefit from two key commodity program components of the Farm Bill, the counter cyclical program and loan deficiency payment program. Severe weather conditions for several consecutive years in many wheat states have led to significantly lower yields or total failure, and the loan program and the LDP are useless when you have no crop. The target price for the counter cyclical program for wheat was also set considerably lower than market conditions indicated, which, combined with short crops due to disaster and, thus, higher prices, has led to no support for wheat in the form of counter cyclical payments. This safety net failure has hurt many wheat growers and has led to a continued decrease in wheat acres.

The chart below clearly shows the inequities in the government-provided safety net to wheat growers over the term of the 2002 Farm Bill. While NAWG members understand the needs of producers of other crops and do not believe that their safety nets should be decreased, it is important for wheat growers to be in an equitable position relative to other program crops.

Source for CCC outlays: http://www.ers.usda.gov/publications/agoutlook/aotables/2006/03Mar/aotab35.xls
Sources for production costs/acre: http://www.ers.usda.gov/Data/CostsandReturns/testpick.htm

Looked at another way, wheat's target price as a percent of cost of production is significantly lower than the other Title I crops, excluding barley. Target price as percent of cost of production for wheat, using 2005 and 2006 cost of production estimates gathered from USDA in August 2006, is 74.24 percent, compared to 82.62 percent for soybeans, 84.84 percent for corn, 90.05 percent for cotton and 90.99 percent for rice.

For the 2007 Farm Bill, NAWG is recommending that the direct payment for wheat be set at $1.19 per bushel and that the target price be set at $5.29 per bushel, while maintaining the marketing loan program as currently structured.

The decision of the NAWG Board of Directors to support this proposal came about as a result of reviewing data on trends in the wheat industry including historical prices, historical cost of production and historical yields as determined by USDA's National Agricultural Statistics Service and USDA's Economic Research Service. NAWG's Domestic Policy Committee also obtained data from the Food and Agricultural Policy Research Institute and the Agricultural and Food Policy Center that helped determine what it would take to keep wheat growers on the farm. (These reports are available through NAWG or on the NAWG Web site, www.wheatworld.org.)

According to USDA data, historical input costs for 2005 and 2006 - the most representative of forecast production costs over the term of the next Farm Bill - averaged $215.79 per acre. The average yield, on the other hand, has stayed around 38 to 42 bushels. Using these numbers, the average cost to produce a bushel of wheat is around $5.29 while the average market price over the term of the 2002 Farm Bill has been approximately $3.40 (2003-2005).

While most wheat growers purchase crop insurance and rely on it heavily, affordable coverage is typically limited to 65 to 70 percent of expected yield. Wheat growers expressed concern, therefore, about ensuring that a safety net exists for the other 30 to 35 percent of the crop. By providing a safety net to wheat growers of $1.19 per bushel in the form of a direct payment, federal farm policy can assure growers, their families and their bankers that they have a predictable and dependable safety net.

Under the NAWG proposal, the effective price in the counter-cyclical program would be $4.10 ($5.29 target price - $1.19 direct payment). Preliminary data suggests that there may be only one year in the next five in which wheat prices drop below $4.10, and then only to $4.06, translating into very few counter cyclical payments.

While we are aware that some agricultural organizations have expressed concern about the effects the direct payment may have on rental rates, we believe that the direct payment does not cause any greater increase in rental rates or land values than any other income. For instance, the Wall Street Journal reported on March 7 of this year that, "Farmland prices are soaring across the Midwest amid a surge in demand for corn driven by the ethanol boom." We believe that higher crop prices and more demand for corn acres are the real causes of increases in land values and rental rates - not the direct payment.

NAWG's members also took into serious consideration our current World Trade Organization obligations. This proposal is based on historical information and, in part, relies on a direct payment that is decoupled from current production.

Overall, the benefits of this proposal echo Secretary of Agriculture Mike Johanns' view of Farm Bill priorities, as stated publicly many times and specifically in an interview on Aug. 2, 2006: "...but it seems to me we should be talking about, how do we make our farm program predictable and beyond challenge and equitable for that matter?"

NAWG members also support an increase in payment limits commensurate with the increase in the direct payment. While we understand this has been a very heated issue in the past, we believe that we cannot use any types of means testing in farm policy, especially since payment limit proposals in the past have always targeted the direct payment more than the counter cyclical or loan payments. This is unfair to wheat producers, who rely most on the direct payment.

Other Opportunities

For the first time in a long time, people outside of the agriculture community are seeing agriculture as a provider of solutions. The public and policy makers are now realizing that the agriculture industry doesn't just provide food, but also feed, fiber and, increasingly, fuel and substitutes for other petroleum-based products. However, it is important to remember that enhanced conservation programs, renewable fuel development and myriad of other exciting possibilities will not happen if growers are not on the land to make them happen. We believe a reliable farm safety net is the key to making these opportunities become a reality.

Renewable Fuels

Most notably, the past few years have seen a frenzy of interest and investment in renewable fuels. As an association, we have largely not pursued the development of grain-based ethanol in favor of advocating for cellulosic ethanol, which most scientists and policy makers agree will eventually provide the bulk of liquid renewable fuel. The leading cellulosic ethanol production companies have stated their preference for wheat straw as an initial feedstock and we believe that straw, supplemented with a dedicated energy crop like switchgrass, could allow for the production of cellulosic ethanol in many parts of the country.

A recent USDA/Department of Energy study identified 1.3 billion tons of agriculture residue and dedicated crops that could be converted into cellulose ethanol on an annual sustainable basis. At the market rate of $15 per ton for agricultural residues like wheat straw, a conservative allocation of that 1.3 billion tons to growers of wheat and dedicated energy crops could result in $13 to $21 billion in additional farm income. By comparison, the current value of the entire corn crop is about $20 billion and the value of the wheat crop is about $7 billion.

Clearly, this is an enormous economic opportunity for growers, who soon will be able to help both their bottom lines and their country's national security, maybe even by growing a dedicated energy crop. The NAWG Board of Directors has unanimously decided in recent months to expand the organization's advocacy mandate to include the representation of biomass energy crop growers. Our grower-leaders did this because they see the development of an energy crop economy for the opportunity that it is, and because they want our organization to have the authority to pursue the policies that will help our growers the most.

Over the past few years, our organization has reached out to the cellulosic ethanol industry, including Iogen, a company that is currently running a demonstration-sized facility in Canada and that has taken major steps toward developing the infrastructure needed to build a commercial-sized plant in Idaho, pending a Department of Energy loan guarantee. We have also reached out to developers of dedicated energy crops, including Ceres, a biotechnology company based in California. Finally, we have dedicated a lot of time and effort toward advocating for the implementation of the loan guarantee program that was included in the Energy Policy Act of 2005. Final issuance of these loan guarantees is the single most important step, we believe, toward the commercial production of cellulosic ethanol.

Climate Change

In a similar vein, our organization sees the opportunities for agriculture in a variety of climate change initiatives. Carbon sequestration is a prime example of a conservation method many farmers already undertake that could be monetized for their benefit. Farmers are, by nature, conservationists, and wheat growers as a group have seen every possible natural disaster over the term of the 2002 Farm Bill. Our growers are excited about furthering their activities in an effort to help the environment.

New Uses

Like most agricultural organizations, NAWG has long been interested in the development of new uses for our products. With increasing and unstable prices for petroleum, there is great opportunity for products that are traditionally petroleum-based to be made using agricultural products. We continue to pursue these and other new uses for wheat and wheat products.

Technology

Biotechnology and other advanced genetic technologies have great promise to increase the value proposition to the wheat industry by reducing input costs and increasing quality and value, including nutritional value. Conversely, the adoption of traits like drought tolerance in corn could exacerbate the downward trend in wheat plantings. NAWG continues to work with other organizations, including our sister organization, U.S. Wheat Associates, to reach out to other, major wheat-producing countries and move the industry toward responsible commercialization of the first wheat biotech trait.

Trade

Trade is extremely important to wheat producers; about half of U.S. wheat production is exported. As world trade is liberalized, there is potential for more demand for high-quality agricultural products, including U.S. wheat, which is among the highest quality and most reliable of its type in the world. However, while these opportunities are abundant, U.S. farmers operate at a severe disadvantage relative to farmers in the E.U., which subsidizes its farmers at a rate six times greater than the U.S., and other countries where agriculture production is protected by an average worldwide bound tariff of 62 percent, which compares to an average U.S. tariff rate of less than 12 percent.

Other Farm Bill Recommendations

COMMODITY TITLE

In addition to the changes outlined above:
? NAWG opposes any type of means testing to establish eligibility for or restrict participation in federal farm programs.
? NAWG supports the continuation of the three entity provisions of the 1996 FAIR Act and separate identity rights for spouses actively engaged in farming.
? NAWG supports creating a separate market classification for Hard White Wheat.

CONSERVATION

NAWG believes that all components of Title II are important and that full and adequate funding for conservation programs should not come at the expense of full and adequate funding for commodity programs; the conservation title should not replace the commodity title. NAWG further believes that participation in a conservation program does not create a new right of public use and fully protects all otherwise applicable private property rights.

NAWG makes the following recommendations for Title II:

Conservation Reserve Program (CRP)
? CRP should be continued and renewed.
? CRP should be limited to the most highly erodible soils.
? CRP payments should reflect local rental rates.
? Any wheat base acreage enrolled in CRP should be restored, but not updated, upon the expiration of the contract.
? CRP acreage should be capped at 39.2 million acres.

Conservation Security Program (CSP)
? CSP should be fully funded and returned to its original purpose.
? If CSP is not fully funded, the "priority watershed" concept should be implemented.
? Choice of crop protection products should not qualify or disqualify producers from participating in CSP.

Administration
? NAWG does not support consolidating the conservation programs administered under the Department of Agriculture. However, NAWG believes that duplication and competing administrative functions should be removed to provide a streamlined sign-up process for these conservation programs.

Other
? NAWG also opposes the proposed sod saver provision from the Administration that would make grassland (rangeland and native grasslands, not previously in crop production) acres that are converted into crop production permanently ineligible for farm price, income support and other USDA program benefits.

TRADE AND FOOD AID

NAWG supports fair and open trade of wheat throughout the world. Nearly half of U.S. wheat is exported and, since 95 percent of the world's population lives outside of the United States, wheat growers recognize that expanded markets will likely be overseas. In addition, wheat growers continue to support food aid programs. However, our requests for Title III cannot come at the expense of the commodity or conservation titles.

To facilitate trade, the wheat industry:
? supports funding of the Market Access Promotion (MAP) program at no less than $300 million annually.
? supports the use of funding allocated to the Export Enhancement Program (EEP) to enhance U.S. wheat exports and market development programs until all export subsidies have been eliminated.

? supports increased funding for CCC export credit programs.
? supports funding of the Foreign Market Development (FMD) program at no less than $55 million annually.
? supports continued legislative authorization of the cooperator program as a line item in the CCC budget.
? supports producer oversight of the allocation of cooperator program funds.

In the area of food aid, the wheat industry:
? opposes any attempt in the World Trade Organization (WTO), or in any other venues, to require that food aid be given as "cash only" instead of allowing donor nations to provide food directly as emergency and development assistance.
? supports funding food aid programs at levels no less than the amounts needed to provide food donation levels of at least 6 million metric tons annually, of which 3 million metric tons should be wheat.
? supports the original intent of the Bill Emerson Humanitarian Trust, that it provide direct food aid and should not be sold back into the U.S. domestic market. The wheat industry also supports the Emerson Trust being replenished in a timely manner.
? believes that current programs administered by the U.S. Department of Agriculture are effective and should remain under USDA management.
? believes that, except in times of emergency, U.S. food aid programs should be comprised of U.S.-produced food.
? opposes withholding of food aid for political purposes.

CREDIT

NAWG supports financing programs for beginning farmers. In addition, NAWG supports the continuation of and increased funding for the FSA guaranteed loan program. NAWG supports full funding for the FSA reduced interest loan program.

RURAL DEVELOPMENT

NAWG is supportive of rural development programs but strongly opposes the diversion of money from other areas of the Farm Bill for these efforts.

RESEARCH

NAWG supports funding for the mapping of the wheat genome and international triticae mapping initiatives. NAWG also supports funding for research into fusarium head blight and other wheat-related diseases and pests, as well as for other research initiatives that would benefit wheat growers.

ENERGY

NAWG supports utilizing Conservation Reserve Program (CRP) acreage, or land to be enrolled in CRP, for the purpose of planting and harvesting dedicated energy crops including, but not limited to, switchgrass. This should be carried out in a manner that maintains the environmental benefits that CRP is designed to achieve.

NAWG also supports the Commodity Credit Corporation offsetting 40 percent of the cost of cellulosic feedstock for the first year of a cellulosic ethanol refinery's life. A similar program intended for other types of biofuel, the CCC Bioenergy Program, expired in 2006, and should be reauthorized to support cellulosic ethanol feedstocks, including dedicated energy crops or agricultural/forestry residues. The program could be simplified to provide a per gallon payment rate, consider a payment limit per eligible entity and be terminated as cellulosic ethanol becomes commercially feasible.

NAWG is highly supportive of programs to encourage the development of a viable renewable energy sector, but strongly opposes the diversion of money from other areas of the Farm Bill for these efforts.

OTHER PRIORITIES

NAWG supports creating a Hard White Wheat development project that would focus on achieving critical mass. U.S. Wheat Associates' HWW Committee will draft a plan that includes a research component and an infrastructure development component. A draft concept paper is available at http://www.wheatworld.org/pdf/Draft%20HWWDP%20(2).doc and will be updated as necessary.

NAWG believes that a nationally-uniform regulatory structure for biotechnology regulation is essential to successfully utilizing this technology. Accordingly, we propose amendments to the Grain Standards Act that would ensure a uniform, national regulatory structure.

NAWG supports federal pre-emption of state labeling requirements for biotech products to ensure that labeling is voluntary, consistent with U.S. law, consistent with international trade agreements, truthful and not misleading.

NOTES

Both the NAWG Domestic Policy Committee and the NAWG Board of Directors began examining several farm policy proposals and options as early as April 2005 to ensure that the organization's recommendations to Congress would provide the best possible safety net for wheat growers.

Proposals that the NAWG Committee and Board examined included several revenue assurance-type programs, including options outlined by the American Soybean Association, the National Corn Growers Association, a NAWG Domestic Policy Committee proposal and most recently, program recommendations from the U.S. Department of Agriculture.

While these programs continue to sound good in theory, after much analysis, we have determined that these programs just won't work for wheat growers. Most are based on a 70 percent cap, and/or either a three-year average or five-year Olympic average income that is used to determine a producer's "target" revenue.

Wheat is grown mostly in areas of variable production that have experienced several recent years of drought and other natural disasters, which brings a producer's potential target revenue much lower than it should be. That, combined with the possibility of only being able to cover 70 percent of revenue makes these programs a no-win situation for wheat growers. The recent proposal by the USDA uses the current (2002 Farm Bill) target price as the basis for figuring a target revenue. Since the current target price is far below what market conditions indicated was necessary for a reliable safety net, a new target revenue based on the same number is completely inadequate. A quick analysis of the current year situation shows that, once again, wheat growers would not receive any support out of the Department's proposal.

In addition, it has been suggested by other commodity groups that, rather than looking at a historic cost of production factor in determining farm policy, historic prices should be used. NAWG members disagree with this principal. Every producer understands that price does not accurately reflect the real economic situation that farmers face. While we also examined proposals based on historic price, we believe that covering your costs is the only key to survival. We also understand that the agronomics of each crop are different, but a proposal based on historic price will not work for wheat growers.

Conclusion

A recent study indicated that wheat production itself provided an average of about $21.5 billion per year to the economy between 2003 and 2005. In addition, about 206,000 jobs were provided through the activities of the wheat industry. Agriculture is responsible for about 15 percent of this country's GDP and more than 25 million jobs. The biggest beneficiary of the farm safety net are American consumers, who continue to pay less as a percentage of income for their food than consumers in any other developed nation.

The fact that American consumers enjoy the most abundant, least expensive, highest quality and safest food is no accident - it is a direct result of U.S. farm policy. For a very small slice of the federal budget - less than ½ of 1 percent - U.S. agriculture policy delivers substantial benefits to consumers, while conserving the nation's natural resource base, sequestering carbon and providing basic goods for trade and manufacturing jobs throughout the country.

Thank you again for the opportunity to be here today. I look forward to working with you as you begin writing the 2007 Farm Bill. I am ready to answer any questions you may have.