



**House Agriculture Committee Hearing – Des Moines, Iowa
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Chairman Collin Peterson: Well, thank you, Chairman Boswell, for inviting us to your fair city, and we appreciate your leadership on the committee. Chairman Boswell is chairman of our General Farm Risk Management and whatever – it's a pretty long title. He does a great job for us and we appreciate his work and appreciate being here in his district. So this hearing of the Committee on Agriculture to review U.S. agriculture policy in advance of the 2012 Farm Bill will come to order.

Good afternoon to everybody and thank you for coming, joining us today. We're glad to be here, as I said, in Des Moines, to hear from area farmers and ranchers about the issues facing agriculture and rural communities. As we demonstrated in 2008, the farm bill is about much more than just farms. We continued the safety net that protects farmers and ranchers and provided certainty that they rely on to stay in business, but we also made historic investments in nutrition, conservation, renewable energy, research, rural development, fruits and vegetables and organic agriculture.

While traditional farm programs have a relatively small proportion of the funding, these programs are essential to the continued success of U.S. agriculture. We have a system of independent farmers and ranchers working the land, and without the certainty that farm bill programs provide, these farmers would not be able to get the financing that they need to put the crops in the ground, in a lot of cases. I want to welcome our witnesses here today and thank them for taking time out of their busy time of year to talk to us today about this. These farm bill hearings are the first step in the process of writing the next farm bill.

A bill this large, that covers so many important issues, takes a lot of time and effort to get it right. I am committed to a process, as I was last time, that's open, transparent, that's bipartisan. And so for all of those that are joining us here in the

audience today, I hope that you will also participate by sharing your thoughts with the farm bill with us. We have a survey posted on our committee web site, and I think we have some of these around that have the web address on there and so forth. So anybody can have a chance to tell the committee about what's working with the farm bill, what isn't working, any new ideas that they'd like us to consider in the next farm bill.

And we are also webcasting this hearing. I think that's the first time that that's been done at a field hearing, so people around the country that are interested will be able to join us today over the Internet and follow this hearing. We have a lot of ground to cover, so let's get started. Ranking Member Lucas, we'd appreciate a statement from you.

Rep. Frank Lucas: Thank you, Mr. Chairman, and I almost appreciate that temporary advancement you gave there, promotion. And I do want to thank you for calling these hearings and being so proactive in preparation for the debate that we will have on the future of farm policy in the 2012 Farm Bill. We have an extremely difficult road ahead of us, but one thing I do look forward to is listening to our producers. While I get to hear from my own producers every time I step into the coffee shop or the feed store back home, or conduct my town meetings across the Third District of Oklahoma, I think it's vitally important to hear from producers from a broad range of places who grow and raise a broad range of products.

My goal for the next farm bill is simple. I want to give producers the tools to help you do what you do best, and that is produce the safest, most abundant, most affordable food supply in the history of the world. I think it's extremely important to hear from you about what is working, what is not working, what changes we can make to the farm bill to allow it to work in a more efficient fashion for you. The 2008 Farm Bill was another investment in the future of rural America. Not only did we provide a viable safety net for producers, but we also made substantial investments in conservation and nutrition programs during a time of need for many Americans.

A lot of people do not realize, and some even forget, but we should all remember that 75% of the farm bill spending – 75% of the farm bill spending – goes to nutrition programs. In addition to those investments, this committee, led by Chairman Peterson, accomplished substantial reforms, especially in the realm of payment limits. This is a fact that should not be forgotten by those who always seem ready to attack our programs.

Last week, during a hearing in Washington, I was concerned that the Administration's priorities seem to differ so greatly from my producers' priorities. There was barely a mention of the safety net, conservation programs, or many of the programs I hear about from my producers. I think it's imperative that Congress work together with the Administration to come up with workable solutions for the many problems our rural communities face. But first this Administration must prove its commitment to production ag.

I also want to hear from you today about some of the impediments you face when you bring your crop to market, and see if we can help alleviate some of those impediments. I have serious concerns about the effect an overreaching EPA will have on you. It seems every day that the EPA is coming out with a new regulation that makes it harder for producers to make a living. Can we do something about those impediments, or at least give you the tools that can help you mitigate some of the adverse effects of these regulations? With that said, I look forward to hearing from all of our witnesses today, and again, thank you, Mr. Chairman, for taking us to the country.

Chairman Peterson: Thank you, Mr. Lucas. We normally have other members submit their statements for the record, but today, because we have other distinguished members from Iowa, we'll recognize them for a brief statement. Mr. King, who is a member of the committee, if you want to welcome the people.

Rep. Steve King: Thank you, Mr. Chairman. I appreciate the opportunity to be recognized, and I thank you for bringing this hearing. You and Leonard, I think, teamed up especially, and my colleague to my left, Tom Latham, to help bring this hearing here to Iowa. I'm proud to show off who we are here in Iowa to the balance of the committee. I'm looking forward to the testimony from all the witnesses.

I think we've come a long ways in the last 20, 25 years in agriculture, and I've been able to be part of and witness a lot of that, and I'm looking forward to the testimony of the witnesses. And when I looked out of the plane coming in here, I had to, I'll say, look down and it seemed odd not to see a lot of snow from the sky, but it was clearly new to see nice, fresh green grass, so thanks, Mr. Chairman, and I will yield back the balance of my time.

Chairman Peterson: Well, thank you very much, Mr. King. We appreciate that. We're also joined today, and I have some paperwork I've got to take care of here, Tom. The gentleman from Iowa, Mr. Latham, is not a member of this committee, but has joined us today, and I have consulted with the Ranking Member, and we are pleased to welcome him to joining us in this hearing. Although Mr. Latham is not a member of our committee, we work with him on a regular basis because of his position on the Appropriations Committee, and how that interacts with a lot of what we do on the Agriculture Committee.

I consider him to be a good friend of mine. We work together on a lot of things on a bipartisan basis. I think Mr. Lucas would say the same. So Mr. Latham, we appreciate being here. I'll give you an opportunity to say a few words, and I understand you've got some other commitments, so you may not be able to be here the whole time, but we really appreciate you making the effort to be with us for a while.

Rep. Tom Latham: Well, thank you very much, Chairman Peterson. It's strange to call you that. I guess we have to do that in public, Collin. And thank you for

allowing a lowly appropriator to come and join the esteemed authorizing committee. And thank Mr. Lucas also for allowing me. I wish he'd take that Oklahoma State jacket off. But anyway, some very good friends. Okay, [Ken] up there is saying he's an Okie guy. Anyway, I really appreciate all the committee members being here in Iowa.

I think it's important to know, maybe for Mr. Costa from California, for others maybe, to understand what Iowa is about. We are very modest people here, generally speaking. I think it's somewhat of our northern European ancestry, Lutheran like myself, you know, we just don't brag much. But the fact is we're blessed with abundance here. We have 25% of the Grade A farmland in the world. We're number one as far as corn, soybeans, pork, egg production here. We are leaders, obviously, in beef, renewable energy with ethanol. It used to be biodiesel. We have a remarkable place here, with abundance like no other place in the world.

The reason I think it's so important to have this type of hearing this early is that we're going to have tremendous challenges, and like Mr. Lucas said, they really shouldn't call it a farm bill, they should call it a food bill or a feeding bill, because that's where most all of the money goes in the farm bill. But we've got a lot of challenges, obviously, with a new farm bill. The fact of the matter is the implementation hasn't occurred yet on the last farm bill in a lot of different areas, which is very frustrating to a lot of folks.

And there's some people, in the Administration's budget this year, that want to reopen the previous farm bill before it's even fully implemented as far as different aspects and payment limitations and things like that. We're going to have a lot of challenges with climate change, the idea of indirect land use, all of those things, the challenges we have today with EPA and how they want to take over a lot more control in agriculture. And that's why this...well, the 900 pound gorilla certainly is the budget deficit, and what funds are going to be available for us to write the next farm bill.

The farm bill before the last one I thought was upside down because the whole discussion was how much money was going to be available, and then we found that out and tried to insert policy. The last farm bill, and to the Chairman's...I'm very grateful that the way he did it was to put policy in place and then have the money follow it. And that's the way this should be done, and that's why this hearing, I think, is so important today, to start to get a grasp on what the real policy things are in very tight budgets in the future. So with that, thank you very much for the opportunity, and I apologize; I'm going to have to leave a little bit early. But thank you very much, Mr. Chairman.

Chairman Peterson: I thank the gentleman for his statement and thank him for being with us today. We'd like to welcome our first panel of witnesses. You've been very patient putting up with us here, and that's part of the process; I think you all have been through it before.

Mr. Varel Bailey, corn, soybean, grass, pork, cattle and sheep producer from Anita, Iowa; Mr. Richard Bayliss, corn and soybean producer from Ottumwa, Iowa; Mr. Dane Lang, dairy, corn, and soybean producer from Brooklyn, Iowa; Nick Volz, corn, soybean and pork producer from Elkhart, Iowa; and Darrell Weems, cattle, corn and soybean producer from Earlham, Iowa.

So Mr. Bailey, welcome to the committee, and your statement will be made part of the record, and we're going to try to keep this to five minutes if we can...we don't have a timer here, I guess. How are we going to do that? Oh, we do. There it is. Okay, good.

I want to announce – we had a hearing here, the first hearing we had on the farm bill with the Secretary, some of the members figured out something, so they started asking three – this is not aimed at you guys at all – but they started asking three questions at the beginning of their time, and then every one of them took, like, ten minutes, so we're going to have a new rule that you can ask one question at a time, and when the light is yellow, you can't ask another question.

We're going to try to hold everybody to this time frame if we can. And Mr. Lucas, I think, has agreed to that, so we can get everybody a chance to say their piece and have time for questions. So Mr. Bailey, thanks for being here.

Mr. Varel Bailey: Mr. Chairman, members of the committee, thank you very much.

Chairman Peterson: I think you've got to talk right into the mike in order for it to work, yeah. There you go.

Mr. Bailey: Mr. Chairman, members of the committee, first of all I want to congratulate you for starting these hearings at this time. And part of the reason is that things are changing very rapidly out here, and keeping Washington informed as to what's really going on out here is continuously a challenge, so again, we appreciate it. I ask that my printed testimony be entered into the record, and I'd like to just speak just off the record here – on the record, but informally.

First of all, I'd like to say that the farm bill, as you folks have mentioned, is more than loan rates and food stamps. Most of us don't realize that the farm bill is actually a contract. It's a contract between agriculture and the rest of society. And if you go back in history, you'll find that all societies, all cultures have a contract, and that is a level of trust that's actually a covenant between the people that produce the food, feed, fiber and fuel for the general public and the rest of that culture. If that corrodes, if that trust breaks down between the farmers, the agriculture and the rest of the culture, governments are overthrown and cultures die. Jared Diamond has written a series of books on that.

And we are lucky here in the United States in that we have a farm bill that's continuously renewed and that actually formalizes that contract between society and agriculture. Now, it's really critical because no society in the history of the world has ever had the extreme situation of 2% of the people supplying 98% of

the people, plus exports in excess of that. So our challenge here, our job here is really a lot greater than what we realize when we look at it from that perspective.

Now, in my testimony I listed out six things that many of them are not in the farm bill, but I think are very important. And I listed out land, I listed out site specific research, I listed out risk mitigation, rural infrastructure, food fads in nutrition, and agricultural structure and market fairness. In covering land, I lifted out the issue and said that we have a loss of agricultural land. We have a need for technology for land reclamation and improvement. We've got 30 million acres, I think over 30 million acres in the CRP and other government land programs. I'm not sure that we're fully utilizing, from a public perspective, what we could be doing with that land in improving it, because it appears that in the future we'll probably need to bring that land back into production.

And site specific research, I say that with globalization and everything else, every farm is in direct competition with every other farm around the world. And the point is that our long-term survival as a farmer hinges on a steady stream of site specific research. Agriculture and politics is similar in the fact that we're both local, and that research that's done other places in the world don't necessarily always do good for me on my farm. And I'm not sure that we did maybe the right thing with the National Institute for Food & Agriculture, because we pulled the decision-making on agricultural research to Washington, D.C. and pulled it away from the land grant universities. And so this is an issue that I think we need to take a look at.

Risk mitigation, we've got an aggressive program with crop insurance, subsidized crop insurance. We need to continue to review that. The Center for Agriculture & Rural Development and Iowa State University have done an extensive study on the subsidized crop insurance, and we need to take a good, hard look at it. I would suggest that we pull some money, some of the subsidy out of that, and rework the ACRE program and make it more workable.

Rural infrastructure – and I'll just check off some things that we need to take a look at – one is the problem in broadband. We have a problem in electric transmission in the fact that we farmers have problems getting our electricity onto the national grid. And that's a bureaucratic problem, really not a physical problem. We have a pending problem with the global positioning system in that many of us rely on that system for our planting and spraying and all kinds of site identification.

A number of farmers are now actually buying Russian equipment so we have a backup system because there's a question as to how reliable the U.S. GPS system is going to remain. We've got another problem with the cellular system. If you go to Europe and you get a European cell phone, it'll work anywhere. Instead of three towers along the Interstate, there's only one, because they have a completely unified cellular system. And we need a universal cellular system here in the United States.

In foods, fads and nutrition, I mention here the fact that we have, through the food stamp system, the world's largest nutritional data set. And I'm not sure that we're working with that data set. And especially with the health care bill and everything, USDA needs to take a look at what we're doing with all that information coming off of the scanners and everything with the food situation. We've got a gold mine there in data, if we'd simply use it.

And agriculture structure, oligopoly and market forces, I just simply say that I really encourage this committee to reinforce USDA's effort with the Department of Justice to take a good, hard look at the changes taking place in agricultural structure and those things. So thank you very much for the time, and I would yield to any questions.

Chairman Peterson: Well, thank you, Mr. Bailey. We appreciate that. Mr. Bayliss, welcome to the committee.

Mr. Richard Bayliss: First to the committee. I'd like to thank each of you for this—

Chairman Peterson: I think you've got to get a little closer. Pretend you're a rock and roll singer or something.

Mr. Bayliss: All right. First to the committee. I'd like to thank each of you for this opportunity to appear before you and share with you my thoughts on the farm bill and its effects on our farming operation and those in my area that I'm familiar with. My name is Richard Bayliss. Our family, my wife and I and our two sons and their families, farm about 2,000 acres of row crop in Wapello and [Keokuk] Counties in southeast Iowa.

Our farms are split just about evenly between corn and soybean production each year, and we rotate these crops annually. We have a combination of owned, rented and custom farm ground. Our landlords include people who are elderly, but very involved with their farms, and those who do not live near the farms, but still take an active role in the management decisions. I also retired in 2008 after almost 14 years in the Iowa Army National Guard, and spent calendar year 2005 in Anbar Province, Iraq.

Production agriculture has become a very risky and high input, high tech industry. We face many challenges daily with changing weather, volatile markets, rapidly advancing technology and rising costs of production. While United States farmers continue to feed the world, we see many young and beginning farmers who want to enter this challenging and very rewarding profession.

Investing in farmland and machinery, maintenance costs on both of these, and insurance to protect against these losses present a major obstacle to established farmers. To those just beginning, those things can be more than daunting – they can stop a young person in his tracks. Some form of revenue or price support or protection for them is essential. We old guys can't farm forever. We need that

younger generation to be in a position to take over from us, as seamless and painless as possible.

As for our own operation, we remain with the traditional DCP, direct payment program, that was enacted in 2002 and available in the 2008 farm program. It is an uncomplicated and straightforward commodity price program that is generated by numbers times acres equals the support level. The DCP program, coupled with revenue assurance option, primarily peril insurance, provides a reasonable safety net and provides stability in our operation.

The optional revenue based program ACRE was new in the 2008 Farm Bill. It may become simpler and easier to use and to understand as time goes on, but we found it to be very difficult to apply to our operation, and challenging to accurately determine its usefulness. The major issues with ACRE, in my opinion, are yield base is set on a statewide basis, and not by county. Variables such as soil type, average yield, weather conditions across the entire state put the southern tiers of counties at a significant disadvantage, and conversely, puts other areas of the state in an unfair comparative advantage.

ACRE is a corn only program. No provisions for rotation crops of soybeans are available, so coverage is drastically reduced by anyone who rotates crops, which is a majority of operations. If a producer has a significant crop loss in one year, the yield base is reflected in the loss, which in turn reduces coverages for [subsequent] years. Two crop failures back to back, and a producer has no coverage at all. Annual submission proving yields, total revenue, and full federal income tax returns is not only difficult to comply with, but invasive, and confidentiality can be an issue.

This requirement is also extremely difficult to explain and justify to elderly or distant landlords. ACRE payments are discounted below the DCP program by 20%, which is a significant reduction that is difficult to explain to elderly landlords. Those who do not live on the farm, and even a few tenants are affected by some lease arrangements. Available funds through the Commodity Loan Program are discounted 30% when producers enrolled in the ACRE. If I were able to borrow \$10,000 using about 5,200 bushels of my corn as collateral when enrolled under the DCP program, I could only obtain 7,000 under the same 5,200 bushels enrolled in the ACRE.

ACRE requires a four-year commitment, with no opt-out provisions. This constraint significantly prevents any operation from reacting to changes in life situations. New market opportunities can have a very negative impact on estate planning. These are the reasons that kept our operation and many others to whom I have personally spoken out of the ACRE program, and will continue to do so until potential modifications can be made so that it's more equitable and user friendly. In comparison, the DCP program helps a producer to stay in compliance with the program instead of manufacturing roadblocks to compliance, which is due, in large part, to its simplicity and its straightforward language.

The fixes I would propose for the farm program to help young and beginning farmers to be able to gain a foothold in this business and to provide a new generation of agricultural producers would be: raise the loan price on corn to a realistic level. The current loan price of a dollar ninety a bushel is no incentive for a producer to seal grain, put corn under loan when the loan rate is half the market value. The loan program could be a very valuable tool if it were restructured to reflect a realistic loan price.

Design a straightforward, streamlined price support program that a producer can sell to his lender. It has to be realistic. It has to provide some form of protection to both the producer and the lender to encourage the lender to make funds available for production. It's extremely difficult to convince a lender to provide thousands in operating capital with no safety net beneath the production financing. Crop insurance, revenue insurance needs to be available for every producer to support the producer-lender relationship.

I support payment limits as set out in our current farm bill. I do not feel that the significant cuts that President Obama is suggesting are acceptable in our current financial structure. There are many young and beginning farmers who can exceed the \$250,000 income limit, but have such large debt service needs that their income is structured very thin, yet they will be ineligible for the program. Preventing these younger and newer farmers from participating in farm programs can effectively cripple them from being able to compete in the marketplace, both from a commodity sales standpoint and an ability to purchase real estate in which to expand their operations. I believe that there is a certain unfairness associated with the proposed cuts.

I also support the Federal Crop Revenue Insurance program. It is a safety net the farmers and small rural banks and other ag lenders must have to stay in business and remain viable in these challenging times. In my opinion, the new farm bill must evolve from where we are now, not be a complete 180 degree turn. Please endeavor to look ten or more years into the future with respect to input costs, markets, technology, global perspectives, and our children's children. The program must fit the future, not what we are doing this week or this year.

Make it fit the real production landscape and the ecological development of larger farm operations. Farms will not get smaller. The new farm program needs to be flexible enough to allow for the growth and endeavor of the business of farming. We have to be able to help our next generation get started and become quickly viable to maintain the level of production that will be necessary to continue to feed the population of the world in the coming years.

The best opportunity for production agriculture is to operate in a free market system that allows profitability and innovation. However, when the commodity markets are significantly affected by issues completely unrelated to agriculture, and so very out of our control, there needs to be some form of safety net in place to help deal with this situation. I believe that agriculture has many exciting

opportunities available for success in our community. Mother Nature seems to regulate the size of that success, in most cases, but the business of agriculture needs a support base with revenue assurance in place to compensate for the things that farmers cannot control: weather and market volatility.

Again, I would like to thank the members of this committee for providing this hearing and for allowing me the opportunity to share my thoughts and opinions with you. It's very difficult for many of us in production agriculture to imagine doing anything else in life. Farming in a situation where a farm program wasn't necessary for us to economically produce the commodities that fuel our world would be ideal, but until we reach that point, I hope that you will work towards creating a simply structured and straightforward framework that can help the next generation in production agriculture move towards a robust free market. Thank you.

Chairman Peterson: Thank you, Mr. Bayliss. Mr. Lang, welcome to the committee.

Mr. Dane Lang: Mr. Chairman, Congressman Boswell, distinguished members of the committee, I would like to thank you for the opportunity to testify before you today. My name is Dane Lang, and I'm a sixth generation farmer from Brooklyn, Iowa. Every day I have the opportunity to work alongside three generations of my family: my grandfather, my dad, my uncle, and my younger brother. We are dairymen. This is not just what we do, it is who we are.

For the past calendar year, dairymen around the country have weathered the largest collapse in milk price in history. We have seen our fair share of distressed milk prices in the past, but this collapse was and is different. It has affected every dairy farm, regardless of size, debt burden or economy of scale. If you milk cows, you are losing money.

Strangely enough, if we went back just a few years, we would see a strikingly different dairy industry. Milk cow numbers in Iowa had stopped a decades long slide and the state herd had grown from 190,000 head in January 2005 to 215,000 head just three years later. This resurgence in milk cow numbers coincided with growing domestic demand and a booming export market. Milk cow numbers increased, milk price increased, the price of corn and soybeans that we feed our cows increased, the price of fuel to operate our equipment increased, and that was all fine because the milk check reflected the cost of producing the milk.

Then in 2008 things went south. The recession didn't just hit the dairy industry, it hit the world. Milk price tanked, exports dropped from \$4 billion in 2008 to just over \$2 billion today. And strangely enough, the price of milk in the store did not change. The price of a bushel of corn or a bushel of soybeans did not change. The seed and fertilizers that we use to grow the crops that feed our cows did not change. And while the state of Iowa did not raise our taxes in the crisis, our local school boards did it for them.

The days of milk being produced for nine or ten dollars a hundredweight are over, and they are not coming back. A recent drop in grain prices has helped to stabilize the cost of producing milk somewhere between \$15 and \$17 a hundredweight, which unfortunately means that dairy farms are still losing money and Iowa is losing dairies.

I would like to thank the committee for recognizing the crisis dairy farmers are facing, but unfortunately, the next farm bill won't help any dairymen today, and to be quite honest, we aren't worried about 2012, we're worried about next month. Farmers are entrepreneurs who believe that dairy policy should be market oriented and consistent with worldwide prices. It is likely that no one in this room believes that every producer who wants to should be allowed to stay in business. That said, everyone in this room believes that America and the world needs a safe and reliable source of food.

With that in mind, I would like Congress to consider the following. The federal order structure used to compute milk price needs to be modified to better respond to current market conditions and provide greater transparency to interested parties. The world no longer cares about cheddar cheese. Government policies need to reflect changing world demand and encourage domestic production of milk protein concentrates. No farmer in the country can make milk for \$10. Milk payments need to reflect today's break even levels for the producer. The California standards for solids, nonfat and fluid milk should be implemented at a national level. This would enhance product quality and improve promotion of the project.

I am lucky. I have always known that if I wanted to farm, our family would make the adjustments and sacrifices necessary to make that happen. Most young farmers are not so fortunate. It is critical that we provide adequate incentives to secure a reliable future for dairymen and women. Starting a new dairy takes tremendous amounts of capital, and if you don't have a family to support you, it is not possible. That is why it is important to provide incentives and programs for beginning farmers to access capital as well as tax incentives for persons willing to lease, sell, or lend assets to beginning farmers.

The United States must hold our trading partners accountable to negotiated trade agreements. It was recently announced that China plans to block imports of U.S. dairy products unless the U.S. agrees to a change in export certificate which has been in place since 2007.

In closing, dairymen don't want a handout or a bailout. What we want is a reliable safety net to catch us when the market drops out beneath our feet. Dairymen need tools to deal with an increasingly volatile milk market. Government policies need to be brought up to date to reflect the current costs of production. I would encourage Congress to look into implementing some type of lost income insurance that producers could buy into. Thank you.

Chairman Peterson: Thank you, Mr. Lang. Appreciate your testimony. Mr. Volz.

Mr. Nick Volz: It's a pleasure to offer testimony today based on my experiences as a grain farmer. Good afternoon. My name is Nick Volz. I a fifth generation farmer, and have been farming 37 years in the Elkhart area and surrounding areas. Where my wife and I live today, our farm is a century farm. I'm currently raising corn, soybeans, and in the past I raised specialty corn, parent seed corn, and produced seed soybeans for nearly 20 years, specialty soybeans for Dupont for five years.

We no longer produce these specialty crops. The premiums have declined. It is not worth the expense of producing it. In addition, when we started, my dad gave me 12 sows when I started when I was 12 years old, and after graduating, we started [growing] sows and continued until 1998. My son Todd, after graduating Iowa State University, started farming with us in 1996. With limited crop acreage available, he found a niche in the production of selling hay. He currently has 300 acres of hay and 500 acres of row crop. He also has needed to do some off farm business to meet cash flow. These include landscaping and snow removal.

In 2002, my son and I started finishing 3,200 head of feeder pigs a year and continued that for five years. It was not profitable, and we stopped producing pigs in 2007. With the high cost of grain and protein, it was no longer feasible, and as a small producer, we were unable to get contracts because of our size, and would no longer be able to market the hogs because it would often take three to four weeks to get a delivery date.

We have always participated in farm programs. However, we decided not to enroll in the ACRE program, the reason being that the lack of a price protection and smaller DC payments and loan payments, we did not believe that there were any benefits for our operation. Instead of decreasing the price as in the ACRE program, the support prices should be raised to offset the high cost of production.

We also believe in soil conservation, and have installed at least 12,000 foot of designed grass waterways. Some of these waterways are close to [30] years old and still serve their purpose in conserving the soil. When the Conservation Security Program was announced, we thought it would fit our program well. However, it was never funded to the extent where the money would have been placed where needed. Programs like this need to help conserve the soil to insure lifelong productivity continues. Payment limits are important, and the money saved should be put into the conservation programs that help protect our soils.

We belong to a number of organizations – corn and soybean associations, but we're not here to represent these organizations. I am honored to participate in this testimony. I do believe it is all important to enhance the 2012 Farm Bill, and would like to see a future meeting like this be held in January and February so that our short window of opportunity to plant would not be affected. Thank you again for the opportunity for this testimony before you today. I would like to

welcome any questions or discussion about what we have spoken about today.
Thank you.

Chairman Peterson: Thank you, Mr. Volz. Appreciate it. Mr. Weems, welcome to the committee.

Mr. Darrell Weems: I'm here today to discuss the conservation titles of the farm bill. My name is Darrell Weems. I'm a lifelong farmer, conservationist, and represent you today in the capacity as Executive Director, on a part-time basis, for conservation districts of Iowa, and represent the soil and water conservation districts in the state. For 60 years it's been our task to put conservation on the land. We've done that with the local conservation districts and the five electric commissioners in each district, 500 strong, that are about putting conservation on the land.

I'm going to talk about a strength we have, and that is in the strength in partnerships through the Iowa Department of Agriculture and RCS, DNR, the State Soil Committee, Pheasants Forever, private groups like that, Farm Bureau, commodity groups. We all came together to put conservation and conserve our resources. The other strength that we have is conservation districts, and CDI is directly in the middle – the funding at one end, the programs and the laws and the regulations that come down, and the districts at the other end. We are in the middle to deliver those programs, and that's what we do.

Today we bring forth a couple of thoughts relative to conservation programs that we have. We want to talk a little bit about technical assistance. We believe technical assistance should be enhanced. We need to fund and train technicians so that we can design and lay out the structures and the processes by which we can deliver conservation. Our farmers today can put conservation on the land. Farmers by nature love to move dirt. They build things, they grow things. We need to give them the opportunity, with all of their equipment, the technological and the size, to deliver, and I think we can save some money in that process.

We can put conservation on our own lands if we have enough expertise and enough guidance to get it done. We need to be smart conservationists and smart with how we spend our monies and our resources. We must target funds. We must get the most bang for our buck. In many cases we'll do this through a total watershed approach. Again, we have programs that work. I'll save the long title – it takes too long – but we have CREP, which is a state program, EQIP, targeted CRP, wetlands, summer contracts to get the work done. One thing I would caution is we would implore you that we do this on a voluntary and a local basis. That's how it will work best.

The next thing we want to talk a little bit about is conservation compliance plans. We believe that all land in production, whether HEL or non-HEL, should be required to have a conservation plan to be eligible for USDA benefits. You work the plan and you get the benefits. We need more teeth in enforcement.

Successes. We have successes in the area of conservation. Forty-three percent reduction in soil erosion over the last 30 or 40 years. In the last 20 years, the Iowa rural water surveys show that we have lower detections of nitrates and herbicides in well water. Several species of wildlife are thriving and repopulating in Iowa. One DNR official recently said we have the best fishing we've ever seen in Iowa. I haven't been able to enjoy that yet this spring, but hope to. We use conservation tillage and we revert and construct wetlands, working wetlands to improve water quality and keep nutrients on the ground. We do a better job of using nitrogen and phosphorous today.

Do we still have problems? You bet we do. We haven't solved the problems. We still have too many nutrients and pesticides leaving the soil, leaving the earth and going into our waterways. We have too many producers and citizens who just plain don't get it and don't do enough to conserve resources. In some cases, conservation gains are moderating. We have to be careful about that. In cases we are ill equipped to deal with the biggest rain events. Last year and years before that have taught us that. Funds are always short, and we always have more people who want to do the work than we have funds and technology and resources to provide them.

So in the end – and I've got another point I'm going to get into in a second – but in the end we must remember we didn't inherit this earth from our parents, we borrow it from our children. We must always strive to polish and adopt the conservation ethic. Our future depends on it.

Sometimes riding a tractor, or in this case, last night, riding the lawn mower, it occurred to me that I want to go off script a little bit. I won't take long here, but there's a line in my testimony that I'd like to refer to that I didn't highlight enough, but needs attention. It's on the third to the last paragraph. Sometimes other events and priorities rob us of the conservation focus. I'm getting older. I've got grandkids. I'm beginning to think about things other than making a daily living now, and my kids and grandkids are important to me.

It occurs to me today that other events and priorities are robbing us of the conservation focus. We have programs like Medicare, Medicaid, the interest on the national debt. When I borrow money, and have to pay back the interest, at some time back in the '80s, the highest was 21%. This country will have to deal with those issues. I think what that says in this scenario is that the status quo is not going to work anymore. We don't have enough money to do what we've always done or what we want to do, and we asked for some of the trouble we got in.

So off script, I just want to mention that we've got to use our head. We've got to think. We've got to deliver and do things in ways that we haven't done it, probably without money that we've had before. And so I guess it's with this – I'd love to have questions, and it's with this that I conclude and thank the committee for hearing me.

Chairman Peterson: Well, thank you very much, and thank all of the panel for your excellent testimony. We appreciate it. I think that last comment kind of ties into something I want to say, and that is that we are not going to have any extra money for this farm bill. We'll be lucky to hold onto what we got. I saw on some of the testimony people wanting to raise loan rates because they are ridiculously low. If we get down to loan rates, we're out of business. It ain't gonna happen. The money it costs to raise the loan rates, you know, I just – it's not realistic. So one of the reasons we're starting this hearing process early is to see if there's a more efficient way, a better way to provide the risk management tools, the safety net, the conservation that we all want to do.

So Mr. Bailey, I see that you mentioned in your testimony about crop insurance that you think that there needs to be changes. Have you looked at the...are you familiar at all with the SRA negotiations going on? What's your take on...you know, it's caused quite a commotion of crop insurance companies and crop insurance agents to come to my office and tell me the world is coming to an end, so what's your take on where that's all at?

Mr. Bailey: Well, first of all, yes, I am familiar with the negotiations. I'm not exactly up-to-date to the last minute.

Chairman Peterson: They're ongoing.

Mr. Bailey: They're ongoing, yes. Just to refer back, I worked for Congressman Ganske in southwest Iowa for a number of years, and the crop insurance guys were in my office all the time as well. Here, in this case, I think we've got to do what's right for the taxpayers as well as what's right for the agricultural industry. One of the dilemmas that we've got, the way the subsidies are designed and everything right now, is that they really move, or they provide an incentive to move crop production into marginal areas. And that is a dilemma because with that incentive and everything, you really increase the potential for disaster problems as well. I don't have any specific numbers to put out, or anything like that. What I'm saying is that we need to do a lot of analysis on it.

And we've got some competent land grant university economists and agronomists and everything, and I'm not sure that we're utilizing those people adequately here as we work on this problem and basically give the farmers the risk mitigation and everything that they need, and at the same time the proper level investment by the taxpayers.

Chairman Peterson: Thank you. Mr. Bayliss, you had talked about, in your testimony at one point here, let's see if I can find it...you say that the loan program could be a very valuable tool if it were restructured to reflect a realistic loan price. And then you say gaining support for a loan program, as opposed to a direct payment program, should be easier to manage. Are you saying that you think that the direct payments should be moved more into the loan program type of situation, or...is that what you're saying?

Mr. Bayliss: Well, what my point was on that there is it's a...and you just told us that that was not a possibility, but if there was a higher loan rate on grain, that the possibility of not needing so much of a support program under it would help offset that. You can take a loan program and use that as operating money and not have the risk involved through your normal level or whatever to help put in the cost of production. So it was just a tool that I could see that we could utilize a higher loan rate and offset the need for some type of a support program under it.

Chairman Peterson: Yeah. Do you think the revenue program can be fixed?

Mr. Bayliss: Yes, I do. Yes, I do. I think it can be fixed. It's not going to be easy.

Chairman Peterson: Well, it's partly our fault that it got so complicated, and that's a long story. But we're going to look at this and we're going to look at the county prices instead of statewide prices, and try to design it so you can actually take it to the bank and let the bank – so the bank can borrow money on it. So I think there's some potential here with the revenue program, but it's got to be reworked quite a bit.

Mr. Bayliss: Right. I totally agree. And it has to make sense to your lender. If it's something that he's going to buy off on, you're good to go. And just so it has a support base in it.

Chairman Peterson: Mr. Lang, you didn't mention anything about the support price program. Are you familiar with the work that's going on with that for milk right now in terms of the new policy they're looking at for dairy?

Mr. Lang: Are you referring to the income insurance? I guess I'm not sure what you're referring to.

Chairman Peterson: Well, the national milk producers have been on about a nine month effort to redesign the dairy program, and some of the elements that you listed are in there, but some of...they're also talking about some other things, like eliminating the dairy price support program altogether, getting rid of the 9.90 price support and going to what they're calling a margin insurance program, going more towards a crop insurance type program. Are you familiar with that?

Mr. Lang: Slightly.

Chairman Peterson: You don't know enough about it to know if you—

Mr. Lang: No. I know a lot of people in the room know quite a bit about it, but I do not. But I'd like to point out that the cooperative on the part of sign up for the cooperatives working together, which used private ___ to remove cows from production, and that's over, it's done, it's not coming back. Because as milk prices failed to improve from that, people thought, well, I'm tired of paying for the free riders who are also benefiting from this. So I would hope that any new policy makes everyone pay—

Chairman Peterson: Yeah. [What's being looked at]—

Mr. Lang: --so that everyone can reap the benefits.

Chairman Peterson: What's being looked at is if there is any kind of a system to try to rein in production, it would apply to all areas, including unregulated areas and California equally. So whatever we end up doing, I can guarantee you, it will be across the board with everybody.

Mr. Lang: If the government would like to do something very cheap to improve milk price, I would suggest that the California standards for solids, nonfat and milk are immediately made nationwide. It fairly pays us for our milk and it will immediately remove cows from production.

Chairman Peterson: Well, I think there is support for that from some members of the committee, but there's also some interests out there that are very much opposed to it. Anyway, I've run out of time, so I yield to Mr. Lucas.

Rep. Lucas: Thank you, Mr. Chairman, and I should admit, without any hesitation to the crowd here, that coming from western Oklahoma I'm a little envious that you get twice as much rain as I get at home, and I wouldn't deny my corn envy a little bit, too, and the fact that you generally measure your soil in feet in this state; we measure it in inches in Oklahoma, and western Oklahoma is a little traumatizing for me. But that said, it is a pleasure to be here.

And first, being an old ag economist from Oklahoma State University, let me ask the panel, comparing the prices of farmland in your area that trade in public auctions or public exchanges where the market reflects supply and demand accurately, describe for me what land prices have done this year, or in comparison, in the last year or so, to, say, five years ago – up, down, sideways, no sales? Up? Up? Fascinating.

The Chairman mentioned the budget situation we find ourselves in. In '02 we had 79 billion new dollars. Seventeen billion of it went to conservation. In '08 we had \$7 billion. And I can say this in a bipartisan way, and the Chairman is exactly right, with a \$4 trillion deficit projected, if you add the last two years and next year together, we're going to be under incredible budget pressure when it comes time to write that 2012 Farm Bill. So let me ask the group this. In the spirit of that kind of budgetary situation we may find ourselves in, looking at the conservation title, what's the most important thing to you? EQIP, CRP, WRP? If anyone would dare or be willing to offer a response. What does you the most good? What does your community the most good?

[Mr. Bayliss]: One of the things that maybe we ought to take a look at is a reverse auction for conservation projects instead of using a flat 75% or 50% or whatever, look at some of the ways that the CRP is bid in and everything, and try and get the maximum impact for the minimum amount of tax dollars that goes into it. Don't get me wrong, I don't have all the details worked out. I'm just saying looking at a

different way that you interface with the producer to stimulate as much conservation effort as you possibly can.

Rep. Lucas: Let's add the rest of the crowd in. I'd like to touch on that, Mr. Bailey.

Mr. Bailey: I know in some areas the CRP program put more money back in the community and probably stabilized more things in the marginal ground areas than what it did in the high production. But the CRP program was definitely a blessing in some of them areas, and especially for some elderly farmers and so on. It was the answer to them. In my area, right where we farm, it's not a big issue because we don't have anything in CRP production, but I know that was a major thing.

Rep. Lucas: Mr. Lang?

Mr. Lang: I milk cows. My brother handles all the farming aspects. But I know that we feed the things we grow to our cows, and without crop insurance, if we had a disaster, no crop insurance, we wouldn't have food for our cows and we couldn't afford to buy it.

Rep. Lucas: But within the conservation programs, in your business, with all the people coming at you with water standards and environmental standards, are any of those EQIP resources potentially usable to help meet your nutrient, water issues and all those things? I was getting at in the conservation title itself. I'm just asking. There's no right answer.

Mr. Lang: No.

Rep. Lucas: Okay. Gentleman?

[Mr. Volz]: Well, I feel in the CRP, not so much the wetlands program, but the filter strips that protect our creeks and waterways, I feel most of these cricks or creeks, small rivers of water—

Rep. Lucas: My grandmother's pronunciation was "crick," too, yes.

[Mr. Volz]: Should be there because we put those on a couple of farms that we have, and it has stopped a majority of runoff on, you know, a major hundred year rain from going into the waterways, and I feel that's very important. It not only holds the soil back a little bit, it cleans up the water.

Rep. Lucas: Mr. Weems?

Mr. Weems: I am a fan and I think most of the conservationists are a fan of the EQIP program and some of those wetlands, that approach, working wetlands. That's a concept in Iowa that's pretty intriguing, and we'll see how that works, but can we indeed clean things up and get some infiltration there that will help.

Rep. Lucas: And at risk, without stirring up my appropriator friend on the front row here, in the dam rehab program we have an allocation system where the money is targeted to rehab the upstream flood control dams based on greatest need, yet the new construction program is based on earmarks, not on a guaranteed, thought out flow. Do you have an opinion, perhaps I should say, about moving new upstream flood control dams over to a priority system instead of a targeted system? He hasn't thrown anything at me yet from the front row.

Mr. Weems: Does my face look blank? I think it might.

Rep. Lucas: Maybe you've answered it right there.

Mr. Weems: I'm a big believer that the best place to stop soil erosion and nutrient loss is at the earliest source – high, do it right, put the right commitment to it, and I guess that would be the answer, from my perspective.

Rep. Lucas: Thank you.

Chairman Peterson: Thank the gentleman. The gentleman from Iowa, Chairman Boswell.

Rep. Boswell: Thank you, Congressman. Looking at Varel, we go back a few years. We talked about a lot of things back in the farm crisis, and one of them we probably talked about – I'm sure we did – was the capital intensity to put out a crop to farm, and the close to the vest that the bankers came then, and now. Cash flow is kind of hard to work out. And we've all talked about the safety net. We've talked it, talked it, safety net, safety net. So I'd like to address this to all of you. Some have mentioned the ACRE program did not offer enough. What would make a revenue program work better? What would you do to change ACRE, any of you, all of you? In fact, I'd like for you all to address that, if you would, if you feel comfortable doing it. We'll just start with you, Mr. Weems.

Mr. Weems: I'm not a big enough practicing farmer to have looked at that. I'm going to pass on that question. It's a bigger scope than I'm working with currently in my agriculture experience.

Rep. Boswell: I understand.

Mr. Volz: In my opinion, the ACRE program, when they decided to decrease the payments, your DCP payment by 20% and your ceiling price by 30, that limited my end of income or prosperity, however you want to call it. And if they would raise that up to...because we need to offset the cost of production if I'm only going to get a dollar twenty for my corn. Plus, if we do run into really hard times, if we don't keep our exports up and we get into a situation where we have a three billion bushel carryover, we're going to be into that few dollar corn raise, in my opinion. And when we do that, we've also eliminated another 30% of the LDP on my side, which was a guarantee for your [income]. So in my opinion, they should raise that up just to improve the cash flow, I guess.

Rep. Boswell: Mr. Lang?

Mr. Lang: Because we feed what we grow to our cows, and it doesn't run through a combine, we have no idea how much our land produces. And to fill out the paperwork for the past five years, we run into this problem that we have no idea. So we have an actual problem with ACRE, because we don't know what numbers to put on the paperwork.

Mr. Bayliss: Yeah, that's...all this here is very true. The first problem we had with it was trying to sell the ACRE program to landlords that are not familiar with that. They're used to the old PCP program where you're going to get payment right off the bat. Now you're trying to sell them that you're going to take a 20% reduction right off the bat. They say sell this to me, give me something to chew on here. And it's like, no, that's the way it is. Well, why would I take a definite guarantee, established price times my acres and get a payment, and now you want me to take a 20% reduction. So it's hard to sell to someone that doesn't understand the program all the way through. And I don't understand that program all the way through, to be honest with the thing. That was the first thing.

Rep. Boswell: Do you have a suggestion?

Mr. Bayliss: What's that?

Rep. Boswell: Do you have a suggestion of what you'd like to see happen?

Mr. Bayliss: I think that needs to be minimized somehow. It needs to be a payment right off the bat, not a 20% reduction in the thing. The second thing is the countywide. It needs to be based off the countywide yield rather than the statewide yield because there's so many variables across our state, and so it makes it...you can have a good program there, but not be eligible just because of the difference in yield from statewide.

Rep. Boswell: Thank you. Varel?

Mr. Bailey: I think as a general mechanism, the things that we can do with the ACRE program to bring the triggers as close to the farm as possible will improve it. The statewide trigger, maybe move that to a crop reporting or even better yet the county triggers on it. And I know everyone complains that the ACRE program is ultra complicated, but you've got to remember that we've got computers right now, and the fact is that farmers can typically really figure out a farm program, as they say, in a New York minute, and figure out whether it's good for them or not. So basically, try and tailor the ACRE program, as much as we can, to fit the individual farm, would basically, I think, moving forward.

The dilemma that we've really got in changing the ACRE program is the money problem right now, to make it work even better, to bring it closer, as my three colleagues have said, bring it closer to comparing with the counter-cyclical program. But, I mean, throw one in, the negotiations with Brazil on cotton and

everything mean that there's a lot more in play than what we think here, and we may have to move some other things that make it more WTO compliant. And in that event, I would look at any revenue that we can work on to enhance the ACRE program, I think long-term, would be beneficial for farm programs here in the United States.

Rep. Boswell: Well, thank you.

Chairman Peterson: I'd just comment that probably the only reason it got in the farm bill is it saved a billion dollars, at the end of the day. And the truth is we don't know yet what it's going to cost. But I had one county that signed up 80%, and they're going to get two and a half times more money out of the ACRE program than they got out of the traditional program. I think once people figure out and see these numbers, you might see things change. But your suggestions are well taken. The gentle lady from South Dakota, Herseth Sandlin.

Rep. Stephanie Herseth Sandlin: Thank you, Mr. Chairman. I thank our witnesses for their testimony. Mr. Walls, Tim Walz from Minnesota's southern district along the border here with Iowa, Mr. Walz and I worked in the last farm bill on the beginning farmers and ranchers provisions, and Mr. Bayliss and Mr. Lang, you both mentioned some of the challenges that we face, clearly. And South Dakota, at the state level, has recently put together sort of a linked program, some retiring producers with younger producers as it relates to the transition there and how we best help them.

I'd like to just go over a couple of the things that we did in the last farm bill and get your thoughts on what more we need to do to help beginning farmers and ranchers. We increased the amount of direct farm ownership loans, we guaranteed farm ownership loans, we increased direct farm ownership loans reserved for downpayment as well as direct operating loans for beginning farmers and ranchers. We provided 75 million in mandatory funding for technical assistance, training, education, and outreach.

Do you know of any beginning farmers in your area that are taking advantage of some of what was in the Conference Report in the 2008 Farm Bill, and if they're running into some obstacles on accessing these programs to gain some credit, to gain the capital that you both mentioned is necessary to get them more firmly established?

Mr. Bayliss: I know in our county them programs are available, and they are using them. Some of the young farmers are using them to get going. The main point I was having on the young farmers is they're limited on what they can do with operating a sizable farming operation, and for them to go to a lender to get the input costs it's going to take on it, they need all the help they can. And it's not only just to get that initial money, but it's also to operate year-to-year on it. That's machinery and rent, and inputs.

Rep. Herseth Sandlin: Okay. Mr. Lang?

Mr. Lang: I don't know of anyone in my county that has used a beginning farmer loan or program, but my brother and I looked into buying a farm several months ago, and we went to the bank and had it all worked out with the banker, and we looked into what government programs would be helpful to us. And it turned out that no government program was going to make land that three years ago had been \$3,000 an acre, and when we looked to buy, it was \$6,000 an acre affordable, so we gave up. The programs are there, and I know about them, but it wasn't going to make any difference at all.

Rep. Herseth Sandlin: They're just not sufficient in light of the increased land prices, primarily, at least for those that are looking to eventually own the land rather than the cash rents are being paid out in addition to the leases on the equipment and the other... Let me ask you, then, a question about a different program, and see if this is working any better for anyone in your areas.

Are you familiar with the REAP program? Jeff Fortenberry and I worked on that in the last farm bill. Jeff's from Nebraska. The Rural Energy for America Program. And again, the Department has just recently released rules on some of this, but do any – this is, again, to sort of provide a way to work with a local lender for rural businesses, farmers and ranchers to pursue energy efficiency projects. Any of you thinking of applying for any REAP grants?

Male Voice: I'm not familiar with that grant.

Rep. Herseth Sandlin: Anyone else familiar with the program? Oh, that's disappointing.

Male Voice: At a machinery show in Des Moines this last winter, we looked into it, and really haven't pursued it any farther, but I think there's a benefit there. But the cost...about ten years ago we looked into putting up a windmill, and we ran into all sorts of, oh, blockages to get it done and our—

Rep. Herseth Sandlin: Yeah, our certified electric co-op.

Male Voice: Our REC would not hook up to it, so that kind of put a wrench in that machinery. And now that...and the cost of that was, I think at that time, was about \$75,000 to put up...well, assuming the same size, it would be three times that today. So what it's done is the profits seem to have gone in...what you can help us with is just going right into the guys that's producing the windmills. That make sense?

Rep. Herseth Sandlin: Yeah, it does. Any other comments on the REAP program? I think my time got started a little bit late, but just quick question, Mr. Volz. The Department of Justice and USDA are hosting competition workshops, as you know, around the country. You described your family's experience in the pork industry. Given that poultry and pork are essentially vertically integrated now, do

you feel that that was one of the reasons that you had to get out of the business in what did you say, 2007?

Mr. Volz: Yeah, we quit in 2007. We really...well, we really quit my farrow and finish operation in 1998, when hogs got down to ten or 12 cents. My son got back into farming and was doing his things. We thought on our place, we had the buildings, the buildings were paid for, so we thought, well, we'll just buy pigs. So we bought feeder pigs. The price was a little on the high side. And then the cost of all the inputs just went sky high, and then we ended up losing about \$75 a head on this 3,500 head, so that's kind of why we quit, because we just couldn't afford to lose any more money. It's a little bit like the dairy business. You just...you know, there's not, it's not a bottomless pit.

Rep. Herseth Sandlin: Well, I think we'd appreciate any supplemental testimony you could provide us as it relates to the livestock title in the last farm bill, and what more we might be doing. I've worked with Mr. Boswell on some provisions as it related to fairness of markets, competitive markets, and I think some of what we're hearing at the workshops will also provide us some insights on what more we can do and additional changes we can make. So again, we appreciate your testimony and your responses today.

[Rep. Boswell]: Thank you. Before we go to Congressman King, I would like all of us to know that we appreciated working with the Iowa State Fair to work out using the facilities. And if you see some of the board members or the administration, tell them we appreciate it. And also, Campbell's opened up the restaurant. If you get hungry or something, why feel free to go out there and patronize them. They're here for us. They're normally not open except during the fair or occasions going on here. At this time I'd like to recognize my colleague from Iowa, Congressman King.

Rep. King: Thank you, Mr. Chairman. I would—

[Rep. Boswell]: Can you get your mike up there, Steve?

Rep. King: I'd like to first make an observation. It was interesting to me that at the beginning of...before the testimony began, I was having a discussion with Mr. Bailey, talking about how you get your best thinking done from the seat of a tractor or machine. Mr. Weems testifies that he does the same thing. I imagine it's true for all of you. I think that's one of the reasons why we have so many good, clear thinkers out here in this part of the country. I could use more of you in Washington.

But it was also interesting that Mr. Bailey and Mr. Weems both talked about site specific research in your case, and a watershed specific approach to conservation in your case, Mr. Weems, and I don't think that's a coincidence either. I think that's some of those things you thought about from the seat of the machine. And so I just reflect, sitting here in this city, with a PhD in environmental engineering,

who explained to me that there was a high amount of nitrates in the water in the Raccoon River, and that he had – that had gone up 60% in 40 years, and he had the tests to prove it. And I asked him where did you take those tests, and he said, “Right out here in the river.” And I know that it comes from the feed lots and the farms up in the Coon River. I’ll tell you, that’s not site specific. And to point the finger for high nitrates at whomever you might want to decide you want to put the blame on isn’t good enough for me.

And I have long argued that we needed far more site specific research done, and we had the debate in Iowa about credible data. And there were many that argued we should not let people introduce data that didn’t have the proper certification to do so. And I argued plug all that data results in the spreadsheet, you’ll know who’s cheating and who’s not, and we’ll have a lot of data. Well, now we have the Iowa soybean producers working in conjunction with others to do some real credible data research that is site specific and watershed specific. And I want to ask Mr. Weems if you’re familiar with that program and what you might have to tell this panel about it.

Mr. Weems: Well, there are lots of projects in the state currently that are site specific relative to banding watershed...people who live in the watershed together, using resources, using technology, using our experts at hand that know about those things. We’re doing a lot of that, and that refers back to my comment that we have to go after the worst first, or we have to identify the very sensitive areas, the most sensitive areas. We have to get the biggest bang for the buck. We have to go and take care of those areas first. And I think that happens through watershed specific projects where everybody bands together. And I think the end product is bigger than the individual pieces. The more people you put into it, the bigger a project, the bigger good you get out the end.

Rep. King: Thank you, Mr. Weems. And I know that there’s a clock here, so I would like to ask the panel if they’d acknowledge or not to me. I’m going to go through a list of some of the programs, and if I leave some out, please remind me what I’ve missed. But has anybody in the last two years qualified for LDPs or counter-cyclicals or ACRE or EQIP or CRP or CSP? How am I doing? The first one would have been CRP probably. That’s what I saw the nod for, and I expect that’s the case. And that program’s going on for more than two decades. CSP?

All right, so I’ve gone through the list. What about direct payments? Is anybody on the panel that’s an active ag producer not qualified for direct payments? Let the record show that I believe everybody has qualified, does qualify for direct payments. I set this up for this reason. Now I would ask the panel – I’ll start with Mr. Bailey – what do the taxpayers get for their direct payments? What’s the purpose of them and what do the taxpayers get in return?

Mr. Bailey: Well, the taxpayer gets a payment into that contract that I talked about at the beginning, between agriculture and the rest of society. And it is a bottom line payment for participation, for being involved in programs. And as far as I’m

concerned, that is the general parameter of it, and I won't go further by evaluating whether that's a good deal for the taxpayers or not.

Rep. King: Mr. Bailey, would that mean also that what it is is part of that contract with the... [*tape interference*] ...likely that any of the people who are ag producers today that didn't qualify for any other benefits, would that be the only thing that is a government incentive to be conservation compliant?

Mr. Bailey: It would be the dominant one, yes.

Rep. King: And perhaps EQIP or something else of that nature.

Mr. Bailey: Yes, right.

Rep. King: But that is the general dominant?

Mr. Bailey: Yes.

Rep. King: And so it's conservation compliance would be the purpose of direct payments.

Mr. Bailey: Would be one of them, yes. Be critical.

Rep. King: Well, I appreciate it. Does anybody have any comment on that? Anything to add to that particular conclusion that we've reached? And if not, rather than open up another subject matter, I'd make the comment that I...well, I think Mr. Bailey also is the only active pork producer.

Mr. Bailey: Not anymore.

Rep. King: Mr. Volz is not anymore, so we don't have an active pork producer on the panel, nor in the next section of witnesses, which I regret that we left that out, and it's probably partly my fault. Unless Mr. Volz had a brief comment.

Mr. Volz: Well, we've got the facilities. We rent our facility out to a neighbor that...it improves his hog flow because the tail ender, we get the tail enders, so he can clean his building out quicker, so he can get another turn a year, so we end up getting a couple hundred head of pigs out of each of his facilities, and then finish finishing them out from, say, 190 to 240 or 50 or whatever they want them out, and we get paid a fee per head. That's about all we have to do. There's still a few hogs on the place, but nothing like it was.

Rep. King: Okay, thank you, Mr. Volz. I appreciate it. I thank all the witnesses. Mr. Chairman, I yield back the balance of my time.

Chairman Peterson: Thank the gentleman. The gentleman from California, Mr. Costa.

Rep. Jim Costa: Thank you very much, Mr. Chairman, for beginning this effort to set the dialogue for the 2012 Farm Bill on this first swing. And I want to thank Congressman Boswell for hosting us here in this beautiful country of Iowa, and my Iowan colleagues. You hear a lot about Midwest farming, and it's always good to come out here and see it. Let me ask first with the panel, do any of you hedge your crops with future contracts? How effective of a risk management tool is it? I don't know, Mr. Bayliss, or the head nodding that's going on over here, Mr. Bailey.

Mr. Bailey: Well, these are basically complicated marketing decisions, and so the—

Rep. Costa: I know.

Mr. Bailey: --the success you have depends on the skill by which you can evaluate the market and take those positions. Basically, whenever you enter into a futures market or an options market, you either triple or quadruple your marketing decisions, because if you deal only in cash, you only got to make one decision: when you're going to sell it. If you go into futures, you've got to go into the futures and you've got to get out of the futures, and you've still got to sell the cash. So one of the—

Rep. Costa: What's your rule of thumb?

Mr. Bailey: My rule of thumb is an evaluation of the general marketplace to determine, in my mind, whether there's going to be a major swing in prices. If there's going to be a major swing in prices, in order to protect your cost of production and so forth, you probably better go ahead and take a position on the futures market. I will not do it 100% of the time. But that's just my marketing plan. And part of the problem I've got—

Rep. Costa: That's your business model?

Mr. Bailey: Yeah, just the business model. Part of my problem is that for the first 40 some years of farming, I was like Mr. Lang, and I fed every kernel of corn and every silage and every bit of hay that I grew, and you didn't worry too much about the futures market at that time. My son and I still in transition of gradually moving toward a cash grain operation, and the use of those tools are different than when you were—

Rep. Costa: But you're saying it's an effective risk management tool, and a lot of your farmers around here use it?

Mr. Bailey: It can be, yes. With proper marketing skills, it can be an effective tool.

Rep. Costa: Mr. Lang, you talked about three generations of your family farm. How many dairy cows are you milking?

Mr. Lang: We milk about 500.

Rep. Costa: Well, like you, my family has been in the dairy business for three generations, so I could get a job elsewhere if I didn't have this one. I do have some redeemable skills. You spoke about the California standards. I'm obviously familiar with them, since we've had them in place for a long time. Could you go into more detail? Because I tried to get the California standards in the last farm bill, unsuccessfully. What benefits would it be to not just producers, but also from a standpoint of nutrition, if these standards were adopted nationwide?

Mr. Lang: When they process milk, the first thing they do is take out every part of it that's good for you, right, and then they put some of it back in.

Rep. Costa: That's why we always like the raw milk.

Mr. Lang: And when they sell skim milk, it's had all the fat removed, and it's also had the protein removed. And I believe the California standards makes them put some of the protein. They can still sell nonfat milk, but the protein that's good for you has been put back into the milk. And it also changes how they pay you for the milk, because all the important things they take out of the milk, well, they don't have to pay you for all of those important things they take out of the milk. So it accurately pays people for the quality and the components of the milk they produce, and it dropped down the pricing – not the pricing, but the somatic cell count requirements of the milk [we'll buy], and the somatic cell is an indicator of the quality and the healthiness of the milk.

Rep. Costa: Before my time expires, you're saying it's good for the consumers, and it's healthy—

Mr. Lang: It's good for the consumer and it's good...yep.

Rep. Costa: And good for the producers because more of that product's put back in the milk.

Mr. Lang: Yes.

Rep. Costa: You also touched upon the boom and bust cycles. It started in California, the meltdown in 2008, and we're trying to...the Chairman referenced the national milk proposal. We're working on an alternative proposal with the National Holstein Association that's more market supply sensitive. I think dairymen have to, at some point in time, have to get control, at some level, of the supply of milk if they're going to have any ability to have impact on their price. What's your thought?

Mr. Lang: Well, as milk price drops, it's a tendency of the producer to make—

Rep. Costa: It's the old joke. If the prices are down, you produce more milk, if the prices go up, you produce more milk. Yeah. [*Laughs.*]

Mr. Lang: If the prices are down, you produce more milk. I think—

Rep. Costa: Except it's not a joke anymore. It's this boom and bust cycle.

Mr. Lang: I think if someone was serious about taking care of the over supply problem we have in the country, we would make people sell better milk, and that immediately removes cows from market. If you have a cow that's not producing healthy milk, I can milk her. I can sell her milk. But we shouldn't do that. If you want to reduce the supply of milk, improve the quality of the milk.

Rep. Costa: Well, my time has expired, but I want to thank, again, all of you, the witnesses here, and look forward to reading all of your testimony, and thank you very much, Mr. Chairman.

Chairman Peterson: Thank the gentleman. The gentleman from Iowa, Mr. Latham. We'll ask him at the beginning of his statement to explain to the audience about chimps. No, I'm just kidding.

Rep. Latham: About what?

Chairman Peterson: Chimps. Changes in Mandatory Programs, you know. What you guys do over in appropriations. [*Laughter.*] I'm kidding.

Rep. Latham: We're trying to help you out, Mr. Chairman, that's all. This maybe is kind of a different kind of question, not specifically about the farm bill itself, but family farm operations. I think each and every one of you. What do you see today as the biggest threat to I think generationally maintaining a family operation?

And it doesn't have to be pertaining to the farm bill. Whether it be the death tax maybe not being fixed, we have some environmentalists today that, you know, the same lawyer that brought up the idea of indirect land use is also advocating now that the larger the farmers are the better, because then the government can better regulate farms, they can have more control. You have taxes, EPA. What do you see as the biggest threat to your operations long-term, to a family farm operation?

Mr. Bailey: Congressman Latham, short-term it's that agricultural policy and basically policy of this country is going to be hijacked by special interest groups. I won't go any further and name any names there. I think that we all understand that the forces and the money behind those special interest groups to try and warp and use public policy for their end is a real hazard.

The second one, right behind it, is the structure of agriculture, and the fact that we've already talked about the poultry being vertically integrated, and the pork being vertically integrated, and you know what happened to the pork producers on this panel. We're not very far from the beef industry from being vertically integrated. And let's face it, with the patenting of DNA, it is now possible to vertically integrate the crop industry. So to me, those are the big hazards to

family farms because basically, when that happens, we become minimum wage barn cleaners and tractor drivers.

Rep. Latham: Okay, Mr. Bayliss?

Mr. Bayliss: I see one of the challenges as just with the high tech industry is going to get to be to compete in agriculture. It's getting younger farmers the financing. Just like was mentioned, I think we're going to be down to basically corn and soybeans in our area, unless we want to get into putting up huge buildings and getting into different operations. But just being able to be able to financially keep them young farmers going, our children going with the new...looking into the future.

We need to have something in the farm bill that's going to be structured for way out there, more than just next week, next month, next year – ten years, 20 years, 30 years down the road, because they're well educated, our young kids. They went to college and well educated. It's just keeping them financially to be able to operate in that structure, land prices, machinery costs, the costs of production. That's my big concern with it. And to keep the family farms in the family.

Rep. Latham: Right. Thank you. Mr. Lang?

Mr. Lang: The largest challenge for dairy farmers today, and particularly for young people who want to farm, particularly dairy, is the lack of return on your invested time and labor. I could do lots of things that pay a lot better than what I do now, and I wouldn't have to work nearly as hard. I do what I do because I love my cows and I don't expect to get rich. And that's a sacrifice I make because I like what I do. But I don't make very much money. So thank you.

Rep. Latham: Mr. Volz?

Mr. Volz: Well, you hit on one of the biggest ones for us is the death taxes. We're looking at, you know, in the future, you don't know when your day comes, but when that happens, especially when land is valued at, in our area, from five to ten thousand dollars an acre, I hate to see what we've worked hard, and what my grandparents did and my dad done, and what I'm doing to be gone because we can't afford to pay 50% in a death tax. The same I agree over here with the high cost of machinery inputs. Everything's gotten out of alignment. I don't know how it did it, but...well, ethanol started it, and then there wasn't going to be enough corn. All of a sudden now we can produce enough corn. I guess that's enough there.

Rep. Latham: Okay. Mr. Weems, very briefly, if we can.

Mr. Weems: Something in a little bit different line that I worry about is do people outside of agriculture understand us and know us.

Rep. Latham: No.

Mr. Weems: As we get more efficient, as we get fewer and fewer and fewer of us, and we get generations, two and three, maybe even four generations removed from the farm, there are lots of people who would like to have an impact on what we do, or part of their impact is that they don't know how to make an impact. They don't know us. And that's a challenge for us, just to get us to...to get the population, the general population to understand what we do and why we do what we do, and how we have to do it. And that's a concern.

Rep. Latham: Thank you very much, Mr. Chairman. Thank you all very much, panelists.

Chairman Peterson: I thank the gentleman and thank all of the witnesses for taking your time being with us today and providing us with your testimony and answering our questions. We appreciate that. I'd like to recognize...we have some people here from USDA. The state FSA Director, John Whitaker. John, stand up. The state Rural Development Director, Bill Menner. Bill? Thank you for being here. And the state conservationist, Richard Sims. So give them a hand. They do a great job. [*Applause.*]

And I'd also like to recognize our friends from the United Food & Commercial Workers who are with us today. They are an important part of agriculture, helping us process our products into things that we can sell, so we appreciate you being with us today, and welcome to the... [*Applause.*] And so the panel is dismissed. We'll call the next panel up. And the members, I'm going to give you a five minute break to stretch your legs a little bit, but don't wander too far. Want to keep this show on the road here. So the next panel is...I think you guys know who you are, so the next panelists, if you'd come up.

[*Break.*]

Chairman Peterson: Well, hopefully the members aren't too far away. It'll take me a little bit to get the introductions of the panelists. We invite the second panel, and welcome the second panel to the table. Mr. Warren Erickson, who's a dairy processor from Des Moines; Jim Schaben, a livestock operator from Dunlap, Iowa; Mr. Bob Skow, crop insurance agent representative from West Des Moines; and Mr. Jeff Stroberg, a grain and input cooperative operator from Ralston, Iowa. So welcome, all of you, to the committee, and Mr. Erickson, you can begin when you're ready.

Mr. Warren Erickson: Mr. Chairman, welcome to Iowa.

Chairman Peterson: Get her up close.

Mr. Erickson: All right.

Chairman Peterson: Both Leonard and I are kind of deaf.

Mr. Erickson: You got it.

Chairman Peterson: I have seen him a couple times, yes.

Male Voice: And I'm confused.

Mr. Erickson: Thanks for the opportunity to be here today. My name is Warren Erickson, as you said. I'm the chief operating officer of Anderson-Erickson Dairy. We're just down the street here in Des Moines. And this year A-E is celebrating our 80th anniversary as a family owned and operated business, and I'm part of the third generation at A-E, and help run the company with my sister and my father. A-E is one of those few remaining independent dairy processors in the country. And Congressman Boswell knows our company well, and I'd like to thank him on behalf of the entire Iowa dairy industry for his leadership.

Today we're at a crossroads at the U.S. dairy policy. For more than a year this committee has heard from hundreds, if not thousands, of dairy farmers who have been ill prepared to deal with the volatility and the tumultuous downturn in 2009 milk prices. That's coming off a period of record high prices in 2007 and '08. This dairy price volatility has driven some out of business, and it creates difficulties for all dairy-related businesses in their planning processes.

However, we compete in a food marketplace where others have just as much, if not more volatility with their agricultural commodities. Well, what's different for them? Well, to begin with, they don't have milk as their primary ingredient, and so they're not subject to the vagaries of the USDA's milk price regulations and their intervention in the marketplace under the Dairy Price Support program.

In addition, they have better marketplace financial tools to mitigate their risk. As a result, their entire supply chain can and usually does use those tools to plan their business activities despite that greater volatility. And from what I can tell, after observing some of the proposals from dairy industry groups and the hearings this committee has held in the past year, I'm encouraged that the dairy industry seems to be agreeing that we need significantly better risk management tools.

But before I talk about risk management, I did want to spend a moment to talk about the notion that price volatility can be controlled by regulating the U.S. milk supply. This concept hasn't worked for other agricultural products, and I don't think it will work for dairy either. In the past decade, the milk supply in Iowa has grown about 11%. Today at A-E we use 100% Iowa farm milk, and that's compared to 65% just three years ago. This growth in Iowa milk production has been good for our state. It's created investments in jobs that would have not been possible if the supply management policies being proposed by some had been in place.

Now, that's not saying it's been easy for the dairy producers in Iowa. They've struggled, just like everybody else. But the point I'm making is that the solution to manage price volatility is not to have the government manage the milk supply. They tried that in Canada, and that supply management hasn't worked. Now, in

Canada, they're stuck in stagnant production, stagnant consumption, and Canadian dairy investment is moving to the U.S. because of some supply concerns. We should encourage growth, as it leads to increased investments and jobs.

I want to get back to the discussion of risk management because I think that's where the members of this committee can really be helpful in leading the dairy industry toward new and better policies. The USDA spent \$5.4 billion on crop insurance premium subsidies in 2009, but none of that was spent on dairy revenue insurance premium subsidies. Proposals, including one that you mentioned earlier, by the National Milk Producer Federation, that focus on margin protection make a lot of sense to me.

This approach makes sense because it allows the producers to protect the margin between their milk prices and their feed prices and their other input costs. That's the same thing we have to do at A-E. We have to protect our margin between our sale price and our milk price. And this fundamental agribusiness model should be the same for the farmers.

As I told this committee three years ago, I'm not a big fan of the federal milk market order system. It constrains our ability to innovate and price milk according to the highest value it has in the marketplace. But I recognize this committee is not likely to throw the whole system out, so I ask that you'd significantly simplify it and support efforts and discussions within the dairy industry on what details of such a simplification would look like.

I feel optimistic about the future for dairy producers and processors in Iowa and across the country. I'm proud to help supply A-E's customers with nutrient rich dairy products. We keep all that good stuff in there when we process it. We were a little bit maligned earlier. But our industry has great potential to prosper if our policies and regulations encourage, rather than discourage, creating new and innovative dairy products customers are looking for, as well as not limit, in any way, our milk supply to grow and meet market demand both domestic and abroad.

I respectfully ask this committee to focus on putting in place appropriate dairy farm safety nets and encourage greater use of financial tools to mitigate risk, while getting rid of the current dairy policies that aren't working, and to simplify the federal order milk pricing system. Supply management, in all its shapes and forms, is a threat to the future of A-E and to the entire U.S. dairy industry. Thanks again for the invitation to speak.

Chairman Peterson: Well, thank you, Mr. Erickson. That was good testimony. Mr. Schaben, welcome to the committee. Good to see you again.

Mr. Jim Schaben: Thank you. Chairman Peterson, Congressman Boswell, Agriculture Committee members, staff and guests, I want to thank all the members of the Agriculture Committee and staff for the invitation to give testimony here today

and allowing each of us the opportunity to express our feelings, concerns, apprehensions, and enthusiasm about agriculture, both here and all across the United States.

My name is Jim Schaben. I reside in Dunlap, Iowa, a town of less than 1,000 people in western Iowa. Like most towns the size of Dunlap in the Midwest, our community is heavily dependent on the health and wellbeing of agriculture. I am a part owner in the Dunlap Livestock Auction, a now third generation family business that was started in 1950 by my parents. Most recently we've expanded our business to include a livestock auction in eastern Nebraska in the town of West Point.

Between the two markets, we are currently selling between 175 and 190,000 cattle annually. Our business is made up of all facets of the cattle industry, including selling finished weight steers and heifers ready for harvest being sold to packers across the Midwest, selling locally raised feeder cattle bound for feed yards, both large and small, in a mostly seven state region, and selling replacement females to help populate the pastures in the upper Midwest.

Having a cattle auction nearly every week, every day of the week, has its ups and downs, but it does allow me to conduct business on a day-to-day basis with some of the best people that this country has to offer. I'm excited to tell folks that most recently my son has joined our business with the hope of being able to raise one more generation in the heartland serving America's cattle producers.

It is some of the events of the recent past that are a cause of concern that I want to address today. In the last five years I have watched a huge change in the cow calf business in the Midwest. There's been a flight out of the cow business at a pace that I've never witnessed in my 30 years at the livestock auction. Those huge numbers of cow dispersals have been caused by an economic disparity when you compare profitability of the cow business with other aspects of agriculture, most notably, grain farming.

With the recent rally in grain prices and the advances in yield technology, we have watched the demand for pasture increase from the pressure of crop farmers to the point it is either driving the cow man off the land or it turns the pasture into grain crops because of the higher dollar acre return. I do understand economics and the forces of supply and demand, but the field of play has not always been level when the livestock industry is involved.

In order to keep the livestock producer on the land and insure that his way of life is kept intact for generations to come, something is going to have to change, and hopefully change quick. In the writing of the 2012 Farm Bill, I would ask that members and staff explore at greater length and depth the possibility of furthering the idea of a partnership of sorts that could bring cattle producers, conservationists and grain farmers to the table, allowing a more aggressive set aside program that would give more consideration to the cow man.

Partial grazing of CRP acres is a great start, but the programs need to be enhanced and allow the cow man more access to those acres. Being able to graze CRP acres for only a few months during an already short season poses all sorts of problems. Allocating cost of fencing for a short grazing period is just not cost effective. What happens with the cows during those months that you cannot graze the CRP? There's serious extra trucking cost, movement cost in bringing animals back and forth from those CRPs for that short period of time. These expenses add to an already thin profit margin, making the decision to disperse a cow herd a disappointing reality.

If marginal farmland could be set aside with a program that put the emphasis on encouraging cow calf production along with conservation, I believe it could be a good situation for all involved, encourage participation from young cattle producers, landowners and/or landlords and the federal government. All the while, the primary concern should be to level the playing field and enhance the economic vitality of the cow industry in this country.

We've had a good start with the last farm bill, but the program needs to be improved. Anything that can be done to insure the survivability of our young agricultural producers has proven to yield all kinds of positive results in our community, both economic and societal. I hope you'll keep the economic wellbeing and survivability of the livestock producers as a high priority in the 2012 Farm Bill. Again, I want to thank all the members of the Agriculture Committee for your time and commitment to this country and all of agriculture. Thank you.

Chairman Peterson: Thank you very much for that testimony. Mr. Skow.

Mr. Bob Skow: Thank you. I'm here on behalf of the independent insurance agents of Iowa who represent the business interests of Iowa's independent insurance agents. We represent over 720 agencies in the state, and they have about 291 branch offices, so we have over 1,000 door fronts located in virtually every community in this state. We appreciate the opportunity to provide our perspective today on the important role that the independent insurance agent plays in the delivery of the federal crop insurance program. Independent agents offer all lines of insurance – property, casualty, life, health, retirement products.

Our agents live in their communities and serve the needs of those communities, not only in offering insurance products, but we serve typically as leaders, for example, as volunteer firefighters, youth leaders, school board members, city council members, etc. The typical agency employs support staff who help serve the product in addition to the writing agent. They have considerable overhead – computers with downloadable, fast Internet connections to the companies, office space, advertising, auto, payroll, and they have insurance, taxes, and other expenses which need to be paid out of their commission dollars that they collect from selling insurance.

From 1938 to 1981, the United States Department of Agriculture was solely responsible for delivering the federal crop insurance program. Beginning in 1981, continuing to the late 1980s, Congress began the transition period where the federal crop insurance program was delivered by both the USDA through the structure known as master marketers as well as private sector companies through a structure known as the standard reinsurance agreement. In mandating the transition, Congress recognized that the sales talents and the experience of the private sector commissioned agents are essential to providing the goals of the nationwide generally accepted all risk insurance protection.

As a result, Congress placed the large burden of the program delivery on the agents' shoulders and required them to provide full service to their clients, including, but not limited to sales. Crop insurance agents have proven instrumental in achieving the goal of helping farmers make well informed risk assessments and choices about the coverage they purchase. These agents are knowledgeable about the technicalities of the crop insurance program and are skilled at assisting farmers with concerns that directly impact the coverage such as unit structures and yield guarantee weaknesses.

They also have the training and the experience necessary to encourage participation in small, limited resource and minority producers such as required under the SRA. Statistics for the 2008 crop year, as reported by the Risk Management Agency, show how widely the program is accepted and utilized by farmers, and how effectively and efficiently it served the risk management and cash flow needs of American farmers. In the 2008 crop year, the program provided coverage on more than 272 million acres in all 50 states, which is more than 80% of the insurable acres, with liability protection exceeding \$900 billion.

Today an agent does more work per policy than ever before. They do all the data entry. They keep the yield records per unit, not per policy. The reality is there's more work and expertise required of an agent in servicing the product per acre. Crop insurance agents are proud to have been a partner in the successful transition and expansion of the invaluable program to farmers. Unlike property-casualty insurance, a crop insurance responsibility requires a more hands-on approach, which invariably increases the threshold for errors and omissions exposure. On average, with advanced meeting preparation, travel and meeting time, an agent spends seven hours on a policy during the sales window alone.

A transaction typically begins when the agent quotes the wide variety of different plans of insurance available. There can be as many as 247 in some states like Iowa, and they go on explaining the production reports and supporting record requirements to the farmer. The agent explains different date requirements by crop insurance for application and actual production history, the acreage report and the farmer's options in claims. The agent, in addition, is responsible for implementing procedures for preventive planning, yield adjustment, unit division, power of attorney, and I think you probably kind of understand that there's a lot of work.

As we move forward, the federal insurance program is an indispensable tool. Without crop insurance, many farmers would be unable to obtain financing. Crop insurance makes the process for farmers to obtain annual operating loans much easier and more efficient. In the case of farmers who purchase crop insurance, banks usually require less collateral because they consider these farmers to be better protected.

I would like to thank you all for your leadership during this difficult time in agriculture, and I'd like to take this opportunity to express our concern as Iowans regarding the components of the current 2011 SRA negotiation, as outlined in the second draft released. I know our congressmen at the table have all signed a letter expressing some of their concerns, and I will go to my conclusion because of the limited amount of time. But I do suggest that we all take a hard look at that and the impact that it will have as we move forward.

We thank the committee for allowing us to present our written testimony at today's hearing. We'd be happy to work with the committee at any time to further explain the vital role that crop insurance agents play. Thank you.

Chairman Peterson: Thank you, Mr. Skow. Appreciate your testimony. Mr. Stroberg, welcome to the committee.

Mr. Jeff Stroberg: Thank you, Chairman Peterson, and thank you to the members of the committee for the opportunity to testify today regarding the 2012 Farm Bill. I'm Jeff Stroberg, and I serve as President and CEO of West Central Cooperative in Ralston. Do it like a rock star, right? I also serve as Chairman & CEO of Renewable Energy Group. In the mid 1990s, West Central began work soybean oil to manufacture biodiesel as a way to add value to local producers' soybeans. Since that time, Renewable Energy Group has emerged from West Central to become the largest biodiesel manufacturing and marketing business in North America.

The farm bills of 2002 and 2008 energy titles have increased the value for agricultural commodities and co-products by promoting biodiesel use. According to the United Soybean Board, 25 cents has been added to every bushel of soybeans in the U.S. as a result of the growth of the biodiesel industry. In 2009, the Iowa Cattlemen's Association stated that Iowa livestock producers earned more than \$9 per head as a result of the demand for animal-based biodiesel, which means that Auctioneer Schaben bangs his gavel a little later on every sale.

In October of 2009, the national biodiesel industry used more than 50 million pounds of inedible fats from our partners in the livestock slaughter and render industries. REG has also been purchasing inedible corn oil from the DDG co-product stream for use as biodiesel feed stock. A pound of inedible corn oil averages 25 cents per pound, a new value returned to ethanol producers, and in turn corn growers, through the use of inedible corn oil in biodiesel.

These successes from the '02 and '08 energy titles lead me to Renewable Energy Group's comments and recommendations regarding the 2012 Farm Bill. The foundation of my remarks stems from the serious economic uncertainty of financial institutions. Today banks are simply not willing to partner with commercial ready bioenergy projects. I'll address three areas of the energy title: Sections 9003, 9005 and 9007, and a recommendation for a new program concept utilizing counter-cyclical payments.

First, each of the loan guarantee programs in Section 9003 in the Biorefinery Assistance Program and in Section 9007, the Rural Energy and American program that was referenced earlier allow for grants, but what was not allowed is a package where a loan guarantee and a grant together would form the 80% government covered threshold. We recommend packaging loan guarantees and grants together at the 80% threshold regardless of the total project loan. Having a grant package with a loan guarantee, a lender reduces his risk exposure. We recommend that USDA is allowed to determine what portion is a loan guarantee and what portion is a grant in order to encourage lenders to partner with projects more easily.

We believe a package of loan guarantees and grants promote more bank lending institutions to step forward, more projects to be awarded, and more competition as a result. For example, REG currently has two commercially ready biodiesel plants on construction hold, one in New Orleans and one in Emporia, Kansas. These multi feed stock facilities are strategically located to add value to Midwestern agriculture and to quickly integrate biodiesel into the petroleum infrastructure of the southern U.S. However, due to a lack of debt financing, these plants are more than 18 months overdue. Being able to package loan guarantees with grants would entice our lending partners to approve the financing and finalize construction, and then, of course, begin manufacturing biodiesel.

Next, under Section 9005, the Bioenergy Program for Advanced Fuels, we would like to introduce a new concept for your consideration. This program is designed to assist the industry's transformation to the next generation of feed stocks and the next generation of biorefinery technology. As currently written, the incentive payments are based on production capacity and actual gallons produced. Our recommendation is to create a counter-cyclical payment or safety net directed to biodiesel producers to manage risk during high commodity price trends. Agricultural co-products and byproducts as feed stocks account for 85% of the cost of a gallon of biodiesel.

As the cost of soybean oil increases as it did in 2008 up to 75 cents a pound, soybean farmers receive additional value per bushel, which is great for farmers, but it adds to the cost of soy oil feed stocks. In response to soy oil price pressures, the biodiesel industry looks to alternative agricultural feed stocks, so in turn animal fats, inedible corn oil, and other feed stocks increase in value. As the cost of all biodiesel feed stocks increase, agricultural producers are rewarded, but biodiesel producers' margins tighten or disappear. A counter-cyclical program

for biodiesel producers would create a safety net when the cost of feed stock prices biodiesel out of the market, and if feed stock prices go down, the safety net would recede.

Our final suggestion for Section 9005 is to remove the capacity limitations of 150 million gallons. This limitation has a chilling impact on future growth. Mr. Chairman, I've heard it said that Congress should not decide how big a farm should be. Likewise, Congress should not decide how big a biodiesel producer should be. Thank you for the time this afternoon. We stand ready to work with you regarding these recommendations, at your convenience.

Chairman Peterson: Thank you very much. Thank all of the panelists for their testimony, and Mr. Erickson, I too am encouraged by what is going on within the dairy industry. I think it's a sea change from anything I've ever seen before. But there does seem to be...it seems to me that if they're going to get this together, at the end of the day there's going to have to be some kind of way to manage their excess production in order for them to come together around something.

And one of the things that's being looked at is something I proposed ten years ago as some way to have it like an assessment on all producers when they over produce, and then use that to try to increase the market through feeding programs or exports or whatever. And I think Congressman Costa is working on a bill that I think has some elements of that as well. Is that not true, Mr. Costa? Yeah, yeah.

So I don't know how much has been discussed about what they're considering, but are you and your industry completely opposed to any kind of...you know, the problem is if the price goes up, dairy farmers produce more, if the price goes down, they produce more, and that's what's causing all this volatility, so there's got to be some way to try to even this out. And I think the insurance helps, but people are not convinced that's going to be the complete answer. What's your reaction?

Mr. Erickson: Mr. Chairman, thank you for the question. I get nervous when we talk about supply management because—

Chairman Peterson: I'm not talking about supply management.

Mr. Erickson: Good. Because I work on the demand side. Milk is a wonderful product, nutrient rich. It gives you nine essential nutrients, and I think we ought to do all we can to espouse the benefits of milk. I've been a benefactor of the growing milk supply in Iowa. And when you try to freeze something in time, it doesn't allow the market to react.

Chairman Peterson: We're not talking about freezing anything in time. I don't think that's what anybody's talking about.

Mr. Erickson: Okay, I apologize.

Chairman Peterson: They're talking about some tools to try to increase the demand to try to get things back into balance. I guess I would just encourage you guys to try to work with us so we can get, at the end of the day, with something we can all support, and I think we can do that, because we don't disagree.

But I just would say, the other day I had the Canadian agriculture committee people in to see me, and just to – *[laughs]* – they were complaining about all kinds of different things, but we had an hour meeting, but dairy never came up. And I said, what about your dairy farmers? “Oh, we don't hear a word out of them. They're happy.” *[Laughs.]* It's a little extreme what they're doing, and they are driving people to the U.S. and so forth, but it also has maintained a situation for the dairy guys that are in business, and so there's maybe some balance here that we can work out, so we look forward to working with you on that.

Mr. Schaben, one of the things we're looking at is crop insurance. Obviously there's this SRA going on, but there's also been a lot of discussion, a lot of GAO reports and a lot of work that we've been doing on the committee. One of the things we're looking at is seeing if there's some way we can develop crop insurance so it covers everything on the farm, not just your traditional crops. We've moved in that direction, to some extent, on cattle, but not to the extent we've done on the crops and so forth. Would that be something that people in your industry would find helpful, if we can expand the crop insurance so that they could get risk management?

Mr. Schaben: You're referring to some sort of a risk management program?

Chairman Peterson: Yes, right.

Mr. Schaben: I think in this day and age, anybody in agriculture would embrace any sort of risk management tool as long as it's – especially in the cattle industry, I guess, is the only thing I'm going to speak to – but if it was done on a voluntary basis.

Chairman Peterson: Yeah.

Mr. Schaben: But the problem seems to be that we are losing a generation of cow calf producers, the grassroots part of the cattle industry. And like all of this agriculture, it's a generational thing. And when you lose a generation, you don't get them back. Once they're gone, it's kind of over with, it's extinguished. And that's my concern. I've watched it happen in our area. So I think some sort of a...any time that there is some sort of a risk management program, I think it would be embraced by our industry, without a doubt. But I think the problem lies a little deeper.

Chairman Peterson: My time has expired, but I'd just say, Mr. Skow, to you, we are also looking at simplifying the crop insurance system significantly, so your people won't be spending as much time as they are, and there won't be...you know, if

we're successful there won't be 400 different policies and so forth. So get ready to work with us. I don't know how successful we'll be, but I think there is some potential here to simplify the program. We think we need to get rid of CAT coverage and NAP coverage. They have outlived their usefulness. There are just some fundamental things we need to look at, and we look forward to working with you as we go forward with the farm bill. We don't have all the answers, but we have some of the questions, and we're trying to figure out, in these hearings, what the answers are.

Mr. Stroberg, we'll work with you and your industry. We understand the problems. We don't control all of that on our committee, but we'll do what we can from our end, and your people from Iowa have been at the forefront of this, as you know.

Mr. Stroberg: Thank you, Mr. Chairman.

Chairman Peterson: Thank you. The gentleman from Oklahoma, Mr. Lucas.

Rep. Lucas: Thank you, Mr. Chairman. Mr. Skow, would you expand for a little bit more on what the effects on the delivery system of crop insurance would be if the second draft of the SRA as it's now proposed is implemented?

Mr. Skow: Specifically here in Iowa, we think that it would be very problematic. The reality of the situation is that there would be significant cuts to the delivery system in what I refer to as the I states or the one states, and I have some reference to it in my testimony. And I would also refer you to a letter that our congressional delegation wrote to the Department on that. And we think that there would be price cuts close to 30%.

Rep. Lucas: So quite literally, then, the products might not be available everywhere in Iowa. There might not be anyone to deliver those products if the more draconian numbers or even the second round is implemented?

Mr. Skow: Well, I think that the issue is that there are probably some people who deliver crop insurance, both insurance companies that service it as well as insurance agents, who would be forced out of the marketplace. I think that based on the delivery system, some would simply say it's not worth devoting the resources any longer, so farmers would have to go further to find somebody willing to service it for them, as well as I think you would see a compression or a contraction of companies willing to offer coverage, and I think that that has been spoken in a number of documents to RMA.

Rep. Lucas: Mr. Schaben, you mentioned in your testimony about how we need to focus on some kind of a program that would emphasize cow calf production along with conservation, a potential set aside kind of a program. I just note for the record in 2002, when I wasn't a part of the conscience of the body in the political minority and subcommittee chairman, we tried to create something, LGRP, the goal of which was to provide perhaps not only a transition for some of the CRP acres that

just shouldn't be rolled over time after time after time, but to provide a way for those acres to stay in grass and perhaps not go back to the plow, or additional acres to come in to enable producers then to have the cost share monies to fully utilize the EQIP programs.

Unfortunately, between the time, occasionally, that we write bills, as the House Ag Committee, we pass them on the floor as the United States Congress, persuade presidents to sign them or override vetoes, whatever the case may be, and they're implemented, things change. That program essentially became a green zone program around urban areas. And I'm perfectly supportive of those kind of efforts. But GRP started out as a way for real producers to be able to access the conservation dollars, to utilize every potential for soil and water, air, wildlife conservation. So I'm frustrated along with you on those issues.

A question back similar to what I asked the earlier panel. What's the price of grazing land in your part of the state now compared to five years ago, that trade publicly, public auctions or whatever.

Mr. Schaben: Sure. Actually, I sell land at auction. We do quite a bit of that. The inherent problem in western Iowa in regards – and this is a long answer to a short question – but in regards to the grassland, we don't have much left. It's gone. It's plowed. That's the problem. Now, I would tell you that the average price, and whether this is shooting from the hip, but if I found grassland in our area now that's strictly grassland, that means it's timbered, it's probably in the 24, five, six, seven hundred dollar range.

But that is a large part to do with our location, which is – now, we're 60 miles from Omaha. When I sell that piece of timbered land, it doesn't usually go to a farmer to put cows on it. Obviously it's not economically feasible. So thereby, we lose that cow calf man. He goes maybe to permanent grass in Oklahoma or Kansas or Nebraska. That's part of the problem.

Rep. Lucas: And that truly is a challenge, there's no doubt about it. Speaking of those farmers and ranchers, and the topic that we've touched on numerous times so far today about the tax code, while it's not a section of statute that the Ag Committee has direct jurisdiction over, nonetheless, the capital gains rate, the death tax rate, income tax rates have a very dramatic effect on processors, producers and everyone in between. Tell me, from your perspective, if we don't do something before the end of this year, what the effect will be on your people when the death tax goes back to its 2001 level, when capital gains go back up from 15 to 20, when those kind of things happen, what's the impact? Not just in the pocketbook, but in decision-making, too.

Mr. Schaben: Well, I think that's where the impact is. I think it causes people to make decisions that probably aren't, first and foremost, the best, maybe for their business or their industry. And I guess that, briefly, is the answer. It causes

people to make maybe some decisions or try to outthink what the next move may be. And of course in agriculture, obviously it causes a big problem, the tax.

Rep. Lucas: Thank you, Mr. Chairman.

Chairman Peterson: Thank the gentleman. The gentleman from Iowa, Mr. Boswell.

Rep. Boswell: Thank you, Mr. Chairman. I'll just stick with you for a minute, Jim, then we'll move on. Well, you're doing pretty well here. I'm still concerned about animal ID. We went through quite a discussion on this, and we didn't get too far, and now it's back to the states. You deal in livestock every day, and I continue to worry about this world economy, this world market if something would happen that we couldn't put the trace on it, then what does that do to us? Do you have any comments about that?

Mr. Schaben: I certainly do. As you well know, we've been in your office and we've met with the Chairman's staff different times in Washington about animal ID. And I guess when I speak about animal ID, I only speak about it from the cattle perspective, not understanding the rest of the industries to that degree. But the cattle industry is so inherently different than the hog industry and the sheep industry in the way that it moves, in the way that it travels, the interstate commerce that's involved and the small load lots.

I have been convinced – I started out thinking that animal ID was wrong. I became a believer, and now I'm going back. So I've run the gamut. And I've been going to these meetings for over, I guess, 12 or 13 years. And I think what we need to do, Congressman Boswell, I think we need to work on enhancing the programs – and again, speaking about the cattle industry – but enhancing the programs that we have out there today. And that is through the veterinaries, ID through interstate commerce, through traceability, through [bangs] vaccinate all of the females. If they all had an ID tag, that maybe doesn't give us 24 hour traceability, but it could easily give us 48 or 72 hour traceability.

So I think we need to enhance the programs that are currently out there, the federal programs, the state programs, and enhance those as it deals with the cattle industry rather than the ID tag.

Rep. Boswell: Well, thank you. I'll just divert here just for a moment. Yesterday – this has nothing to do with this meeting, by the way, Mr. Chairman – but I was with Senator Harkin in the Rose Garden when the National Teacher of the Year was awarded to an Iowa teacher from Johnston, and I see that Senator Harkin said to give you his greetings, and everybody here. But I see John is here, so I wanted to recognize that he's in the crowd as well in case somebody needs to visit with him. But appreciate that.

Mr. Erickson, the whole dairy industry has just been whacked all over the place the last couple years. We know that. And I feel like the USDA has been pretty

responsive to do the different things they've done. What, in those conditions, was the most helpful? All the above?

Mr. Erickson: We're all a big fan of Secretary Vilsack here in Iowa, so I think he's done an admirable job in a tough environment. He has put some extra money towards dairy producers, which I think is warranted, given the current situation. I wish he'd take a look at the federal milk market order system and kind of give us a break and simplify it a little bit, and maybe he'll get to that, too.

Rep. Boswell: Thank you. Mr. Stroberg, the concern about the biodiesel industry is something that's carried heavy on you. You talked about it quite a bit, of course, and you should. How do you think this...is there going to be a recovery period if we get the extension back in and so on? Are you going to be able to find the people out there to do what you need to do? Tell us about what your situation is in that respect.

Mr. Stroberg: Well, Congressman Boswell, the longer we go without a blender's tax credit, the more difficult it's going to be to bring workers back that have been laid off. We've laid off about 45% of our work force since the blender's tax credit has expired, so the longer it goes, the harder it will be to attract good people back to these plants to run the plants. I think more critical than that is the investment that almost 10,000 Iowans have made in biodiesel plants within Iowa.

And these are all what I would call retail investors. They're farmers. They're people that own the local hardware store, that run – they're local dentists or have other businesses in small towns. These are rural jobs that have been created by rural investors. And once those investors get wiped out – and their equity is eroding daily as we go without a blender's tax credit – once those investors are wiped out, there's no coming back. Those plants may get sold for pennies on the dollar to other companies, and hopefully the jobs will come back, but those investors are gone.

Rep. Boswell: Thank you. Mr. Chairman, on that issue, we've talked about it. That's something for – we've all, in the agriculture, as farmers, producers, say we would like to be part of the value added, and this was a chance, and so we share a deep concern. I know you do, too. We've talked about it. But I guess we did respond on our side of the rotunda, we've just got to figure this out. And I'm very concerned about this, and I appreciate the fact that you are, too. I yield back.

Chairman Peterson: Well, I'm being told that they're going to get this resolved by May 31st, so we'll keep our fingers crossed. The gentleman from Iowa, Mr. King.

Rep. King: Thank you, Mr. Chairman, and again I thank the witnesses. Listening to each of the testimony – and I came in a little late, Mr. Erickson, but I've read your testimony, and I appreciate that as well. And the generational impact that you've had, each of you here in front of me, it's interesting to me, Mr. Schaben, to hear

where you've been on livestock ID, back and forth two ways, and hopefully I can pick up that conversation at another time in more depth.

But I do want to ask you more specifically that some time back, coming in, actually, into the last farm bill, I worked with a number of people across the state and we put together a proposal to try to preserve some of this grassland and enhance the grazing in Iowa that was a combination of CRP, CSP, EQIP, there's another one, CP 29 or something, something that I forget, [padded] stall grazing and water, those things that you'd have to do in order to manage pastures and be able to reach some of the goals of CRP and work in conjunction with the conservation groups across the state.

And the answer I got back from our producers was we don't want unfair competition, we're in the cow business, and we don't need our competition subsidized. Would you speak to that particular conflict that exists within the cattle industry with regard to anything we might do to encourage more pasture ground?

Mr. Schaben: Well, I certainly agree that the cattle producers has been an awful independent animal, to say the least, and I guess that's part of their makeup and part of their style. But I think...I really, truly believe, Congressman King, I think the situation is grave enough in this loss of the industry, in most of the upper Midwest, I would say, that I think it needs addressed.

And it's not necessarily a question of direct income for those producers as much as it might be for the area as a whole, because I had some CRP land that came out. I'm in the cattle business. I have a cattle [per]. I rented it to my brother for \$200 an acre. It only made good economic sense. That's my point. I think that somehow...I didn't miss any money by doing what I did. I benefited by doing it. But my area missed quite a little bit because I don't have cows anymore.

We basically don't have a feed store in Dunlap anymore. Those dollars – and I don't have the figures, and I'm sure that you do, or staff does about the turnover in animal agriculture versus some other types of agriculture – and I think that's where we see it more indirectly. It isn't so much that we can't find something to do with that tract of land, because we can. But I think that we need to try to promote, for the sake of animal agriculture specifically – I should say the cattle industry – we need to promote that in some fashion.

Rep. King: Mr. Schaben, let's do this. Let's come back to this subject and have those conversations to see if we can put together a plan again, at least one to propose, as we go forward to the farm bill in two, two and a half years. It's a worthy discussion. I'm glad you brought it up. And it seems to me that if we're going to spend money for CRP to take land out of production so that we can do a conservation reserve program, we ought to also be able to look at how we keep things in grass, which also is a conservation reserve program that can achieve some of the same results.

But I think the important point that I want to make sure gets made here today – and I’m going to turn over to Mr. Stroberg – and just a question first, and then a follow-up question on that is that is anybody in Iowa right now today producing biodiesel, or are they all mothballed, all 14 or 15 plants that we have in this state?

Mr. Stroberg: Well, Congressman King, I don’t know about all the production. I can tell you that the plants that are associated with Renewable Energy Group are running at maybe ten – if you take all of the capacity, maybe running at 10 to 15% of capacity, so it’s practically shut down. But there are a few sales still being made.

Rep. King: I’m going to ask you to just take this where you need to go with it, but a couple of things have happened here with renewable fuels, energy altogether, with ethanol and biodiesel, and I’ll define those as first generation renewable fuels. The industry was initiated by our friends north of us in Minnesota, but we’ve picked up on that pretty well and developed an industry here and an infrastructure here.

So with the six cent reduction in the formerly 51 cent blender’s credit for ethanol, and for the failure to extend the blender’s credit for biodiesel, now we’re looking at there’s essentially zero new capital coming into the industry. And we understand the urgency to renew the blender’s credit for biodiesel. But can you imagine a second generation ethanol, say cellulosic, if we can’t be viable? And how would we possibly attract capital to the industry if we can’t get our money back out of what’s already invested in ethanol and biodiesel?

Mr. Stroberg: Yeah, I think that second generation is very much dependent on what we do right now, because most of the second generation feed stocks will actually be produced in first generation manufacturing plants, whether it’s ethanol or biodiesel. There may be additions to the front end or the back end to accommodate second generation feed stocks, but if we kill the industry now, second generation feed stocks, it’ll be years before they come on.

Rep. King: Thank you, Mr. Stroberg. I thank all the witnesses and the Chairman, and I yield back.

Chairman Peterson: Thank the gentlemen. The gentle lady from South Dakota, Ms. Herseth Sandlin.

Rep. Herseth Sandlin: Thank you, Mr. Chairman. Well, Mr. Stroberg, I appreciate your thoughts on combining the loan guarantee programs and the grants and packaging those together, and will look forward to working with you to see the evidence of how REAP, how the other sections are working to determine whether or not that makes sense for us going into the next farm bill and making that change.

The only thing we'll have to be vigilant about, in light of the Chairman's initial remarks about the money available, is that we wouldn't want that to result in less being available to leverage by USDA to help in biorefinery assistance or other renewable energy project assistance, because there might be...we just have to be vigilant about that, if we package them together, in how far that would go for how many projects. But I appreciate the insight and the other project that you put on the table, the program with counter-cyclicals to our biorefineries in times of high commodity prices.

And then Mr. Skow, you know, we'll keep working with you. As you know, Mr. [Conaway] and I led the Dear Colleague letter in January to the administrator of RMA expressing our concerns. Those concerns remain with the second draft. The third draft is due any time here in early May. But in light of what's happening to many in the northeastern part of South Dakota, the concerns are great in terms of the impact, particularly on the importance of the crop insurance program as the most important part of the safety net right now for many of these producers who are facing flooding conditions as well as in the central part of the state.

But I did want to focus my time – and again, we'll keep working with both of you, and perhaps get a chance after the hearing to talk in greater detail – I wanted to focus my questions to you, Mr. Schaben, because in the last farm bill, the Chairman came to South Dakota, to western South Dakota, as did some of my colleagues here and others on the committee, because of the concern, given that we still have virgin prairie and grasslands in South Dakota, of the conversion that was going on, and what that meant for livestock producers and availability of pasture.

And I just wanted to explore with you maybe a couple of other factors that are driving this rapid and disconcerting development in the cattle industry. And I think some of the independent streak within our producers comes from the nature, but also learning lessons from what happened in other areas like pork and poultry, and wanting to avoid the same kind of integration and what that means for small and mid sized operatives. From your perspective, what do you think is the state of competition in the cattle industry today? And the other issue is how about crop insurance? Should we look at modifying the crop insurance programs so that you give livestock producers a risk management tool where you're covering all on farm activities, including livestock production?

Mr. Schaben: To address the first question, the relative health, I guess – is that what you're asking me – of the competition involved in our industry, within our industry, the competition involved—

Rep. Herseth Sandlin: Do you think there's healthy competition? Do you see any signs of market manipulation that you're concerned about?

Mr. Schaben: I believe there's healthy competition on my level, which is running the livestock auction. Ours is transparent and open and out front. Obviously there's good reason to keep some other aspects of the industry under close watch, some of those things that maybe are done behind closed doors. Again, my segment of the industry, which is the livestock auction, everything is done out in a room just like this. Everybody's invited in to participate, so it's pretty transparent. I know in the packing industry there's been concern over time, and thereby the Packers and Stockyards Administration was started. I don't worry about that as much, and I know I've got some friends in South Dakota that caused heated debate over the last 10 or 15 years in the packing industry, Herman [Schumacher] being one of them.

Rep. Herseth Sandlin: You know Herman. We all know Herman.

Mr. Schaben: Everybody knows Herman, yes. He's a dear friend. So I don't worry about it as much, I don't think. I don't believe that I'd worry about it quite as much in my facet. In the packing industry, it's obviously cause for concern. The second question you had dealt with risk management. And I firmly believe that any risk management tool that is offered to a cattle producer is a good tool. In agriculture in general, probably, is a good tool. I stated earlier that I don't think it's anything that anybody wants in our industry to see as a mandatory if it's out there. There have been some programs in the past, safety net kind of things, and I think that's great if it's an option and you want to take them.

Rep. Herseth Sandlin: Thank you. Thank you, Mr. Chairman.

Chairman Peterson: Thank the gentle lady. The gentleman from California, Mr. Costa.

Rep. Costa: Thank you very much, Mr. Chairman. Mr. Stroberg, you talked in a lot of detail with regards to the biodiesel industry and the impacts. And would I be left with the wrong impression that if the federal support for this biodiesel program is no longer available, that it's going to be very difficult to sustain at all?

Mr. Stroberg: I think at this stage of the industry, if we do not have the blender's tax credit, the biodiesel industry, as we know it, will go away.

Rep. Costa: I mean, that's the sense I got from your comments. I just wanted to be clear. Mr. Erickson, you talked about simplifying the federal marketing order, is that correct?

Mr. Erickson: That is correct.

Rep. Costa: Do you think bringing California, that produces 23% of the milk products of the country, would make it simpler or more complicated?

Mr. Erickson: It depends on the implementation. I think it has the...it could have the benefit of putting everybody on an even playing field. Including the whole country I don't think would be a bad thing.

Rep. Costa: I think I know the answer to this question, but what do you think about implementing, as I tried to do a couple of years ago, California standards?

Mr. Erickson: Well, I'd let the customer decide. There's been some product out there with fortified skim and it's not popular.

Rep. Costa: Well, it's popular in California. I mean, I think that we're talking about healthy proteins. We're talking about trying to insure that we have healthy diets. Let me move on. Did I hear you correctly, as I was walking back, that any efforts to provide some supply side management tools for producers would be a disaster?

Mr. Erickson: I'm not a fan of supply side because I've been the benefactor—

Rep. Costa: Why would it be a disaster?

Mr. Erickson: Well, I've been the benefactor of the growth of dairy in Iowa, where I think that dairy should be responsive to the marketplace.

Rep. Costa: Well, and I agree with you. But I'm not talking about limiting supply. What we're trying to do is to give dairymen, who are the most prolific producers probably anywhere in the world – I know, I'm a third generation dairy family, I know how effective we are at producing – but having some ability to have some tool to determine whether or not they want to grow or stay the size they are. And that's different than putting limits on it. I mean, I think if...certainly – and I hear good things about the processing work you do, but I think there's a different level of interest if you're a processor than if you're a producer. Obviously an over supply of milk has a different impact to processors.

Mr. Erickson: That's correct. But in the—

Rep. Costa: Okay. I just want to acknowledge that.

Mr. Erickson: Yeah, that would be true. But to the extent I need producers, and producers need processor—

Rep. Costa: No, that's true. That's true.

Mr. Erickson: --so we need to work together.

Rep. Costa: And that's correct. And the Chairman said that earlier, and I concur with him wholeheartedly, and we're trying to do that. But there are different interests, and I think it's important that we acknowledge those different interests between producers and processors. But you need each other.

Mr. Erickson: We desperately need each other, yes.

Rep. Costa: There you go. We agree on that point. You talked about the insurance program that the national milk industry is proposing in their measure, and I'm

concerned about it. And I think you also said something about less government influence. But we lost, some estimate, between \$11 and \$12 billion in equity in the last two years in the U.S. milk program. Some say it's even higher, maybe approaching \$20 billion. How do you insure those kind of losses? How do you create an insurance program that would insure the kind of devastation that we've had nationwide?

Mr. Erickson: Well, I think some of the point is that price supports aren't indicative of the cost of production. If you have high prices—

Rep. Costa: No, I concur.

Mr. Erickson: --and high input costs, they're not aligned, and so I think the point is the current system is somewhat flawed in its implementation.

Rep. Costa: No, I think many of us have felt that way for years, but I think it's taken nine dollar per hundredweight milk to finally get the industry willing to – and as the Chairman and I have spoken, nothing like nine dollar per hundredweight milk to make folks wake up and figure out maybe we need to change things.

Mr. Erickson: Yes, Congressman. And I think—

Rep. Costa: When you've got \$15, \$16 per hundredweight input costs.

Mr. Erickson: And that's where we need to look at margin protection as opposed to price supports.

Rep. Costa: Well, but you didn't answer my question. How would you create an insurance program for over \$11 or \$12 billion of the losses, and maybe higher losses, in the last two years?

Mr. Erickson: And I'm not an insurance genius. I'm a small processor in Iowa. But I think it's important—

Rep. Costa: I hear you're a very good processor, Mr. Boswell tells me.

Mr. Erickson: Well, I appreciate that.

Rep. Costa: And my Iowan colleagues tell me.

Mr. Erickson: But I do think it's important to think about how to create margin insurance. The implementation, Congressman, I'm unsure of, but I think it would be a better approach than price supports.

Rep. Costa: And I think we need to look at all of that. I mean, obviously price supports have its limits, and certainly incentivizing more production of milk, where we have stored powder and cheese I don't think is good food policy. My time has expired,

Mr. Chairman. I'll look forward to continuing this conversation. Once again, thank you very much.

Chairman Peterson: Thank the gentleman. I thank all the witnesses for being with us and for your excellent testimony and answers to the questions. And if members have more questions, I guess they can get them to you and you'll answer them, I imagine. So the panel is dismissed. I want to tell people again that we are very much interested in getting comments from anybody that has good ideas.

I find that sometimes folks that don't necessarily get on these panels or whatever have some pretty good ideas, and so you can go on our web site, www.agriculture.house.gov and log on there and tell us what you think about what's going on. And if you've got new ideas, things that we should consider, we very much would appreciate that input. And those of you that have been watching on this webcast, we'd like comments about how that all worked and what you think about it, and the more feedback we can get, the better. I'm going to yield the rest of my time for closing statements to Mr. Boswell, the host of this event.

Rep. Boswell: Well, thank you, Chairman Peterson and Representative Lucas. Both of you, I appreciate your coming to our state, our district, and sharing in this. I want to thank the Iowa State Fair board and administration for providing this facility. I especially want to thank the witnesses. Some of them had to drive a long ways, and took you away from your business today, and I appreciate that very, very much.

And as we've discussed in full committee and other times, when we informally sit down and talk together, we've got one thing in mind, what we want to do, and we want to make agriculture as strong as we can make it and do the best we can with the resources we've got. And so that's what this is all about. So thank you for participating. And it's a challenging time. We all know that. I would be singing to the choir if I was to start talking about the challenging time as a country and as a world community, and we know that, too.

And appreciate John, you and Bill coming today to be here to sit in with us, all of you. Appreciate all that. And I think that we've had a good meeting, and look forward to proceeding on through the process.

Rep. Costa: Would the Chairman yield for a moment?

Chairman Peterson: The gentleman from Iowa. No, who asked me? Oh, Mr. Costa.

Rep. Costa: The gentleman from California.

Chairman Peterson: Can't see down there, I'm sorry.

Rep. Costa: I know, and that's to my point.

Chairman Peterson: If you were a [beef], you'd be out further out here so I could see you.

Rep. Costa: I understand. I just wanted to thank, again, Congressman Boswell for hosting all of us, though I do have somewhat of a question. I was a bit concerned – all of us who represent ag country around the country have had the pleasure to be in auction pavilions in our districts and around, and they always can be a lot of fun. I just was wondering, Leonard, what this meant when you put those of us here down in the pit. I was a little concerned that the witnesses and those in the lower part of the panel in the pit, that you might have some [ulterior] motives. I mean, usually when we're in the pit I'm either selling someone, or selling something, or being sold, so hopefully we weren't getting sold anything here today, but just good information.

Male Voice: This isn't going to be how we mark up the farm bill, is it, Mr. Chairman?
[*Laughter.*]

Chairman Peterson: I thank the gentlemen for their comments, and for the people that are watching, this is the first in eight hearings. We're doing seven more of these in the next couple weeks, so we're going to hear a lot. The gentleman from Oklahoma, you have a closing statement?

Rep. Lucas: Just simply, Mr. Chairman, to thank you and our Iowa friends, Mr. Boswell, Mr. King, and Mr. Latham for being such good hosts and cooperative, and our witnesses today. It's always worth noting that in the nature of committee process, committee work, which is critically important in Congress, that the House Agriculture Committee is one of the most bipartisan, nonpartisan committees.

We may disagree occasionally on particular parts of agricultural economic philosophy. We might have a slightly different perspective by region of country or commodity group, but when we team up in the every five year process to write a farm bill, we work together for the good of the country as a whole. And sometimes we work with administrations and sometimes we educate administrations, but the bottom line is we're going to try and write you a good farm bill. Thank you, Mr. Chairman.

Chairman Peterson: I thank the gentleman. I thank all of the members for being here today. And so under the rules of the committee, the record of today's hearing will remain open for 30 calendar days to receive additional material and supplementary written responses from witnesses to any question posed by a member. And this hearing of the Committee on Agriculture is adjourned.

[*End of recording.*]