



**House Agriculture Committee Hearing
Sioux Falls, South Dakota
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Chairman Collin Peterson: This hearing of the Committee on Agriculture to review U.S. agriculture policy in advance of the 2012 Farm Bill will come to order. We have I don't know how many members of Congress here. On my side we have Stephanie Herseth Sandlin from South Dakota, our host; Tim Walz, my neighbor to the south in Minnesota; Ms. Betsy Markey from Colorado's northeastern area; Larry Kissell from North Carolina; and Travis Childers from Mississippi.

The Ranking Member today is Bob Goodlatte from Virginia, who used to be chairman of the committee before I was; Mr. Mike Rogers from Alabama, Mr. Mike Conaway from Texas; Mr. Jeff Fortenberry from Nebraska; Adrian Smith from Nebraska; and Glenn Thompson from Pennsylvania, so we've got good representation here today from the committee. We're looking forward to the testimony, and I'm going to recognize our host, Ms. Stephanie Herseth Sandlin, to do the opening statement for our side and welcome us to South Dakota, so the gentle lady is recognized.

Rep. Stephanie Herseth Sandlin: Well, thank you, Mr. Chairman, for holding a field hearing in South Dakota. I want to thank both your and Mr. Goodlatte. In 2006 we had a field hearing in anticipation of the 2008 Farm Bill when Mr. Goodlatte was chairman of the committee in western South Dakota, in Wall. Some of the folks in attendance today joined us at that hearing. I think it highlights the importance of getting an early start. You can't start too early when we talk about writing the next farm bill, in light of the changed economic circumstances, challenges, opportunities as we proceed in the months and years to come in anticipation of what more we need to do in public policy for farmers and ranchers and those in rural America.

I want to welcome my other colleagues from other parts of the country, neighboring states for joining us here in Sioux Falls. It's a beautiful day out there

today, so I know we've got some producers in the fields and some folks that are here that will be hurrying home to get out there yet this afternoon. But I do thank you for hosting one of our field hearings here, and pleased that as we wrap up this second series that we have so many of the members in attendance to hear the testimony today.

As we demonstrated in 2008, the farm bill is about much more than just farms. We continued the safety net programs that protect farmers and ranchers and provide the certainty they rely on to stay in business, but we also made historic investments in nutrition, in conservation, renewable energy, research, rural development, fruit and vegetable products and organic agriculture. While traditional farm programs have a relatively small proportion of funding, these programs are essential to the continuing success of U.S. agriculture. We have a system of independent farmers and ranchers working the land, and without the certainty that farm programs provide, these farmers would not be able to get the financing they need to put a crop in the ground.

I want to welcome our witnesses, thank them for taking the time out of this very busy time of the year to talk to us today. These farm bill hearings are the first step in the process of writing the next farm bill. And a bill this large, that covers so many important issues, takes a lot of time and effort to get it right, and I'm committed to a process that's open, transparent, and bipartisan. And clearly, in the work that Mr. Peterson and Mr. Goodlatte did in the last farm bill, we anticipate that the 2012 Farm Bill will also be open and transparent and bipartisan.

For all those joining us today in the audience, I hope that you'll participate in this process by sharing your thoughts on the farm bill with us. We have a survey posted on the committee web site, and there are cards available today with the web address so that everyone can get a chance to tell the committee what's working for you, what isn't working, what we should consider for the next farm bill, some of the new programs that were authorized in 2008. So it's www.agriculture.house.gov. We've got a lot of ground to cover, a lot of witnesses and a lot of members, so I know that the Chairman is looking forward to getting right at the witnesses.

Chairman Peterson: I thank the gentle lady and recognize the Ranking Member, Mr. Goodlatte from Virginia.

Rep. Bob Goodlatte: Well, thank you, Mr. Chairman, and it's great to be back in South Dakota. It's great to be back with one of my dearest friends in the Congress, Congresswoman Stephanie Herseth Sandlin. And I think the respect that she commands on the Agriculture Committee is reflected by the great turnout we have here. This may be the largest numbers of members of Congress, six Republicans, six Democrats, who have come to participate in this hearing. And I look forward to hearing the testimony of all of our witnesses as well.

We have some real challenges compared to when we wrote the last farm bill, when we were successful in getting additional resources. Unfortunately, we had to go to some other committees to get those resources, and when they brought their money, they also brought lots of terms and conditions and wishes of their own, and definitely played a bigger role than we would have liked in the writing of the last farm bill. I know the Chairman is committed to not letting that happen again.

But we also face very difficult economic times now that has impacted the resources available to the federal government, and we're going to, just as an example, based upon the President's projected budget for next year, spend \$1.6 trillion more than we take in, 70% more in spending than we have in revenues, and that's going to affect the farm bill in terms of the resources available to us. So I'll be interested in hearing from all of our witnesses today their views on where we can cut back, where we can achieve savings, what programs are not working as well as others that could be sacrificed, as well as hearing from you how Congress can help you in another way, and that is what can be overbearing federal government regulations that impact your bottom lines dramatically, what government regulations are not working well.

Obviously we need to protect our environment and we need to have safe work places, but we also need to recognize that micromanagement of American agriculture by various government agencies is not the best way to achieve the most abundant, most affordable, safest food supply in the world. That is achieved by the great, outstanding work that South Dakota farmers and ranchers and others from across the Midwest and around the country have achieved for many, many years.

We also need to take note of the fact that more than three-quarters of the spending in our farm bill goes to nutrition programs and does not go to provide assistance to farmers and ranchers and others in the pipeline of growing and processing that food, and so achieving savings in that area is a major challenges for us as well. And I would note that these programs are in significant need of reform when you consider the nationwide obesity problem that people are now very much aware of and that obviously the problem that we have there is not a shortage of food, it is rather a program that is not functioning properly to deliver healthy food in the most economic way to those who are most in need in our country. So we look forward to your testimony today, and again, happy to be here in South Dakota.

Chairman Peterson: I thank the gentleman and the other members, if they have statements, they will be made part of the record. We'd like to welcome our first panel. I think every one of the members of this panel grows corn. Most of them grow soybeans, some of them wheat. Some of them are beef producers. We recognize that they're all producers that are on this panel, and that's what we wanted to do, is hear from the real farmers out there.

So Mr. Gary Duffy, from Oldham, South Dakota; Rod Gangwish from Shelton, Nebraska; Doug Sombke from Conde, South Dakota; Steve Masat from Redfield, South Dakota; Kevin Scott from Valley Springs, South Dakota; Matthew Wolle from Madelia, Minnesota; and Scott VanderWal from Volga, South Dakota. I may have screwed up some of those names, but anyway, welcome to the panel.

Mr. Duffy, you know your full statements, all of you, will be made part of the record. We have a lot of members here, a lot of witnesses, so we would ask you to stick within the five minute rule. There will be a light up there that will tell you when the five minutes come, so summarize your statements and tell us what you think is the most important. Mr. Duffy, you're recognized.

Mr. Gary Duffy: Chairman Peterson, Congressman Herseth Sandlin, I thank you for this opportunity to share with you observations and views regarding implementation of the Food Conservation & Energy Act of 2008. My name is Gary Duffy and I currently serve as president of the South Dakota Corn Growers Association, and as you heard, I do farm near Oldham. The South Dakota Corn Growers Association is a grassroots organization representing thousands of corn producers from across South Dakota.

First I want to state that the South Dakota Corn Growers is very much appreciative of the committee holding this field hearing in South Dakota. I'm also thankful to the leadership of Chairman Peterson and Congressman Herseth Sandlin's passage of the 2008 Farm Bill with the inclusion of the Average Crop Revenue Election program. The South Dakota Corn Growers also recognizes the ongoing work by you and your respective staff in preparing the 2012 Farm Bill.

Today I would like to touch on crop insurance, the ACRE program, the Conservation Security Program, biotechnology, and ethanol. Before I talk about the 2008 Farm Bill and the vision for the 2012 Farm Bill, I want to discuss the federal crop insurance program. Members of the committee, federal crop insurance is the greatest risk management tool producers have. No one knows what Mother Nature is going to do and the risks she brings to our industry. Crop insurance is efficient, effective, and a program that works for all crops. It is the most important program for all producers. I thank you for your support of this critical program.

One of the signature reforms in the 2008 Farm Bill, advocated by South Dakota Corn Growers, was the adoption of a revenue based risk management program that adjusts with the annual changes in market prices and crop yields. This new option in the farm safety net, ACRE, represents a fundamental change in U.S. commodity programs by reducing market distortions in planning decisions, cutting direct payments, and lowering deficiency payments.

In contrast to current programs that are linked to set target prices and loan rates, producers now have an opportunity to access a new risk management program that will vary with actual rolling market season, average prices and state crop

yields. Equally important, ACRE is designed to deliver assistance when a real loss in crop specific revenue is sustained on the farm. It is our view that ACRE, if properly implemented, can provide far more effective protection against volatile markets and production shortfalls not adequately addressed by either federal crop insurance or the new disaster assistance program.

Because of ACRE's relative complexity to other programs, and the inherent difficulty of introducing a significant reform along with other changes to the farm bill, South Dakota Corn Growers acknowledges that this new option presents some real challenges for producers to enroll in. One of the challenges presented is the landlord has to agree to it and enroll in the program for five years. As an alternative to continuing with the counter-cyclical program, participation in ACRE does not come without tradeoffs, including a 20% reduction in direct payments and a 30% reduction in the marketing loan rate.

The Conservation Security Program is a step in the right direction. South Dakota has the fifth highest enrollment in the program. South Dakota producers are very progressive stewards of the land, and this program has rewarded them for their efforts. Looking ahead to the next farm bill, we believe the CSP program allows producers to actively pursue rewards for adapting to even more conservation practices, but we should allow the experts in the field to have input into the enhancements that are scientifically proven and could logically be implemented at the farm level.

The enhancement options available to farmers through the CSP program are diverse and include both small and extensive actions. However, these actions are legislated down from the national NRCS and input at the local level is no longer available, nor tailored to the state's unique characteristics. We ask you to further change this in the 2012 Farm Bill.

Biotechnology holds great promise for farmers and consumers around the globe. Biotechnology has not only assisted today's producers in meeting increased demand for a safe, abundant grain supply, it has also benefited rural economies and the environment. Farmers understand the advantages that technology offers. Nowhere is that more apparent than in South Dakota, where our farmers have the highest usage of biotech trades in the nation. Ninety-six percent of acres planted in South Dakota feature an enhanced trade.

According to the Food & Agriculture organization, by 2050 the world will need 70% more food compared to what we produce today. Producing 70% more food will inevitably require more advances in biotechnology, along with wider use of existing genetically enhanced foods. American producers stand ready to meet this challenge.

Further advancements in biotechnology are necessary to insure the world can continue to rely on U.S. growers to provide high quality food, feed, fiber and fuel. Yet, as is often the case with emerging technologies, some consumers do not fully

understand the potential of biotechnology. We must be committed to cultivating an environment and resources for biotechnology to expand and thrive. Please make certain that the federal government has the resources and tools to get technology to the market in a scientific and effective manner.

Finally, we are in South Dakota, where ethanol is the largest market for South Dakota corn. The extension of the volumetric ethanol excise tax credit will keep a market for over 330 million bushels of corn in South Dakota, and provide for over 100,000 jobs in the United States. We need to extend [VTEC] immediately.

Overcoming the blend wall is critically needed to create new markets and provide jobs across rural America. Simply put, we need access to the marketplace, we need E15, lender pumps in this nation now. We need vehicles with flexible fuel technology now. For far too long we have sent our American dollar overseas when we can and will spend it right here in America, right now, if given the opportunity. We simply need access to the marketplace.

Mr. Chairman, I want to thank you again for this opportunity to appear before your committee and discuss South Dakota Corn Growers concerns. We appreciate your consideration and look forward to working with you and your colleagues in the weeks and months ahead to resolve these issues. Thank you.

Chairman Peterson: Thank you very much, Mr. Duffy, for that testimony. We appreciate it. Mr. Gangwish, welcome to the committee.

Mr. Rod Gangwish: Thank you, Mr. Chairman. Chairman Peterson, Mr. Goodlatte, my congressman, Mr. Smith, and members of the committee, my name is Rod Gangwish, and I'm from south central Nebraska near Shelton, where I've been involved in farming and agribusiness for 36 years. I'm a fourth generation farmer, and my wife and I and our son farm about 2,200 acres of corn, soybeans, and seed corn.

We're also invested in, and I serve on the Board of Managers of Kaapa Ethanol LLC, a farmer owned ethanol plant at Minden, Nebraska, and I also hold a leadership role in several other Kaapa business entities. Kaapa Cooperative is an organization of approximately 500 farmers in central Nebraska whose mission is to add value to the production of its members and to bring business opportunities for them to invest in.

Thank you for holding the hearings across the Midwest, and for the opportunity to testify. I am representing myself today and our family farming operation. However, I'm a past president of the National Corn Growers Association, and I've been involved in farm bill debates as well as other issues affecting American agriculture.

I remember the 1996 Farm Bill. Cash corn price was near \$3 and farmers did not think they would ever see the price of corn below \$1.50 again. Corn went to over \$5 in 1996, and three years later it was back to \$1.50, and we were selling

soybeans below \$5. This has repeated itself many times over in agriculture's history, many times driven by weather. We are involved in a business that has to deal with incredible price volatility.

We in agriculture are survivors. I and most of my colleagues had balance sheets that took big hits in the 1980s at the height of the farm crisis. Without farm programs during those years and in the following years, my colleagues and I may not have had farming operations today. Out of necessity, we learned to use the loan program, target prices, the LDP program and other programs to cash flow at the bank. Some years the dollars that came from government programs were greater than the profit at the end of the year. There were some years there was no profit.

I was planting beans the first week in May, the day after I received the call inviting me to testify at this hearing. On the 8:00 news that morning, a recording of Secretary Vilsack, who was speaking at an outlook conference, came on the radio in the tractor, and he said, "We should treat farmers like what they are: producers of a cheap, safe, and abundant food supply, not only for this country, but for the world." I agree with Secretary Vilsack, although I'm not sure what the word "treat" is to mean.

I wish that I could farm without any intervention or income from the government from any program, farm or otherwise. We could do this if we had a free market, free of controls and regulations, free of tariffs without export subsidies, or currency manipulation worldwide. But the fact is that agriculture is one of the most regulated and controlled sectors of our world economy, and the U.S. farmer must fit into this system. The ups and downs of the world economy, variation in world crop production and weather are perils that necessitate some type of farm program that will protect and insulate individual farmers from the forces that, over time, can come and go, but on a short-term basis can drive them out of business.

On our farm we have always participated in the farm program, and today we have about 70% of our acres in the ACRE program. We look at the ACRE program a bit like buying a put – a portion of the direct payment is given up as protection and insurance against the probability of something happening that would cause prices or yield to fall below the triggers for some reason. I do not like the way the ACRE program triggers with respect to state averages as they compare to our farm, but the program does cover the systemic loss that would be incurred in case of low price or widespread low production.

We use hail insurance to cover the rest of the uninsured portion, as hail is our primary peril. Most of the corn that we raise on our farm is seed corn. We produce for a major seed corn company, raising our crop under contract and managing all aspects of production, with the exception of harvest and choosing the day of planting, which the company decides, as the planting day also determines the date of detasseling and the date of harvest.

Our problems with growing seed corn, which we raise in a rotation basis with soybeans, relate primarily to crop insurance. The issue is that we do not produce commercial corn, and have not produced commercial corn on these acres since back in the early '80s when the yields in our area were 150 bushel per acre. Today commercial corn yields are routinely in the 230, 250 bushel range in our area, and consequently we have a 150 bushel commercial corn actual production history, or APH, as opposed to the 240 bushel APHs of our neighbors on like land which is just across the road. This severely handicaps us from a crop insurance standpoint as we look at going back to raising commercial corn on these seed fields with 150 bushel APHs, when our yields would be in the 230 plus bushel range had we been producing commercial corn rather than seed corn. This also impacts us as we look at placing these farms in the ACRE program.

I spoke with my crop insurance agent about this APH program. He said that the Crop Insurance Professionals Association is proposing a correction to the risk management agency that would help our situation and also help other problems with the APHs involving multiple year losses. I would encourage the RMA to work with CIPA on their APH improvement proposals.

The main perils that affect our crops in the irrigated regions of Nebraska are wind and hail. We use federal crop insurance to insure the bottom portion of our crop and supplement it with top end hail insurance. Crop insurance provides us the ability to be able to market our crop and guarantee us certain revenue. Crop insurance is a vital component of production agriculture, as it gives producers the ability to forward market based on a guaranteed revenue. Without this guarantee, we are fully exposed to any problem our crops may incur over the growing season. It is imperative that we have an affordable crop insurance program.

I'm going to skip the part on ethanol, and I just want to say that the topic of the extension of the tax incentive for ethanol, the flexible fuel vehicle requirements, and the increase in the blending of the ethanol from E10 to E15 do not fit within the parameters of the farm bill, but they are significantly related to the profitability of my business, and I cannot pass on this opportunity to urge you, as members of Congress, to look favorably on these issues when they come before you at another time. I want to thank you for the opportunity to testify before you, and I'm willing to answer questions.

Chairman Peterson: Thank you very much, Mr. Gangwish. I appreciate you shortening up things a little bit. We've got a lot of witnesses and a lot of members here that will be asking questions, and we've got to be back to Washington to vote, so I'm going to maybe...when the yellow light comes on, you need to kind of get going to wrap it up. Mr. Sombke, welcome to the committee.

Mr. Doug Sombke: Thank you, Mr. Chairman, Member Goodlatte. Stephanie, thank you. Everything these two gentlemen just said, ditto. *[Laughter.]*

Chairman Peterson: Somebody in Lubbock did it in about two minutes, and I gave them a lot of extra credit, so... [*Laughter.*]

Mr. Sombke: Well, first of all I want you to understand that we did – South Dakota Farmers Union did have another individual willing to testify today, but he's home planting, where I should be planting. I've been farming for 32 years, and in my area of the state of South Dakota, we are way behind in planting. We just got started last week one day, and now we've been getting just wetter and wetter. Yesterday we finally were able to go again. It wasn't pretty. That's all I can tell you.

There's a lot of trouble out there in the northeast part of the state of South Dakota. Thank God President Obama declared a disaster area for us in the state of South Dakota this last week, and it's helped us immensely. We at least will be able to get FEMA in to help us with our infrastructure. Not only is our cropland super wet, we are struggling tremendously with roads and bridges and trying to get to the fields, let alone get the crop planted.

So with that, I've also been able to serve as the president of South Dakota Farmers Union for the past five years, along with being a farmer, and I can tell you that it's probably one of the most rewarding jobs I've ever had. I've been able to talk to individuals such as yourselves and other members of Congress on behalf of farmers. And that, to me, means a lot more than just complaining about it in the coffee shop.

I know that crop insurance is a big issue with you, and it is for farmers as well. But I can tell you this: without crop insurance, as Mr. Duffy instructed, farmers have grown to use that as a marketing tool, have been using it to market their product when they don't have it available, and bankers have come to rely on it as well. Our communities have come to rely on it. Any major change to crop insurance would be felt very dramatically across rural America, I can tell you that.

My family – I have three sons that farm the farm with me today. My last one just graduated from college just last weekend, and I'm more than happy to say that they all want to come back to agriculture, which is really surprising to me considering the trials and tribulations that we go through. The good Lord has definitely blessed us in a number of different ways, but at the same time, he's placed many challenges in front of us.

We've been able to supply an abundant amount of food for this nation, and will continue to do so. But we have to be profitable. I think that's the main thing that you've got to remember here. Farmers need to remain profitable. Without a chance of being able to make a profit, young people will not come back to the farm. In the state of South Dakota, the average age is 57 years old, the average farmer. That's up there. I just turned 50. I'm a grandfather. I'm proud to say that. I'm proud to say that I'm 50.

But the fact of the matter is, how do I pass my farm on to my children and have them continue to do the same thing? I'm a fourth generation farmer in my family. On the farm that I farm today, back 32 years ago when I first started farming beside my dad, the balance of our operating loan was \$120,000. Today it's 1.3 million on the same amount of land. We need to be profitable. This isn't about farmers just making money, this is about rural America making money as well.

This is how you put the country back to work. You put money back into agriculture, agriculture pays you back. Simple as that. I'm not going to go on any further. You got my written testimony. I appreciate you coming to South Dakota, and welcome to South Dakota. My mama always told me that if you don't treat people the way you want to be treated in your home, you're in deep trouble with her, so welcome.

Chairman Peterson: Thank you very much. And as a Farmers Union member, I commend you for your leadership and the work in that organization. Mr. Masat, welcome to the committee.

Mr. Steve Masat: Mr. Chairman, members of the House committee, my name is Steve Masat and I am from Redfield, and I'm here representing myself as well as South Dakota Wheat Incorporated, or the what producers of South Dakota. On my farm I raise spring wheat, soybeans, corn, alfalfa, and I use precision farming on the grain side. I also have a feed lot operation as well as a cow calf. In my livestock operation I do have a permitted feed lot, so I do work to keep the environment better than the way I left it. For you that are not from South Dakota, we mainly grow winter wheat, spring wheat, and some hard white wheat, which is winter wheat, which is new. Been pretty successful at it so far.

I'm going to summarize some of this stuff to try to get your time down here, but for the most part I guess I feel a lot of the direct payments, counter-cyclical payments are kind of working. Beyond that, our group is open to any new ideas that producers have. Crop insurance, I agree with these other three fellows. One thing, being a wheat producer up in the part of the state that I am from, we cannot get winter wheat coverage because of winter kill. I think that's something that needs to be looked at, and that has been very beneficial for waterfall production.

The conservation programs, I have participated in the CSP program. I have participated in EQIP and a small portion in CRP. I believe in these programs. CSP is a wonderful program for my operation. It's things that I've been doing. It enhances things we've been doing. In the Jim River Valley where I live, we have salt issues. Good programs. They're being looked at correctly.

Of course we are big supporters of biofuel, and onto biotechnology, we would like to see more research done in wheat. And we also...alfalfa would be very important to have in part of our operations. And for my own operation, we have the draws that we can't farm. Here come the salts. If we could plant them into Roundup ready alfalfa, come across it with...plant biotech crops around them,

spray Roundup across them, we would leave the alfalfa there, we would be better stewards of our property. So I think personally this is very important.

With that, I'd like to thank you folks for all coming here. Appreciate you coming to the great state of South Dakota and thank you.

Chairman Peterson: Thank you very much. You guys are earning big points here summarizing. Mr. Scott, welcome to the committee.

Mr. Kevin Scott: Good morning, Mr. Chairman, members of the committee. I'm Kevin Scott, a soybean and corn producer from Valley Springs, South Dakota, which is located about 15 miles east of Sioux Falls. I appreciate your invitation to appear today to provide some views on the '08 Farm Bill and future farm policy.

My wife [Janelle] and I have been married for 29 years next week, and we have six children. I'm a fourth generation family farmer in partnership with a brother, and I hope our operation will continue to serve the community and provide for future generations of the Scott family.

The farm program, of course, was created as a safety net for growers and for food security for the nation. My farm has participated and been supported by the safety net provisions many times. The '02 Farm Bill was especially helpful to us in a time of extended low commodity prices. Many farms would not have survived without the underlying support we had and they had. For those of you who helped pass prior farm bills, we thank you, and we appreciate what you've done for us.

In preparations for this statement, to get a more comprehensive view of current farm policy and how it affects farmers in South Dakota, the South Dakota Soybean Association members were surveyed about provisions from the '08 Farm Bill, and here are some of their comments. Direct payments. They've been around for a number of years, and during their history, provided much needed support when commodity prices were poor. With today's commodity price levels being higher, the direct payment program is not as much a necessity as it was in the past.

The SURE disaster assistance, some perceive it as complicated. Multiple program changes occurred after the program began. Producers and farm service agency officials were hard pressed to keep up with those changes. It has been a pleasant surprise for some producers who incurred losses in their operation and did not realize they were eligible for compensation.

Bio based product initiatives. This initiative has been instrumental in helping fund the development and production of soy based products that originate here in South Dakota. For example, South Dakota soybean processors in Volga, South Dakota have brought to market products that replace petroleum based foams, insulations and plastics with soy based alternatives.

Conservations programs. U.S. farmers work very hard to conserve the resources that provide for our families. We have to maintain them or they will not sustain us. And farmers are environmentalists. Clean air, water and fertile soils are among our most important assets. That's about all I have to say on that one.

The ACRE program. It's complex, confusing, difficult to administer are some of the responses we had. I chose this option for many of my farm acres because it was recommended to me and it added a revenue component to the safety net. The program adjusts for fluctuating grain prices like crop insurance does, but statewide yield and price points to gauge payment rates. Due to their location, type of crop and livestock operation mix, some of our South Dakota Soybean Association members did not think the ACRE provision was as good a product as the traditional program. Most said it was difficult to determine which program would offer the best protection for their farm, and clarity will come with time on that program, we know.

Crop insurance. Though crop insurance is not part of the '08 Farm Bill, it has become an increasingly important part of risk mitigation that is necessary in farming today. It is not uncommon to have \$600 per acre of expense into a corn crop prior to any income. Most farmers cannot afford to risk that amount of money without some protection.

Crop insurance with the revenue assurance option is what I use on my farm. It covers up to 75% of my expected revenue for the crop I am insuring based on spring and fall grain prices and my proven ten year yield history. I can choose to buy more or less coverage based on the amount of risk I feel our operation can afford. The coverage is also specific to where I farm, not the whole state or even the county. Crop insurance is a critically important device for growers in South Dakota and the nation to help avert risks of production and commodity price fluctuations.

Thank you again, Mr. Chairman, for inviting me to appear today and share a few preliminary thoughts on the 2012 Farm Bill. The South Dakota Soybean Association and I look forward to additional discussions on the farm bill in the future. I'll be happy to answer any questions.

Chairman Peterson: Thank you very much, Mr. Scott. Mr. Wolle, welcome to the committee.

Mr. Matthew Wolle: Thank you, Mr. Chairman, Congressman Walz. I appreciate the invitation to speak in front of you today. I'm here representing beginning and young farmers. That's my major qualification being up here is I'm young and I'm inexperienced. I also use that line in my marriage. I've been married about eight months now. A beautiful woman from Rapid City, South Dakota. But I look forward to, seriously, working on the 2052 Farm Bill, long after everyone in this room has retired, so I'm taking the long view. *[Laughter.]*

I'll start off by addressing conservation. EQIP, CRP, CSP, I participated in these. I feel farmers are the front line in conserving our national resources in this country. I believe the programs we have in place do a very good job of encouraging that, and my key point on this would be it's best to get beginning farmers and ranchers involved early in these programs, so I would encourage you to consider dedicated funding for young and beginning farmers in this area of conservation. It's best to get them when they're young, when they have a long time to practice what they've learned in these programs. It will provide much more dividends.

Risk management. Farming is risky business. The amount of risk in a modern farming operation is substantial, and you've heard that from established farmers. It's even more substantial for young, beginning farmers that don't have a net worth to sustain losses in their business. Providing a revenue based safety net in case of disasters and market volatility is key, I believe, to keeping young people on the land and involved in agriculture. I believe the ACRE program is a good start at this. For me, I [sell] corn and soybeans. We haven't lived through the program a full year, so it's kind of too soon to tell, but hopefully by the time 2012 rolls around we'll have two years under our belt and we'll be able to tweak that to make it a much more applicable program, finesse it out, if you will.

Finally, the major thing I'd like to touch on is farm transition. Several key points in this area, tight credit being the first one. Most lenders do not want to assume the risk of lending to someone with zero net worth, beginning farmers and ranchers. As I alluded to earlier, it's very risky. It's weather driven whether you'll get a crop or not, there's market volatility depending on what happens in Brazil, what happens in China, many things that are out of our control. Therefore, lenders look at that and say, "I'm not going to put my money in this. You're not a viable option for me."

And they'd much rather lend to established producers or let someone else cherry pick, if you will, the young, beginning farmer after he's got five or six or seven years, if he makes it that long, then take his loan on. I believe we should do a fundamental shift from the USDA being a lender of last resort to maybe a lender of first resort. Could spearhead a new initiative to say, yes, we're going to take on young farmers. We realize it's risk, but we realize that we need young people on the land, working the land; we need a next generation of farmers.

I believe loan limits should be increased. The loan law process needs to be streamlined. And if I had my druthers, I'd like to see succession planning. I believe Iowa and Nebraska, at the state level, have some very good programs that we could model at a national level. Minnesota currently does not have anything along those lines. Some incentives for older generations without an heir apparent to rent to some young individual who's not a relative, get them started in farming, pass along a lot of the knowledge that they've accumulated in their life farming to the next generation. Incentivize them to do that some way.

I also feel rural development, infrastructure as well as leadership, needs to happen. We need young people on the Lions committee, we need young people on the church board, we need young county commissioners. We need young people back to carry the load because the older generation has done that for many years, and they're tired of all the committee meetings and being on the town board. We need young people back there to pull the weight and get it over the hill.

In conclusion, the foundation of our modern society rests on the ability of some to produce food for others. I feel the main goal of the 2012 Farm Bill should be to insure that there is a well educated, financially viable next generation of farmers to carry on the task of feeding the nation. Thank you, Mr. Chairman and committee members for your time and the opportunity to address the committee. I look forward to answering your questions.

Chairman Peterson: Thank you very much, Mr. Wolle, and we hope there's many more young people like you that come forward and get into farming. It's important to the future. Mr. VanderWal, welcome to the committee.

Mr. Scott VanderWal: Thank you, sir. Good morning, Mr. Chairman, Representative Herseth Sandlin and other distinguished members of the House Ag Committee. My name is Scott VanderWal from Volga, South Dakota. I farm with my family in a diversified operation producing mainly corn and soybeans, and we also operate a custom cattle feeding operation. I've served as president of the South Dakota Farm Bureau since June of 2004, so that's my second full-time job.

I thank the committee for conducting this hearing in South Dakota, and the members here today for spending your time and effort to come to this committee. I've done this a couple times before, testifying before House committee hearings, and this is by far the largest number of members of Congress that I've seen at these committee hearings, so I appreciate that and appreciate your commitment to the very important issue of agriculture in our country.

The 2012 Farm Bill should treat production agriculture as a strategic resource of this nation and be constructed to further enhance that resource. A healthy, prospering farm and ranch sector is of paramount importance for this country and its citizens. In my view, the health of our agriculture industry is a national security issue. We've all seen the consequences of our reliance on other countries for a major portion of our energy needs. The importance of avoiding doing the same thing in regard to our food and nutrition needs cannot be overstated.

I've just got basically eight main points that I'd like to make this morning. I'm going to keep it very brief by just making a couple comments on each one. But these are some of the challenges that we see lie ahead of us as we formulate the next farm bill. First of all, fiscal responsibility. We recognize that restoring this country's fiscal integrity must receive the highest priority from everyone, and that includes farmers and ranchers.

Reduced spending by the federal government must happen in order to insure economic opportunity and national security for future generations. We do ask that agriculture be treated fairly as we go through the process and not suffer disproportionate cuts in federal spending, recognizing that the entire USDA budget, including food and nutrition programs, amounts to less than a half a percent of the federal budget.

My second point is funding allocation. The Farm Bureau supports the allocation of funding across the titles of the present farm bill. We will resist shifting funds from one commodity title to another one, with one exception: potentially transferring dollars from the commodity title to the insurance side of the program in an effort to improve that side of the issue.

Number three, balance and fairness. The Farm Bureau is a general farm organization, with members who produce all commodities. Our overriding goal is to maintain balance and benefits for all farm sectors. Shifting benefits from one commodity to another is divisive and many times unfair.

Number four is world trade. There may be a need to include options to comply with existing trade agreement obligations and WTO litigation rulings that are in place now. However, we would resist efforts aimed at presupposing the outcome of WTO negotiations. To do so would reduce our negotiating leverage on behalf of the United States.

The fifth point I'd like to make is market orientation. We favor a market oriented farm policy with less reliance on government and more on market signals, including adequate options for insurance and revenue assurance products to help producers better manage during times of market fluctuations and weather related hazards.

Number six, world markets. The farm bill must enhance U.S. ag producers' opportunities to access world markets on a competitive basis. The Farm Bureau supports the Administration's call for a doubling of U.S. exports. We recognize achieving that goal would benefit ag producers, jobs, and the overall economy. We believe a good place to start that expansion would be with enactment of the free trade agreements with South Korea, Colombia and Panama. We watch with major concern as those three countries continue to develop trade agreements with our competitors, but we're getting left out. We're no longer standing still in ag exports across the world; we're going backwards.

The SURE program, just a quick comment on that. If the shortcomings in the SURE program are not corrected in the next couple of years, an improvement will be necessary in the next farm bill. SURE payments are not available till a full year after the end of the crop year in which a disaster occurred. This needs to be corrected so that assistance is more timely. A producer who is in [danger] of going out of business due to some kind of a disaster most likely does not have the financial ability to hang on for another year waiting for that assistance.

And finally, the ACRE program. This provision in the current farm bill is extremely complicated, and the many unknowns have caused producers to hesitate to sign up. In addition, the cuts in the DPs and the MALs are more of a deterrent in some crops than others. So in conclusion, we're certainly committed to working with each and every one of you as we go forward in the formulation of the next farm bill. And again, I appreciate your attention to this issue today. Thank you.

Chairman Peterson: Thank you very much, Mr. VanderWal, and thank all the members of the panel for your excellent testimony. We will now go to questions. I'd like to say I think most of the members here read your testimony ahead of time, or staff did, so we've been through the details, and we appreciate that. But sometimes the important stuff is the question part of things, so we recognize Ms. Herseth Sandlin for the first questions.

Rep. Herseth Sandlin: Thank you, Mr. Chairman. Thank you all for your testimony. A number of you touched on the ACRE program. We appreciate the leadership the South Dakota Corn Growers and the National Corn Growers Association, working with other commodity groups in anticipation of the last farm bill to look at a revenue program as an option versus the traditional price support programs.

So for those of you that addressed ACRE, others that want to comment, one of the things that we pursued as we were looking at the 2008 Farm Bill was whether or not we should be basing this new program on a county basis, sort of the county basis information versus statewide, because we know here in South Dakota or in neighboring states in our region, there are such varied weather patterns and other circumstances by state that that could have possibly been an additional challenge or disincentive for producers to enroll.

So Gary, I know you had identified some challenges. Others of you talked about the complexity of the program. What are your respective views on whether or not you think, either for yourself or other producers in your area, it would increase participation if we based it on a countywide basis versus the statewide basis?

[Mr. Duffy]: I think basing it, from my personal opinion, basing it on a countywide basis would be an improvement over the statewide basis. A bigger improvement would be making it more localized yet, because I live in southeast Kingsbury County, and the rainfall that I get in southeast Kingsbury County is dramatically different from what they might get in western Kingsbury County. But it would be a great improvement.

I think one of the stumbling blocks, as I mentioned, is the landlords. We were fortunate in our operation that most of the landlords that we had to deal with were family, and so they trusted our judgment and gave us the go ahead to do that. There's a lot of operators that are not in that position to do that. So I think there's a major education effort that has to be gone through to do that. And so it's

complicated enough for me to figure out, but for me to explain it to my 75 or 80-year-old landlord is going to be really tough.

Rep. Herseth Sandlin: Any disagreement with trying to improve it by looking at a more county or local level?

Male Voice: I'd like to make one comment. One other thing you might consider doing is going off productivity, and that is a number that most county soils have, depending on where you are in the state. I know our county has that. That might be something that history will equal across the board in that county. And I don't know how it is for the rest of the parts of the United States.

Rep. Herseth Sandlin: Thank you. Scott?

Mr. VanderWal: Thank you. Yes, I think most of our members would say that if we could zero in on a county basis it would enable you to make the program more friendly to more producers. The however on that would be that our economics department came up with some numbers that indicate that it could cause a budget problem if you go to that kind of system, so that might be just a thing to keep in mind.

Rep. Herseth Sandlin: Good point, Scott, and I appreciated your testimony as it relates to the tight budget environment, the baseline we'll be having to utilize for the next farm bill and the allocations and the importance of preserving the safety net, either in the commodity title or through the crop insurance program. One final question.

Mr. Gangwish, you had mentioned this, but I think all of you, that I know so well, we know how important the energy title was in the last farm bill. And why the VTEC and the blend wall, they may be outside of the parameters of the farm bill, we know how important having an additional market in biofuels has been to reducing the amount of payments that we've made to corn growers and other producers in the commodity title.

The Chairman and I were reviewing charts here a couple weeks ago where we have had zero payments under the LDP and counter-cyclical program for the last three years at least for corn producers. So I think a couple of you had mentioned this issue in terms of overcoming the blend wall, extending the VTEC. Do you anticipate, based on your increased yields, based on what you know is going on in South Dakota or throughout our region, if we don't overcome the blend wall, do you anticipate...what do you anticipate in the markets in terms of what the safety net may have to provide?

Historically, I know you had mentioned we never thought we'd go under 3.60, 3.70 a bushel and then we saw the drop, and now it's been holding more steady. But any thoughts on what we might be facing if we don't deal with some of these issues outside of the parameters of the farm bill and the impact that they could have on the commodity title?

[Mr. Gangwish]: I think we need to continue to increase the demand and the use for corn at the same rate that we...and the rest of the crops that we grow at the same rate that we are increasing our production. And if you look at trend line yields, and if we are to believe the geneticists and the companies that are developing our seed, we're going to have a lot more corn five years from now and ten years from now than we produce today.

I just mentioned that on our farm...when I came back to farm in 1974, my dad was bragging about having raised some 150 bushel corn. Today, on the commercial corn that we raise, we raise 250, 260, 270, 280 bushel corn, and that's just a fact of life. We're irrigated, we mitigate some of the other weather perils by that, but yes, we need to look at this, and it's very important to the profitability of American agriculture.

Rep. Herseth Sandlin: My time has expired, and we do, as the Chairman stated, we're short on...we've got some strict time limits today, but if others of you would like to comment, again, we'd like a written response, if you're interested, on the particular impact without having those markets or not overcoming the blend wall on the payments that might have to be made with the surplus of grain production that we'd see. I'd now like to turn it over to the gentleman from Virginia, my good friend Mr. Goodlatte.

Rep. Goodlatte: Well, thank you. Mr. Duffy, you promote the ACRE program as the best defense against volatile markets if properly implemented. Do you think there are problems with the program's implementation?

Mr. Duffy: Well, I think it's a complicated program to get your arms around, especially with the state trigger. I know what my production history has been. As a marketer, I'm somewhat guessing on the price. But to have that state trigger, it's kind of tough to get your arms around it, so I think that's one of the things that we would like to do, is to get it more localized, at least down to the county level.

Rep. Goodlatte: We've heard from southern producers that ACRE doesn't work for them. Do you think the program can be changed to benefit producers in all regions?

Mr. Duffy: I'm sure that there's some tweaks in it. I guess I'm only familiar with the corn and the soybean part of it. I guess I don't feel qualified to answer for producers in other parts of the region.

Rep. Goodlatte: Anybody else have an opinion on that? Mr. Scott?

Mr. Scott: We've talked about the difficulty of the implementation of that program, and I've talked to my FSA office a number of times and been in there, and they said the hardware and software portions of this, trying to get it figured out on their basis is really tough also. So if the FSA can't quite figure the program out, it's really difficult for farmers to figure out. And as far as us speaking about whether the southern producers, it would be easier for them or not to go into the ACRE

program, it would be really difficult, being that it's hard for us to know, and we've been in it for a year. But like was discussed, it's really hard to know so far, and time will heal that, I think.

Rep. Goodlatte: And following up on the questions from Ms. Herseth Sandlin, and recognizing, as she did, that this committee, unfortunately, doesn't have jurisdiction over everything that we might like to in resolving this, if we were to create a situation in which – if the Congress as a whole were to create a situation in which consumers had the maximum discretion in terms of how they blended their gasoline with their ethanol, and were able to create an opportunity for a real competitive marketplace in that regard, where people would make individual decisions about what level of ethanol use they wanted to make, how quickly could we move in the direction of more free markets overall in terms of eliminating the tax credit and lowering the tariff barriers on international competition in this area? How competitive do you think this growing industry is, and how quickly will it be strong enough to allow the federal government to save a substantial amount of money in terms of those tax credits? Anybody want to start there?

Male Voice: Mr. Chairman, well, first of all, the infrastructure is the challenge with that, and the education. I mean, those of us in the Midwest, we've been schooled on blending for several years, so we understand it. Those on the coasts don't understand it quite as well. And how do we get the ethanol from here to the coasts? That's going to be another limiting factor. When we get there, when we get to that point, I think we'll be very competitive.

Rep. Goodlatte: Well, what about producing it on the coast? Being someone from one of the coasts, we recognize that we're not ever going to be competitive with you in corn production, but we certainly hope that in the South and on the East Coast that other sources, whether it's timber or other forms of feed stock that grows in abundance in our areas but has no useful agricultural purpose today, being converted. Where do you think we're headed with cellulosic ethanol?

Male Voice: I think we're headed down the right path, and there's a number of plants in the Midwest that are using both, refining, getting better. I think that the bio industry has a big future in that area. I think that you'll notice in some areas where they're using wood chips. I know they're shipping wood chips from our area along the Jim River bottom over into Minnesota, [burning] in the Benson plant, and it's working quite well. So I think they're gaining. I think they're making it more efficient. I think there's a bright future in that area.

Rep. Goodlatte: Thank you. Let me ask Mr. VanderWal a separate subject. On my earlier comments about fiscal responsibility, your testimony promotes that, and I wholeheartedly agree with it. Because of federal overspending, have you noticed any tighter credit standards that you and other farmers are facing?

Mr. VanderWal: Personally we have not on my farm. I've heard some people saying that it's a little bit more difficult to get their operating loan lined up for next year.

I think more in terms of just bankers wanting more information and more documentation, possibly a more concrete marketing plan, things that we probably ought to be doing anyway. I haven't really heard of a lot of people getting flat turned down at this point.

Rep. Goodlatte: Thank you. My time's expired. Thank you. Madame Chairman?

Rep. Herseth Sandlin: Thank you, Mr. Goodlatte. Mr. Walz.

Rep. Timothy Walz: Well, thank you to the Chairman and to the Ranking Member, and of course to our host, Representative Herseth Sandlin. I'm very appreciative to be back here. Of course as she knows, I grew up just a little bit south of Bonesteel on the Nebraska side of that, so it's good to be back in the big city for a while. I'm very appreciative to be here with my colleagues.

This is a committee I very much look forward to our testimonies. It's critically important and these folks are friends and colleagues. I learn much from them. The Ranking Member has spent a lot of time helping me see things from a different perspective, and that's helpful for us in Congress. And so thank you all for being here. Your testimony is incredibly helpful. This is how we learn and this is how it's written, so I feel very, very good about this.

Matt, thank you for being here. You have other qualifications, and not just being a grey hair. It comes with experience. But this scenario that I do think my colleague Ms. Herseth Sandlin absolutely critical we look at demographics of what's happening on the farm. Absolutely critical we get this right to get our young producers and incentivize this in the right way, both from a market perspective of opening up – I think someone said if they're not profitable, they're not going to come back to the farm. You're absolutely right. That has to happen.

But I think we need to understand of some of the things we're doing to incentivize that, and Matt, you talked about using some of those. Anything in particular? If you had one or two things to enhance that, again, from your testimony, that you'd leave us with, of making that job easier? I know the capital requirements are a big one.

Mr. Wolle: You know, we talk about coordinating cohort groups possibly, sharing...there's a lot that a farmer...a farmer wears many, many hats. I looked at my father one time when we were out fixing something, and I said I wasted my years in college because nothing prepared me for this. And there's some of that learning in agriculture, but there's also this intrinsic knowledge that people learn from making mistakes that if I can learn from someone who's made that mistake, then I don't have to repeat that mistake.

And I don't know how you transfer that knowledge from an older generation to a younger generation, but cohort groups of informal learning with young farmers and the older farmers, or some sort of...and getting them involved in leadership and commodity groups and Farm Bureau, Farmers Union, some way of

spearheading that. You don't need to reinvent the wheel. There are organizations already doing this. But maybe coordinating them, and collaborating together would be key.

Rep. Walz: Well, we look forward to working more on this, and I want to tell you, all of your testimony is...I think all of us know the food, the fuel, the feed, the ability to produce the safest, most abundant and affordable crop that feeds the world is absolutely critical. There's a lot more that comes out of these rural areas. All of us share a lot in common. Secretary Vilsack used a statistic that I like a lot. Rural areas have about 15% of the population. About 50% of our military folks are in that. It says something about the culture that comes out of rural areas.

And I said I think some of the times we get caught up in the details of this. This is a much broader issue. This idea of fiscal responsibility is absolutely critical, and it can start right here as a model for this. I say this because I think we need to be very careful, this idea that all spending is not created equal, and the idea that we need to get things right.

But when you talk about freezing budgets across the board, that means you're going to freeze programs that are absolutely useless and you're going to freeze programs that should be plussed up that have a return on the dollar and grow the economy. We need to start getting out of this it's either/or, it's this or that, you're for this or you're against that and start dividing. That's not the way you do it in your business, and I think we need to start figuring out to grow that pie. I love this idea we're talking about, increasing markets, and I love the idea of the value added that we've all done.

And one of the things we need to talking about here is we've got an issue in transportation in this country. We need to upgrade our transportation system, we need to finish the [Werda] bill, we need to make sure rail is competitive, and we need to make sure all those things are happening together. The banking sector that's happening, that's going to impact us. We have all of these things that we can't see it in just a vacuum; it has to be much broader.

And all of you are bringing that expertise, so I look forward to working on this bill because I think, once again, the farm bill can be a model for how good government can work and how we can incentivize the private sector to grow the jobs and create this country. We can do it and we can make it happen, all while being fiscally responsible. So I thank you, Mr. Chairman, and I yield back.

Chairman Peterson: Thank the gentleman. I recognize the gentleman from Alabama. We were in Alabama on Saturday, I guess it was, and we learned all about peanuts and cotton and all those good crops, and we appreciate Mr. Rogers being with us.

Rep. Mike Rogers: I also had the privilege of helping the Chairman eat his first fried dill pickles. [*Laughter.*] I don't know how it is here, but if you can batter it and

deep fry it, we can eat it in Alabama. [*Laughter.*] This is my first time in South Dakota, and it's pretty, just like your member of Congress. And I had the great privilege yesterday of getting to visit the POET ethanol plant, and it was just really exciting to me because they appear to be on the cusp of figuring out the cellulosic technology, which is going to be a big deal for my region of the country, and I'm excited about that.

But what I want to talk about was crop insurance and direct payment. I heard several of you touch on crop insurance. My question is simple. If we were able to get the crop insurance reimbursement rates higher, maybe 80%, 85%, with a premium that you felt good about – Mr. Scott testified a little while ago that direct payments really don't help with prices being high – would you be willing to opt out of the direct payment and counter-cyclical payment programs for that very favorable crop insurance program? Anybody that wants to take it. This is pretty much what I got in Texas yesterday – a deafening silence.

Male Voice: A blank stare.

Rep. Rogers: Mr. Gangwish.

Mr. Gangwish: I would just say that it depends on what the payment is, or it depends on what the protection is. I'm in a part of Nebraska that our primary – as I said in my testimony – our primary peril is hail, and so we use federal crop insurance to insure the bottom portion and then we buy up with top portion coverage. And we can't be without hail insurance because one – we may only get hail once every 20 years, but we could be out of business if – one year of hail could take us out of business. We had that year last year in 2009 with about 60% of our acreage wiped out by hail. But if we had, as you mentioned, an 80 or an 85—

Rep. Rogers: Or it could be 90. Say if we had a crop insurance program that you and your banker found very attractive, would that be favorable enough for you to say I'd rather have that than direct payments and counter-cyclical payments? Because we'd have to pay for it some way, this enhanced crop insurance program.

Mr. Gangwish: I would look at that because the amount of our direct payment – ironically, I hadn't thought about it until you mentioned it – but the amount of our direct payment is about equal to the cost of our crop insurance package for crop insurance and hail insurance. We're just about offset... [*Tape interference.*]

Rep. Rogers: ...in this farm bill we're going to be able to present that to people like y'all as well as people in the farm credit business. And it may be something that you may have that option. Mr. Scott, did you have something you wanted to say?

Mr. Scott: Well, in our area, I mentioned direct payments are not quite as important to us. On corn and soybeans, those payments are not very high. Now, on the rice and the cotton and those sorts of things that you'd probably be more familiar with, they're a little higher than that, but in our area, a lot of those, we tend to be a pass through. A direct payment is something that can be visually seen and identified,

and land rents can go up based on they know you've got \$10, it can go on through. So just my two cents there.

Rep. Rogers: Mr. Masat?

Mr. Masat: Yeah, I'd like to make a comment on that. You know, some parts of the United States, federal crops are very profitable for the companies. Here in South Dakota I don't think it is because we collect a lot. So that's something you want to probably consider into your thought process. There's going to be thousands of acres in the state this year that's going to be preventative plant. We go from that to a drought. So it's very variable, just like our counties when we were talking about these other programs. We've got land that will produce 100 bushel corn and land that will produce 200 some within five miles, so there's a lot of variance of what goes on.

Rep. Rogers: Thank you, Mr. Chairman. I yield back.

Male Voice: Could I make just a short comment?

Chairman Peterson: Go ahead.

Male Voice: I think you could also possibly look at that in combination with the ACRE program with some tweaks, and between the two of them I think you could come up with something that would work very well.

Rep. Rogers: I agree with you.

Chairman Peterson: Thank the gentleman. What percentage of South Dakota signed up in the ACRE program, do you guys know? Oh, yeah, and I could just take this opportunity. We have some people with us that we want to recognize. The FSA state director, Craig Schaunaman with us. Why don't you stand up and be recognized? The state rural development director, Elsie Meeks, and the NRCS state conservationist, Janet Oertly. Why don't you give them a hand for the great job they do? *[Applause.]*

We also have the North Dakota FSA state director, Aaron Krauter with us. *[Applause.]* The Nebraska FSA state director, Dan Steinkruger. *[Applause.]* And the acting secretary of the South Dakota Department of Agriculture, Jon Farris is with us. *[Applause.]* Mr. Schaunaman, do you know what the percentage is that signed up in South Dakota?

Mr. Craig Schaunaman: Eighteen percent.

Chairman Peterson: Eighteen? Okay. How about North Dakota?

Male Voice: Ten percent.

Chairman Peterson: Ten percent? I would assume what we've heard other places is that most people would like us to look at going to the county, and county by county rather than state. Would you all agree with that? And the area of South Dakota that had the disaster problems, I guess the northeast was the worst hit, will they get SURE payments? Does anybody know?

Male Voice: Yes.

Chairman Peterson: Do you know what percentage of people will get SURE payments?

[Response inaudible.]

Chairman Peterson: On the wheat, we had a meeting with some people, and apparently there's a new crop insurance product that's being tried and put together, some kind of a deal that's being put together between Ducks Unlimited and winter wheat for cover crops and getting a better insurance coverage. Are you guys involved in that effort?

Male Voice: Yes, we are, and that's where I was referring to...because we do not have – and I'm in a county that has not a winter kill. We plant winter wheat, it has to be inspected in the spring. If the stand is not good enough, then they won't insure it for us. But the county that's five miles away from me, both sides have that. That's something that we'd like to see expanded all the way up into North Dakota also.

Chairman Peterson: We're looking at it even in Minnesota and northern Minnesota to try to move in that direction and get a better cover crop, and I think we're going to be successful in being able to come up with something that's going to work for the people, and I think it will be better for wildlife, be better for the wheat farmers and better for everybody. One other thing. I've got this bill, HR 4645, to expand trade with Cuba, and we hope to bring that bill up the first part of June in the committee. Yes or no, do you guys support that bill? I see everybody's on board, it looks like.

We're hoping that we'll be able to get some good support in the committee to get that moving, and we'd like to see some of these other trade agreements move as well. But if we could get Cuba done, I think it's a lot of opportunity, especially for wheat. Rice, we heard that in some of the other hearings. And we're trying to think out of the box a little bit and figure out how to make these programs work better together.

I know my own personal opinion is we've got too much...we've kind of added stuff on top of different programs, and I don't think they work together as well as they should or could, and that's one of the things we're trying to do, is see how we could make these programs work better together with crop insurance, how they can be simpler, less complicated, and hopefully maybe more efficient, so we look forward to working with you as we do that.

The gentleman from Texas, Mr. Conaway, who we're working on to get him to understand the benefits of ethanol. [*Laughter.*] Being an oil and gas guy, he's a little bit reluctant, but he's coming along, I think, a little bit maybe.

Rep. Mike Conaway: Well, thank you, Mr. Chairman. It's not the first time I was thrown under a bus. [*Laughter.*] I went to Havana with a group of ten members of Congress, nine of whom wanted full and open trade with Cuba, and one of which didn't. I was thrown under the bus every single meeting there, too. But it is great to be in your wonderful state. Like my colleague from Alabama, yesterday was my first time to set foot in South Dakota, and actually, my first time to eat a fried dill pickle also. We had them last night at the Ramada Inn, so it's terrific to be with you.

I won't take up all of my time. I do want to ask one question of Mr. Scott and Mr. Gangwish. Seventy percent of your acreage is in the ACRE program, and Mr. Scott, your testimony said 75. Have you been through a full cycle yet where you signed up with the program, had a crop, did or did not collect at this stage?

Mr. Gangwish: No. Two Thousand Nine was the first year, and it's kind of funny, we signed up at the end of 2009, or halfway through for the whole year, and we did not have a claim. In order to have a claim in the ACRE program you've got to have a pretty significant impact on either price or yield. And as I said, it's giving up a bit of your direct payment to buy like a put. It's insurance against some catastrophic thing. But when you look at the other alternative, the rest of the farm bill as it's written, you have to really have a disaster to collect anything on the rest of the farm bill, the way the current farm bill is written. So we looked at it as a progressive, proactive—

Rep. Conaway: So your direct payment was not so valuable as to cause you to not get into the ACRE program—

Mr. Gangwish: We gave up 20% of our direct payment. I'm a risk taker. I said I'll give up 20% of it on that 70% that we signed up to insure against some catastrophic drop in—

Rep. Conaway: And which crop is that?

Mr. Gangwish: Corn and soybeans. And we take corn below \$3 and have a dry summer this year, we may collect on the ACRE program.

Rep. Conaway: Okay. Mr. Scott?

Mr. Gangwish: I'm talking about \$3 futures. That would be 2.75.

Mr. Scott: I would concur with most of that. It just was a matter of our direct payments are not that large, and 20% was not much to give up for the potential revenue assurance that that program gave us. And at the time, the prices were high when

we signed up and so there was a significant risk that we could lose value there and collect. But there again I don't think we'll have any payment this year.

Rep. Conaway: I represent an awful lot of cotton farmers, and direct payments to them are a big deal, and they're very reluctant to trade one for the other. Mr. Masat?

Mr. Masat: Yeah, I would like to – I'm on the other – I didn't ever take that program. I never liked to do it. First of all, we have the opportunity ourselves to control the prices, I mean, as far as locking in. You referred to it as a put option. We can do that in the marketplace ourselves if the market is high enough where we can do that. Second of all, we have crop insurance to protect our yield, so I guess that's why I chose to stay out of it.

Rep. Conaway: Thank you very much. With respect to what appears to be a conflict between oil and gas and ethanol, I don't see it as a conflict. We import 65% of the crude oil we use every day. That's an awful lot of non-U.S. produced crude oil that we don't need – or we need, but we ought to be buying it from our own self, and so I'm not against ethanol. I do want it to be market based, and I'm hesitant to force the infrastructure costs onto merchants and retailers. We've got to figure out how to make that work.

But I represent an awful lot of independent oil and gas operators in west Texas, and we don't see ethanol as a threat to their way of life because we import so much crude oil from folks who don't like us. We give them that money every single day that we shouldn't be doing, and so I think there's plenty of room in the market for increased domestic production of crude oil and natural gas as well as all the ethanol we can do, whether it's cellulosic or corn based. It's not a real big fight, but we'll keep working it, Mr. Chairman. I yield back.

Chairman Peterson: I thank the gentleman. The gentle lady from Colorado, Ms. Markey.

Rep. Betsy Markey: Thank you, Mr. Chairman, and thank you, Congresswoman, for hosting us here in Sioux Falls. It's my first time here. One of our witnesses mentioned that in terms of the overall budget that our ag programs represent one half of one percent, and that is pretty small, and particularly when you think that just a little over a hundred years ago, the average American was spending about 40% of their income on food, and now it's about 10%, which means because of the efficiency of the American farmer, the average taxpayer has a lot more money in their pocket. But of course as we've all noted, there's always room for improvement and additional efficiencies.

So with that, Mr. VanderWal, you had mentioned in your testimony that you favor market oriented farm policy with less reliance on government and more on market signals. Can you expand on that a little bit? What is your thinking there? What are some programs where you think there should be less regulation by the

government, and what do you envision as policies that would have additional market signals?

Mr. VanderWal: Well, thank you for that question. That's an excellent one, and it really goes to the heart of the policy that we have in Farm Bureau. And I'm not sure I'd get any argument from anybody on this policy when I say that ideally, in a utopian world, we'd like to get along without any government support, and keep the government regulations to a minimum, and just run our farms the way we need to on an economic basis and react to market conditions.

The market will take care of that on a supply and demand basis. If the price of a commodity goes down, somebody out there might switch to a different commodity that offers a better price. So that's really what we're getting at, is we'd like to minimize government regulation and try to minimize the government support, recognizing that down the road the appetite for urban congressmen, especially, to spend money on ag programs is kind of going away, and we realize that's happening.

And it kind of gets back to the earlier question about the crop insurance versus commodity programs. That's one thing I've thought of for years that maybe we ought to look at, is taking that money we spend on commodity programs and putting it into an insurance product where we introduce personal responsibility. It really comes down to personal responsibility and being able to run our operations the best way we can in an effort to feed the country and the world.

Rep. Markey: So with that, are there particular programs right now in the farm bill that you would say are essential, and others where you think there is too much government regulation? Can you maybe list a couple of specific programs?

Mr. VanderWal: Okay, as far as the parts of the program we think would be essential, right now I think the counter-cyclical part of it, whether you're in the CCP or the ACRE program, gives us a safety net at this point to keep agriculture healthy. I think a lot of people would say let the direct payments go if that's necessary. As far as regulations, we see a lot of things coming out of EPA right now as far as the Clean Air Act regulating greenhouse gases in there.

We oppose that because we don't think that the Clean Air Act is the way to do that. There are also pesticide drift regulations that the EPA is looking at, and I understand they're reconsidering at this point. These are all things that farmers have been very good managers of over the years, and we're excellent conservators of our environment, and we don't feel that we need those regulations adding expense to our bottom line.

Rep. Markey: Right, agreed, and the USDA has played that oversight role in the past. Just switching a little bit to CRP, do any of you on the panel have any thoughts on how large the DRP program should be, what its focus should be on, and is it better

to concentrate on continuous practices or general signup enrollments? Anyone who'd like to address that.

[Mr. Sombke]: Madame Congressman, I participate in the CRP program, my family farm does, and we found it to be very beneficial in those marginal grounds. I think that if you ever wanted to expand on it, I think we've done that in the past from the beginning. I've been in it ever since the beginning. The old contracts are difficult to manage.

The new ones now are a lot easier to manage. Your flexibility of working to get the noxious weeds out and to allow a wildlife habitat to flourish is better. It's been very beneficial in our area for tourism. We've had a lot of hunting businesses come and other businesses start up as far as restaurants and lodging. I think that you've got to have a balance here, and I think that you also should be able to use some of this ground for the biofuels. I think there's an opportunity there as well.

Rep. Markey: Thanks very much. My time has expired.

Chairman Peterson: The gentleman from Nebraska, Mr. Fortenberry.

Rep. Jeff Fortenberry: Thank you, Mr. Chairman, and a pleasure to be with you all. I'm your neighbor right to the south, and my district overlooks a part of your wonderful country here, and it's great to be with you. Thank you all as well for being farmers. I think a couple of comments are worthy of unpacking here because agriculture, in its essence is – agriculture policy is environmental policy. Agriculture policy is national security policy. Agriculture policy is also energy policy.

The farmer is the original steward of the land and water, I think as you pointed out, Mr. Scott. The farmer is aggressively participating in helping stabilize the most essential part of an economy, food production, and is creating a healthy, or generally helps create a healthy balance of trade for this country. And now we've got huge emerging opportunities in helping secure a new energy future through our agriculture policy by helping build biofuels into a multiple set of energy options this country has to look at to wean ourselves off of particularly our dependence on foreign oil, but also in an environmentally sustainable way.

I say all this because I think it's very important, as we, who are interested in healthy agriculture income, but also public policy, position this for the rest of the country to understand, that agriculture is spending a very limited portion of the overall federal budget, but provides tremendous benefits to society at large in those three areas. Yes, the budget's going to be very constrained, and we have to be prudent, and be wise stewards of the resources that we have. And agriculture, and particularly these policy hearings, always does need to devolve down into the specifics of programs.

But what I don't want to miss is an opportunity for all of us to speak in a manner that talks about the importance of environmental energy and national security policy, and how agriculture helps our country in that regard. But in that regard, we tend to, in these hearings, quickly get into adjustments to the particular support program, and perhaps lose sight of some of the larger macroeconomic forces at play. Congratulations to South Dakota, by the way. The average age of the farmer is 57; in Nebraska it's 58. Since I've been in Congress it just keeps ticking up. You're a real exception, Mr. Wolle.

We tend to focus, again, on the farm support programs that we have. We will tend to, particularly these days, focus on energy, and then potentially export opportunities, which are important opportunities that we should seize upon. But let's talk a little bit about other emerging opportunities. One of you gentlemen mentioned it in terms of ag policy, and Mr. Sombke, you just talked about it as well in terms of another value added option that agriculture brings. Talk a little bit about that, because if we're going to attract young people, the vibrancy of agriculture and new emerging opportunities has to be a part of our ongoing commentary and our ongoing presentation that flows out of real market opportunity.

One of you spoke as well in terms of the production and use of replacing traditional hydrocarbons, the use of ag products in replacing hydrocarbons using plastics. But let's touch a moment in terms of other value added opportunities which I think helps, in some way, solve this larger question as to how do we begin to create a more vibrant agriculture marketplace that is going to be particularly attractive to new farmers or new people who haven't been involved in agriculture at all.

[Mr. Gangwish]: Thank you, Congressman. I'm sorry, but in South Dakota we don't have a lot of entrepreneur businesses, and in South Dakota we should have more. Agriculture, of course, is our number one industry, and I feel there's a great area where we can expand that business. I think there's a lot of support businesses that could be folded off of value added businesses as well. The wind industry in South Dakota is starting to grow pretty good. We're far behind the states surrounding us, but we're starting to grow. I think there's a lot of potential for that area as well.

I think to support businesses in South Dakota for agriculture locally owned. We import a lot of businesses from other states to do our work for us. Soil sampling, for instance. A lot of companies come from Iowa, Minnesota, Nebraska to soil sample in the state of South Dakota. Why is that? We don't have the people doing that type of work. We need to expand on that. We need to find a way to put money into those type of businesses. Rural development. A great place to start.

The wind industry in my area has been very beneficial. We have a [ridge of hills starting from toe hills]. GE just developed a wind farm of 66 turbines on that

ridge, and it's been very beneficial to our local community for several years now, as they were building this, as they were building up to it, and now as we care for them, so there's a lot of potential there as well. This isn't just about biofuels or cellulosic ethanol. This is about all types of renewals.

And for the state of South Dakota, I see a huge, huge opportunity for us to continue to not only get young people involved in agriculture as it becomes profitable because of these other energy sources, but also for the services that we provide, continue to help those kids stay in the state.

Rep. Fortenberry: I must have given a longer speech than I thought. My time has expired. I wanted other people to talk, but Mr. Chairman, I seem to be out of luck.

Chairman Peterson: I thank the gentleman. The gentleman from North Carolina, Mr. Kissell.

Rep. Larry Kissell: Thank you, Mr. Chairman. It is good to be here in South Dakota, and also recognizing the close proximity to Minnesota and Nebraska, so it's good to be here in this area. Matt, the young guy on the panel, self-described, I'm curious. Your involvement and getting into farming, did you come about because your parents and grandparents were in it, or are you just totally new to farming in terms of any lineage there, or how did you get into farming?

Mr. Wolle: Mr. Chairman, Mr. Kissell, I really didn't...you know, there are many young people who have the burning desire to farm. I mean, I know several of them who just don't have a connection to get hooked up to farming, but they dream about farming. They're working at jobs in town or they're working for the local cooperative selling products, ag industries, but they'd really love to farm and run their own business.

I kind of just stumbled...you know, my father farmed, and my grandfather farmed. I didn't have tremendous pressure from home. Dad said you need to go work off the farm. You need to figure out what you really want to do. And I found out through working in education and in the agricultural industry that, boy, farming is a great job. It is – and don't tell it outside this room – it's one of the best jobs in the world. It's risky, but the rewards are great. And I think that's why these young people see that and they really, they want their chance. They're just gnawing at the bit to jump in and get the opportunity, but opportunities are very tight, very limited.

Rep. Kissell: Well, it was mentioned that the average age of farmers being 57, 58, I have now reached the age. That sounds young to me. [*Laughter.*] But I think one of the concerns – and you just brought this up – is people that want to go into farming that don't have that grandfather or father that can usher them in, or don't have the land there to usher them in.

I heard on the news going home I guess Thursday night that the number of degrees being awarded in our university systems in an agriculture based field is up 22%, so we're seeing, our young people are seeing that there are tremendous opportunities in agriculture. I'm just wondering how those opportunities really go into the actual art of farming itself. And if anybody – Mr. Sombke, I think you said you had grandchildren that are on the farm and want to farm. What do you see in terms of young people wanting to be on the farms and our ability to sustain this art?

Mr. Sombke: Mr. Chairman, Congressman. On my farm, we've always kept our kids very involved in the operation. It was something that my father didn't do with me. He didn't keep me included in the budget process, in the fiscal responsibilities of the farm; just do the work. I was a hired man, okay? On my farm, I've decided to make sure my kids understand what this is like. I mean, this is rewarding work. This is the Lord's work. I mean, he gave us – we're the closest to him as anybody can ever be in an occupation, and I want them to understand the rewards of that.

But I also want them to understand the risk of that, and financial risk. I mean, there's a lot of ways you can make a lot more money doing a lot less work than what I do, but there's nothing as rewarding, there's nothing as fulfilling, and there's nothing that tells you that you did a good job at the end of the day like the work that I do. Even if it's a bad day, it's still a better day than sitting in the office where I work in the Farmers Union. *[Laughter.]*

Rep. Kissell: Well, we do appreciate what is done on the farm, and this committee especially, and all the Ag Committee is committed to helping your government work with you to try to enhance what you do. Some of the programs in the ag bill, we haven't talked as much about rural development, the FSA people that are here, so forth and so on. Are there other aspects beyond the biofuels and the crop insurance? Rural development is especially important to my part of North Carolina. Is there anything else that y'all would like to mention that we haven't talked about yet?

Mr. Sombke: Mr. Chairman, Congressman, this is a topic that is very important to me, rural development in South Dakota especially. We've been lacking. We've had, I would say, a good eight years of doing nothing. We should be further along than we are. We should have more opportunities than we do. We should have taken advantage of opportunities that we could have had. That being said, that's not saying that the future isn't bright. I think we can learn from those mistakes.

If there's ever a place to put more funds, that is the place, rural development. As the young man mentioned about getting started into farming, capital is hard to get. The financial reforms recently have put a lot of requirements on our banking industry that has funneled down to financing of farms, and that being said, has pushed the credit limits and has also pushed requirements for creditors through the banking industry, what they can do and what they can't.

Our established farmer today who is a probably a top risk rate is probably in the mid now, and so it makes it even harder for a young man to get involved. That's why we need rural development, to be able to offer that kind of money to young people and to businesses, entrepreneurs that want to start into agriculture resources.

Rep. Kissell: Once again, thank you, and thank you, Mr. Chairman.

Chairman Peterson: I thank the gentleman. The gentleman from Nebraska, Mr. Smith.

Rep. Adrian Smith: Mr. Sombke, you said eight years of nothing happening in rural development? Is that really accurate?

Mr. Sombke: In South Dakota we've had some opportunities that have been passed by, I guess that's what I'm saying.

Rep. Smith: Okay, thank you. Appreciate the testimony of each and every one of you, and thank you to the Chairman for holding the hearing and the great host here with Stephanie Herseth Sandlin. And obviously coming from right next door, it's convenient, so thanks for showing up as well. There are many challenges, obviously, with agriculture. I don't have to tell you that.

And I am inspired every time I learn of a new innovation that is taking place in agriculture, whether it's growing record yields of crops with record low amounts of water due to our research efforts, due to new technologies, whether it's biotech or irrigation technology. I'm just encouraged to see the advancements, and certainly I don't want to adopt any policies out of Washington that would discourage that type of advancement.

I think that a vibrant ethanol industry is important not only to producers of corn or other feed stocks for ethanol and biofuels in general, but to all Americans. And it's a good American form of energy, and I want to work for its ultimate success and flourishing.

As we look at the obstacles, whether it's the blending wall or the infrastructure, what do you think we could do to really work at that infrastructure piece so that we could deliver ethanol more efficiently, I guess, so that consumers would ultimately have greater choice that I think consumers are lacking at this point? Anyone wishing to tackle that one. Mr. Gangwish.

Mr. Gangwish: Well, regarding infrastructure, I think the ethanol industry right now is selling as much ethanol as it produces, almost, and one of the things that's holding it back is the...we're blending almost as much ethanol and gasoline as we're allowed to blend, so we need to increase the amount of ethanol up from 10% to 12 or 15 or whatever it is. We've been burning ethanol in all of our farm equipment, including chain saws and every engine that we have on the farm, since 1985.

I burn regularly up to 30% in my pickup and my car, whatever, just by going to the pump and doing it, and I don't have any problems, and I've got the record to back it up, so I know it can be done. We have an information issue here as well. Everybody has an agenda, and pardon me, but I have one, too. But the thing about infrastructure is that if we have the regulations changed, or we have the ability to do something, the American businessman, in cooperation with the American farmer, will get the job done. I believe that to be the case.

So if we have the opportunity to blend more ethanol, we'll be able to produce it. And we're going to have to blend...we're already producing 13 billion out of corn and change. We can go up to 15 billion, and we're supposed to be going on up to above 20 billion with cellulosic ethanol, so we're going to have to do something with the amount of ethanol that we're blending in fuel. We know we can do it because some of us are already doing it and we're not having any troubles. So the infrastructure just needs the regulations opened up and it will come.

Rep. Smith: Okay, thank you. Anyone else?

Male Voice: Mr. Chairman, Mr. Smith. I would put that back also on corporations. I traveled to Arizona this past winter. I had an E85 vehicle. I stopped at Valero Oil Stations, or gas stations, and you know Valero purchased recently several ethanol plants in the Midwest, and I was not able to buy E85 for my E85 vehicle at a Valero plant, so I have the question, and I would like you to ask members of Valero, which is an oil refinery as well as an ethanol producer why, why can't we get it from their plants in the Midwest to their gas stations in the Southwest? A question I have.

Rep. Smith: Okay, very good.

Male Voice: I guess my comment on that, as far as the ethanol, what we need is market access, and if we have market access, I think the infrastructure will fill that need, because then we do have the market. The other thing that I think we need to get is get corn ethanol classified as an advanced biofuel because I think that's a missed opportunity for us. We need to keep the corn ethanol going in order to get to the cellulosic ethanol. And again, as that market builds, I think the infrastructure will come.

Rep. Smith: Okay, thank you. Thank you, Madame Chairman.

Rep. Herseth Sandlin: Thank you, Mr. Smith. Now I recognize Mr. Childers from Mississippi.

Rep. Travis Childers: Thank you, Stephanie. The good thing about being last is most everything has been asked or said, and so on that note I would like to say just a couple of things, that we've enjoyed being in South Dakota with Stephanie and with all of you. We appreciate all of you that came out for this, and these hearings are important. I want to commend every single one of you, because I have often said two of the most rewarding jobs I think in this country that get paid

the least are teaching and farming. But to those of you who do either of those professions, I commend you, and especially farming.

I'd also be remiss if I didn't recognize and let you all know that we have a rural caucus in the United States House of Representatives. Both chairs and both co-chairs are on this panel today, coincidentally. Tim Walz and I chair and co-chair on the Democratic side, Adrian Smith and G.T. Thompson on the Republican side. We work toward common rural causes and common rural issues such as promoting broadband, which is one of our priorities, promoting rural health care, access to health care in rural areas and so forth. So I want you to know that, and I urge you to visit our web site by going to any of our web sites and just click on the rural caucus.

And lastly, I want to comment on this. I realize it's a little bit off of ag, but I commented to Stephanie this morning as we travel through South Dakota, I want to commend this state. I think this is one of the cleanest states I've ever been. There was no litter on the highways, and I commend you for that. [*Applause.*]

Chairman Peterson: I thank the gentleman. He hasn't been to Minnesota yet. [*Laughter.*] The gentleman from Pennsylvania, Mr. Thompson.

Rep. Glenn Thompson: Mr. Chairman, just thanks to the panel for all the just great information today. This is so helpful as we prepare and work towards this next farm bill. I want to come back to a question and zero in on young farmers. So Mr. Wolle, in terms of, you know, some of the other panelists have talked about the availability of credit, access to financing. What's your experience as someone who is establishing himself in the agriculture industry? Have you found yourself being able to access the credit and the financing that you need to have? Are there barriers out there?

Mr. Wolle: Yes, I've been quite fortunate because I have a family that's been established in agriculture. They have good relationships with a banker. A credit score for farming is not as important as your relationship or your ability to show a cash flow, your ability to have access to land, to manage that land, show a marketing plan. So I have not experienced some of the struggles because I'm one of the fortunate ones. I have a family that got me involved in agriculture.

My father used to love to say anybody with a desire to farm can farm, until he brought his own son home and started looking at it, and at one point we looked at it and he goes, "Well, you're basically bankrupt now, so if you go bankrupt in five years, you're really not out anything." [*Laughter.*] It was a real awakening to him to realize what a drain on his organization and his business it was to bring on a younger member. I'm fortunate.

I look at others – I've mentioned a few of my friends who want to get into it and don't have the access to the capital. I talked to an associate of mine who's a loan officer for the FSA, and he was proud of himself. He said we're a government

program that makes money. Now, that's anecdotal, and please research that, but if that's true, and you're the lender of last resort, what would happen if there's a need there that private industry doesn't want to fill or can't fulfill, if government stepped in at that and made a profit of that and was able to invest that profit into young and beginning farmer education programs? I think that would be a win-win. There could be a lot of synergy there. But I don't know all the intricacies of it.

Rep. Thompson: Okay, thank you. And then just one more question. I want to come back to a topic a number of the panelists have talked about. And Mr. Duffy, you kind of led that off in noting the importance of biotechnology advancements. And I know one of the things I've been trying to work on this past year was urging the Secretary to move on Roundup ready alfalfa. You had mentioned in your testimony that research – what about needing research and tools that would advocate to get technology from research to market, any specific ideas? And then I'll open that up to the panel. What should we be doing? Are there specific ideas that you have in terms of how we're getting this biotechnology not just from research, but out into the market?

Mr. Duffy: Well, I guess what I was referring to in my testimony is that once these products are developed and they come to the government for approval, I want the government to have the resources to do the due diligence and the testing that needs to be done so that we can safely say that they are approved to go out because we do have the environmental organizations. There are certain organizations that are deathly opposed to this and they're fighting every which way and using every fact they can to do that. So I just felt that the government agencies need the resources they need to combat that.

Rep. Thompson: Okay. Any other panelists have any additional thoughts on biotechnology advancements or barriers?

Male Voice: Thank you, sir. I think consumer acceptance is a big one, too. We started out with Roundup ready crops and it was a benefit to us as farmers, but not necessarily to a consumer, other than a greater abundance of products. But any of these biotechnology things that come out need consumer acceptance because that flows through the government and affects the regulatory process all the way down the line. We deal with that in everything – environmental issues, animal rights issues. It all comes down to what the consumer allows to happen.

Rep. Thompson: Thank you, gentlemen. Thank you, Chairman.

Chairman Peterson: I thank the gentleman and I want to thank this panel for their excellent testimony and for the answers to the questions. It's very much helpful to the committee, and we know it's a busy time of the year and not an easy time to get away, so we appreciate you doing this. So the panel is excused, and we'll give them a hand. *[Applause.]* We've got to keep this moving, so we're going to call the next panel.

Mr. David Hallberg, who's a biofuels representative from Omaha, Nebraska; Dr. Scott Weishaar, biofuels representative, Sioux Falls, South Dakota; Mr. Jim Neiman, forest product producer from Hulett, Wyoming; and Dr. Kevin Kephart, Vice President for Research and Dean of the Graduate School of South Dakota State University in Brookings. Gentlemen, welcome to the committee. We'll get you set up here.

All right, Mr. Hallberg, welcome to the committee. Your full testimony will be made part of the record. I think most of the members have read the testimony, so if you could summarize, we'll try to keep this show on the road here, and we appreciate you being with us, so the floor is yours.

Mr. David Hallberg: Thank you, Mr. Chairman. My name is David Hallberg and I'm CEO of a low carbon fuel technology development company in Omaha, Nebraska. I'm a graduate of Augustana, so it's good to be on campus. I really appreciate the work you and your committee have done, in particular last year on the cap and trade bill. Your leadership on indirect land use was very, very important.

And today I'd like to talk a little bit about the barriers to financing that are posed by the blend wall and focus on that very briefly. I passed a graph out there to each of you. I understand it may not have got attached to your testimony. And it basically depicts the 30 years of growth in the ethanol industry. It's put together by the Ace organization here in Sioux Falls. And I think it's a useful depiction because it shows the direct correlation, strong correlation between demand stimulus programs from government policies and the industry itself.

And you'll note the spike that occurred in particular beginning in 2000, 2002, with the [Daschle-Lugar] Renewable Fuel Standard which, of course, we all know about the RFS. RFS2 was signed into law by President Bush in 2007. I think the point is the work you're doing here today is extremely important and ultimately it's going to play a substantial, if not pivotal role in the growth of the industry going forward.

Thirty-six years ago, the summer I left Sioux Falls after graduation for the Middle East, and I was there a year after the '73 war, and it was a very pivotal time for me because it reminded me just how important our geopolitical position was. When I came back, I went to grad school in Washington, D.C. and had the opportunity to work in the United States Senate and House for a number of years during the second oil interruption in the late 1970s. And from that experience I formed the Renewable Fuels Association in 1981 and was its first CEO. I've been in this business ever since, internationally and domestically.

And one of my primary take aways is that in fact there is no free market in the transportation fuels business. There are very dominant forces. I like to refer to them as Big Oil, the multinational oil companies, as opposed to our independent friends in Texas. And they obviously have enormous resources. Right now

they're playing a masterful game at manipulating the market system that's been built up over the last 100 years to keep ethanol from moving beyond what we call the blend wall that's been referred to here today, which is the 10% limit for blending that was set, frankly, 32 years ago with the first waiver.

I think the proof of how pernicious that market control is can be found in the marketplace. If you go to NYMEX, last week, the last time I checked, I think ethanol was about 1.57 on the board, whereas gasoline was 2.35, 2.36. There's a 76 to 85 cent a gallon differential before the VTEC is taken into consideration, which is 45 cents, and that disparity is even more shocking when we consider that ethanol has 30 points more octane. And octane is something we won't have time probably to discuss much today because of the time limitations, but it's extremely important as we go forward when auto makers start to downsize and turbo charge and increase the compression of their vehicles to meet the new CAFE standards. So ethanol has major characteristics and quality performance, zero sulfur, higher octane, and it's already more than a dollar a gallon below the fair market value in the marketplace today. I would submit to you if we had that right, we probably wouldn't be arguing too much about tax credits.

So I think one of the things we have to do is to talk about how we get away from that, obviously. And I believe the way to get away from that is for this committee to go back to its leadership role that it's played before and try to convince the Congress to enact something like a 1627, which is the Harkin-Lugar Choice Act. There are some other bills similar to it. I think you have an open fuel standards bill in the House, Mr. Engel. I referred to that in my testimony.

But the bottom line is we need to drive our system to emulate the Brazilian model. I was last in Brazil again a few months ago. Ninety-seven percent of every automobile sold in Brazil is a flex fuel vehicle, made by all the same auto manufacturers we have in this country. All of their pumps are blender pumps so you can dial your blend. Made by the same dispenser manufacturers that we have in our country. And yet the debate that's going on now that you'll hear about from Big Oil is these pumps are dangerous, they may blow up, it won't work, the cars are too expensive. We all know that's not true. And so it's a masterful ploy to keep the market at 10%, where we should be at E30, E40, and E50.

Until we get there, I would submit to you that the capital formation that we need, both equity and debt, for next generation facilities for the new technologies that are emerging will not happen. We need billions of dollars in new steel out there, and the folks that have that kind of money aren't going to make it available if they believe that our national policy will not sustainably allow the increased volumes of ethanol that are called for under the RFS.

My written testimony lists all the benefits of this. I won't go through it. You all know them better than I do. But I would submit to you that your leadership is absolutely critical, hopefully yet this year when the Senate tries to pivot to an energy bill so that we can maybe meet in the conference with your bill and come

out with something that's acceptable to break this market logjam. Thank you very much.

Chairman Peterson: Thank you very much, Mr. Hallberg. Appreciate that testimony. Dr. Weishaar, welcome to the committee.

Dr. Scott Weishaar: Good morning, Mr. Chairman, and distinguished committee members. Thank you for the opportunity to visit with you today. My name is Scott Weishaar and I'm the Vice President of Commercial Development for POET. I'd like to talk to you about our company's plans to commercialize the production of cellulosic ethanol and the hurdles that you can help us overcome. The ethanol industry has a proud history of meeting and beating expectations, proving that America can produce its own energy cleanly and efficiently.

POET has been involved in that mission at every step, but we've barely tapped the potential of this clean, green renewable fuel. It is clear that Washington shares our vision of a nation free of foreign oil dependence and an economy rejuvenated by expanded energy production. Policies are in place that will help keep that vision a reality. With your help, we can take ethanol to new heights and provide a real competitor to foreign oil.

POET, headquartered here in Sioux Falls, is a 22-year-old company that annually produces 1.6 billion gallons of ethanol and over four and a half million tons of high quality animal feed from our 26 production facilities nationwide. Approximately 18 months ago, we started up our own pilot scale cellulosic ethanol plant that uses corn cobs as feed stock, and we plan to commercialize this process in Emmetsburg, Iowa.

POET continues to see more opportunities to expand the production of ethanol from corn and improve its production processes. Grain yields, which have doubled over the past 50 years to more than 160 bushels an acre, are expected to double again over the next 20 years. Those higher yields would generate an additional 13 billion bushels of corn without planting an additional single acre. Ethanol is the only growing market for that additional corn supply.

POET is continually making production of corn ethanol more efficient and environmentally friendly. Since we were founded, our energy and water use per gallon of ethanol has decreased 50 and 80 percent respectively. Because the ethanol process is a biological process, the opportunities to improve the efficiencies in the future are endless. To that end, if you want to capture the full potential of grain based ethanol, we need to let it compete. First, we need to remove indirect land use from the statute. Second, we need to remove the prohibition of corn from participating in the advanced biofuels section of RFS. We call this a discrimination clause. This keeps us from competing with Big Oil.

Early on, POET saw the potential of cellulose, the most common organic compound on earth, to dramatically increase the amount in America's fuel

system. For at least the last decade, we've pursued the commercialization of cellulosic ethanol. That includes our pilot facility in Scotland, South Dakota. Those efforts are about to pay off as we break ground this year on Project Liberty in Emmetsburg, Iowa. Project Liberty is a 25 million gallon per year cellulosic ethanol facility that's collocated at an existing grain based ethanol site. This will be an economic windfall for the rural communities across the country.

Our one plant in Emmetsburg will generate \$12 million annually just from purchasing crop waste from the 450 or so farmers that will participate. Most of these farmers will need to buy a new piece of equipment or two. This would drive the sales of an additional \$20 million in that area. Actually, one dealership has already announced and moved into the Emmetsburg area as a result of the activities surrounding Project Liberty.

But the jobs this will provide are probably the greatest benefit. Our plant will directly employ 40 to 50 workers, with another 180 indirect jobs in the areas of equipment sales, service, support, biomass transportation, and other service related activities. On top of that, there will be about 300 construction jobs for the facility. All this from one plant.

POET envisions much more ambition for the future of cellulosic ethanol. By 2022 we'll be responsible for three and a half billion gallons of nationwide production, taking the impact of that one 25 million gallon plant and deploying across the country. Recently we laid out a three step plan that involves expanding across our current facilities, looking at other grain based facilities as well as a 50 state solution where the technology can be deployed across our nation.

The cellulosic ethanol is in need of loan guarantees to get this process off the ground. Lenders are hesitant to invest in new technologies, and the first few plants will need assistance in securing the capital so our industry can prove itself. In addition, there must be a long-term extension to cellulosic ethanol production credit, which is set to expire in 2012. This credit also needs to be made refundable.

Cellulosic ethanol will only become a reality if we can get the farmers to deliver the material. It often requires new equipment and practices. The current BCAP, or Biomass Crop Assistance Program, which provides matching funds, is a great model to help mitigate this risk and entice the farmers to get involved at these first stages. It helps the farmer secure credit, it attracts more farmers to be participants, and it helps offset some of the upfront cost for the first few years.

Unfortunately, the program expires under the farm bill after the 2012 harvest, just as POET and other cellulosic plants are beginning to ramp up, so we ask lawmakers to give farmers security in this new endeavor by granting loan extensions to that program.

Our industry has crashed into the blend wall, as we've heard. We need to grow the markets. We can grow the markets through E15, by creating the market, by getting blender pumps out into the places of business so we can get not only a supply as well as a [pull] activity.

We ask for three things. We ask to increase the base blend allowed in today's vehicles, we ask that all vehicles produced in the U.S. are flex fuel vehicles, and to incentivize the installation of blender pumps throughout the nation. With your help, we can continue this progress. We have the natural resources, the ingenuity and the technology to reach our nation's goal of 36 billion gallons of renewable fuel by 2022.

I apologize for running a little over, but I wanted to thank you for the opportunity to testify today. On behalf of POET and the entire renewable fuels industry, we want to thank you for all your hard work and the past support that's truly making a difference in our nation's energy supply.

Chairman Peterson: Thank you very much, Dr. Weishaar. We appreciate that. Mr. Neiman, welcome to the committee.

Mr. Jim Nieman: Thank you, Mr. Chairman. Thank you for the opportunity to present testimony today. My name is Jim Nieman, and I am the vice president and CEO of Nieman Enterprises. We own three sawmills in the Black Hills, one in Wyoming and two in South Dakota, along with Heartland Pellets in South Dakota. Our company directly supports over 700 Black Hills families through our 475 employees and 250 independent contractors.

I appreciate your attention to the future of our nation's forests. A health forest products industry is critical to the future of our nation's forests. Our loggers are the forest's primary tool to achieve the desired forest conditions and forest management objectives. Further, the timber supply from the national forests make it possible for our company to operate on and contribute to the management objectives on private lands.

The single most important factor to sustain our sawmills is the supply of timber sales from the Black Hills National Forest. Without a consistent supply of timber, no mill owner can justify the investment to maintain competitiveness in a very competitive industry. My company is seriously exploring a partnership to construct a \$55 million 20 megawatt electrical cogen facility in Spearfish, South Dakota that would also produce steam for our dry kilns, heat our buildings, and supply steam to Black Hills State University. The benefits of this facility would include increased supply of renewable energy, better utilization of forest biomass, and additional local jobs.

I need three things to make this work. First, a consistent and predictable supply of timber sales from the Black Hills National Forest. Second, need an inclusive definition of biomass in the renewable electricity standard. The renewable fuel

standard definition excluded nearly all woody biomass from federal lands from counting towards renewable biofuels. HR 2454, the American Climate & Energy Security Act passed by the House last year, contains too many restrictions on federal woody biomass to be workable. My recommendation to Congress is that any woody biomass from national forests which conforms to applicable law and conforms to forest land should qualify as renewable biomass under the RES.

The third is production tax credit parity. Electricity from biomass should get the same production tax credit as solar and wind. HR 4374, which was introduced by Representatives Herseth Sandlin and Herger would accomplish this perfectly. The Forest Service's mission to sustain the health, diversity, and productivity of the nation's forests and grasslands to meet the needs of present and future generations, it is very important. When I look at national forest statistics of acres burned or acres of trees killed on beetle epidemics, I am not sure the forest service is achieving that mission.

Most of the current timber sales on the Black Hills National Forest respond to the pine beetle epidemic. Instead of always responding to crisis, the national forests should develop and implement proactive strategies to prevent a crisis in the first place. In the Black Hills, we know what it takes to reduce the risk of the pine beetles. Simply put, the problem is primarily a function of tree density. Dense stands have a higher risk of bugs and fire, and thin stands have a much lower risk. In the last decade, mountain pine beetles have killed trees on nearly 400,000 acres in the Black Hills alone. I provided each of you two photos to show the effects of the pine beetle in the Black Hills.

Annual growth of the Black Hills forest timberlands far exceeds annual harvest. Increasing the national forest timber sale program would have multiple benefits, including stabilizing forest products companies, adding green jobs to our local economies, strengthening our nation's manufacturing sector, increasing the health of our forest, and increasing flows of clean water.

I would like to enter into the record this letter from the Federal Forest Resource Coalition to Representative Norm Dix, and respectfully request that the committee support that request for an increase to three billion board feet in the forest service's fiscal year 2011 timber sale program. Again, I am honored that you asked me to testify today, and I would be delighted to work with Chairman Peterson and with Representative Herseth Sandlin in the future to help solve some of these issues. My pleasure, thank you.

Chairman Peterson: Thank you very much, Mr. Nieman. Dr. Kephart, welcome to the committee.

Dr. Kevin Kephart: Thank you. I wish to thank Chairman Peterson and Representative Herseth Sandlin and other distinguished members of the House Committee on Agriculture for the opportunity to appear today. I'm Kevin Kephart, Vice

President for Research and Dean of the Graduate School at South Dakota State University. I'm also the national chair of the Sun Grant Initiative.

Through Title 7 of the farm bill, land grant institutions generate intellectual synergy, leverage resources and expertise, and have a track record of solving problems for American agriculture. The 2008 Farm Bill brings important changes to USDA. Section 7511 creates the National Institute of Food and Agriculture, or NIFA, and replaces the Cooperative State Research Education & Extension Service. NIFA is elevating scientific rigor and is establishing a national institute on par with the National Institutes of Health and the National Science Foundation.

As a hallmark, NIFA has established the Agricultural Food Research Initiative, or AFRI. This is competitive research program to replace the former CSREES national research initiative. Implementation of AFRI is currently underway, and addresses the nation's most urgent issues in agriculture, food, and human nutrition. Overall, land grant college deans and administrative heads indicate to me that they are cautiously optimistic about progress to date in implementing the NIFA.

Title 7 also supports land grant capacity programs including Hatch, Evans-Allen, Smith-Lever and the MacIntire-Stennis funds that serve as the foundation of state agricultural experiment stations and the cooperative extension services. These authorizations link scientists with stakeholders, industry, and federal agencies to address the issues at local and regional scales. Higher education and public outreach are linked to the land grant system so that research and education are synergistic.

Title 7 authorizations such as AFRI, capacity funds, and specialized programs such as [Seri] and the Sun Grant represent a balanced portfolio of diverse research resources. The Sun Grant program was reauthorized in the 2008 Farm Bill as Section 7526. The mission of the Sun Grant program is to advance bioenergy and bio based products in order to enhance national energy security, promote diversification and the environmental sustainability of agricultural production, and promote economic diversification in rural areas.

Five land grant universities serve as regional Sun Grant centers, including South Dakota State University, Oklahoma State University, the University of Tennessee, Oregon State University and Cornell. Each center is guided by stakeholder input through their regional advisory councils. The Sun Grant program collaborates with the Department of Transportation and the Department of Energy, as well as USDA, and Section 7526 has attracted agencies to the Sun Grant as a means of facilitating their own goals in renewable energy. For example, DOE's Office of Biomass Programs is supporting the DEO Sun Grant regional feed stock partnership.

Sun Grant centers have successfully conducted rigorous competitive regional research solicitations, and today the Sun Grant program has implemented 123

competitively awarded regional research projects in 37 states, with DOT and DOE funds, and has implemented 110 field trials in 36 states through the DEO regional feed stock partnership. And I'd refer you to Page 4 in the written testimony to show you how those projects are dispersed across the country.

The White House recently released a plan entitled "Growing America's Fuel: an Innovation Approach to Achieving the President's Biofuel Target." The plan calls for setting biofuels production targets and then implementing federal programs designed to meet the targets. The Administration's Growing America's Fuel plan misses the mark on at least two issues, however. First, the role of EPA in the sustainability segment must be weighed carefully. Environmental issues are only one component of sustainability, and USDA and DOE and the universities could better lead that segment of the plan.

Second in the plan is to provide \$10 million to establish five regional feed stock centers within the USDA agricultural research service. The proposed USDA ARS centers duplicate the Sun Grant program. Congress has already established five regional Sun Grant centers that serve the same purposes that are described in the White House plan.

Title 7 of the 2008 Farm Bill enables research that will advance agriculture. Economists at the University of Nebraska recently reported that during the period of 1949 to 1991 the average annual social rate of return on public agricultural research was 27%. The average rates of return during this period of time for the S&P 500 and NASDAQ were 9 and 12 percent respectively. Title 7 also has profound influence on practically every student in agriculture and related fields. The public investment in agricultural research is critical for future social and economic benefits to the nation. I thank you for your hard work and commitment to bringing a better future to the United States through a balanced agricultural research portfolio.

Chairman Peterson: Thank you very much, Dr. Kephart, and we thank all of the panelists for that excellent testimony. I'd like to recognize someone else that I didn't see out in the audience. It's a little bright up here. Richard Peterson is here from the Minnesota FSA committee representing Linda Hennen, who does a great job for us in Minnesota. Where is Richard? Is he still around? There he is. My slightly older brother, Richard Peterson. [*Applause.*] Thank you for what you do. The gentle lady from South Dakota.

Rep. Herseth Sandlin: Thank you, Mr. Chairman. Some of our witnesses have identified, in their written testimony, utilization of the BCAP program, the Biomass Crops Assistance Program. And like ACRE, this is something that we authorized in the last farm bill. I think going forward, as it's been implemented, how it's working, how it's not working some modifications will be necessary, so we thank the witnesses for their insights there.

But I would ask my colleagues, if you look at the photos from the Black Hills National Forest, you can see where Custer State Park on the left, compared to wilderness areas on the national forest to the right, the dramatic difference in terms of the beetle infestation, and how aggressive the state has been. We have both the former and acting Secretaries of Agriculture for the State of South Dakota, Mr. [Eva] and Mr. Farris who have been working with local officials, county commissioners, federal forest officials, not being concerned with who's wearing what hat, but how to have a strategy to get on top of this problem in the Black Hills National Forest.

And our colleague, Cynthia Lummis and I, have sent a letter to Secretary Vilsack asking for a comprehensive strategy of dealing with the pine beetle epidemic. And I would just request, in light of Mr. Nieman's testimony and some of the others that are here from western South Dakota, ask all of my colleagues here to work with us, and ask the Secretary to present that strategy because in June of this year, in the last farm bill, we authorized and required states to present plans to identify the problems in the forests in their areas, whether it's private, state and federal, to have a comprehensive strategy. This is a crisis.

And then if you see in the second picture the fuel hazard that this presents in our western forests as well as the potential for woody biomass, as Mr. Nieman testified, but we have to change the definition for renewable biomass to count towards the RFS. That will create jobs. It will take some of the pressures on the BCAP that the BCAP program unintentionally introduced with some of the competition for traditional uses of those products. And I know that Mr. Thompson in Pennsylvania and others have recognized that problem.

I do just want to pose a question to Dr. Kephart, because Mr. Goodlatte and Mr. Peterson will recall in the 2008 Farm Bill we all worked together to preserve, but make responsible changes to the Sun Grant Initiative. And as Dr. Kephart testified, the Administration has put forward a budget in which I think we should all be a little bit concerned that we're going to duplicate something that we already have, and in circumstances of tight budget environment, we brought this to the attention of the Chairwoman of the Ag Appropriations Committee, Ms. DeLauro.

But Dr. Kephart, could you share with the committee any conversations you've had with the Administration or USDA about the duplication of the program, and what's been their response, and could you share, kind of enlighten us as to why you think the Administration did duplicate this program, based on prior conversations that you had with the Administration last summer and last fall?

Dr. Kephart: Well, our conversations with the Administration in regard to Sun Grant began nearly a year ago. Dr. [Rajiv Shah] at that time was the Undersecretary for REE and invited those of us in leadership in the Sun Grant to come to Washington and explain the program to him, and our conversations with him were excellent. We were happy to receive the invitation and go to town to visit with him.

They asked for some immediate plans on some steps forward on assisting them to work with us to bring the Sun Grant program forward, so at that point in time we provided a report, in late August, to talk about what our priorities are that have been based on our conferences and workshops across the country on stakeholder input, where we saw some of the limitations and needs of cellulosic feed stocks are, and how to advance that, and that's related to white papers that we've written in that regard before.

What happened subsequent to that was Dr. Shah, as you might know, moved on to USAID, and only recently has a new nomination to REE been put forward, and I believe that confirmation is going forward on the Senate side. But the Administration went ahead and moved forward working with USDA to come up with this Growing America's Fuel plan which, by and large, I like.

I like it because a lot of the words that are in there are reminiscent of what we put forward in August, including the regional aspect, prioritizing research that's regional and local on feed stocks, because that's what's relevant, and also this need for five centers across the country to coordinate that. The important difference is that they made those five centers under the leadership of USDA, ARS specifically, and not the land grant community, and so that was the primary change that I wanted to alert you to in regard to the plan.

Chairman Peterson: I thank the gentle lady. I recognize the former chairman, Mr. Goodlatte, for questions.

Rep. Goodlatte: Thank you, Mr. Chairman. Mr. Nieman, I was very interested and pleased to receive these photographs. They amply illustrate some of the problems we have in our national forests. I represent a district in the east that is not dissimilar to many western districts. About one-third of the land in my district in the western part of Virginia is owned by the federal government in the George Washington and the Jefferson National Forest, primarily, and we have some of the same issues with wilderness areas and the inability to be able to properly manage them.

I was also interested in your comments about the pressure that is placed on industries that are unable to get an adequate supply of timber, for whatever purpose they might make, because of the fact that our national forests are closed off to them. In fact, in my district, about two-thirds of the district is forested. Half of that is in federal government land and half in private land, and 97% of the stock that comes for the five paper mills that are located in my district, the hardwood lumber industry that is significant in my district and other uses comes off of the private lands, and 3% off of the federal lands, in an average year.

We have tried for a long time, but we have been fighting a losing battle with environmental organizations, some of which have taken extreme positions regarding this. As you may know, the Sierra Club has maintained a position that there should be no commercial timber harvesting on any of our national forests,

191 million acres of national forest land. And I wonder if you have any thoughts on how we can counter that. I think it's both economically and environmentally unsound to maintain that policy, but I wonder what your thoughts are about it, and how do we counter that kind of, I don't know, can't see the forest for the trees kind of mindset on the part of some extreme environmental organizations.

Mr. Nieman: Thank you very much. Your comments seem to parallel the Black Hills very much. We are fairly fortunate here. We have had extremely strong support from both states and the counties at the local level, which has helped us tremendously. But take a quick snapshot of the Black Hills. About 25 years after General Custer came through, the very first U.S. Forest Service timber sale in the United States was by Nemo, so this is the oldest managed forest, the Black Hills.

At that time, the forest had one and a half billion board feet of inventory. We have removed, since the first miners hit, around six billion board feet of timber. The inventory today reached six billion board feet on the Black Hills National Forest about the turn of 2000. Now we've lost a hundred and some thousand acres. It's probably in the five and a half to five and three-quarter billion inventory. It's overstocked. When you look at the whole forest—

Rep. Goodlatte: You say you've lost. Is that due to a forest fire or insect infestation or what?

Mr. Nieman: Well, the total forest is now being reduced due to bugs. Mother Nature is taking care of itself. It's either going to be properly managed by humans or Mother Nature is going to take care of it in an indirect way that's going to have devastating consequences to stream flow and water conditions. In our case, a 24 inch Ponderosa Pine drinks 200 to 300 gallons a day if the water is available. If its not, it's susceptible to attack from bugs. Let's look to the big picture on the national forest scene.

The growth on – well, first on the Black Hills. The growth is around 150 to 170 million board feet. We're removing about 85 a year, so we're lucky and fortunate compared to your forest to remove half of it. All the forests nationwide are growing 20 billion board feet a year. Twenty billion board feet, and we're allowing the removal of two and a half billion. We wonder why we have health condition problems. You're hitting right in the center of it, so I feel for your area. The disease and bugs is going to keep increasing in your area like it has the Black Hills, and particularly Colorado and Wyoming.

Rep. Goodlatte: I agree. Thank you very much. Thank you, Madame Chairman.

Rep. Herseth Sandlin: Thank you, Mr. Goodlatte. Mr. Walz.

Rep. Walz: Thank you, Representative Herseth Sandlin. Thank you all for your testimony and your work in this industry. Very appreciative of it. Dr. Kephart, I'd like to just compliment and associate myself with your focusing on Title 7.

Very, very important. The research side of things I think is critical. It goes back to our being good stewards, and I think being visionary in how we invest in this.

And as we have this debate on the farm bill, I would go back to what I said earlier with the groups who were here. These are investments that can pay off in the long run, and with farm programs costing us, a year, less than we spend in six weeks in Iraq, you have to put these things into perspective on what the long-range goal of these things looks like.

The one thing I want to ask is it's the 800 pound gorilla in this ethanol debate, or I should say the 800 pound hog. How do we work things out with our livestock industry? I know there's not time, probably, in the time here, but this is an issue that continues to come up. It does not need to be an issue that divides farm country. It's one where we have many overlapping concerns. How would you respond to this? Maybe Mr. Hallberg and Dr. Weishaar first, if you could respond to it from a livestock perspective.

Mr. Hallberg: Well, it's an excellent question, Congressman. I remember when I sat in front of committees like this 32 years ago with the RFA. We had food versus fuel debates then, as the industry was just starting up. I think it's unfortunate that we do have the schism that you've just talked about because as you know, one-third of the bushel of corn, which is the starch, goes to ethanol and another third is CO₂, and the other third is a very high value animal feed.

One suggestion I would make, because I think a lot of this is perception, and a lot of it is distorted, frankly, by some of our friends in the PR industry, the Department of Agriculture reports utilization of corn for ethanol, as you know, on a non-adjusted basis. So in other words, if we're going to make 15 billion gallons of ethanol in a year, they'll say roughly three gallons per bushel. They say five billion bushels of corn have been used for ethanol and then another 5.65 billion bushels have been used for animal feed.

The fact of the matter is at least a third, and in fact on TDN, on a total digestible nutrient basis, up to a half of that bushel of corn goes into the nutrient value of the feed for especially ruminant animals, and it's improving for hogs and poultry. So I think part of this could be a little bit better education of the press. In fact the CBO reported it wrong when they did the food versus fuels study. So we just need to have a little bit more dialogue about what really is happening, I think.

Dr. Weishaar: Yes, thank you, Congressman, and just to add to Mr. Hallberg's comments, I think he hit the real key. I think the biofuels industry, in particular the ethanol industry, is not given credit for its feed product. It's viewed as a pure consumer of corn, and I think the general populace forgets that from our manufacturing process we have a renewable fuel, but we also have a very highly desirable, protein rich animal feed.

So I think by getting that education and understanding what comes in and what comes out is imperative. So speaking specifically with producing 1.6 billion gallons of fuel, we produced over four and a half million tons of animal feed this last year. And I think, again to Mr. Hallberg's point, that's one thing that sometimes the communication maybe isn't quite as efficient as it should be.

Rep. Walz: Well, I appreciate that, and I look forward to this discussion of getting this right. There's no reason this should divide us. Our livestock industry is critically important to this country as well as our biofuel, so thank you both. I yield back.

Chairman Peterson: I thank the gentleman. The gentleman from Texas, Mr. Conaway.

Rep. Conaway: Thank you, Mr. Chairman. I just have one quick one. Dr. Weishaar, we enjoyed a tour of your plant at Chancellor yesterday. Terrific exposure for me. It's the first time I'd been through a plant like that. Use of methane gas coming off a landfill. I mean, the goal to eliminate most, if not all your need for natural gas. All those things are really worthy moving forward.

What I was unable to distinguish, though, was how much of that wonderful plant did the federal taxpayer underwrite in ways that a normal corporation wouldn't get? In other words, obviously you get to depreciate the equipment and all those kinds of things. That's the standard kind of deal. But I couldn't tell, and I don't necessarily think you need to answer that off the top of your head. But as we look at these things, as I hear words like loan guarantees and production credits, you would want to make them refundable, expanded grants, mandates for flex fuel cars, all of those things cost money.

And we find ourselves having mortgaged our grandchildren and great-grandchildren's futures because good hearted Americans, well intended, have looked to their federal government to do things, and have asked their federal government, and i.e., the federal taxpayer, to make those kind of commitments that we can't afford for a lot of variety of things. You did mention one thing I would like some clarification on. You said that your company will be responsible for 3.2 billion gallons of the biomass. Does that mean if you don't make it, you'll pay some penalty? What do you mean by the word responsible?

Dr. Weishaar: Okay, there's a couple of things in there, Congressman. Maybe I'll start with that one and work backwards. Our company laid out a vision several weeks ago to produce 3.5 billion gallons of cellulosic ethanol in which one segment of that would be a billion gallons of [volton] cellulosic facilities at our own 26 plants. An additional 1.4 billion gallons is where we would license that technology to other grain based ethanol facilities, again to produce ethanol in conjunction with their facility, and then 1.1 billion gallons would be non-grain based ethanol facilities across the nation.

Rep. Conaway: Okay, but the word "responsible" means if you don't make it, are there penalties for your company?

Dr. Weishaar: No, sir. I may have misspoken. That's our vision that we're driving the organization toward.

Rep. Conaway: Well, I need to continue to have these conversations because I'm not sold yet, but appreciate being here, and I yield back.

Chairman Peterson: The gentle lady from Colorado, Ms. Markey.

Rep. Markey: Thank you, Mr. Chairman. Thank you for being here for your discussion in the pine beetle problem which, as you know, is a very serious problem across the West. We heard in our farm bill hearing in Cheyenne just a couple of weeks ago in Colorado 100,000 trees a day are falling, and so of course it has huge implications for the environment, for tourism, for the economy, for fire, and it is a crisis, so I'm glad that we're taking this very, very seriously.

But on a different matter, quickly, Mr. Hallberg, as you mentioned in your testimony, the use of plug-in electric vehicles are becoming much more widespread. What do you see as the long-term nice market then for cellulosic ethanol? And we also know that a huge consumption of fuel is in jet fuel, and that will never be electric. Do you see future applications in the aviation industry for biofuels and cellulosic ethanol?

Mr. Hallberg: Yes, that's an excellent question. The jet fuel market, I think, is going to be addressed less by ethanol than obviously it will be so-called drop in fuels, or fuels that are more suited for the jet engine characteristics. Our transportation fuel system is obviously enormous. It's the largest in the world. On the gasoline side, it's 140 billion gallons a year, diesel it's 30 billion. The ability for this nation, with the choice approach, so that there's a flex fuel vehicle that's also going to morph into PHEV, a plug-in hybrid, to actually back out imported crude I think is enormous.

And in fact, the technologies will follow the capital as the market pull, the demand pull develops. I think we're seeing that already, although we're a little disappointed in the timing. So I think wind generated electricity, I think the drop-in fuels have a role. Ethanol, in importance, has been overlooked because of the octane component that we're going to need, as I mentioned, for these higher performance, higher efficiency engines that will be developed post 2016. All those together should get us off the foreign oil barrel, I think, within the next 15 to 20 years.

Rep. Markey: Thank you, Mr. Chairman.

Chairman Peterson: Oh, Mr. Kephart.

Dr. Kephart: If I could make one comment, Congresswoman Kissell, I believe that cellulosic feed stocks have a great future in the sectors that you brought up, both power production and in drop-in fuels. One problem or limitation that we have to be aware of on cellulosic feed stocks is yes, there's a lot of cellulose there, but

there's also quite a bit of lignin, and lignin is not fermentable in a biological system, so there are thermo chemical processes that many of us across the country, many folks across the country in Sun Grant are working on to produce, for example, synthesis gas.

Gasified biomass can generate power. We're working on procedures to produce pyrolysis oil, or a lot like a crude oil that could be used as a low grade boiler fuel to heat buildings or generate power, or to refine it into jet fuel or diesel and other drop-in fuels, and actually at SDSU we're working on a cellulosic project for JP8, a military grade of jet fuel, so that is a feed stock source including these woody biomass issues in public lands could fit well into those types of pools.

Chairman Peterson: I thank the gentle lady. The gentleman from Nebraska, Mr. Fortenberry.

Rep. Fortenberry: Thank you all for appearing today. One quick question regarding the science of this. What's the latest information on the energy output to input equation for ethanol?

[Mr. Hallberg]: I think to me the most recent and I think the most thorough that's been peer reviewed in the *Journal of Industrial Ecology* actually was done by Dr. Ken [Cassman] of the University of Nebraska Lincoln, and they have been thorough to the point of actually surveying every facility, and as you know, 75% of the capacity of this industry has been added in the last three or four years. So they've gotten up to speed on the new technology.

The new facilities that are being built today are extremely efficient, and those numbers are approaching 2.0 to one. Actually, that's a little confusing to people because it's actually more dramatic than that in terms of the reduced amount of BTUs in for the output out, but they're extremely efficient facilities.

Rep. Fortenberry: And examples of where the collocation of energy inputs and outputs are taking advantage of synergistic opportunities that greatly increase that equation? Where does that bump to? What are the outliers?

Dr. Weishaar: Well, I'll talk on two different points. One was from our Chancellor facility, where we're actually offsetting [fossil] fuel, in other words, we're using waste landfill gas or waste wood. That obviously helps the economic model because our fossil fuel use is greatly reduced. The other segment is the Project Liberty in Emmetsburg, Iowa where we'll actually be using the lignin that's an output through anaerobic digestion system that will displace all of our natural gas use for not only the cellulosic plant, but the existing 50 million gallon corn ethanol plant.

So again, as these technologies, from an energy utilization, from water reduction, from a biological standpoint, in other words the enzymes and the process themselves become tweaked and more refined, we will see less water, less energy

utilization and greater yields, which will move it even beyond some of the numbers that Mr. Hallberg shared.

Rep. Fortenberry: Well, remember, it was just a few short years ago we had no new energy bill at all, and here we've quickly advanced from a debate about whether this was maybe 1.3 to one or so to now being more clear at about two to one, but again, the opportunities for collocation of the synergistic energy input and output uses greatly increase that equation.

Let's go back to the issue of the blend wall. To me it seems like that's, again, a short-term measure that actually would be very beneficial in terms of integrating ethanol and biofuels into the transportation mainstream as it currently exists. But the longer-term question is the fuller integration of the transportation infrastructure to accommodate biofuels. Now, that doesn't have to be a long-term question necessarily, but clearly it might be a medium-term question. Do I have that pretty well clear? I mean, we've got to...to be able to go to a higher blend immediately might, again, fix a certain difficulty right now in the market, but that's within the current confines of the way in which the transportation infrastructure is currently set up.

Mr. Hallberg: Congressman, I think that's a critical point, and even if EPA gets E15 right, there's going to be litigation that will go on for a long time, and there would be a lot of uncertainty. So moving the demand needle is a question mark. The choice act or something like the Brazilian model, they started that process six years ago where they started the flex fuel vehicle introductions, and it is now, as I said, almost 97% of every vehicle sold, and it's massive.

If you look at the economies of the world that took the oil shock two years ago, Brazil is the least affected, and that's on the record. It was so resilient because of its ability to move over and displace the \$150 crude gasoline. So that is where we have to go. Five years from now hopefully the industry could be at a point where it doesn't have to go to EPA and ask for a waiver for legacy vehicles because we've turned the fleet over and people can put E30, 40, 50 in.

Rep. Fortenberry: I think you make an interesting point as well. This is what's actually holding back capital investment in the industry, this level of uncertainty. Thank you, Mr. Chairman.

Chairman Peterson: I thank the gentleman, and the other members have foregone their questions, so we're going to wrap it up here. We want to thank this panel for their excellent testimony and answers to our questions. We'll look forward to working with you on these issues as we go forward. I want to thank the previous panel, thank all of the folks for being here today, the folks that watched us on the web. Again, we encourage anybody that has ideas to contact us through our web site, www.agriculture.house.gov. And with that, under the rules of the committee...

[End of recording.]