



**House Agriculture Subcommittee Hearing
Subcommittee on General Farm Commodities and Risk Management
June 24, 2010**

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Acting Chairman Jim Marshall: ...and to review U.S. farm safety net programs in advance of the 2012 Farm Bill will come to order. I'm Jim Marshall, and normally I'd be the Vice Chair of the committee, but Chairman Boswell is one of the members of the conference committee for the Financial Regulatory Reform Bill, and there are two Ag members, Democrats, there are three Ag members totally at that conference committee.

The conference committee is meeting. That's a big deal for Ag, so I think everybody in the room not only understands why he's not here, but appreciates the fact that he's not here, that he's out there trying to protect our interests in the financial regulatory reform process. We have with us today Mr. Smith, the gentleman from Nebraska, my neighbor up there on the fifth floor of Cannon, who is not a member of this subcommittee. I've consulted with the Ranking Member, and we are pleased to welcome him to join in the questioning of witnesses, without objection.

This is an opening statement that would have been given by Mr. Boswell, and let me read it. "I would like to thank everyone for joining us here today as we review the safety net programs established in the 2008 Farm Bill. The chairman of the subcommittee is unable to make it to the beginning of this hearing due to the Financial Regulatory Reform conference." Obviously this is not what Boswell would have read. This is intended for me. "Many farmers and producers hedge their risk in the markets and we want to insure those end users are still able to use those markets."

He requested that I chair the hearing and I am very pleased to be able to do that today, given the important topics that we are going to be discussing. I would like to thank our witnesses today. This committee looks forward to hearing your valuable insight into this issue as you help us move forward in developing the

2012 Farm Bill. Without a doubt, it does not seem that long ago we enacted the last farm bill. However, this committee has already held numerous field hearings across the nation, including one in Georgia which I was pleased to attend. It is refreshing and absolutely necessarily to hear directly from agricultural producers on the challenges they face day-to-day.

Last week this subcommittee heard from Under Secretary Jim Miller about the current farm programs that we passed in the 2008 Farm Bill, such as ACRE and SURE. Both are very complex new programs, but are becoming important components of the safety net for some of our producers. However, in Georgia we find that some programs that work well in the Midwest simply are not working for our mix of commodities and our producers' needs. With this next farm bill, we hope to have the opportunity to change that.

If we put in place a nationwide program, we need to have a successful nationwide safety net. Now, more than ever, an adequate safety net is essential to insure that we have the safest, most plentiful and most affordable food supply in the world. With 90 million people being added to the world population each year, we need to find ways to do more with less. Thank you again to the witnesses testifying before the subcommittee. Your testimony will be an essential means for us to continue to move forward the 2012 Farm Bill. I'd now like to turn to my friend, the gentleman from Missouri, Mr. Luetkemeyer.

Rep. Blaine Luetkemeyer: Thank you, Mr. Chairman, we yield back.

Rep. Marshall: So much for the opening statement from the minority. He just agreed with the opening statement from the majority. *[Laughter.]*

Rep. Luetkemeyer: We are a substitute, as is the chairman, so as a result, we are still working on other things here this morning.

Rep. Marshall: Let's see. I guess I'd now like to call the first panel, and I think the witnesses are at the table. We have Mr. Philip Nelson, President of the Illinois Farm Bureau, on behalf of the American Farm Bureau Federation; Mr. Kent Peppler, President, Rocky Mountain Farmers Union, on behalf of the National Farmers Union; Mr. Anthony Bush, Chairman of the Public Policy Action team, National Corn Growers Association; Mr. Dave Henderson, President, National Barley Growers Association; and Mr. Rob Joslin, President, American Soybean Association in Ohio. And I guess Mr. Nelson, you're up first.

Mr. Philip Nelson: Thank you. My name is Philip Nelson. I'm President of the Illinois Farm Bureau and a member of the Board of Directors of the American Farm Bureau. I'm a grain, pork, and cattle producers from Seneca, Illinois. I'd like to first of all thank this committee for holding this hearing, and I appreciate the invitation to share our thoughts.

I'd like to start by saying that our farmers can generally point to at least one commodity program including in the 2008 Farm Bill that they utilize on their

farm. As you probably heard during the farm bill field hearings, it depends on what kind of farmer you talk to and in what part of the country they farm as to what portions of the farm bill producers find most useful, but the vast majority of the farmers in most states rely, in some way, on the safety net provided in the 2008 Farm Bill.

That said, we know we will face many challenges in the writing of the 2012 Farm Bill, including the budget environment and the need to balance the interests of the multitude of players. At the Farm Bureau we have just started the process of evaluating the programs in the 2008 Farm Bill, grappling with budget constraints and considering future policy recommendations. We are here today to present this subcommittee five general principles that will guide future farm bill proposals from Farm Bureau.

Number one, the options we support will be fiscally responsible. Number two, the basic funding structure of the 2008 Farm Bill will not be altered. In other words, money should not be shifted from one title of the Farm Bill to another. Number three, the proposals we support will aim to benefit all Ag sectors. Number four, world trade rulings will be considered. And number five, consideration will be given to a stable business environment that is critical to the success in agriculture.

While farmers are generally content with the safety net provided in the 2008 Farm Bill, it sometimes feel like you're reading the old children's story "Goldilocks and the Three Bears" when you talk to individual farmers. Some farmers think the safety net coverage provided in the 2008 Farm Bill is just right, but in other cases, for other farmers, the coverage is sometimes too little, and in some cases, in small number of cases, the coverage may even be duplicative and too much.

Without fail, farmers that farm different crops in different parts of the country rely most heavily on different pieces of the safety net. For example, a farmer in Illinois might have a multitude of layers of protection for both price and yield risk exposure, first through the ACRE program, then through the buy-up of crop insurance, and then through the SURE program. In fact, Illinois has some of the highest levels of ACRE participation, buy-up insurance coverage is the norm, and farmers in disaster and contiguous counties are expected to benefit from the SURE program.

But these same programs might not provide a farmer in Mississippi with the same depth of safety net coverage. For example, ACRE has not proven to be a useful program in Mississippi, for a variety of reasons. Many farmers in the region, particularly cotton farmers, experienced very low prices in 2007 and 2008, which were the base years for the setting of the support level for ACRE. In Mississippi the direct payment and marketing loan portions of the traditional safety net are critical, and the cuts required to this portion of the safety net were too steep to attract farmers into the ACRE program.

The use of buy-up crop insurance is not always as prevalent in Mississippi as it is in my home state of Illinois. Again, there are a lot of reasons a farmer in Mississippi might not purchase buy-up levels of crop insurance. In many cases the availability of programs is not as robust, and sometimes coverage is prohibitively expensive. In other cases the products offered simply do not align with the types of risk faced by Mississippi farmers.

Without the purchase of buy-up crop insurance, the value of SURE as a disaster program is also minimized. Again, almost all farmers can find at least one component of the commodity title that works on their farm, but it depends on who you ask which programs work best and are utilized most. Given the great deal of discussion that has already occurred regarding whole farm revenue programs, it would be remiss for me to not at least briefly discuss our thoughts on this topic.

Both the adjusted gross income insurance product and SURE provide us with case studies of the whole farm revenue programs, and from those cases we have gleaned several watch outs to consider as this farm policy is being discussed. Number one, the complexity of these programs makes them unpopular. Number two, such programs can be difficult for USDA to implement, which turns into delay on payments to farmers. Number three, including livestock in such programs adds an additional layer of complexity. And number four, the paperwork and confidential information that can be required to sign up for a revenue program is daunting to farmers and often discourages them.

In conclusion, we appreciate the hard work of this subcommittee to insure that America's farmers have a practical safety net that allows our farmers to continue to produce the safest, most abundant and least expensive food supply in the world. I thank you for the opportunity to speak and look forward to answering any questions you may have.

Rep. Marshall: Mr. Pepler.

Mr. Kent Pepler: Chairman Marshall, Ranking Member, and members of the House Subcommittee on General Farm Commodities and Risk Management, thank you for inviting me to speak with you. My name is Kent Pepler, and I'm here on behalf of the National Farmers Union. NFU is a national organization that has represented family farmers and ranchers and rural residents for more than a hundred years.

Since the last farm bill, farmers have experienced some of the most difficult economic conditions in decades. We must now address the new realities of extreme volatility in commodity prices, high energy costs and fewer young people and job opportunities from rural areas. The farm bill might not solve all these problems, but it could make a lot of progress.

Some suggestions. According to the Congressional Budget Office, from 2010 to 2020, about 49 billion will be spent on direct payments, five and a half billion on

counter-cyclical payments, 3.2 billion on the new Average Crop Revenue Election program and 1.7 billion will go to the marketing loan benefits. Crop insurance programs are slated to receive 76.8 billion. Compared to other options, direct payment programs are the least effective way to smooth the highs and the lows of the marketplace and are hard to explain to the general public. We would be better off if spending on direct payments was distributed among the other safety net mechanisms such as federal crop insurance.

The current farm bill provides about nine times more support and direct payments than through counter-cyclical payments. This needs to change. By providing farmers a boost when commodity prices fall below the cost of production, with effective payment limitations, counter-cyclical payments are cost effective while helping farmers in tough times. The World Trade Organization has penalized government assistance for domestic agriculture production. However, in the coming years, changes in the next round of the WTO negotiations will be a prime opportunity to adjust the direction of American farm policy.

On the disaster program, the inclusion of the SURE program in the 2008 Farm Bill was a hard-won victory for family farmers and ranchers. However, SURE is inadequately funded and administrative changes have delayed implementations of rules and regulations. Back home in the field, some farmers have had claims pending since 2007. I urge Congress to fully fund the program and adopt partial advance payments so assistance can be quickly provided.

In the next farm bill, we need to continue the progress that was made concerning the SURE program. I welcome more suggestions and discussions on the SURE program. A consistent, predictable and stable plan for farmers struck by hard luck is the most important aspects of having permanent disaster aid.

Crop insurance, what must remain a cornerstone of farm policy. We remain deeply concerned that reductions in spending for this vital program will cripple crop insurers to the point that some companies may choose to no longer carry it in some areas of the country. In fact, we should be increasing the availability of crop insurance.

When the future of crop insurance is discussed, I ask the members of this subcommittee to consider the use of actual production history, and for the situations in which it is not available, the qualified yield for a farm should not be set at a lower level than the county FSA average. We also urge establishment of APH yield floors. These commonsense approaches to crop insurance will help to insure the productive potential of a farm is appropriately represented in risk management contracts.

The Administration's goal to improve child nutrition funding is a move which NFU has supported for decades. However, funds should not come from crop insurance programs or other parts of the safety net. Child nutrition is estimated to comprise 80% of the current farm bill.

Supply management tools. Counting on trade as the only means of releasing excess supply has proven to be ineffective. Without even a rudimentary system of supply management, our existing farm programs are vulnerable to a very unlikely threat, a bumper crop. In a time when government expenditures are highly scrutinized, excessive safety net payments could spell disaster for public perceptions of farm policy.

On behalf of the members of the NFU, I thank you for your ongoing attention and diligence. NFU looks forward to this dialogue on the new farm bill. Thank you.

Rep. Marshall: Thank you, Mr. Pepler. I'd like to note that the chairman of the full committee, Collin Peterson from Minnesota, has joined us. Apparently there's been a little bit of a break from the Financial Regulatory Reform Conference Committee, and I'll just observe we all appreciate the job that Collin does for us. We wouldn't be where we are today with the farm bill that we've got today but for a number of people. And that was a key player sitting here today in this room. Mr. Chairman, do you have any remarks?

Chairman Collin Peterson: Well, I don't want to delay things too much, but I think people have heard what I've had to say. We are going to be facing a difficult situation. It's unclear exactly what the situation will be, but it clearly will be difficult, given the financial condition of the country and the deficit, and all that sort of thing. So I think that by getting started early, we're giving people a chance to think about this ahead of time so that we're ready whenever we get against whatever ends up happening, whether there be a reconciliation attempt next year or getting ready for the next farm bill. And as you've all heard me say, whatever the outcome of all that, we're not going to have any new money. We'll probably have less money. And we've got to figure out how to make it work so that we have an adequate safety net.

I am concerned about...this is a bad thing to be concerned about, I guess, but that we might have a bumper crop, and we could have prices down from what we've experienced in the last few years, and that will present challenges in addition to the fiscal challenges that we have. We appreciate all of you for the work that's being done. I think all of the commodity groups have developed some kind of a working group within their ranks to look at what's currently being done, look at the amount of money we're currently spending, and seeing if there's a better way for us to provide the safety net that will be more effective, more efficient, less complicated, and I think we're making good progress.

The dairy industry, National Milk I think had a 96% vote behind a new type of safety net for dairy. There's still a lot of details to work out through that, but that's the kind of thing I think we need to look at. Are the current programs effective, are they working, is there a better way to do it? And so we appreciate everybody stepping up to the plate. The members have been very much engaged in this. We'll probably start next May or June with the actual process of markup of the net farm bill so we can get it done on time.

The last thing is that we've haven't had a farm bill that's been done on time for quite a while. The current farm bill ends in September of 2012, and I, for one, am determined that we get this farm bill done prior to September of 2012, that the winter wheat guys know what the program is when they're planting, the southerners know what the program is when they're planting, and so that is the goal at least of this member. I thank all of you for being here today and sharing your thoughts with us. Thank you, Mr. Chairman.

Rep. Marshall: Thank you, Mr. Chairman. Appreciate those remarks. We all appreciate your leadership. Mr. Moran from Kansas has joined us. He's the Ranking Member of the subcommittee, and he may have some remarks as well.

Rep. Jerry Moran: Mr. Chairman, I do not have any remarks other than to express my appreciation to you and Mr. Boswell for hosting this hearing, and I look forward to hearing the testimony of the rest of the witnesses. Thank you.

Rep. Marshall: All of the members of the committee are invited to submit opening statements for the record, and the record will remain open for ten days. And with that, let's move to our next witness, Mr. Bush.

Mr. Anthony Bush: Mr. Chairman, Ranking Member Moran, and members of the subcommittee, on behalf of the National Corn Growers Association, I appreciate this opportunity to share with you some perspectives on today's farm programs. My name is Anthony Bush. I am currently serving as Chairman of NCGA's Public Policy Action Team. I am from Mount Gilead, Ohio where my wife Teresa and I raise corn, soybeans and wheat on a fourth generation family farm.

Knowing the difficult fiscal conditions that our nation must address, NCGA has begun discussions on improving the farm safety net under scenarios that could arise as a result of new budget difficulties. We look forward to making a strong case for our growers to continue to meet the world's increasing demand for food, feed, and renewable fuels, but there will be even more effective risk management tools needed.

The demand for corn has increased demand for farm production inputs. Over the past ten years, nitrogen and potash fertilizers have jumped by an estimated 200% and 416% respectively. Farming is typically a capital intense, thin margin enterprise, and these higher production costs mean even more is at risk with the planting of each crop. It is no surprise that the federal crop insurance revenue based policies have become critically important to today's farm safety net.

NCGA remains very concerned with the current policy premium levels, in light of the fact that corn has experienced exceptionally low loss ratios under the existing rating system. Today's crop insurance program is required to operate with the national loss ratio of 1.0, with indemnities paid not to exceed total premiums. From 1990 through 2008, the loss ratio of corn only exceeded that for all other crops in 1993. The loss ratio experience should converge over time if the rating

system were performing as intended. However, NCGA sees little evidence of convergence.

Even though NCGA disagrees with the recent outside review's endorsement of this system, we agree with the recommendations for more appropriate weighting of early crop year observations. In the 2008 Farm Bill, NCGA advocated for a more market oriented, revenue based risk management program. The new ACRE program represents a fundamental reform that provides a more responsive risk management tool for rising input costs, yield trends, and greater market variability. In ACRE's initial year, the share of farms participating nationwide was around 8%, comprising almost 13% of base acres, well below initial projections by the CBO.

While NCGA expressed its concerns last year with the preparedness of Farm Service Agency employees to adequately explain the ACRE program, our growers have indicated far fewer programs this year. Nevertheless, we believe a more concerted effort is necessary to provide the training and support systems to help streamline the enrollment process and program compliance. A recent Iowa State study asked farmers who did not participate in ACRE why they decided to decline this option. Complexity was listed as a major reason for not participating. Producers find the rules requiring landowner approvals and documents to prove yields overly burdensome.

Another important issue for ACRE is the limited collection data by NASS used to compute a state's crop revenue value. This is not only a problem for ACRE, but for counties where producers no longer have access to area-wide crop insurance plans due to insufficient production data.

Over the next few months, NCGA will be evaluating several changes to enhance ACRE. Some of these suggestions include elimination of the base acre cap to make all planted acres eligible for payments. Our growers are also very interested in basing ACRE payments on county yields rather than state yields, as they more closely reflect farmers' yield risk.

The other major addition to the farm safety net was the SURE program, which represents an effort at a comprehensive revenue assurance program. A number of economists have noted that crop insurance, ACRE and SURE all have a similar purpose, to provide an effective safety net to producers, but have different components and requirements that could possibly be harmonized to improve overall coverage with minimal overlap.

Moving forward, NCGA believes enhancements to ACRE and our crop insurance program could effectively address the gap SURE is designed to cover today. We recognize that some potential changes would require additional budget resources. Given the fiscal challenges that lie ahead and the increasing importance of risk management tools, NCGA appreciates the subcommittee's consideration of our

members' concerns, and we look forward to working with you and your staff as we prepare for the next farm bill. Thank you for your time.

Rep. Marshall: Thank you, Mr. Bush. Mr. Henderson.

Mr. Dave Henderson: Mr. Chairman, members of the committee, my name is Dave Henderson, and I'm a farmer from Cut Bank, Montana, where I grow irrigated spring wheat, barley, and alfalfa. I currently serve as President of the National Barley Growers Association, and I am here representing U.S. barley growers today.

Barley is the third major feed grain crop produced in the United States, and from 2005 to 2010, U.S. grain producers planted almost four million acres of barley each year, contributing over \$800 million annually to the nation's economy. But U.S. barley production has been in a severe downward trend over the past 20 years, and the amount of barley grown has declined by nearly 50%, and we predict continued loss of acreage and production to competing crops that offer better returns on investment.

Though demand certainly plays a role, NBGA believes that the U.S. barley industry has lost significant competitiveness due, in part, to distortion in federal farm program support relative to other crops. The 2011 to 2020 projected support level for barley, compared to other commodities, is relatively low, just 2% of the total farm program expenditure. Barley growers receive little support from two key components of the commodity title, the counter-cyclical program and the marketing loan program. The target price for barley in the counter-cyclical program, though increased slightly in the 2008 Farm Bill, is set considerably lower than market conditions warrant, lending little support in the form of these payments.

Severe weather conditions in consecutive years in many barley states have led to significantly lower yields or total crop failures. The loan program and the LDP are useless when you have no crop, and the loan rate is set too low to be an effective price floor. NBGA remains supportive of the direct payment program, which is the best means to get much needed operating money into the hands of producers. It is easy to administer, requires conservation practices to be met for eligibility, and is the most WTO compliant program in the farm bill.

Very few barley producers participated in the initial signup for the new ACRE program. However, ACRE has the potential to become an effective support mechanism for barley growers, protecting guaranteed revenues when crop prices fall. Growers like the ability to choose whether or not to participate in a revenue based program like ACRE or the traditional farm program, but are frustrated with how complicated the program is and how difficult it is to explain to landowners.

Implementation of the new SURE permanent disaster program has been slow, frustrating growers who have suffered crop losses and need financial assistance to

meet operating expenses in the next crop year. We are confident that SURE will provide effective support, protecting barley growers from shallow crop losses that cannot be afforded through regular crop insurance.

The risk of failing to produce malting barley that meets high priced contract specifications is great, and the availability of affordable crop insurance that at least meets the cost of production is critical to our barley growers. NBGA believes improvements can be made to risk management programs in order to adequately multi-year losses, increase the level of affordable coverage, and coordinate USDA grading standards with those stipulated by the U.S. barley industry.

We continue to face increasing production costs. USDA ERS reports the 2009 barley total cost of production per acre for the Northern Great Plains at \$301. The total gross value of production is estimated \$261 for these same acres, for a net loss of \$40. These facts, along with potential changes in the WTO rules and the dire federal budget situation have led us to begin looking at options for the 2012 Farm Bill. We look forward to ongoing discussions with this committee, and would like to thank you again for this opportunity to testify.

Rep. Marshall: Thank you, Mr. Henderson. Mr. Joslin.

Mr. Rob Joslin: Good morning, Chairman Peterson, Mr. Marshall, and members of the committee. I'm Rob Joslin, a soybean farmer from Sidney, Ohio. I currently serve as President of the American Soybean Association, and am also a member of ASA's Farm Bill Working Group. ASA is pleased to provide our initial thoughts on farm program priorities for the 2012 Farm Bill.

ASA believes that farm programs play an important role in the underpinning and strength of the farm economy, which in turn supports the overall U.S. economy. We recognize that in the current budget environment, farm programs are a target for interests that either oppose them in principle or want to fund other priorities. Accordingly, ASA is looking for ways to make farm programs more efficient, effective, and defensible.

ASA has long supported adjusting target prices and marketing loan rates to make them more equitable among commodities. A current \$5 per bushel soybean loan rate and \$6 per bushel target price are not equitable, but because market prices have been above these levels in recent years, they have not disadvantaged soybean production under the 2008 Farm Bill. In order to provide meaningful income support, soybean loan rates and target prices would need to be increased significantly.

Direct payments support farm income when prices and yields fall sharply, particularly for producers in regions where ACRE and crop insurance protection participation is low. Direct payments are also considered non-trade distorting or green box under WTO. Direct payments have been criticized when commodity

prices rise and payments are made regardless of the need for income support. In addition, direct payments can be factored into land grants, so they often pass through to the landlord rather than benefiting producers who do not own the land, but accept the production risk.

With regard to the ACRE program, projections indicate it may be a better choice for producers in the largest soybean growing states than the traditional farm program. ASA believes that ACRE can be modified to make it more attractive in regions of the country where participation is low. Modifications could include changing the state loss trigger to a trigger close to the producer level. This is particularly important to producers in states with high variability of yields, and would functionally improve producer risk management.

A second concern is that signup under ACRE requires participation for the duration of the 2008 Farm Bill. This discourages participation by producers who rent their land and cannot make multiple year commitments. A third issue is a 30% reduction in marketing loan rates required under ACRE. This reduction undercuts the use of the loan as a marketing tool by soybean producers in southern states who also grow cotton, making ACRE a non-starter for these producers. The ACRE program needs to be made more understandable and accessible to producers, including reducing the amount of paperwork required to participate.

ASA members in some states indicate that the SURE program will provide substantive relief for losses incurred in the 2008 year. However, SURE does not provide adequate disaster relief to producers in regions where participation in crop insurance is low or at low levels. Crop insurance has become an increasingly important part of the farm income safety net for soybean producers in recent years. ASA does not support including crop insurance reform and reauthorization in the farm bill.

In addition, ASA opposes cuts in the crop insurance baseline, and any reallocation should be used to make it more effective nationally. ASA believes crop insurance should be modified to reflect the lower return per acre and higher input costs in soybean producing regions that do not participate at meaningful levels. Low APH and high rates make buy-up coverage unaffordable for many southern farmers. Inadequate coverage translates into reduced value for the SURE program.

ASA encourages the committee to determine whether and how modifications should be made to the ACRE, SURE and crop insurance programs so that they each play an appropriate role in supporting farm income. That concludes my comments today, Mr. Chairman and committee. ASA looks forward to working closely with you and other members of the committee as you prepare to write the next farm bill. Thank you.

Rep. Marshall: I thank the witnesses for their testimony. For questioning, Mr. Chairman, you don't have any questions right now? Why don't you, if you've got some, maybe I'll come back to you after Jerry and I.

Chairman Peterson: No, I've got to go over, so I'm good. You guys will do an outstanding job of grilling these guys, so we'll leave it to you.

Rep. Marshall: The pressure is on here. Mr. Bush, you talked a little bit about price volatility where the market is concerned and corn. Could you describe for us your impressions of price volatility, how prices have moved, say, over the last ten years, and then what suggestions you would have for what the federal government might do to try and dampen down or fix this problem?

Mr. Bush: In the past ten years – let's see, this is 2010 – around 2000, corn was hovering somewhere probably around \$1.90 to \$2.00 a bushel. We've seen peaks and valleys among that time. The 2008 crop year we saw extremely high prices. The market fundamentals did not support corn at that high level of a price. As far as what the federal government can do about price fluctuations, tell me what the weather is going to do and I'll tell you what to do. I don't know how the federal government can predict the weather, because the weather has so much to do with our markets.

Rep. Marshall: So programs that would protect you where price volatility is concerned is not something that you've thought about?

Mr. Bush: We like programs that protect price volatility like the ACRE program with the two year averages. They address systemic risk. And crop insurance with revenue based policies. At least when a producer plants his crop, he knows where his floor is.

Rep. Marshall: You've seen a lot of volatility in input costs as well. Any comment about that, what might be done, if anything?

Mr. Bush: Most of our nitrogen in this country – I forget the percentage now – a very high percentage of our nitrogen is imported in this country. Streamlining the delivery process for that up the rivers, the locks and dams, things like that could help with the delivery. Most of the nitrogen is imported in the form of ammonia and we refine it here. There's a very limited number of ships that can haul nitrogen in the form of ammonia, and they're very aging. And it's expensive because there's no back haul for them or anything. So anything the government could do to improve the delivery process of our inputs would help.

Rep. Marshall: For all of the panelists, we've had a lot of testimony in the full committee and in this subcommittee over the last three, four, five years focusing on to what extent different forces within the futures markets, the regulated exchanges, have caused some problems with prices, and there was a wide range of opinion in the agricultural community concerning those issues. I'm just wondering whether or not that's settled down at this point. Mr. Bush, I asked you

about price volatility. You don't mention that perhaps some of this price volatility is the fault of the futures markets, derivatives, etc. Anybody here feel like it is? Yes, sir, Mr. Nelson.

Mr. Nelson: I think he echoed our concerns. We have seen that volatility, but we've also seen the lack of convergence in the marketplace in which our producers price their commodities. Speaking for Illinois, we had a significant problem as it dealt with wheat. The southern third of our state raises quite a few wheat acres, and at one time we were seeing basis levels, the difference between the cash price, the futures price, in excess of \$3 a bushel. In a lot of cases farmers don't make that.

And we have seen that convergence improve with some of the changes that have been made in the delivery system. But when you start looking at some of the components of risk, price is just one function of some of those components. We deal with, as Mr. Bush said, the weather and you see the run-up and the slide in the commodity markets, that's what farmers deal with. And part of that is the risk management—

Rep. Marshall: The improvement in convergence, you attribute that to changes in the delivery system or changes in the contract terms concerning delivery?

Mr. Nelson: It could actually be both of those. We've had several meetings on convergence since we were hearing all these concerns from our producers. But we have seen some strengthening of the convergence factor, especially in the wheat. We still have concerns when you see certain types or points during the year where you see wide basis swings in both corn and soybeans in addition to what, so hopefully we've started to address some of those challenges.

Rep. Marshall: My five minutes are up. I'll turn to Ranking Member Mr. Moran from Kansas.

Rep. Moran: Mr. Chairman, thank you. I've heard mixed reports, testimony about direct payments from the witnesses this morning. Generally Kansas farmers would tell me that the two most important components of a safety net that I ought to be fighting to preserve would be direct payments and crop insurance. And particularly you, Mr. Pepper, indicated the direct payments could be better utilized elsewhere, although one of the things you suggested was that the money could be spent on crop insurance, so perhaps those two things are not inconsistent.

But my efforts to champion the...I understand somebody indicated the difficulty in explaining to the public, the public relations issue that surround direct payments. I certainly recognize those as an issue. But is there a consensus here that efforts on behalf of direct payments by members of Congress like me, on behalf of Kansas farmers is something that I ought to move on, and it's just time to forego this belief that directed payments are an important component despite the fact that they provide a benefit when there is no other benefit.

We've seen numerous circumstances in Kansas in which the price is such that there is no other payment, and yet you have no production, and so the direct payment is of great value. And we know that we are under attack for WTO violations, and direct payments are the one that is the least likely to be subject to those attacks. So do they play no role? We ought to de-emphasize direct payments, or I ought to just move on and champion something else? I think I'd ask anybody but Mr. Pepler. *[Laughter.]*

Mr. Pepler: Well, certainly a lot of our producers are in eastern Colorado which, if my geography course was correct, is pretty close to Kansas.

Rep. Moran: It is. We used to be allies, and Colorado has abandoned Kansas and other Big 12 schools, but we do know where your state is, and we do share a common border.

Mr. Pepler: Yeah, well, we're...yeah. You have better water lawyers also, sir. You mentioned the direct payment being the only payment that comes to your producers on low price years. That's not the issue. The issue is the public part of it that you talked about. The issue is when wheat is up in the seven, eight, ten dollar bracket and some of the producers are getting huge government direct payment checks on top of it, how do we explain that? And that's a very difficult load for us.

And certainly in Rocky Mountain Farmers Union, being so close to your area – and we share producers – certainly it's been hotly contested in our policy debate. But traditionally Farmers Union has said we want a farm program that helps us out when we need help and doesn't help us when we don't need help. And certainly the counter-cyclical and the loan programs that we've seen in the past fit that policy the best.

Rep. Moran: I appreciate you adding the words “fit that policy the best” because I'd only want to point out that direct payments do meet that criteria in many circumstances in which there's no other help but this and help is needed. Anybody else want to join in this conversation?

Male Voice: Yes, I'll comment quickly. I think you struck it, that direct payments are clearly the most WTO compliant, and before you discuss, or as you say, move away from direct payments, I think there needs to be a more complete analysis. Specifically, it's very evident, all of us here represent national organizations, and it's very evident that direct payments have different benefit in different regions of the country. I think that needs to be a very important part of the analysis.

Rep. Moran: Mr. Chairman, my time has just about expired. I would only add that it would be a terrible shame if we put all our eggs in one basket, or two baskets that turn out to be WTO noncompliant and then direct payments are gone as well. I thank the witnesses for their testimony, and look forward to further conversations as we progress on this issue. Thank you.

Rep. Marshall: Since I've got the gavel, and I'm not going to gavel myself down, I'll take the privilege of the chair, Mr. Nelson, just to follow up on my question is it that the delivery systems have improved or the contract language has improved. And to me, anyway, it makes little sense for the futures industry's contract terms to somehow force the shape of delivery systems in agriculture.

Those contracts simply should be modified to fit what's on the ground. We ought not to be, for example, creating warehouses and new courts and etc. simply because the futures industry doesn't change the terms of its contracts. Originally futures were set up to assist us. They weren't set up ever, and even ever contemplated to be something that actually drives the industry and shapes the industry. The gentleman from North Carolina, Mr. Kissell.

Rep. Larry Kissell: Thank you, Mr. Chairman. Mr. Pepler, kind of a follow-up to what we were just talking about. You mentioned in your testimony that the renegotiations of the WTO would be a good opportunity for us to perhaps change some basic farm policy. Would you like to add more to that in specifics of what farm policies might you like to see changed and new directions?

Mr. Pepler: Well, I think as a whole – and we're all pro trade. We want fair trade, and we don't want just any trade deal that comes down the pipe. And to me the WTO agreement has been almost like a Super Bowl trophy through these administrations where, at some point, somebody's going to sign that deal and have Super Bowl trophy. And I think we've been guilty, a little bit, of eating our own and throwing the baby out in the wash. My view is – and that of Farmers Union – is that we need to take care of our domestic producers first and foremost, and after that, then we can work on the trade issues.

Rep. Kissell: Mr. Nelson, you talked about that there were different parts of the farm bill that applied better to different aspects of farming, and you mentioned a kind of a go to launch theory, some real good, some real bad, some just okay. On the overall, on the average, thumbs up, thumbs down on the overall effectiveness of the farm bill.

Mr. Nelson: I would say that at the present time I think you can – as I said in my testimony – you can find different regions of this country that like different components of this farm bill, but you can also find people that have concerns. As I said in my testimony, the ACRE program, we have one of the largest participation rates coming from our state. The dichotomy of that is you look at the state of Mississippi, they're at the other end. And I would say farmers are concerned with the complexity of this farm bill that they're operating. I'll use my case as a good example.

Just last Friday, since all we do is get rain every other day in Illinois these days, I went in to basically certify my acres and bring in the paperwork that was needed for the background dissertation on ACRE. Two and a half hours later we finished going through that particular signup period and the background documentation. I

heard from a number of producers that day, “How can we simplify this process?” Going back with the number of years’ data that’s involved and that sort of thing.

I would give the grade, if that’s what you’re asking me, of the 2008 Farm Bill, mixed results given the fact of what we’re hearing on some of the new programs. And I think going into the next farm bill debate, some simplifications and modifications can be made to this farm bill that will go a long way in the eyes of producers as it relates to safety net provisions.

Rep. Kissell: And Mr. Nelson, you mentioned, if I understood you correctly, that you would not support or advise shifting money from one place to another within the bill, but you mentioned that maybe there were some areas that had little to no money that were important areas. If I understood that correctly, how would you suggest, then, we affect those areas with little or no money that should maybe get some more attention?

Mr. Nelson: Well, and we feel strongly as an organization about that because there’s a number of titles in this farm bill that are important to various groups and various industries, and to literally take money from one particular area and shift it to another, you could take, as an example, a program that is working, shift some of those resources to another, and really make a problem with the program that you just took resources away. Having said that, we recognize the budget constraints that we’re going to be under as we write this farm bill. It’s going to be a tough one to write from a financial standpoint. But we do have great concerns when you start moving and shifting resources around from one area to another.

Rep. Kissell: Thank you, sir. Thank you, Mr. Chairman.

Rep. Marshall: Thank you, Mr. Kissell. Mr. Conaway from Texas.

Rep. K. Michael Conaway: Thank you, Mr. Chairman. Gentlemen, thank you for being here. Mr. Bush, I was in – oh, she’s left – Herseth Sandlin’s district and we went to a terrific corn based ethanol plant, and the folks there were telling us that expected improvements in efficiencies and everything else with respect to corn would allow the corn producers to meet most of the mandated demand for ethanol over the next ten years, without undue pressure on prices to consumers of other corn products.

And they’re betting on the trend that’s happened in the past. They’re saying in the past the productivity per acre and per kernel of seed, whatever it is, have gotten so much better that we can replicate that in the future, and that will happen again. What’s your perspective on future productivity gains for corn in the face of this 36 billion gallon mandate for ethanol?

Mr. Bush: Let me first point out that currently, here in virtually the end of June, we have about a two billion bushel carry out of corn right now only a couple of months away from new crop. I believe that yield trends we’ve seen in the past, yield trends will help. That is a big part of it, biotechnology and seeds. If you

believe the Monsantos and the Pioneers, DuPonts of the world, 300 bushel corn is just around the corner.

It's going to take everything – I heard a guy from Pioneer Seeds talking the other day at a state meeting, and they were talking about China. And he wasn't scared of China a bit because he said we're going to need China. We can't produce all this corn ourselves. But here domestically, we've already seen, in just a matter of a few years, we've went from two and a half gallons of ethanol per bushel to up around 2.9 now, and I expect those efficiencies to continue.

Rep. Conaway: It's interesting you mentioned somebody said we're going to need China. Mr. Pepler, a bilateral trade agreement with Colombia has languished for three years now. Misplaced opposition from other folks. While that's languished in opposition from perhaps you and other folks, we've lost market share in Colombia to Canada and others. We're drowning in wheat in Texas. We'd love to be able to sell that wheat in Colombia, but we can't. We can, but there are tariffs associated with it. You said protect the American producer first. How does not trading or not putting ourselves in a good trading position with, in this instance, one of our only friends in South America, how does that help American producers to maintain that tariffs on American wheat going into Colombia?

Mr. Pepler: Sir, I hope my impression was that we didn't want to trade. The impression that I wanted to leave with you is that when we do a trade deal, we want to make sure that it is a good trade deal for agriculture, and not just for the wheat producers, but for other parts. We've seen some issues in some of these bilateral trade agreements where you may help out one, but you may hurt another segment of agriculture, and it's very difficult.

Rep. Conaway: Yeah, I understand that. When you say you want a good deal, would selling whatever products to Colombia, with no tariffs on American products being sold to Colombia, offset by the existing no tariffs on products made in Colombia and sold here, wouldn't that, by definition, be a good deal?

Let me follow up further. Panama is another trade agreement that's languishing out there as a result of misplaced opposition. Panama is expanding the Panama Canal, one of the largest earth moving jobs we've seen in a century, and Caterpillar is at a 15, I think, percent disadvantage on selling tractors and bulldozers and earth moving equipment to Panama because we have refused to sign a bilateral agreement with Panama. Anything made in Panama can be sold in the United States without tariffs, so a trade deal in which trade tariffs in the country we're trying to sell in are eliminated looks like a good deal by most definitions. Any push back on that?

Mr. Pepler: I don't have any comment on that specifically.

Rep. Conaway: Okay. Thank you, Mr. Chairman. Yield back.

Male Voice: Mr. Conaway, may I comment on that?

Rep. Conaway: Yes, sir, absolutely.

Male Voice: Less than a month ago I was in Panama. I met with the Panamanian Chamber of Commerce, and they very clearly said that they're moving forward without the United States. They would like to trade with the United States, but they're writing other trade agreements. And it wasn't a negative, I just wanted to convey that. And you are right, it is a huge process. They're doubling the size of that canal. And I've been in Colombia, and it does bother me that these free trade agreements are staying on the shelf.

Rep. Conaway: All right, thank you, sir. Mr. Chairman.

Rep. Marshall: Thank you, Mr. Conaway. Miss Markey from Colorado.

Rep. Betsy Markey: Yes, thank you very much, Mr. Chairman. I'm also going to address my first question to Mr. Pepler because he is my friend and has a beautiful farm in northern Colorado. Good to see you here. You had mentioned in your testimony about supply management and that there is very few, if any, programs in the farm bill that address the issues of supply management, and I'm intrigued by that. Can you talk a little bit about what you would see as some fundamental mechanisms that could be put in place to address if there was, for instance, a bumper crop and there was too much supply, and what we would do. So can you talk about those issues?

Mr. Pepler: Certainly we've had these kinds of programs in the past, and they're a major part of the NFU policy. And basically, it's a safety net for not only producers, but it's for consumers also, to make sure that we have proper food and proper energy supplies. We would propose a storage type program where producers get paid to store their commodities, preferably on their farms in their own storage, and that when the price would come down, then more would go in storage; when price would go up tremendously, that some would come out of storage. And that would take away from some of the extreme price volatility that we've seen, some on supply and some on speculation in the commodity markets.

Rep. Markey: Okay, thank you. And this is really for the whole panel. We've heard the SURE program was a hard-won victory in the farm bill, but there's been inconsistencies on how it's been administered in local offices. Would any of you like to comment on some of the different experiences that you've heard from producers at the county offices with regard to the SURE program?

Mr. Henderson: Yes, I would. In our section of Montana, ten of the last 12 years have been drought years, so... The gentleman at the end was talking about rain every day. I think he was bragging. But anyways, in visiting with our county CED, our local FSA director, she made the statement that signup takes, on average, per producer, anywhere from six to 20 hours.

And with the complexities of the program, she is having a second staff member in the office run through it again, which takes an additional six to eight hours, so

there's a tremendous amount of time that this takes. There's very beneficial money there. I mean, when we're losing the top 30% off our crop insurance, losing that every year, that 25 to 30%, I mean, there is that protection that's sure that is with SURE. It's very beneficial and we'd sure like to see it more—

Rep. Markey: So what would help? Just streamlining the application process, the rules and regs on how it would – what would be helpful to make it more easily understandable for producers?

Mr. Henderson: The statement that she made was more training for staff members would be beneficial, just to get them more in line with the program, and that would be very beneficial, her comment was.

Rep. Markey: Okay. Thank you. Does anyone else want to comment on that? Yes.

Male Voice: Just a comment because the SURE program from our state is probably not as widely used as it is in other states because of the levels of crop insurance the producers take out. But I think you really need to determine what the SURE program is. Is it a disaster program or is it a type of crop insurance? And that's really, I think, where producers are still trying to sift this out. Then you layer on top of that, before the ink was dry – and I think the frustration the producers felt, the rules were not put into place.

You had producers in this country that lost a crop in 2008, they didn't have the program up and running, and where are the resources there at USDA to make this be implemented on time, and then you started to hear the cries for ad hoc disaster to take the place of that. And as most of us know, when we talked through the last farm bill debate, we were looking at that type of program to look at not having to come back for ad hoc disaster. But as all of you know, disasters happen across this country, and that's, I think, some of the philosophical questions that need to be addressed.

Rep. Markey: Right, okay. So should it be used as a disaster program, and if so, the funding needs to be there. Mr. Pepler?

Mr. Pepler: I think it's appropriate at this time. I was on the Farm Service Agency state committee during the Clinton Administration, and even at that time the Farm Service Agency was under attack for workload and number of FTE that they're allowed. We seem to be asking more and more out of these people in our county offices, and not putting our money where our mouth is in these situations. And in your district in Weld County, which is probably the fourth or fifth busiest FSA office in the United States, with over 2,800 farms, we were at a point where we even had shared management there with Larimer County. And so I think we need to look at FSA and their ability to deliver some of these programs. Thank you.

Rep. Markey: Thank you, that's helpful. Thank you very much, Mr. Chairman.

Rep. Marshall: Thank you. Thank the panel. You'll have ten days to supplement the record. Any of the questions that you've been asked or other thoughts that you have, if you could go ahead and submit something in writing. I have two more questions for all of you, and you might respond in writing, if you would.

We've wrestled with how our disaster program should be structured. They're just ad hoc, we make them up as we go along. And I know you have ideas concerning what we ought to be doing, what's politically practical and work where disaster is concerned, and if you could share those ideas with us in writing, we'd appreciate that.

The other thing is barriers to entry for new farmers, for young farmers, and your suggestions concerning how we can help new farmers, young farmers with our existing programs and perhaps in the new farm bill as well. With that, I thank you for your testimony, and let's call the next panel.

The next panel consists of Mr. Gary Murphy, Chairman of the Board of Directors, U.S. Rice Producers Association, on behalf of the U.S. Rice Producers Association and the USA Rice Federation. Mr. Murphy is from Bernie, Missouri. Mr. Gerald Simonsen, Chairman of the Board of Directors, National Sorghum Producers, from Ruskin, Nebraska; Mr. Eddie Smith, Chairman, National Cotton Council, from Floydada, Texas; Mr. Jim Thompson, Chairman, USA Dry Pea and Lentil Council, Farmington, Washington; Mr. Erik Younggren, Second Vice President, National Association of Wheat Growers, Hallock, Minnesota. And I see our witnesses have not had time to get their seats and the audience is going to replace as well, so we'll just take a short break. We'll commence in maybe five minutes.

[*Break.*]

Rep. Marshall: Could you hit your button? You're not on the mike.

Mr. Gary Murphy: Chairman Marshall, Ranking Member Moran and members of the subcommittee, thank you for holding this hearing. My name is Gary Murphy. I'm a rice farmer from Bernie, Missouri. My son and I grow cotton, rice, corn, popcorn and soybeans in Stoddard, New Madrid and Duncan Counties. For five generations the Murphy family have farmed. I serve as Chairman of the Board of the U.S. Rice Producers Association. Today is my first opportunity to testify before Congress, and I appear on behalf of both the U.S. Rice Producers Association and the USA Rice Federation.

The Food, Conservation and Energy Act of 2008 contained a traditional mix of safety net features. The non-recourse marketing loan, the loan deficiency payment program, and counter-cyclical payment program have not triggered under the current farm bill. In fact, if the protections provided were to trigger due to low prices for rice, the protections would help stem some of the economic

losses, but frankly, not enough to keep most rice farmers in business even through one year of severely low market prices.

The direct payment alone has assisted rice producers in meeting the ongoing and serious price of production perils of farming today. FAPRI estimates that at current projected prices, only the fixed direct payment program would make a significant payment to rice producers. Unfortunately for rice producers, the existing safety net protection levels have simply not kept pace with the significant increases in production costs.

The ACRE program. ACRE has not been favorably received by rice farmers. In the first year of the ACRE signup, only eight rice farms, representing less than 900 acres, were enrolled in the program nationwide. Specific problems with ACRE are it is not tailored to the needs of the individual farm, it requires farmers to give up assured assistance that they can bank on for the possibility of a payment, and a 35% reduction to the marketing loan rates, a bedrock of farm policy is particularly problematic.

While in recent years we have enjoyed market prices of rice well above a 650 loan rate, the bankable certainty that the marketing loan provides is still a great value. We recognize that the traditional price based counter-cyclical program with its old acreage basis in outdated yields is also less than perfect. Indeed, the most attractive portion of the ACRE option was the updating of acres and yields, and we would suggest that being mindful of WTO obligations, these improvements be maintained in future programs.

Although the risk management products offered under the federal crop insurance are of vital importance to many crops, the program has been of minimal value to rice farmers, due to a number of factors, including artificially depressed APH guarantees, high premium costs for a relatively small insurance guarantee, and the fact that the risks associated with rice production are unique from the risks of producing many other crops.

Rice farmers generally insure their production against drought, not through insurance, but through reliable access to adequate water supply. Conversely, rice also has a fairly strong natural defense mechanism against most flooding. As a consequence, there are fewer instances of production losses relating to drought and flooding, and such losses tend to be shallower when they do occur.

Nevertheless, U.S. rice farmers do face serious production perils due to weather. When severe losses occur, most U.S. rice farmers find themselves either under insured or uninsured. The coverage level purchased is commonly the lowest level of coverage, known as CAT coverage. Buy-up or additional coverage offering protection above the CAT coverage has not been viewed as cost effective for most rice farmers who operate on small margins.

What rice farmers need from the federal crop insurance are products that will help protect against price risk and increased production and input costs, particularly for energy and energy based inputs. For example, fuel, fertilizer and other energy related inputs represent about 70% of the total variable costs.

The USA Rice Federation has been working for over a year now to develop a new generation of crop insurance products to protect against sharp upward spikes in input costs. There are two new products that show some promise. We are optimistic that the Risk Management Agency will approve these new products, which could be available to growers in time for the 2012 crop year.

SURE has provided little, if any, assistance to rice producers, including those producers in the mid-south who last year suffered devastating losses. SURE is tailored to complement the federal crop insurance program by providing higher levels of assistance to producers electing higher crop insurance coverage levels. The higher the crop insurance coverage level, the higher the SURE benefit. Thus, rice farmers suffer twice under the current program. First they lack effective, affordable insurance, and second, they are then penalized under the SURE program by receiving the lowest protection that corresponds with the lowest crop insurance coverage.

The public perception about government largesse in farm policy is quite divorced from reality. Spending on the rice [segment] in the farm bill has declined from 1.2 billion to about 400 million dollars annually. We would like to thank you once again for this opportunity to share our views.

Rep. Marshall: Thank you, Mr. Murphy. Mr. Simonsen.

Mr. Gerald Simonsen: Good morning. On behalf of the National Sorghum Producers, I would like to thank you for this opportunity to discuss the impact of the safety net of the next farm bill on my operation and the bottom lines of sorghum producers nationwide. I farm near Ruskin in Knuckles County, Nebraska. I raise sorghum, soybeans, wheat, corn and cattle. My granddad was one of the first producers in Nebraska to plant sorghum, beginning in the early 1930s. Sorghum was his safety net, providing feed for his livestock when other crops failed. To this day, sorghum remains a valued necessity on my fourth generation farm. As a farmer, I realize the vast impact this one piece of legislation has on my day-to-day operations, and I want to insure farmers benefit from the next farm bill.

Let me begin by saying that I applaud you for having this hearing to discuss the impact of the safety net for producers. I have seen my input prices rise dramatically since the last farm bill. Because of these increased costs of production, my loan rate and target price have been rendered ineffective, because they are now drastically below my cost of production. If prices drop to past levels, financial stress to producers will happen much quicker than at any time before in history.

We realize the problems of paying for raising loan rates and target prices, but believe it's important to point out our current situation. Also the ethanol industry has dramatically changed the sorghum industry. For example, the sweet sorghum industry will play an important role in the future of our industry. We encourage the committee to generate discussion on how to provide a safety net for producers as we produce new crops for feed stocks. I know we're having those discussions internally, and look forward to bringing more detailed ideas to you in the future.

The 2008 Farm Bill. I'd like to thank the committee for its work on sorghum price elections in the 2008 Farm Bill. This committee's work led to an increase in crop insurance price elections from 88% of the price of corn to 97.8% of the price of corn for sorghum. On my farm, this translates into \$18 an acre more coverage. I would also like to thank the committee for increasing the subsidy on enterprise units. This has allowed sorghum producers to increase coverage on their crops while paying a lower premium. I would suggest a change only for enterprise units, which would allow separation of irrigated and non-irrigated practices into separate enterprises.

Regarding the 2008 Farm Bill, I'd like to mention that certain parts of the sorghum industry have suffered significant losses two years in a row due to drought and flooding. The requirement that NAP or some insurance product be bought on every crop of every acre of an entire operation to maintain eligibility in the SURE program is impractical for today's farming and livestock operations. Sometimes producers will not even make decisions on what forages they were going to plant until after the crop insurance deadlines on March 15th for my area, thus limiting one of the real freedoms that producers appreciate about the current farm bill legislation. The SURE program has proven to be incredibly frustrating for producers, as they remain unsure where they stand in terms of receiving benefits from the program.

Less than 5% of sorghum producers enrolled in ACRE for 2009. Sorghum producers have been hesitant to give up a portion of their direct payment to enroll. ACRE is essentially a statewide GRIP, and grain sorghum producers have historically low participation in GRIP policies. Producers do not see financial advantage in participating in a program that is based on national price and state yields. Even if a producer did produce and the ACRE payment was triggered for the state, the producer may not receive a payment at all if he was over his personal guarantee. Consequently, the program has risks at the national level in terms of price, and the state level for yield and at the individual level for yield.

While I understand this committee's jurisdiction is the safety net, I want to encourage the full committee to continue to invest in the energy title programs. Ethanol demand is important to our sorghum price because more than one quarter of the U.S. grain sorghum goes into ethanol. Without that demand, the safety net would be stretched like never before. We encourage the committee to continue programs like the Bioenergy Program for Advanced Biofuels, Section 9005, and the BCAP program.

The current safety net is not only important for sorghum farmers, but it's important for providing stability to rural communities in the sorghum belt. While not perfect, the current safety net has been effective in helping producers minimize risks while providing production flexibility. Maintaining the funding at the current program is critical to insure young farmers and old farmers have a viable safety net for the future. Thank you for your time and attention.

Rep. Marshall: Thank you, Mr. Simonsen. Mr. Smith, is it Floydada? How do you pronounce the name of the town?

Mr. Eddie Smith: Floydada.

Rep. Marshall: Floydada?

Mr. Smith: Yes, sir. And you're not the only one that has that problem.

Rep. Marshall: Thank you.

Mr. Smith: Mr. Chairman, thank you for holding this important hearing to review U.S. Farm policy. My name is Eddie Smith. I own and operate a family cotton, cattle, and grain operation near Floydada, and in partnership with my father and son. I also serve as Chairman of the National Cotton Council.

The National Cotton Council believes that effective farm policy should adhere to several principles. It should be market oriented, it should provide cropping flexibility, it should allow full production, it should provide a predictable, effective financial safety net when prices are abnormally low, it should insure the availability of competitively priced U.S. cotton to domestic and international textile mills, and it should encourage maximum program participation without regard to farm size or structure.

The most critical provision of the Upland Cotton Program is an effective marketing loan program with an accurate world class discovery formula. The marketing loan gives lenders the confidence to provide operating loans and to provide growers the opportunity to make orderly marketing decisions for an identity preserved commodity like cotton.

The 2008 Farm Bill made significant reforms to the cotton provisions, including revising the CCC cotton loan premiums and discounts to enhance market orientation, to establish a ceiling on payments of storage credits when prices are low, and thirdly, providing an economic adjustment program for the hard pressed U.S. textile industry. The bill also slightly reduced the target price for cotton to offset any increased cost resulting from other modifications. And it's important to remember that in 2006, the industry supported termination of the so-called Step 2 Provision to comply with the WTO Brazil case decision.

The 2008 Farm Bill also made historical changes to payment limitations and program eligibility. Limitations were made more restrictive by first eliminating

the three entity rule, secondly by applying direct attribution, and third, the adjusted gross income test was substantially tightened. For cotton growers, good farm policy is of little value if commercial size farming operations are ineligible for benefits.

Frankly, the statutory changes, combined with overreaching regulations, have pushed us to the brink, and we strongly oppose any further restrictions. As evidenced by the data from the recent signups, the current ACRE program is not an attractive alternative for cotton farmers. The support mechanisms within ACRE do not provide an adequate safety net when compared to the traditional DCP programs because target revenues must be calculated using historical data from a period of abnormally low cotton prices.

Conservation programs such as the Conservation Stewardship Program, EQIP and other conservation programs are attractive to cotton producers and will contribute to continued improvements in conservation practices. Crop insurance is an essential risk management tool for cotton producers. Revenue coverage, enterprise policy rates, and group risk products are examples of improved products that can provide a menu of risk options for growers.

We also want to work to address the lack of effective, affordable crop insurance coverage for the growers in the West. The cotton industry supports a viable biofuel industry, but consumption mandates and other policies have changed the competitive balance between commodities. This has placed severe pressure on cotton's infrastructure in certain parts of the cotton belt. We believe the support given to biofuels crops must be taken into consideration when comparing, first, a relative level of support for commodities, secondly, when evaluating payment limitations, thirdly, when developing commodity programs in the next farm bill.

We continue to support the 2008 Farm Bill's cotton program components, the marketing loan program, the direct and counter-cyclical payments. Each component serves a distinct purpose that is beneficial to U.S. farmers and the industry as a whole. The 2012 Farm Bill debate, however, will take place with several new and increased points of pressure. Record budget deficits will put intense pressure on funding.

The WTO Brazil case puts cotton marketing loan and counter-cyclical programs under special scrutiny. We believe that U.S. negotiators have constructed an interim agreement that convinced Brazil to temporarily suspend retaliation against nearly \$1 billion in U.S. exports. However, we know that there are expectations that modifications will be made to the cotton program in the 2012 Farm Bill.

The U.S. cotton industry is prepared to work with Congress to address the challenges faced in writing the next farm bill. Thank you for the opportunity to present these comments, and I will be pleased to answer your questions at the appropriate time.

Rep. Marshall: Well, I thank the gentleman from Floydada, Mr. Smith. Mr. Thompson, did I pronounce Farmington correctly? Mr. Thompson.

Mr. Jim Thompson: You certainly did. The USA Dry Pea and Lentil Council would like to thank Chairman Peterson and Subcommittee Chairman Boswell for holding this farm bill hearing about the farm safety net of the 2012 Farm Bill. My name is Jim Thompson. I am Chair of the USA Dry Pea and Lentil Council, a national organization representing producers, processors and exporters of U.S. grown dry peas, lentils and chickpeas. I'm a fourth generation farmer from Farmington, Washington. The Farmington area was the first region in the U.S. to grow lentils commercially in North America over 90 years ago. Lentils are now grown on over 400,000 acres across the northern tier states of Washington, Idaho, Montana and North Dakota.

Fortunately, our producers have not needed the current safety net for pulses over the past five years, due to strong demand and high prices. This year, however, prices on all pulse crops have dropped 25%, as a reminder of the volatile nature of agriculture and the need for adequate farm safety nets. Pulse crops are grown across the northern tier states in rotation with wheat, barley, minor oil seeds, corn and soybeans.

Our industry fought hard to have pulse crops added as a farm program crop in 2002 in order to compete for acreage with other farm programs. Our goal in 2012, as it was for the 2002 Farm Bill, has not changed. Pulse producers seek to be included and treated equally with other farm program commodities in the area of farm and conservation program support.

We believe the marketing loan and counter-cyclical price targets should reflect recent market price conditions, and the significant increase in farm input costs. For example, lentil prices from 2004 to 2009 have averaged \$23.88 a hundredweight. The current marketing loan rate on lentils is \$11.28 per hundredweight, and the counter-cyclical is \$12.81 per hundredweight. These prices are less than 50% of the average crop price. All pulse crop marketing loan and counter-cyclical price levels have a similar story and need to be adjusted to provide a realistic safety net for producers when market conditions turn against them.

Dry peas, lentils and chickpeas are eligible for the ACRE program, and we believe this program should be continued under the 2012 Farm Bill, with some adjustments. For example, producers should be allowed to use RMA crop insurance records to establish their plug yields on their farm. Revenue guarantees are unfairly impacted by averages of large counties with wide ranges in production levels. Historical crop insurance records give a producer a better reflection of his farm average under the ACRE program, and thus a better safety net.

The majority of the pulse producers in this country were excluded from establishing a pulse base on their farms in the '08 Farm Bill. A producer could only establish a pulse base on his farm if he grew pulse crops from 1998 through 2001. This effectively excluded the majority of pulse producers in this country because pulse production was at very low levels in that time frame. We ask Congress to reconsider pulse base establishment in the 2012 Farm Bill to include the most recent five years of production.

In addition, the counter-cyclical payment yield is currently adjusted using yield data from years when no official data exists. The Dry Pea and Lentil Council believes the yield factor used by USDA to be too low and requests a recalculation of the pulse payment yield calculation based on our council data for those years.

Crop insurance. The 2012 Farm Bill must improve federal crop insurance coverage for those crops without a futures market. The USA DPLC has been working for over ten years to secure a crop revenue policy for dry peas, lentils and chickpeas. The council has taken two pilot program ideas to the RMA board for consideration. Both times our ideas have made it through expert review with positive remarks, only to be rejected by RMA. Our two pilot programs were rejected primarily because our crops do not have futures markets. Mr. Chairman, there are a lot of crops without futures markets that do have solid price discovery mechanisms. The 2012 Farm Bill must include reform of the federal crop insurance program that will make it more responsive to the risk management needs of those crops not traded on the Chicago Board of Trade.

I'd like to thank you for listening to these comments. The USA Dry Pea and Lentil Council looks forward to working with your committee on the 2012 Farm Bill, and I'd be happy to answer any questions. Thank you.

Rep. Marshall: Thank you, Mr. Thompson. Mr. Younggren.

Mr. Erik Younggren: Chairman Marshall, Ranking Member Moran, and members of the subcommittee, my name is Erik Younggren. I'm a fourth generation farmer from Hallock, Minnesota, where I produce wheat, sugar beets and soybeans in cooperation with two of my cousins. I'm honored to be here today to testify on this important issue.

NAWG has taken seriously the charge to start our discussions early regarding the future of the farm safety net. While we know safety net spending is a very small part of the overall federal budget, we also know it's our responsibility to carefully consider the value of current programs and to explore opportunities to improve the efficiency and effectiveness of federal spending in future legislation.

Wheat growers find different degrees of utility in the commodity programs included in the 2008 Farm Bill. We are gaining experience with some of the new programs, and continue to find areas of improvement in programs with which we have more experience. First, crop insurance is vital to wheat growers. Eighty-

two percent of wheat acres were covered by insurance in 2009, and more and more growers are investing in higher value revenue policies. Though arguably the most heavily relied upon risk management component of the current farm bill for us, it does have limitations.

Growers would like Congress and RMA to continue to build on the program's current successes by enabling growers to purchase higher coverage levels with affordable premiums, by addressing issues relating to eroding APH, and by developing stronger revenue policies that address variable cost risks.

The direct payment also continues to be popular among wheat producers for the same reasons we advocated for it in the 2008 Farm Bill. It's simple, predictable, reliable, and trade friendly. Growers can use it to help with the expensive crop insurance or to help offset volatility and input costs, and it is a vital cash flow stream that helps producers obtain operating loans.

Wheat grower participation in the ACRE program has surprised many. In 2009, nearly 13% of total wheat base acres were entered into the program. USDA predicts what payouts in the 300 million dollar range, constituting roughly 75% of the total ACRE payments expected to be issued. We expect participation in the program to continue to rise as growers gain familiarity with it. However, with only one year under our belt and payments yet to be issued, we have continued to withhold judgment on the reliability of the program to provide protection over time.

Wheat growers have also found great value in SURE. However, a few concerns have arisen which may require attention prior to the next rewrite of farm policy. Complexity of the signup process, timeliness of payments, and the fact that it is set to sunset in 2011 are a few of the key concerns.

Despite the utility of each of these programs independent of one another, taken together they make for an incredibly complex web. If we get back to the basics of evaluating why we need a safety net in the first place, which is to help us manage risk, not eliminate it, then we can look critically at this system and figure out how best to revise or reform it to achieve that goal more efficiently.

As we look ahead to 2012, the policy development process is not unlike decisions facing farmers about what to do with aging equipment. Compare our current farm policy with a 14-year-old combine that has accumulated about 2,800 hours of use. We're familiar with and appreciate its general predictability, despite the glitches that come with age and known limitations, compared to what might be available with new models. It was given some new additions in 2008, but the core hasn't been replaced for a long time.

The question facing growers now is this: should our energies be directed toward further tweaking and improving the current structure of farm policy, considering the age and known challenges associated with it, or is there a newer model, a next

generation safety net available that could better achieve our risk management goals in a simpler, more cost effective manner? I don't have an answer for you yet today, but I did include in my written testimony some results of an initial survey we undertook with our members to explore the farm policy landscape. In that survey, growers expressed a variety of opinions related to the effectiveness of the current farm bill. Input was also gathered with respect to improvements to the current structure of farm programs as well as new, out of the box ideas. We are currently exploring these responses and look forward to sharing the results of that process in the future.

As an agricultural producer and grower leader of a national farm organization, I feel a responsibility to help your subcommittee gather the best possible information as it relates to current a future farm programs. Holding this hearing demonstrates your commitment to the responsibilities you have taken on as a member of this legislative body. I very much appreciate the opportunity to testify here today. I stand ready to answer questions you may have.

Rep. Marshall: Thank you, Mr. Younggren. Mr. Murphy, you talked about maybe having some new RMA products, but still needing the traditional safety net products. Mr. Thompson, you observed that there's a lack of a futures market, and that makes things a little bit difficult to predict what prices are going to look like, and consequently manage risk. Mr. Smith, you specifically said that marketing loans were critical. Mr. Younggren, you noted that we want programs that help us manage risk, but not eliminate it, and also mentioned that in the context of the current safety net programs.

On the committee, and I think elsewhere in Ag, we're wondering to what extent, if we restructured our insurance programs – revenue insurance, crop insurance, those sorts of things that I'm sure others have talked about as well, whether those sorts of changes might address some of the concerns that cause people to want to maintain the existing safety net programs that just, for some, don't work at all. I think Mr. Murphy, you might have been mentioning that it just wasn't working for rice.

And I know it's been a real challenge for peanuts where we've set rates. Could all of you gentlemen just comment on whether or not crop insurance or revenue insurance, or some modifications of the products that are put out by RMA can't sort of substitute for the traditional programs and for the role that the futures industry provides you in trying to manage risk by predicting price and hedging? So nobody's going to tackle that one?

Male Voice: I'm a little bit different here. We do have multi peril crop insurance with our crops. What we've been trying to get is a revenue based insurance to protect from the price fluctuation during the year, which we have with CRC, and I'm also a wheat grower. And like I said, it's been a little bit frustrating over the last—

Rep. Marshall: If you had that kind of stuff, say we were able to put programs like that together and you had that kind of stuff available to you, does that diminish or eliminate altogether the need for the more traditional programs?

Male Voice: I'm not prepared to—

Rep. Marshall: You don't know?

Male Voice: --eliminate those programs at this time. I think it's an important tool. And in our situation, where we don't have a revenue protection, it kind of puts us behind the eight ball with the other crops.

Rep. Marshall: We've been joined by Chairman Boswell. He's going to let me keep asking the questions, though. Anybody else?

Mr. Smith: I'll make reference to the marketing loan program in the current program has been very vital to us in cotton as we go about trying to finance and secure financing from our bankers. That gives them a baseline to base their financing off of, given your production levels there. On the crop insurance issue that you talk about, crop insurance is vital to us, and especially in our part of Texas because we are susceptible to weather extremes that can create issues there. The problem we have with crop insurance is the affordability of a good crop insurance program that would allow us to what we call shallow losses, whenever you have those shallow losses of 30% or less, which can actually make the crop that you grow on your other acres really just trying to maintain where you are. Instead of trying to make money, you're just trying to cut your losses in that respect. So some type of affordable crop insurance program, as we work through this farm bill, would certainly be, I think, in cotton's best interest.

Rep. Marshall: When people bring up this revenue insurance notion – and I don't know all the ins and outs about it – Mr. Younggren, I kind of think about what you just said. I wouldn't necessarily put it in those words. We're looking to manage risk, but not eliminate it. How do you have a revenue insurance program without just effectively eliminating risk? Anybody know? With that, I'm going to—

Mr. Simonsen: Mr. Chairman, could I make a comment?

Rep. Marshall: Sure.

Mr. Simonsen: With sorghum we have the same issues of not being traded on the Board, so there was a lot of problems with it. And I mentioned in my talking points getting our loan rate...our price election raised, which we'd like to thank Mr. Moran for his help with that. But one of the issues that we run into when we start looking at different crops and different products, and developing new products, a few years ago CRC was not available for sorghum, where it was for other crops. It put sorghum at a disadvantage.

Then along comes...finally we get CRC and we've got some revenue coverage in sorghum, along comes RA for corn. When the prices spiked up a few years ago in corn, CRC was capped where RA was not. We have to be very careful when we develop new products for crop protection that they're available to all crops and don't put certain crops at a disadvantage which may, in turn, legitimize putting the wrong crop in the wrong ground.

Mr. Murphy: Mr. Chairman, could I make a comment on insurance?

Rep. Marshall: Yeah, sure.

Mr. Murphy: In rice, the crop insurance really doesn't work very well, but there are some new products being looked at. We would like for crop insurance to work for rice, and I think if the premiums were cheaper and there's new products we talked about earlier, maybe have the cost of inputs involved in it a little bit, we would look at crop insurance more seriously. But our bankers like the old farm program. They like to be able to look at the direct pay and know that you've got this money coming, as money in the hand.

Rep. Marshall: If I caught the gist of your testimony, not too much is working for rice right now. Mr. Chairman, why don't I switch seats with you and you take over. Chairman Boswell is back.

Chairman Boswell: But you're not released to go away.

Rep. Marshall: Okay, I don't get to go away, though.

Chairman Boswell: I may get called back. Well, thank you very much. I think that Mr. Marshall probably explained that we have the conference committee going on on financial services banking, or I call it the Wall Street Bill. But anyway, that's going on and we started at 8:30 this morning. We're on a recess right now, so I would guess that every one of has got to be interested in what's going on over there, and we're trying our best to represent that. Chairman Peterson is on the panel as well as Ranking Member Lucas, so that's the three of us from AG that are there, and we take it very serious, and we hope that we can carry the mail.

With that, I know that Mr. Moran is waiting, so...I heard some of that last discussion. I'll just say this. There's a lot of angst out there, concern about what's happening with the RMA, SRA and so on, and that information has been bouncing back and forth, what, Jerry, three...?

Rep. Moran: Third draft.

Chairman Boswell: Third draft, which is allegedly to be the final draft. I assume it may be. I'm not sure at this point totally, but that's the idea. They had their original meeting out in Kansas City a weekend ago, and so we've got some feedback from that. But we're going to continue, the best that I'm able to control it, the pace that we've been on, that we're going to walk before we run and make sure that we

have feedback, which I'm just hearing from some of you. It appears we're headed on a pretty sure course after our safety net, but it's got to be available and affordable and those things that I know, having been a producer for a number of years, you've just...you've gotten to where you're at.

But I'll continue to say this. If you're going to be in production agriculture, whatever area you're in, you've got to have about three things or you just can't operate. You've got to have a good bank, you've got to have the farmer's store – you can call it whatever you want, your co-op or whatever it might be – to buy and sell and so on, and you've got to have a good insurance agent that knows what they're doing. I've added those a few years back, too. And so I think it's very, very important, and of course to keep the insurance companies out there going, they've got to have profitability. That's what they're in business for. So we understand all that, and I certainly do, from having been a practitioner, a user, so I understand it very well.

And with that, I'm going to recognize my ranking member. But I want – I call your attention – I want to thank Mr. Marshall for taking over. He was supposed to fill in for me after we started this morning, and then we got over there for an early meeting, and I didn't feel comfortable to leave, so we had to get word to Jim that he had to speed up and get here. But I just want to say something. I really appreciate this guy. Not only is he our work mate here, but two or three years ago I was very proud – we're both veterans – but I'm very proud that he got inducted and put into the Ranger Hall of Fame, Jim Marshall, right here sitting beside me, and I'm very proud of his service in many ways to all of us. And having said that, Mr. Moran, you're recognized.

Rep. Moran: Mr. Chairman, thank you. I certainly appreciate the consideration that you always extend me, and Mr. Marshall was a fine and kind chairman in your absence. And while you recognize his military service, I mentioned yours several weeks ago in which you were honored at the General Staff and Command College at Fort Leavenworth, Kansas, and thank you both for your service to your country.

Let me follow up with the direction, at least the comments of Chairman Boswell. In regard to the recent SRA agreement, are any of your organizations or associations following these discussions? Have you examined the third draft and had input or thoughts in that regard, and do any of you believe that the attempt by RMA to utilize so-called savings in this renegotiated or this negotiated agreement results in better opportunities for the crops that your members grow, or has a better result for the geographic area of the country you represent?

One of the arguments that RMA is making is that we're going to save some money and we're going to put it back into crop insurance and develop new products and try to take care of those who are, quote, "under insured." On the other hand, I would think there would be some concern, particularly if you farm in a high risk state, that the crop insurance companies and their agents may soon decide that the risks are too high for the rewards.

And so I wondered if, on balance, if there's a consensus or agreement that we're either headed in the right direction or the wrong direction, or perhaps this is not far enough out there that you all have had the opportunity to examine it. Anybody have any thoughts? I always hate to ask a question to which no one has an answer. It suggests it's a poor question.

Mr. Smith: One of the things in cotton, we have really...in Texas in particular, because I guess we'd be considered a high risk state in many respects, but the group risk policies that have been available in the past and are no longer available were tools that some operators could use to protect their investment that they had in the crops, and we certainly would like to continue to look at those what they call the GRIP, group revenue protection policies that have been in place in the policies. And of course I understand the effectiveness and trying to get the ratios right on the things. But they definitely have places in our areas of cotton production.

[Mr. Simonsen]: Well, we're certainly watching it very closely as this unfolds, but to be very honest, as I said, we are still fighting insurance battles from the last go around. We've got a couple other little issues to work on very tied up with ethanol, and kind of waiting for the fourth final draft to come out so we actually know what we're dealing with.

Rep. Moran: I'm optimistic to hear you say there will be a fourth draft. That's encouraging to me.

[Mr. Simonsen]: No, I said there would be four final drafts.

Rep. Moran: Oh, four final drafts, okay. I appreciate, I guess, those comments. I would take this as an opportunity to express my concern that any time we're taking \$6 billion out of crop insurance, reducing the base as we prepare for the next farm bill, we are creating problems, certainly perhaps for crop insurance, but also making it much more difficult to develop a farm bill that's going to meet the needs of our country's farmers and the consumers that they serve.

So this is a very troublesome issue to me, and particularly the way that USDA has developed this concept, and taking some of the savings paying for a mandatory program, CRP, makes little sense to me from a baseline protection perspective, despite the fact, as I recall, that USDA promised that they would do everything possible to protect the baseline. So while we're sitting here and we've had conversations about how we're going to be trying to develop a farm bill in very difficult economic times, I think clearly the step taking by USDA, RMA in regard to this issue is making it even more difficult.

And I guess it would be different if we were saving that \$6 billion instead of shifting it to CRP and putting it back into trying to find ways to provide higher levels of coverage, as most farmers tell me they need at an affordable price, or trying to take care of rice, for example, who finds crop insurance less advantageous. So I think we're...it's not a direction that I'm very comfortable

with, and at the same time I'm worried, particularly as a Kansan, where the weather is not always our friend, that we're going to have less companies and ultimately less agents writing the policies, and as they reduce A&O and put a cap on crop insurance agents' commissions, the competition for service, that the service will be damaged in the process.

I'd be glad to have any comments from the rest of you. My time is at 13 seconds, and I do have a couple of other questions, and while Mr. Marshall always intimidates me, Mr. Boswell, my friend, always allows me the extra time. But I would ask that perhaps we can have a second round of questions at the end, and I'd be glad to yield back the one second that I had left.

Chairman Boswell: Okay, you're welcome. Just a comment on that before I recognize Mr. Smith here. We've shared that concern, Jerry, we have, and it's a big concern. I guess it's not Mr. Smith, it's Mr. [Kissell.] I think leading into that is, because we went out in the field, as our Chairman and Ranking Member have shared with us, is looking down the road with the deficit and all that, that if we're going to anticipate the possibility – and nobody's saying it's happening, but it doesn't take a rocket scientist to figure out there has to be something done about this deficit. And I think our leadership is saying to us, starting early with agriculture, which we're, of course, primarily concerned about, if there's going to be some reduction, then it has to be with everybody, not just agriculture.

And I feel very strongly about that, and I know Chairman Peterson does, and Ranking Member Lucas, and both Mr. Moran and myself, in fact all of us. So that was one of the reasons we started out on these early field hearings, and having this hearing here today, is we want your best thoughts on how we do this. Don't want you to think that we're going to sit idly and be happy with a reduction just happening in the agricultural sector, but if it happens to everyone, why then we'll probably have to live with it. So how do we do it best?

And I think that ties in with what Mr. Moran's concerned about, and I appreciate that comment he made. So we've already taken this reduction to our baseline. Okay, the rest of the folks, what have you got to look forward to? That's kind of the way I look at it at this point, and so we'll see what happens from there. If four billion of it went to deficit reduction, pretty hard to argue against that. But I'm not too sure what's going to end up with the other two billion, and also what's going to happen to the rest of the overall budget, as I've just mentioned. With that, I'll recognize Mr. Kissell. Thank you for your patience waiting there, Mr. Kissell.

Rep. Kissell: Thank you, Mr. Chairman. Mr. Smith, with the Brazil case, any thoughts from the cotton industry as to changes in policy that you all would like to see take place that would help that situation be rectified?

Mr. Smith: Well, we are concerned about that case, of course, and I'll also remind the members of the committee that that finding, the panel decision was made based

on the crop conditions that happened in 1999 to 2005, and we're certainly in a different world today than we were back in that time period. The National Cotton Council, in their midyear board meeting, we have already put together what we call a Farm Policy Task Force, and we will be looking at different options, all options on the table of how to address exactly what has happened with the farm on this WTO Brazil case, and we have no comments at this point in time of what policies we might want to look at.

Rep. Kissell: Thank you, sir. Mr. Chairman, I yield back.

Chairman Boswell: Thank you. Mr. Smith.

Rep. Adrian Smith: Thank you, Mr. Chairman, and greetings to my constituent from Nebraska, Mr. Simonsen. Thank you for sharing your expertise and your time. Obviously you talked about grain sorghum as an excellent crop for ethanol, and using one-third the water, yet the same energy output as corn based, and I think that that's a great option to have.

Also, there's concern that the USDA's recently proposed rule, Section 9005 of the Energy Title of the Farm Bill, contains a provision requiring all feed stocks purchased under the program to conform to the EPA's RFS 2 definition of advanced biofuel, thereby excluding biofuels which previously qualified, such as sorghum. Could you elaborate on the steps your industry is taking to insure grain, sweet and high biomass sorghum qualify under this rule and ultimately as an advanced biofuels in the RFS 2?

Mr. Simonsen: Well, we've been working quite closely for quite some time with the USDA as well as EPA. Obviously, indirect land use is a huge factor in how this works out and how it shakes out. Some of the models and formulas that they've been using we've been trying to work with them to make sure that they're using the best possible data and that it actually reflects the reality of the world that we live in so that at the end of the day we don't constrain these plants.

Throughout the sorghum belt there are ethanol plants that were struggling, suffering, some of them shut down, some of them are running at low levels of production which, because of the payments and the incentives of the 9005 program, have been able to go back online, put jobs back in these rural communities, and pay these people's bills. And it's very important for ethanol to have – you know, we talk about risk management and a safety net for producers.

Well, ethanol is huge for not only sorghum, but corn and other crops, and there is no safety net for ethanol producers. We need a viable ethanol industry. This catastrophe, tragedy in the Gulf brings us every day just a glaring reminder of how important ethanol is to our future.

Rep. Smith: Thank you, sir, and thank you, Mr. Chairman, I yield back.

Chairman Boswell: Thank you. Mr. Schrader, Oregon.

Rep. Kurt Schrader: Thank you, Mr. Chairman. I have a few questions, and I'd prefer to get the responses in writing, actually, from all the different commodity groups, if possible. I don't need an answer right now. A little bit of concern on a lot of the comments on direct payments. They are tougher and tougher to explain to a lot of Americans, and I believe eventually there's going to be difficulty in keeping that in place, and phasing that out is probably inevitable at some point in time here.

Making sure Americans enjoy food security is real important, and I'd be interested in several things. One is, frankly, from the different commodity groups, what level of food security should be guaranteed by production here in this United States of America for your various crops? I mean, I think that's a tough question to answer, but given the fact that we trade all over the world, I assume that some level of foreign competition, even in America, is good, but I want to make sure that we have food security, given disasters that occur in this country, and frankly, overseas.

The other thing is I'd be interested in what changes in trade policy we should be advocating for...I'd like to know from the various commodities – cotton is a good example, but there are many others – what changes the developing nations of a few years ago are now pretty developed. We're competing mano-a-mano with a lot of nations that before needed an extra hand to compete with us. What the levels of subsidies from various countries have changed. So I'd be very interested in what we should be advocating for, what the members of this committee, as we look at the farm bill and interacting with our trade partners and committees that deal with trade, what we should be looking for.

And then there's been a lot of discussion over guaranteeing various levels of yield and revenue, and the problem with historical data. It seems like to me that a lot of the discussion this committee's had over the course of the last year and a half is looking at more of an insurance on production costs, so I'd be very interested in your comments about different levels of production costs, the fluctuation and changes over time, and how maybe an insurance bill should be designed around covering production costs, not necessarily artificial ups and downs and yields and revenues. Some crops are sold every other year. If you're a cattleman, you don't sell every year, necessarily.

And last, I'd like information – there's been discussion about energy bills, and I know a lot of my farming friends are worried about increased costs as a result of these energy changes in legislation. We had testimony early last year on wild fluctuations in futures costs for oil, and cotton got hammered real hard under the crisis. I'd be very interested in knowing what the different commodities feel of any energy legislation, maybe modeled on some of the work the House did or the Senate's currently discussion, what those costs are, because perhaps we should be building those into any sort of 2012 Farm Bill.

If that's indeed going to happen at some point in time, what are the costs you're seeing that are going to rise out of that? I know USDA is doing some studies indicating that for some types of crops farmers are actually going to benefit from energy legislation. There are those that that might not be the case for. So if you could answer those four or five questions, I would surely appreciate it. And I yield back my time. Thank you.

Chairman Boswell: Thank you very much. I'd like to yield Mr. Moran some more time.

Rep. Moran: Mr. Chairman, thank you very much. I understand we have votes any moment now, so I'll try to keep my remarks brief, but I do have a couple things I want to say, and if you have an answer to my question and we don't have time for the answer, I'd be glad to have you submit that in writing to the committee. I want to talk particularly to Mr. Younggren about basis. We heard the Illinois Farm Bureau president speak about the weak basis, the difference between cash and future prices.

Do the wheat growers have any particular solution to this widening gap? I assume this is not just a unique Kansas occurrence, particularly after hearing from the Illinois Farm Bureau, but what do you think we can do at the moment? Is this related to high carryover stocks, low protein wheat, lack of export markets, or is there something more fundamentally wrong with the market itself?

Mr. Younggren: I would say the big problem right now is that we are awash in wheat. We have about half a crop carryover from last year and we've got the free trade agreements lined up that we could really use those to get done so that we can trade this wheat to Colombia, Panama, South Korea. You've also worked a lot on the Cuba Trade & Travel Bill. That would help us tremendously to get rid of some of this wheat and bring the market more in line with...bring the cash market in line with the futures market.

Rep. Moran: In regard to the Cuba issue, it's conceivable to me that if this issue arises in this committee or others that the question will be...I suppose particularly in this committee, they'll say, well, we like the agricultural aspect, kind of the fixing of the issues that we have at the Department of the Treasury in which they've created unnecessary impediments to our sale of agricultural commodities to Cuba.

But let me ask the importance of including the increased travel availability or opportunity for U.S. citizens to travel to Cuba. Is that an important component that we keep in the bill, from the perspective of any of you who care about trade for Cuba? Rice would have an interest in this topic. Will you be satisfied if we just fix the Treasury Department problems created in the last administration's regulations, or is it important to keep the increased travel included in the bill?

[Mr. Younggren]: We need the bill to stand intact. We need it all together.

Rep. Moran: Anybody else?

Mr. Murphy: Yeah, Mr. Moran, rice is definitely for trade with Cuba, and we would like to sell Cuba a lot of rice, and we see no problem with people being able to travel to Cuba also.

Rep. Moran: Any others? Anybody else have any thoughts about the basis? Is this just a wheat issue? Okay. And I think, Mr. Chairman, that's my final question. I did want to respond, because we talked a lot about the direct payment today, and even I did this. We talk about how difficult it is to explain. I think what we need to decide is whether it's important to keep. If we start with the premise that it's so difficult to explain to the public, therefore we're giving up on it, we know it's going to go away.

And so I think it's important for agricultural organizations and commodity groups to let members of Congress, let members of this committee know are we just supposed to acquiesce in this sense that we're never going to be able to explain this, so let's just give up on the direct payment, or is it so important or important enough as a component, what I've always described as the third leg of the three-legged stool, that we ought to be fighting to keep it.

And so I would just hate for us to take the defeatist approach that we can't keep it so let's move on if it really is something that we ought to be fighting to preserve. And I thank the chairman for allowing me extra time and appreciate that consideration. Thank you to the witnesses for the opportunity to have this conversation today.

Chairman Boswell: Well, thank you, and I'm glad to do it. Mr. Schrader indicates no more questions. I think we'll bring this to a close. Did you have anything in closing, Mr. Ranking Member, you'd like to say?

Rep. Moran: I believe I've more than utilized the time that you've graciously allowed me.

Chairman Boswell: Well, you're very welcome and I appreciate what you've said and think we're on the right track. We're on the same track, and that's good. So I'll bring this to closure, but before I do I want to thank all of you for your presence, and we're relying on you to keep in touch with us. We need to keep the communication line going. And our staff's available, both here, the professional staff on the committee and on our member staffs, and so let's keep that going.

So with that, under the rules of the committee, the record of today's hearing will remain open for ten calendar days to receive additional material and supplementary written responses from the witnesses to any question posed by a member, and I'm going to say at this time and/or staff. This hearing of the Subcommittee on General Farm Commodities and Risk Management is now adjourned. Thank you.

[End of recording.]