HEARING TO REVIEW THE 2007 FARM BILL PROPOSALS OF THE U.S. DEPARTMENT OF AGRICULTURE

HEARING

BEFORE THE

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HEARING TO REVIEW THE 2007 FARM BILL PROPOSALS OF THE U.S. DEPARTMENT OF AGRICULTURE

WEDNESDAY, FEBRUARY 14, 2007

HOUSE OF REPRESENTATIVES,
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The Committee met, pursuant to call, at 10:15 a.m., in Room 1302, Longworth House Office Building, Hon. Collin C. Peterson [Chairman of the Committee] presiding.

Members present: Representatives Peterson, Holden, McIntyre, Etheridge, Boswell, Baca, Cardoza, Scott, Marshall, Herseth, Cuellar, Costa, Salazar, Ellsworth, Boyda, Space, Walz, Gillibrand, Kagen, Pomeroy, Davis, Barrow, Lampson, Donnelly, Mahoney, Goodlatte, Lucas, Moran, Hayes, Graves, Bonner, Musgrave, Neugebauer, Kuhl, Foxx, Conaway, Fortenberry, Schmidt, Smith, McCarthy, and Walberg.

Staff present: Andy Baker, Christy Birdsong, Nona Darrell, Chandler Goule, Craig Jagger, Rob Larew, John Riley, Sharon Rusnak, Anne Simmons, April Slayton, Debbie Smith, Bryan Dierlam, John Goldberg, Kevin Kramp, and Pam Miller.

OPENING STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

The CHAIRMAN. This hearing of the House Committee on Agriculture to review the proposals of the United States Department of Agriculture for the 2007 Farm Bill will come to order.

I want to start by welcoming everyone to the first hearing of the House Agriculture Committee in the 110th Congress, and I want to take a moment of personal privilege here to recognize Mr. Lampson, one of the new Members of the Committee. I understand it is his birthday today.

So, happy birthday, Mr. Lampson.

We will withhold his age. He is 39 and something.

Mr. LAMPSON. Thank you, Mr. Chairman.

Mr. GOODLATTE. Me, too.

The CHAIRMAN. I appreciate, Secretary Johanns, your making time for us during this very busy week for you.

After testifying last week at the Senate Agriculture Committee, I understand he is also testifying at the House Budget Committee this week. So we are glad that he was able to join us today to discuss the farm bill proposals that he announced in January.

Mr. Secretary, I know you, personally, invested a lot of time in this process, and I appreciate the hard work and serious consideration that obviously went into development of your farm bill recommendations. I thought there were some good ideas and some ideas that were not so good, but your efforts will contribute to the task that we are about to undertake.

We, on the Committee, are also hearing from many other voices—farmers and ranchers who testified at our Committee hearings on the farm bill around the country last year, organizations representing agriculture producers, processors and consumers, citizens who have submitted feedback on the Agriculture Committee's website and, of course, from USDA. There are many ideas out there, and it will be our job on the Committee to take the best parts of all of these ideas and put them together into a farm bill that works for American agriculture. This is not an easy task, but I believe we are off to a good start.

As the Agriculture Committee begins to write this bill, we have a responsibility to meet the needs of all Americans—farmers and ranchers, consumers who expect the safe and abundant supply of food and fiber, as well as those who count on the farm bill's food and nutrition programs for a square meal. I intend to make sure that we fulfill those responsibilities to the best of our ability, using a fair and open process.

Until we know how much money the Budget Committee is going to allocate for writing the farm bill, we are meeting with folks, learning about proposals that are out there, and, generally, getting to know the lay of the land. I am meeting with Senator Harkin to talk about the farm bill on a regular basis, weekly or biweekly, and we will continue to do that throughout this process. That way, even if the House and Senate end up passing different bills, we both know what is going on, and kind of how we got there, and what we are going to face when the bill gets to conference committee. As I have said many times, I want to get the farm bill by both the House and the Senate and on the President's desk for signature before the current farm bill expires at the end of September. It is an ambitious agenda, but I am confident that, working together, we can do it.

So, thank you, Mr. Secretary, for being here today. We very much appreciate it. I look forward to your comments. I look forward to working with you and your staff as Congress writes this new farm bill, and, without objection, we will ask Members or give Members the opportunity to submit statements for the record with one exception.

I will recognize my good friend and distinguished Ranking Member, Mr. Goodlatte, for an opening statement before we proceed to the Secretary.

OPENING STATEMENT OF HON. BOB GOODLATTE, A REPRESENTATIVE IN CONGRESS FROM VIRGINIA

Mr. GOODLATTE. Well, thank you, Mr. Chairman, and thank you for calling this hearing to receive testimony from the Secretary of Agriculture.

Mr. Secretary, welcome back to the Agriculture Committee. It is a different room, and it is not the only difference. There is another one that those of us on my side of the aisle like to talk about a little less, but nonetheless, this is a very bipartisan Committee, and we are delighted to have your participation here today. I also want to commend you and the Department on the tremendous amount of work that you have done in providing proposals and advice to the House and to the Senate in terms of our preparation for writing a new farm bill. You have done an incredible amount of work, traveling to nearly every state in the Union and meeting with thousands of farmers and ranchers. You have put together what is a very impressive array of proposals that we should give very strong consideration to as we write this new farm bill. You released that 2 weeks ago today, and the proposal contains a number of interesting ideas that warrant further examination. This hearing is a single, but important, step in the process of compiling the next farm bill. In this hearing and in many more hearings and in meetings to come, we will have the opportunity to ask questions of the USDA to get a better understanding of the details of their proposal. Some of the USDA's ideas will have broad support while some will be met with measured skepticism. USDA's proposal as written is general. It would be nearly impossible for anyone to write a farm bill proposal that addressed everyone's individual question or concern.

However, before the Congress can agree on a final farm bill conference report, later this year at some unknown date, we must address the details. Members of this Committee and their constituents want to know what the USDA's proposal will mean to them. An example of this is your proposal to convert the current price-based countercyclical program to a revenue-based countercyclical program. I understand, based on the testimony you received at your listening sessions, the logic behind your proposal and why you arrived at this decision. However, I want to delve into this proposal a little further, so that I fully understand how the program works and the implications of what you have proposed. I want to determine if it is a better safety net for producers who do not have a crop and if it prevents large, unwarranted payouts.

An additional concern I have is that much of our farmland today is farmed by someone other than the landowner, either cash rent or on a crop-share basis. Many of the concerns I have about your proposal center on the relationship between the farmer and the landlord. We must understand the impact of all of your proposals on landlords and tenants so that we do not disrupt this important relationship. All of us here today have a common goal of producing a comprehensive legislative practice that strengthens the vitality of American agriculture, provides an adequate safety net for our farmers and ranchers, and assures that American consumers continue to have access to the safest, most affordable food and fiber supply in the world.

I look forward to working with you and the members of your staff as we work toward a new farm bill, and I look forward to your answers to the early questions that I and my colleagues have about your proposal. Thank you.

The CHAIRMAN. I thank the gentleman for his statement and, again, for his continued cooperation as we work through this process.

With that, Mr. Secretary, again, we appreciate your being here on a snowy day, but for you and I, this is not anything out of the ordinary, and we look forward to your testimony.

STATEMENT OF THE HON. MIKE JOHANNS, SECRETARY, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, D.C.; ACCOMPANIED BY HON. CHUCK CONNER, DEPUTY SECRETARY; AND KEITH COLLINS, PH.D., CHIEF ECONOMIST, U.S. DEPARTMENT OF AGRICULTURE

Secretary JOHANNS. Well, thank you very much, Mr. Chairman. It is, indeed, an honor for me to be here today and to offer some thoughts on the farm bill.

We have submitted very, very extensive written testimony, and I am not going to read that. I am going to speak from, hopefully, a brief outline to explain the basics of our proposals, and then I will look forward to fleshing this all out with some discussion and response to questions that are offered. I am also submitting with that written testimony the actual book of the farm bill proposal so it will be a part of the record.*

I do want to acknowledge a couple of people who are here with me at the table, at the witness table. To my left, of course, is Dr. Keith Collins, who I believe everybody associated with agriculture knows Keith was very instrumental in helping us put together background information; and who just has a wealth of information about not only this farm bill but past farm bills. And then, of course, to my right, is the Deputy Secretary for the USDA, and that is Chuck Conner. And Chuck has been involved in more farm bills than I will probably ever be involved in in my life, so his help was very important. I do want to mention, from a budget standpoint, Scott Steele, our Budget Director, is here with us and can answer or respond to any questions that may be related to budget.

I appreciate the welcome by both the Chairman and by the Ranking Member. We did work hard to put these proposals together. All told, we did 52 Farm Bill Forums across this country. We were in 48 out of the 50 states. The only two we did not get to were Louisiana and Mississippi, because of the hurricanes, when we were doing the Forums. We got about 4,000 comments, just over 4,000 comments. They were all summarized in a book that was published, and it is also on our website and into 41 summary papers. We tried to identify the comments by theme or by an idea and summarized them, so they are all summarized, and then we asked Keith to lay out our effort with the economists at USDA to identify five themes or six themes or whatever number they felt was appropriate. They ended up doing five analysis papers on everything from risk management to conservation, and those theme papers are embodied in this book, but again, that has been on our website,

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*A copy of the proposal is retained in the Committee files, and can be viewed at *http://www.usda.gov/documents/07finalfbp.pdf*: the webpage links for the legislative language are as follows, in order of titles—*http://www.usda.gov/documents/fbcommodity__071.pdf; http://www.usda.gov/documents/fbconservation__071.pdf; http://www.usda.gov/documents/fbtrade__071.pdf; http://www.usda.gov/documents/FBNutrition2007.pdf; http://www.usda.gov/documents/fbcredit__071.pdf; http://www.usda.gov/documents/fbrd__071.pdf; http://www.usda.gov/documents/fbresearch0507__1.pdf; http://www.usda.gov/documents/fbresearch0507__1.pdf; http://www.usda.gov/documents/fbforestry__071.pdf; http://www.usda.gov/documents/fbenergy__071.pdf; http://www.usda.gov/documents/FBmisc__2007.pdf*.)

and we published it. To give Keith some credit here, this is an excellent publication. Those folks wrote it. It is just a wealth of information about farm programs and who receives payments and just, really, some great, great information.

Well, I have a history with the 2002 Farm Bill. I was Governor of Nebraska at the time of the 2002 bill. I was asked to be the lead Governor for the Western Governors in the reauthorization of that farm bill. I was asked also to be the co-lead Governor for the Midwest Governors in the reauthorization of that farm bill with one of my colleagues, a gentleman by the name of Tom Vilsack, who was the Governor of Iowa at the time.

I have said many times I supported the 2002 bill. I think it was the right policy for the times. Commodity prices were low. It was a difficult time for agriculture. Exports had declined for several years in a row. The debt-to-asset ratio was about 15 percent for agriculture, and it did some good things. It was the first farm bill that had an energy title. It increased payments for conservation programs, if I remember correctly, by about 80 percent, but as is the case in the evolution of farm policy, times do change, and times have changed.

Today, I can tell you that commodity prices for the program crops are, by and large, very strong, in fact, for many of the program crops, historically strong. Exports have increased year after year. We have set three records out of the last 6 years. This year, we will hit $68,000,000,000. That is a record. That was for 2006. For this year, 2007, we estimate another record of $77,000,000,000 in exports.

On the debt-to-asset ratio, I am very pleased to tell the Chairman and this Committee that the debt-to-asset ratio for agriculture is absolutely the lowest in recorded history. It was about 11 percent in 2006, and probably as important as anything, renewable energy is a main part of the agriculture economy these days. Although it has been a part for a long time, it has grown dramatically in the last 24 to 36 months.

Well, after listening to farmers and stakeholders all across the country, we arrived at the idea that what we needed to focus on were four areas. One was a more predictable program. Farmers need to know what they are going to end up with, a more equitable program. We did Farm Bill Forums in, like I said, virtually every state. We heard from specialty crop farmers—not asking to be program crop farmers but asking for their place in research—and phytosanitary market promotion, that sort of thing. We believe that it needed to be better able to withstand challenge.

I said, just recently, it is no safety net to pass a program that puts a bulls eye on the back of farmers from a trade standpoint. Trade is too important. Eighty percent of our cotton produced in the United States goes into the export market. Fifty percent of our rice goes into the export market. If you raise cattle, 75 percent of the hides are going into the export market. About every third row of row crops go into the export market.

Then, finally, it needed to wisely and effectively spend tax dollars.

So here is the essence of what we are proposing: Relative to marketing loan rates, they are proposing that loan rates be adjusted downward during the life of this farm bill, but by the same token, we are also proposing that direct payments be increased. There are a number of reasons for this approach. I doubt that there will be any debate here today that our Marketing Loan Program fits into the amber box. That is the most trade-distorting item relative to trade. Now, some may say, well, you talk about trade; how important is that?

Well, in the 2002 Farm Bill, a limit was set on the amber box. Why? Because that is what made that piece of it trade-compliant. So we are proposing to raise the direct payment for cotton. That will be about 65 percent because the loan rates coming down for cotton impact that area literally to that level. So we raised the cotton direct payment by about 65 percent.

Now, in the other four major program crops—rice, corn, wheat, soybeans—we are also proposing that, in the 3rd, 4th and 5th years, we raise the direct payment by six percent. Adjusting the loan rates there did not have a budget impact, if you will. Why? Because prices are very high. Like I said in my comments a few minutes ago, they are historically high, but we looked out there, and we said in years 3, 4 and 5, you could see some leveling off of ethanol and other things that are going on. We need to identify $1,000,000,000 that we can put out there for those producers, and we would raise their direct payment by about seven percent. I am not the tradesperson for the United States, but I can tell you, as a matter of principal, decoupled direct payments, in other words, if they are not coupled to price or production, are generally compliant and are regarded as green box payments. The total direct payment increase, therefore, is about $5,500,000,000 over the life of this farm bill.

We also are proposing to create a revenue-based countercyclical program. I will share something with you that I have said a number of times over the last 3 weeks that sounded very counterintuitive to me when I was out there listening to farmers. Farmers literally came in and said, the 2002 Farm Bill pays us more when we do not need it and less when we do. They would go on to say, in years of the highest production, I am getting the most money. In years of lowest production, I am getting the least money, and I am thinking, how could that possibly be? The 2002 Farm Bill was based upon a safety net concept. How could that be happening? Here is how it is happening.

In years of the highest production and when prices are low, you collect a loan deficiency payment, and so that is going to pay out higher when you have high production. On the other hand, if you are out in a state where you have had drought, you are not going to get an LDP if you have no crop. Why? You cannot LDP a crop you did not raise under the 2002 Farm Bill. What happens to the countercyclical? It is triggered by price, and when you have a shortage, supply and demand typically will tell you that price will go up, and you will not trigger the countercyclical. Is it any wonder people are here every year asking for a disaster relief package and telling you there is no safety net, and you are sitting there thinking, how could that possibly be? Well, we listened to this, and we went back and studied the situation at the USDA, and in fact, in some years, they were right. Some of our largest payments occurred during the years of best production, a fascinating thing, but that is what farmers were saying.

We are also proposing to provide a number of things that are different. We are proposing an enhanced payment option for conservation purposes. This is voluntary proposal. Farmers can do it. They can choose not to do it. But let us say a farmer out there is raising corn and wants to continue to raise corn. They look at the situation and say, prices are strong; I believe, during the life of this farm bill, I will not get a countercyclical or a loan deficiency payment, but I want to do some conservation things. We say, great, enter into a program here; we will boost your direct payment by ten percent; you can continue to farm just like you are farming, but it gives you another option, again, a voluntary program.

We heard a lot about 1031 exchanges. We are proposing that, if you sell capital property and invest it in farmland under a 1031 exchange, you are free to do that. You are free to continue to do that. We are proposing that commodity payments would not be made on that land. Why? Farmers were telling us that prices were going up because of the 1031 exchanges. We increased conservation funding in our proposal by $7,800,000,000.

We have a number of proposals in terms of a streamlining of what we are doing here in making these programs better able to operate more efficiently. We are providing $1,600,000,000 in new funding for renewable energy research, development and production and are proposing to provide $2,100,000,000 for a loan guaranty program, again, targeted at cellulosic ethanol. We are providing about $1,000,000,000 in loans and $500,000,000 in grants into rural communities. I will mention one program.

I would guess about everybody in this room represents an area that has a critical access hospital. There are 1,283 of them in the country that we have not been able to rehabilitate. We are proposing to fully fund a program that will continue the funding for that loan program so those hospitals can all be done during the life of this farm bill. We are also targeting nearly $5,000,000,000 in funding for our specialty crop producers. This is everything that they talked about in the Farm Bill Forums—research, development, sanitary, phytosanitary, purchasing additional specialty crops for our school lunch program—but the overall value of that is about $5,000,000,000.

We also heard from beginning farmers, and we have a number of programs directed towards them. For example, on program crops, we are proposing to boost the direct payment for beginning farmers by 20 percent. They asked us to streamline the loan programs. We are proposing to do that. We have identified additional funding in our conservation programs that will be earmarked toward beginning farmers and socially disadvantaged farmers. We have a number of proposals to streamline our Food Stamp Program.

Overall, here is the picture, and these will be my last comments. The 2002 Farm Bill spent a certain amount of money. If you compare that amount of money with what we are proposing, this farm bill will spend $10,000,000,000 less, driven in large part by higher commodity prices, but actually driven also by the reforms we are proposing. If you take the 2002 Farm Bill and say, good enough for me, nice presentation, but I like the 2002 Farm Bill, I just want to extend it, I can go into the House, and I can get the votes to extend it, and I can go to the Senate and get the votes to extend it, and it is done, but we are proposing that this proposal would actually spend $5,000,000,000 more than the extension of the 2002 Farm Bill. Why? Because the 2002 Farm Bill in many areas is not going to pay a countercyclical. It is not going to pay a loan deficiency. Let me give you one example.

Let us say you are out there in a state where you raise corn or soybeans or wheat or rice, and you say, well, I just want to extend. Forget the direct payment. I do not like the idea. I just want to extend the 2002 bill. Our projections would indicate that you just removed $1,000,000,000 from the pockets of those producers because that is the value of that direct payment over those last 3 years, and because of the high prices, it is very unlikely that they are going to get any countercyclical or any loan deficiency payment. Plus, they would not get the enhanced funding that will go through the conservation program.

We are also doing many, many things, I think you would agree, to support emerging priorities. We are increasing funding for renewable energy and conservation and research and trade and development, some of the very things that farmers told us. With that, let me just wrap up where I began.

It is definitely an honor to be here. We look forward to your questions, not only today, but Mr. Chairman and Ranking Member, we want to emphasize that, in any way we can help to provide information to engage in discussion, we want to be a part of that process from today until a proposal is passed by Congress and sent to the White House.

Thank you very much.

[The prepared statement of Secretary Johanns follows:]

Chairman Peterson, Ranking Member Goodlatte and Members of the Committee, I appreciate the opportunity to testify today to discuss the Administration's proposals for the 2007 farm bill. The Department has worked hard on these proposals, and I am proud to present them.

In addition to my comments today, I would ask you to carefully review the book on the dais that contains a full explanation of each of our proposals. In fact, I would ask that it be entered into the Committee record in its entirety. Many important changes lie within those pages – too many for me to detail today.

Let me just for a moment describe the foundation of these proposals. As we started to think about developing a comprehensive farm bill proposal almost two years ago, we wanted to know what actual farmers and other stakeholders were thinking. So we came up with the idea of the Farm Bill Forums. As we traveled across the country, we received great insight from our nation's farmers, ranchers, and rural residents.

Although we originally thought it would be most helpful to hear responses on six broad questions, we soon discovered it was best to let farmers, ranchers and others speak about whatever was on their minds.

Often, after traveling several hours, farmers would walk up to the open microphone and say things that were quite remarkable. I would jot down notes, as would those leading other sessions, and we would come back to the USDA and start comparing notes about what we were hearing from farmers, ranchers and other stakeholders. We learned a tremendous amount from them, and that information became the foundation upon which we built these policy recommendations.

I owe a great deal of gratitude to all those farmers and ranchers and others, who took the time to step up to the microphone and share great wisdom.

I have read many of the statements regarding your initial reactions to our proposals, and I very much appreciate your comments. I realize there are provisions and recommendations in here some of you will want to discuss further, but I do appreciate the fact that you are interested in learning more about our thoughts.

Reauthorizing the farm bill is a responsibility that I do not take lightly, and I look forward to working with you to craft this new farm policy. I hope that after today, USDA continues to have an open dialogue with Congress about the best farm policy to ensure the future of American agriculture.

As you have heard me say before, I have a history with the 2002 farm bill. I was the Governor of Nebraska when it was written. I was lead governor for Western Governors on the reauthorization of the farm bill, and I was co-lead with the Governor of Iowa for Midwestern Governors. The 2002 farm bill, I believe, was the right policy for the times. I supported it.

Why was it the right policy for the times? Commodity prices were low, exports had declined for several years, and the debt-to-asset ratio was about 15 percent for farmers. So the 2002 farm bill provided needed support. It was the first-ever farm bill with an energy title, and it was a farm bill that really stepped forward in the conservation arena, adding 80 percent in funding.

But like everything, times do change, and times have changed. In 2007, commodity prices are strong for most of the program crops. Exports have increased every year since 2000. Last year, in 2006, exports were about $68 billion, and we are projecting another record this year at about $77 billion. In the six years that President Bush has been in office, farm exports have set records three out of those six years. The President's trade agenda has made a difference in the country.

Looking at the balance sheet, we have the lowest debt-to-asset ratio in recorded history, 11 percent for farmers-- really remarkable. And although renewable fuels have been around a long time, the last couple of years have shown exponential growth and biofuels have gained strength as a significant contributor to the economy of rural America.

As we started thinking about how we wanted to approach the next farm bill, who we should listen to, who we should consult, we came to the conclusion that it should be the people most affected-- farmers and ranchers.

We conducted 52 Farm Bill Forums in 48 states with 4,000 comments received. Forty-one summary papers condensed all those comments into categories. Then, Dr. Keith Collins and our economists authored analysis papers on five themes. We posted all this information on our website and asked for people's input.

The folks that came to the microphone really made us think. I would be sitting on the stage, listening intently, jotting some notes, and think to myself -- is what they are saying really happening with our farm policy? For example, a gentleman at our farm bill forum, in Lubbock, Texas said, *"While the current farm program has served its purpose for the last several years, it is time to move on and craft a new, better farm bill. To create such we need to look at the success and failures of the current farm bill with a goal of improving upon this bill."*

In Missouri, I did a Farm Bill Forum, a gentleman by the name of Larry said, *"We urge you... to carefully review how well the current farm act is working for U.S. agriculture and consider ways to maintain the current farm act's structure as we go forward to begin debate on the 2007 bill."*

That was a pretty consistent theme across the country -- not unanimous especially in the commodity area – the current policy may not be getting the job done here or there, but we like the overall structure. We paid attention to that testimony.

Len from Wisconsin said something that we heard a lot about – Section 1031 of the tax code and its effect on land prices. He said, *"The 1031 is just driving our land rents and land prices to where the average producer, even big producers, can't compete."*

In my home state of Nebraska, we did a Farm Bill Forum at Husker Harvest Days, and we had a gentleman by the name of Ernie say, *"Too often our farm policy focus is only on prices. The focus, we feel, should be on revenue which takes into account both prices and yields... [The current farm bill] tends to overcompensate when it should not and under compensate when more assistance is needed..."*

Well, this testimony took me off-guard; it seemed counterintuitive to me. But then we kept hearing that theme. John from Kansas said, *"We didn't raise anything because of drought. The prices went up and we didn't get any payment; we didn't have anything to sell..."*

When these people were coming to the forums and saying these things, it sounded counterintuitive because I was thinking the 2002 farm bill had gone a long way to help solve this safety net problem, when in fact it had not at all. Farmers were saying to us -- I cannot get a LDP for a crop that I don't raise. And they are absolutely right. To add insult to injury, if the crop isn't there, supply goes down, and prices go up -- simple supply and demand. The market price climbs above the target price and no countercyclical payment is triggered.

Several forum participants wanted to talk about trade. For example, a gentleman from Georgia said something very important. He said, *"If we're going to play in this free trade game and continue to support our farmers, then we need to trade proof our programs..."* Farmers really know about trade. When I talk to a cotton farmer about trade, approximately 75 percent of the cotton raised in the United States is exported. When I talk to a rice farmer about trade, 50 percent of the rice grown in the United States is exported. For the major row crops, every third row grown in the U.S. (e.g., corn, wheat, soybeans, cotton and rice) is exported.

Ellen in North Dakota, said, *"As the program exists right now, there are in fact no limits on commodity payments that can be received..."* This was a very interesting debate, with regional differences.

Then James from New York said, *"Historically, the farm bill has benefited a small but crucial group of farmers. However, by supporting expansion [of fruit and vegetable purchases]... we have the unique opportunity to use the 2007 farm bill to directly and positively impact the health of our children and begin to reverse a dangerous trend toward obesity."* Again, we listened to James and several like him.

As we started working our way through all of these comments, some guiding principles became apparent. These principles of reform and fiscal responsibility guided us through our decision-making – leading to a farm bill proposal that is:

- **More Predictable** -- These market-oriented proposals provide support when revenue is low despite high prices.

- **More Equitable** -- These proposals distribute resources more equitably among producers and among commodities.
- **Better Able to Withstand Challenge** -- These proposals transition toward market-based programs and away from programs tied to price or production.
- **Wisely and effectively spend taxpayer dollars** -- We have to keep that support among the people who pay the bill -- the taxpayers. I have to be able to go to any city in America where there are no farmers and ranchers and effectively make the case that our farm policy is a wise federal investment, which I maintain. These proposals consolidate and streamline USDA programs to increase effectiveness and focus on providing a strong safety net.

Now, let me get into the specifics of our proposals. I'd also like to say for the record that all of the cost/savings estimates I refer to in this statement are over 10 years unless otherwise noted.

Commodity Title

Payment Limits and Eligibility

We have a proposal on payment limits that would end our commodity program subsidies to producers who are among the top 2.3 percent of Americans who file federal tax returns. We are taking a different approach to payment limits than what you've seen in the past. Under our proposal, if you have an Adjusted Gross Income of $200,000 or more, your participation in the farm bill commodity title programs would cease. Keep in mind that this is adjusted gross income which is gross income minus expenses and deductions. It is a net number.

We are proposing to eliminate the three-entity rule and transition to direct attribution. Under our proposal, a farmer can receive payments from any number of entities as long as your adjusted gross income is below $200,000 and you have not exceeded the annual payment limit of $360,000. This provision is projected to save about $1.5 billion over ten years.

Revenue-Based Countercyclical Program

As I mentioned earlier, I thought the safety net was pretty well resolved in the 2002 bill, but farmer after farmer said -- I am getting a lot of money when I am producing a lot; I am not getting a safety net when my yields dwindle.

In fact, during some of the best years, USDA paid out the highest payments. We listened very seriously, we took that to heart. Thus, we are proposing a countercyclical program that is based upon revenue, instead of only price. This new program will actually work better across the commodities to provide a true safety net. A system based solely on a price trigger, without regard for yield, deals people out of the safety net when they need it the most.

Loan Deficiency Payments and the Marketing Loan Program

In the marketing loans, USDA is proposing to adjust the loan rates down to more reflect the actual market. We are actually basing loan rates on a methodical formula. We set the loan rates at the five-year annual average price of the commodity, throwing out the highest year and the lowest year, and take the average price.

We propose a cap on these formula-based loan rates, again not by picking a number out of the air, but by using the loan rate approved by the House of Representatives when they passed the 2002 farm bill. As you may remember, those loan rates were fairly broadly supported by commodity groups.

Direct Payments
We are proposing to increase the direct payment for the commodities. The members of the Committee know as well as anyone that we have been struggling with the WTO cotton case. It is real. Direct payments that are decoupled from price and production as a general rule are compliant with international trade rules. As I have said previously farmers understand the importance of trade, and I believe they will embrace a move to greater reliance of direct payments that are more predictable and protected from challenge. We want this Committee to write the farm bill, not have the WTO dismantling it piece by piece.

Enhanced Direct Payment for Beginning Farmers
We heard a lot from beginning farmers about formidable barriers to entry, including high land and cash rent prices and high input costs. Our idea was that a beginning farmer who qualifies for this program will get an increased direct payment – in addition to anything else we're doing – of 20 percent for their first five years. We wanted to make sure they had certainty and could plan for a period of time as they start farming. This proposal is projected to cost $250 million over ten years; so if a beginning farmer signs up for this in the last year of the farm bill, they would get an entire five years of enhanced payments.

Conservation Enhanced Payment Option
I could not be more excited about this proposal, and again the wisdom for this proposal did not come from here in the beltway, but from farmers. We are proposing to provide a conservation enhanced payment option, the option to replace commodity support payments with an enhanced direct payment for conservation efforts.

Let me explain how this new option would work. Maybe a farmer raising a given commodity looks out over the life of this farm bill and decides that the marketing loan and counter-cyclical payment programs are not as appropriate to his operation as they once were and would prefer to do some additional conservation on their farm. If farmers find themselves in this situation, they would be very interested in this option.

This program would be a voluntary program – a farmer can choose it or not choose it. If it works for their operation, great; if it doesn't, that's fine too. We simply say to the farmer -- if you want to place that farm into a conservation program with standards to be reached and agree during the life of the farm bill to forego marketing loans and the countercyclical payments, we will enroll you in this option and we will enhance your direct payment by 10 percent.

Again, this proposal makes a lot of sense from a trade standpoint, but it really makes sense for that farmer who wants to implement more conservation on the land. They could still grow whatever they want because this is a working lands proposal.

1031 Tax Exchanges
I would bet that if I would have started every forum with just a couple of words – 1031 tax exchange – I would get a debate for the next three hours. From earlier in my testimony, I noted a farmer at a Farm Bill Forum saying that 1031 exchanges were making it hard for even the big producers to compete for land. Land values have gone up, cash rent has gone up. Our proposal to help remedy this situation is to eliminate the commodity program payments on all new land acquired through a 1031 tax exchange. Our proposal does not intend for this requirement to be retroactive, but just to apply to all newly acquired land.

To be absolutely clear, we are not suggesting that Congress rewrite Section 1031 of the tax code. If you sell an apartment building here in Washington and you decide that you want to shelter your profits through buying Nebraska ranchland with your profits, great. Our proposal does not impact anyone's ability to use the 1031 tax exchange. We are saying that if you utilize a 1031 tax exchange when purchasing farmland, that land will not be eligible for commodity title program payments.

Dairy
We will continue the $9.90 price support program for milk and we do not propose changing the existing milk marketing orders. However, we are proposing to revise the Milk Income Loss Contract (MILC) program to make it consistent with other countercyclical programs, making it based on historical instead of actual production. Additionally, the MILC payment rate would stair-step down from the current level of 34 percent to 20 percent in the last year.

Sugar
We are proposing to keep the sugar program with one important policy change. Currently if we import more sugar than 1.532 million short tons, we are obligated to lift the marketing allotments in the sugar program. Now literally, under current law, the government has no supply management tools in this situation; we literally tell producers -- let it go, if you've got sugar, sell it if you choose to.

Now that situation creates a problem for the no net cost sugar program that sugar producers have long supported. We are obligated by current law to administer this program with no net cost to the taxpayer, but if prices fall to the loan rate, people will forfeit sugar to the government at great cost to the taxpayer.

To remedy this situation, we are proposing to keep that program intact with one policy change – if we go over 1.532 million short tons of imported sugar, we can continue to impose marketing allotments.

As you know, the North American Free Trade Agreement (NAFTA), which was negotiated and approved by the Congress now a decade ago, has been ratcheting down the duties on sugar. Essentially it is an open market now, and it is absolutely an open market during the life of this next farm bill.

Mexico produces a lot of sugar, but they use a lot of sugar, and typically have a pretty strong price. We are likely not going to get a significant amount of sugar from Mexico every year, but there may be years that we get enough sugar imported to push us over 1.532 million short tons. Therefore, we are asking Congress for the authority not to lift the marketing allotments, but to leave those marketing allotments in place. Lifting these marketing allotments would simply collapse the no net cost sugar program, and lead to a projected $1.4 billion in forfeiture costs over the next ten years.

Planting Flexibility
Continuing with our commodity title, we are proposing to allow planting flexibility of fruits, vegetables, and wild rice on program base acres. As you know, the WTO, in the Brazil cotton case ruling, found that tying direct payments to production puts into question the green box status of our direct payments. We are addressing that problem with this proposal.

Retiring Base Acres When Sold for Non-Agricultural Use
We propose to require base acre retirement when all or a portion of a farm's cropland is sold for non-agricultural purposes. If a farmer wants to sell agricultural land for a shopping center, you can do that. But we propose retiring, rather than shifting, those base acres.

Conservation Title
We propose to increase conservation funding by $7.8 billion. This is a significant and needed investment to manage and preserve our natural resources. We also propose to streamline and consolidate like programs to improve efficiency and decrease the complexities for participants.

Environmental Quality Incentives Program
We would consolidate existing cost-share programs, including the Wildlife Habitat Incentive Program, into a newly designed Environmental Quality Incentives Program that continues and expands restoration and enhancement of fish and wildlife habitat as a program purpose. Additionally, we propose an increase of $4.2 billion over the ten year baseline for this important program. Within the increased EQIP funding, we recommend a new $1.7 billion Regional Water Enhancement Program, to address water conservation and water quality projects at the watershed or irrigation basin level.

Private Lands Protection Program
We consolidate and streamline our working lands easement programs into one Private Lands Protection Program and increase funding by about $900 million over the ten-year baseline. This proposal eliminates redundancy and overlap that result in confusion among producers and less environmental benefit per dollar invested. This proposal will also continue efforts to protect and restore native grasslands and important fish and wildlife habitat.

Wetlands Reserve Program
This Administration is committed to wetlands as you know, and we propose reauthorizing and increasing the Wetlands Reserve Program funding by $2.1 billion and increasing the maximum enrollment to 3.5 million acres.

Conservation Security Program
We propose increasing the funding for the Conservation Security Program -- actually smoothing out the baseline and adding $500 million over ten years. Our proposal modifies the program to

emphasize incentives for implementing higher levels of conservation practices, including practices benefiting fish and wildlife. USDA would open the program to nationwide enrollment and expand its current 15.5 million acres to an estimated 96.5 million acres over the next 10 years. Additionally, we propose reducing the complexity of the program and increasing the level of conservation by moving from three tiers to two; removing base, maintenance, and cost-share payments; and allowing the program to reward the best stewards in the nation. These changes would continue to protect the program from WTO challenges, result in more equity in the availability and distribution of the program, and provide a greater environmental return.

Conservation Reserve Program

We reauthorize the Conservation Reserve Program with added focus on the most environmentally sensitive areas. We also recommend giving priority within whole field enrollments to lands utilized for biomass cellulosic ethanol production.

I am really excited about this biomass reserve. Our proposal simply says – while preserving the environmental benefits, including the broad fish and wildlife purposes of the program, such as meeting all of the nesting requirements for birds and other criteria -- we will give priority to your application if you are devoting a piece of that land for biomass production for cellulosic energy. This proposal is consistent with our discussions on conservation and biomass production with farmers as we traveled across the country.

Market-based Approach to Conservation

We recommend authorizing USDA and other federal agencies to accelerate the development of private markets for the trading of ecosystem benefits associated with conservation. The proposal would help to ensure that environmental goods and services produced by agriculture and forests can be used as offsets in regulatory, voluntary partnership and incentive programs, consistent with existing law and regulations. Additionally, existing programs should be amended to allow for market-based and price discovery mechanisms, such as bidding and reverse auctions.

Emergency Lands Conservation Service

We propose consolidating two emergency response programs into a new Emergency Landscape Program. These are great programs – the Emergency Watershed Protection (EWP) and Emergency Conservation Program (ECP) – but it seems everybody is confused, probably here and outside, as to where they apply and where they do not; where one ends and the other begins. Our proposal would consolidate them into a one-stop-source.

Conservation Access Program

We heard a lot about our conservation programs from beginning farmers and socially disadvantaged farmers at our Farm Bill Forums. In response, we are proposing to set aside 10 percent of all farm bill conservation program spending for beginning and socially disadvantaged farmers. As you know, socially disadvantaged farmers is defined basically as minorities and women, while beginning farmers is defined in law under the Consolidated Farm and Rural Development Act.

Expanding Conservation Compliance with Sodsaver
To expand conservation compliance, we recommend eliminating certain USDA program payment eligibilities on grasslands and native rangelands that are converted into crop production. We do not have a lot of grasslands left in this country; we believe they are worth preserving. You can choose to still tear up grasslands, but under this proposal you will not get program payments on that land. This will compliment the current wetland conservation compliance provisions.

Trade Title
Farmers do understand trade. Admittedly, we have great debates about trade. I can still get a great debate by going to just about any coffee shop in rural America, but they care about and understand trade. As you have probably heard me say before, cuss it, discuss it, but the reality is we are farming in an international economy.

A number of proposals in this title are very, very positive for farmers, but especially specialty crop producers. We are proposing to increase funding by $68 million for the Technical Assistance for Specialty Crops program (TASC), and we suggest increasing the allowable project awards to $500,000. We propose increasing funding for the Market Access Program by $250 million over the ten-year baseline, and we are proposing to target that increase toward the non-program commodities.

We are establishing a new grant program to address emerging sanitary and phytosanitary issues--again, another theme that we heard from our specialty crop producers, and others like beef and pork producers. USDA recommends enhancing our U.S. presence within international standard-setting bodies. I have continuously said our trading partners need to live by international standards. We believe in living by international standards, we expect our trading partners to do the same, and we are proposing to increase funding in this area.

USDA recommends that we increase our analytical support and technical assistance to help limited resource U.S. agricultural groups when they face unfair trade situations. This proposal would clarify that we have broad authority to provide technical assistance and expertise to such groups. It is not a mandatory money thing, but it would give us very clear authority to work with these groups to help them solve their problems.

Additionally, we are doing some things to expand trade capacity, food safety, and agricultural extension programs into the fragile regions around the world -- Afghanistan comes to mind, Iraq would come to mind. Additionally, this kind of investment can make a huge difference in other parts of the world as well.

Finally, we propose reforming the Commodity Credit Corporation's Export Credit Guarantee programs to better withstand challenge and repealing a couple of trade authorizations that are dormant or redundant.

Nutrition Title

We have a number of proposals in the nutrition title to simplify and modernize the Food Stamp Program, while maintaining its integrity. Our proposals would improve access to the working poor and the elderly and would help to better reflect the needs of these recipients. In particular, we propose to exclude retirement and education savings accounts from the determination of food stamp eligibility to help low-income households save for their and their children's future even when they have an immediate, but perhaps temporary need for food stamps.

Advocates have been asking for a change in the food stamp program name and it is long overdue. The name "food stamps" is really a remnant of the past. While there was a day when recipients walked around with a paper stamp, we have now converted to electronic benefit cards resembling debit cards. We propose a more appropriate name for the times – the Food and Nutrition Program.

We are proposing grants to States to fund initiatives to address obesity among low income Americans" – a five-year $20 million per year competitive grant demonstration program to develop and test solutions to the rising problem of obesity.

We recommend several changes to our other food assistance programs to improve their administration and efficiency – specifically the Emergency Food Assistance Program (TEFAP), the Food Distribution on Indian Reservations Program, and our Senior Farmers' Market Nutrition Program.

In the nutrition area, we also have a number of proposals targeted to fruit and vegetables. We heard a lot in the Farm Bill Forums saying – your dietary guidelines promote eating more fruits and vegetables; is your farm bill proposal going to promote those healthy eating habits? Again, we listened and our proposals respond affirmatively.

We will provide $2.75 billion out of Section 32 funding to purchase additional fruits and vegetables for distribution in our nutrition assistance programs. This will be in addition to the section 32 funds that have been historically spent on fruits and vegetables. In addition to the increased availability of section 32 funds, we are proposing an increase of $500 million in commodity purchases of fruits and vegetables for schools. These commodities will be purchased and distributed through the National School Lunch Program and will support schools' efforts to offer meal based on Dietary Guidelines for Americans in the lunch, breakfast and after school snack programs. Finally, we are proposing some funding to conduct a study of foods purchased by schools. This study will inform USDA's efforts to provide technical assistance to support school efforts to offer meal that meet the most recent Dietary Guidelines; better manage the types and varieties of commodities procured by USDA of behalf of schools; and assess the economic impact of school food purchases on various commodity sectors.

Credit Title

Our credit programs are especially important to certain segments of agriculture. For example, young farmers at our Forums were asking us to figure out creative ways to assist them in getting started in production agriculture.

We propose to increase the limits for direct farm ownership loans and direct farm operating loans to a combined total of $500,000. USDA recommends doubling the direct operating loans target for beginning and socially disadvantaged producers and increasing to 100 percent the direct farm ownership loans target for beginning and socially disadvantaged farmers.

Finally, we are proposing to provide greater down payment loan access and flexibility to beginning farmers and ranchers. Again, a theme we heard often out there. We would cut the loan interest rate in half, defer the first payment for one year, decrease the minimum contribution of the property purchase price from 10 to 5 percent, and eliminate the $250,000 cap on the value of property that may be purchased. All things we heard about in Farm Bill Forums or in comments off the stage.

Rural Development Title

I could not be more excited about our proposals in the rural development area. One thing that was clear from our cross-country travels, the people are excited about rural development -- not a single negative comment in any Farm Bill Forum I conducted.

We are proposing some consolidation of the Rural Development programs to increase our flexibility and efficiency. This proposal is designed to make USDA operate better and most importantly better serve our customers.

Additionally, we recommend $1.6 billion in loan guarantees to complete the rehabilitation of 1,283 certified Rural Critical Access Hospitals. These designated hospitals are in very rural and remote areas where emergency hospital care is desperately needed because of long distances. These local communities simply do not have the money to complete their rehabilitation. Like you, I have been to some of these hospitals in rural areas. Without that hospital, people simply do not have adequate health care which adversely affects the quality of life and the economic vitality of those areas. We are proposing a loan program with enough money to completely rehabilitate them all -- every single one of those hospitals.

We are also proposing an additional $500 million to reduce the backlog of rural infrastructure projects, hugely popular programs with always more demand than our ability to meet. Thus, we decided to take a step forward and attempt to address a significant portion of this backlog. Communities really appreciate these programs and we are stepping up to the plate to provide further assistance -- Water and waste disposal loans and grants, Emergency water assistance grants, Community Facilities loan and grant programs, and Distance Learning and Telemedicine grants.

Research and Related Matters Title

We are very excited and proud of our research related proposals. We are proposing to provide an additional $1 billion for specialty crops research. One of the messages that we heard from our specialty crop farmers is -- we need additional research in this area. Focus research areas are expected to include fundamental work in plant breeding, genetics, and genomics to improve crop characteristics such as environmental responses, and tolerances, nutrient management, pest and disease management, enhanced phytonutrient content, as well as safety, quality, yield, taste, and shelf life.

Additionally, we are proposing to provide $500 million to create the Agricultural Bioenergy and Biobased Products Research Initiative. Enhancing the production and conversion of biomass to renewable fuels and related products is vital to our rural communities and our move toward alternative sources of energy; this proposal will go a long way to helping us meet these goals.

Finally, we are proposing to reorganize and revitalize the USDA's Research, Education and Economics mission. The goal is to better coordinate our efforts in-house with USDA funded university research. I appreciate the efforts of the land grant community and others in bringing innovative ideas such as CREATE-21 and the National Institute for Food and Agriculture. Our approach is a little different, but has similarities that I think everyone can agree is a positive step forward.

Forestry Title

We heard from people living in forestry-dependent communities as we traveled the country. We are proposing to initiate a new $150 million Wood to Energy Program. Again, this is part of the President's mission to expand the use of renewable and alternative fuels – a mission I know that many on this committee share. This program would accelerate the development of new technologies to use low-value woody biomass to produce energy. We have an abundance of this wood waste around the country, and it would be better for our forests if we could turn this waste into a marketable product. This program is designed to be a creative and environmentally sensitive use of this low value product to advance our energy independence.

Additionally, we are proposing several forestry related authorizations that are fully-detailed in the proposal book to develop innovative solutions to local and landscape-scale forest management issues.

Energy Title

I discussed most of these proposals when they were unveiled as part of the President's State of the Union address. However, I will provide some detail here for the Committee. As I indicated earlier, we are proposing to provide $500 million to create a new Bioenergy and Bioproducts Research Initiative. Additionally, our proposal would provide $500 million for rural alternative energy and energy-efficiency grants, going directly to farmers, ranchers and rural small businesses.

We are proposing to provide $2.1 billion in loan guarantees to support cellulosic ethanol projects in rural areas. This provides the needed funding to actually build plants and make cellulosic ethanol a real contributor to our energy independence. As I have said before, these loan guarantee programs are very well-received in rural America. These loan guarantees can often be the difference between getting a project off the ground and watching it flounder. I have seen it happen when I was Governor of Nebraska; these loan guarantees can really kick-start a project leading to good jobs and a more vibrant rural economy.

We are also recommending $150 million for biomass research and development act competitive grants, focusing exclusively on cellulosic ethanol. This funding is in addition to and complementary with our $500 million research title proposal.

Miscellaneous Title

We have a number of miscellaneous title proposals – too many to detail here. However, I would like to highlight a few especially in the risk management area. First, we propose to create a supplemental insurance program to improve our risk management tools for farmers. This new product is crop insurance gap coverage. Currently you can buy crop insurance for up to 85 percent of your loss. For some well-established farmers, that 15 percent or greater deductible is an acceptable risk; they can withstand a 15 percent loss; they would not like it, but it is not going to put them out of business. Other farmers feel they cannot withstand that deductible. We listened to these farmers and are proposing literally "gap coverage" where you can buy insurance to cover up to 100 percent of your loss under the crop insurance program. We hope this will help with the annual debate about ad hoc disaster assistance. We're proposing to increase the efficiency and effectiveness of our crop insurance program with a number of proposals, some of which you have seen in previous budget submissions.

Additionally, we are revising the dairy assessment requirements to create a more fair system. Currently, the law requires us to collect dairy research and promotion assessments in the 48 contiguous United States, but not in Alaska, Hawaii, Puerto Rico, or on imported dairy products. It is a fairness issue for U.S. dairy farmers and this proposal would solve the problem. We are also proposing a number of initiatives to help a fast growing segment of American agriculture – increasing research, data collection, and certification of organic agriculture.

Disaster Assistance

As I mentioned earlier in my testimony, our countercyclical proposal is a revenue-based system, providing a better safety net than what we have now. Our gap coverage in crop insurance will deal with this issue of crop insurance deductibles; this proposal will give producers the right tools to solve that problem.

We are proposing that if a producer receives program payments, they must have crop insurance. Crop insurance is widely accepted; some states have 90 percent-plus participation. We want to get that last piece enrolled. If a farmer gets subsidies from the program, we feel strongly that crop insurance is appropriate to help manage their risk. Finally, we have the new Emergency Landscape Restoration Program which is actually a consolidation of two existing programs.

We believe that these proposals in tandem will go a long way toward eliminating the need for an annual debate over ad hoc disaster assistance. It simply will not be needed.

Beginning and Socially Disadvantaged Farmers

As noted throughout this testimony, a number of provisions are targeted at beginning farmers and socially disadvantaged farmers. The changes to our payment systems, our loan program adjustments, and our new Conservation Access Program will be especially beneficial to our beginning and socially disadvantaged farmers. These proposals and others are highlighted on pages 175-179 in our proposal book.

Specialty Crops
We provide $2.75 billion more in Section 32 funds to purchase fruits and vegetables for food assistance programs, an additional $500 million for fruits and vegetables in schools, and $250 million to increase the Market Access Program, with increase targeted to our non-program commodities.

We are recommending $20 million to address sanitary and phytosanitary issues. We are proposing to increase our ability to offer technical assistance, and we are making specialty crop waste eligible under our cellulosic bioenergy program. All these improvements are highlighted on pages 171-173 in our proposal book.

Conclusion
As stated earlier in my testimony, and it bears repeating, our guiding principles in the Administration's farm bill proposals are: more predictable, more equitable, better able to withstand challenge, and wisely and effectively spending taxpayer dollars.

These proposals demonstrate fiscal responsibility. They save about $10 billion over the cost of the 2002 farm bill, even when you exclude disaster aid spending. I will also assure you that they uphold the President's plan to eliminate the deficit within five years. It also fits within our budget plan that we released earlier this week.

Yet, the good news for farmers and rural America is that we provide $5 billion more than would be provided if the 2002 farm bill were just simply extended. Remember a year ago, people were saying, we should do a straight extension of the farm bill. The USDA proposal actually will provide $5 billion more over that 10-year score. However, it will still fit within our balanced budget plan.

Our proposals support emerging priorities. We increased funding for renewable energy, conservation, research, rural development, and trade. We target nearly $5 billion in funds to support our specialty crop farmers, and we provide $250 million to enhance the direct payment for beginning farmers. We support socially disadvantaged farmers with a number of our programs, and we simplify and modernize the Food Stamp program. We tightened the payment limits as I have described, and we ensure a strong safety net for our producers.

To wrap up, let me tell you a story that kind of defines for me what the vision of the 2007 farm bill should be. My own father grew up right on the edge of the Depression years. His productivity was limited to the number of cows he could milk by hand. When he got to 12 or 13 cows, he had hit his maximum.

Somewhere along the line, someone had the vision to electrify the countryside from the most remote farm in North Central Iowa or the most remote ranch in Arizona. They built the infrastructure to deliver them electricity. And all of a sudden my family's ability to be productive literally doubled with the flip of a switch, and my father's world changed when he bought electric milking machines. All of a sudden it was not 12 cows, it was 30 cows. And he and my mother provided a better life for our family.

Now I make that point to you because I believe so strongly in what farmers have said to us. They like the structure of this farm bill, but they have a big vision for the future. It may be energy in their part of the country, it may be a different crop that they raise, or it may be the fantastic increases in cotton yields due to enhanced varieties that did not exist 20 years ago. It may be a thousand different things.

However, after listening to farmers all across this country, I came back committed to offering a farm bill proposal that did what they asked me to do -- keep the structure, they like the certainty of the structure; change where it is not working; and give farmers the opportunity to expand their vision for the future.

We believe this farm bill proposal, America's farm bill proposal, does exactly that. Thank you for your time. I look forward to addressing your questions today and working with you closely throughout the year as you work to craft visionary farm policy for today's and tomorrow's generation of American agriculture.

The CHAIRMAN. Well, thank you, Mr. Secretary. Again, we appreciate your being with us, and I know I and the Members have a lot of questions, so we will work through this until we get a time limit.

Later today, I am going to be going to the Budget Committee and making a pitch for additional resources. One of the things I will be handing out is an analysis we have done that shows that the commodity title is going to be down 42.8 percent, $60,000,000,000 from what was in the baseline in the time we passed the 2002 bill. Most of the other areas—conservation, especially food stamps—are up substantially. So, overall it does not look so bad, but from our calculations, for example, food stamps are now going to be 67 percent of the amount of money that is in the farm bill, which is an all-time high.

But, in that regard, one of the questions that I have, is it in your proposals that you not only change Agriculture Committee programs—in the appendix of the President's budget, there are eight of these so-called CHIMPs, Changes in Mandatory Programs, and in this addendum there, there is a 1 year reduction in ag programs of $546,000,000. There is an increase of $59,000,000 for a net savings of $487,000,000. Amongst these CHIMPs is a $275,000,000 reduction in EQIP and an $80,000,000 reduction in CSP, and so forth. This extended out is about $5,000,000,000 in cuts in funding from Agriculture Committee programs, which is coincidentally about the same amount that you are asking for an increase in your proposal.

So my question is: Why is the Administration continuing to support these 1 year at a time reductions in Agriculture Committee programs by appropriators rather than supporting a discretionary budget allocation for the Appropriations Committee that is sufficient to cover their needs? Apparently, they are doing this because they do not think they have enough money, I guess.

Can you explain to me why that is going on?

Secretary JOHANNS. Well, this gentleman to my left is probably better to talk through the intricacies of budget issues and especially Scott Steele, but let me just offer an overall thought. We are kind of in an unusual period here. Why? Because we have a budget process that is ongoing, and you have just referenced that, while at the same time we are making proposals for a farm bill, and as you pointed out in your testimony, the current farm bill expires this year, so you have to pass a farm bill.

So, on one hand, you have all of these budget proposals that are designed to try to save money and balance the budget and do all of those things. Then, on the other hand, you have a farm bill proposal that is looking out 5 years and, in fact, scored over 10 years in trying to figure out how that all fits together. But I can tell you, overall, the essence of what we are trying to do from a budget standpoint is precisely what you are referencing here. We are trying to deliver a budget that is fiscally responsible, and a budget that fits within the President's goals of eliminating the deficit over the next 5 years, and incidentally, our farm bill proposal does fit with that. So that is kind of the big view.

Now, the specific programs——

The CHAIRMAN. Well, I do not know if we need to get into that, but you all would agree that the budget does basically take back what you have proposed in additional spending?

Secretary JOHANNS. Well, no, because it takes effect after that budget.

The CHAIRMAN. Pardon?

Secretary JOHANNS. What we are proposing in our farm bill actually takes effect for the next budget cycle.

The CHAIRMAN. All right.

Secretary JOHANNS. Go ahead.

Dr. COLLINS. Mr. Chairman, if I could just comment on that. The CHIMPs result in what we call a policy baseline. They result in a reduction in spending, and you can carry that out for 5 years. Our farm bill proposals are based off the current services baseline.

For example, one of the CHIMPs is a reduction in spending on the Conservation Security Program below our baseline. If you look at what we are spending on the Conservation Security Program today, it is about $256,000,000 a year. We are proposing $316,000,000 in 2008, which is some $80,000,000 or so below the baseline. However, if you look at our farm bill proposal, we are proposing taking CSP spending from that $316,000,000 in 2008 to $1,400,000,000 by 2016.

Likewise, for EQIP, one of the programs you mentioned, yes, we have a reduction in our proposed 2008 budget to flat line it at $1,000,000,000 a year. On top of our current services baseline, we are proposing an increase of $4,250,000,000 cumulatively over the next 10 years above the current services baseline.

So there are sort of two ways to look at this. You can look at the short-term 1 year snapshot that the Secretary mentioned is an attempt to come and support the President's deficit reduction goal, and the second is the longer-term view, which is what we are proposing in the farm bill.

The CHAIRMAN. Well, we are very concerned about these CHIMPs that have been going on since 2001, and hopefully, we can stop that. But, on your revenue proposal, Mr. Secretary, in your testimony, you quoted that a Kansas farmer proposed this target revenue program, and basically, it appears that he did not get help when he needed it because prices were high, and he lost the crop to drought. Now, I can see how a county-level revenue program would address this situation, but as I understand it, what you have proposed is to calculate this revenue on a national basis. So my question is: Would John from Kansas have gotten any additional support out of your program the way that it is constructed?

Secretary JOHANNS. I would have to work with John from Kansas. I mean, his point is a valid point. There is just no question. If you do not raise a crop, you can verify what he said to be true. Again, if you do not raise a crop—let us say——

The CHAIRMAN. I do not disagree with that, but I am not sure, if it is not on a national basis, it is going to fix the problem.

Secretary JOHANNS. Yes. We have actually done some analysis of a situation where, for example, in Kansas, they raise wheat. We plugged in wheat as if it were a part of the 2002 Farm Bill as we have proposed this program, and the wheat growers would actually have done $800,000,000 better, not every year, but literally, if you look at the whole picture, we figure that they would have done better for the life of the farm bill. Why? Because you were actually looking to lost revenue. Under the current countercyclical, it is triggered by price, so if you have a shortage and price goes up, he is not only out on the LDP; he is also out on the countercyclical.

So the answer to your question is you have to look at the year. You have to look at what happened to revenue, but they have a better chance with this approach.

The CHAIRMAN. Well, yes, and we need to keep in mind that, when we did the 2002 bill, the countercyclical payments were viewed as part of the overall safety net to deal with price, and the crop insurance, which we had overhauled, was going to be what we used to cover yield and revenue. In the budget baseline, the crop insurance has gone up the baseline quite a bit, something like 40 some percent because of the additional resources we put in there. So crop insurance was supposed to take care of that. Obviously, it has not, and that is why I have been talking about permanent disaster and trying to figure out a way to deal with this.

So I guess I would just—I am not sure that I understand what you are trying to get at, but I am not sure if doing this on a national level is necessarily going to get at a problem that somebody might have at a county level. That was the only point I was trying to make.

Secretary JOHANNS. It would, and again, we can work with you and show you how we have analyzed this.

Another point I would make, though—and I did not mention this—is we also had a proposal on crop insurance that you will find very helpful and very interesting. One of the things we heard in the Forums is, well, crop insurance is fine. I can ensure—let us just pick a number—70 percent of my loss, but I have this gap, and I cannot afford to lose on that gap.

We are proposing a gap coverage type of insurance that literally a farmer could ensure 100 percent of their loss under this proposal. Now, some farmer may look at this and say, well, I would not like to lose 30 percent, but if I had to, I would survive. It is not going to put me out of business. The next farmer may look at it and say, I cannot afford that loss. If I lost 30 percent, it could put me out of business. So, again, it is a program that we are offering to farmers, but it would be very, very helpful to address part of the problem that you have raised, a very important part.

The CHAIRMAN. Well, thank you, and I have gone over my time—I apologize—and I have a lot more questions, but we will get to those.

I am pleased to recognize the distinguished Ranking Member, Mr. Goodlatte.

Mr. GOODLATTE. Thank you, Mr. Chairman.

Mr. Chairman, I know well the nuisance of CHIMPs, and I do not like to see them on your back any more than I liked them on mine. We will definitely support your efforts to work with the Appropriations Committee to be more mindful of the decisions that are made in this Committee when we write a farm bill and want to see those funds expended the way they were originally intended.

Mr. Secretary, let me change the subject. As you know from visiting my district, it is not unlike that of many other Congressional districts where there is a tremendous amount of livestock production. We have primarily poultry and beef cattle and dairy cattle, but I also hear from elsewhere in the country, from hog farmers, growing concerns about the rising cost of feed. That seems to be directly related to the very exciting and positive development in terms of increased production of energy from renewable sources, including corn and soybeans.

What can you point to in this proposal that you have, and any other ideas you might have, that we could put into a new farm bill that would help to allay the concerns and ease the burden that is threatening livestock producers around the country?

As to one major poultry producing company, the president informed me recently that they expect next year to be paying $800,000,000 more, just that one company, for feed grain than they paid in the previous year. I do not believe they have a great ability to pass that along to consumers because of international competition, because the consumer can change their dietary habits and so on. And while a consumer may not want to do that, it is not too difficult for them to make different choices, but it is very difficult for one of my poultry farmers with literally millions of dollars invested in poultry houses that are the length of two football fields to convert to some other product that might be more economically competitive.

Is there something we can do to address this?

Secretary JOHANNS. There are some things that I would point to in our farm bill.

The effort that we are making in terms of the development of ethanol in our proposals is directed at cellulosic ethanol.

Mr. GOODLATTE. Aren't we talking about 5 years or more down the road to see significant cellulosic production? Wouldn't we see a version of production from corn and soybeans over to that?

Secretary JOHANNS. I do not think it is going to be 5 years before you see commercial plants out there producing cellulosic ethanol, but again—boy, that is hard to predict—personally, I see so many exciting things happening in this area that I will be surprised if it takes 5 years to have plants up and running. I think it would likely happen quicker, and companies that have come in and talked to me lead me to that conclusion that this seems to be moving along faster. Why? Because there is just a real strong market out there.

Here is what I have been saying to producers: I think there are about 2 years here that are just a tough adjustment. The positive for the corn producer and high prices is also translating, as you point out, to a negative to somebody who has to go out and buy that, and they have seen their costs double. We do not have statistics yet, but there seems to be a lot of anecdotal evidence that you are going to see more corn acres this year. The Cotton Council just released a report where they said you could have a 14 percent shift out of cotton. Now, will all of that go to corn? Probably not. Some of it will go to corn, though.

One of the things we are looking at is we have some CRP acres. We have the largest—last year, we had the largest soybean crop in history, and we have the largest carryover in history. So you have some cushion there if people decide to move from soybeans into corn, so you are not going to have a situation where soybeans now start to be in a major problem. So, there are a number of things going on.

But, in reference to our proposals, first, we are focused on cellulosic ethanol. That is not saying we are forgetting what is happening with corn. We will continue to do those things. Second, conservation efforts here do help producers, for example, the cattle producers. They will like what we are proposing. For one thing, there are funding increases for about $7,800,000,000, but in programs they have liked, I think they are going to like what we are doing in conservation, so there are a number of positive things. But, I will be very honest with you, I think there are a couple of years here that are just years of adjustment, and they are not going to be like the years where you could buy $2.00 corn.

Mr. GOODLATTE. Well, I have very grave concerns, and I hope we can work on some other solutions that we can put into a farm bill that will help during those nearer-term years; because 2 or 3 years of very negative circumstances could be all it takes to put people who operate under a totally free enterprise system, and do not have a safety net, out of business.

Let me go into one other area that I mentioned in my opening remarks. I want to focus on the revenue-based countercyclical program that you propose. I begin this question with a corn example recently used in the media by Dr. Keith Collins. Dr. Collins said that the national corn yield is 146 bushels per acre times $2.35 per bushel, which equals $344 per acre, so $344 becomes the target revenue. Then the actual revenue must be calculated, which is the actual price times the national average yield. If the actual price times yield is lower than the target revenue of $344, then producers will receive a revenue countercyclical payment based on their countercyclical program yield to make up the shortfall. Here is my question.

Suppose a corn farmer in the Southeast suffers a 100 percent corn crop loss due to a pronounced regional drought, but the price in crop yields in Nebraska, Iowa, Illinois, Ohio, and the rest of the corn belt are above average or just about average, and the actual national revenue exceeds $344 per acre. Will that producer in the Southeast receive a revenue countercyclical payment even if the farmer's revenue is zero?

Secretary JOHANNS. Since you quoted the good doctor here, let me turn to him.

Dr. COLLINS. Did I say all that? Holy smokes.

Mr. Goodlatte, the answer is, no, that producer would not receive a payment. This goes back to Mr. Peterson's question. This countercyclical revenue proposal is not individually based. So there will be people that fall through the cracks, but we think it is better than what we have now.

In addition to that, we still have crop insurance, and we believe that the Crop Insurance Program ought to be the backbone for providing people protection against both price, because we have revenue policies, and production losses. That program has grown dramatically in the last 5 years. It continues to set record acreages in crop insurance as we expect another record in 2007, and we have also proposed the gap coverage policy that the Secretary spoke about, strengthening crop insurance, the individual-based loss protection program combined with a more targeted countercyclical revenue program, admittedly working on a more aggregate level, but finer-tuned to production and price changes than the current countercyclical payment program.

Mr. GOODLATTE. So the revenue countercyclical program will not provide coverage to producers who lose their entire crop unless the actual national revenue falls below the commodities national target revenue.

How is this program beneficial to producers whose production is very important to them, but if they have a total loss, constitutes only a tiny fraction of the nation's production of that crop?

Secretary JOHANNS. Congressman Goodlatte, this program, if you look at the history of how countercyclical has worked, will simply work better for somebody who has lost their crop.

Now, under the facts that you have given us and presented to us, I think the answer is obvious. It would not pay under those circumstances, but I would raise the question would the current program pay under those circumstances? What is happening with the current program is really obvious, and that is that, in those years where we have had very, very high production and low prices, the countercyclical has kicked in. So, at a time when a farmer has the highest production, they are getting the most money out of the countercyclical program.

On the other hand, in those years where we have had widespread drought or some phenomena that has impacted revenue, I can tell you that this farmer stands a much better chance under what we are proposing.

So, if the countercyclical is really part of the concept of a safety net, then with the way it is structured now, based upon price, I just do not see how it gets to be a safety net because they are just simply getting rewarded when they produce the most crop because it is triggered by price.

Mr. GOODLATTE. Thank you. Thank you, Mr. Secretary.

Thank you, Mr. Chairman, for your forbearance.

The CHAIRMAN. I thank the gentleman.

I am pleased to now recognize the Vice Chairman of the House Agriculture Committee, Tim Holden from Pennsylvania.

Mr. HOLDEN. Thank you, Mr. Chairman.

Mr. Secretary, following up on your remarks about ethanol and subsidies, a recent Associated Press story quoted Energy Secretary Bodman as saying he did not see ethanol subsidies to U.S. farmers remaining in place beyond 2010 or import tariffs on ethanol beyond 2008, and as far as I can tell, your plan is silent on the issue.

Do you agree with the Secretary? Or do you believe that ethanol subsidies and tariffs should be continued after their current authorization expires?

Secretary JOHANNS. Our plan is silent. We do not offer a thought on that one way or another.

I see how much has happened in the last couple of years to ethanol. I mean, the world has changed dramatically. The numbers for an ethanol plant are so different today than they were when I was Governor of Nebraska and was part of the effort to put an ethanol plant at the state level so we could build more ethanol plants in the State of Nebraska.

So the best answer I can give to you today is that Congress, working with the Administration, working with whoever the Secretary of Agriculture is at the time is going to have to make a policy decision about whether those incentives that were wise choices, I would argue, when they were put in place, are still necessary at that point in time.

I must admit, I could no more predict for you what 2010 will mean to the ethanol market. We may have cellulosic plants up and running by then, but again, the thoughtful approach to that would be to simply look at what the circumstances are at that point in time and make an assessment as to whether those items are still necessary.

Today, Congress has spoken. We accepted that in our proposal, and we did not propose a change one way or another in the ethanol subsidies that are in place.

Mr. HOLDEN. Thank you, Mr. Secretary.

Following up on a conversation we had the other day when we had a chance to get together on the Mill Feed Program. I thank you for including it in your proposal, but I am concerned if it is truly going to be a safety net for those people who need it the most. The payment rate is reduced from 34 percent to 20 percent over the life of the bill, and we have to remember it initially started at 45 percent.

In addition to that, I am concerned about the smaller farmers who are not going to meet the 2,400,000 pounds of production so then their reimbursement rate will be 85 percent of the historical production as opposed to 100. I believe those smaller farmers are the ones who need a safety net the most. So I know there is a baseline problem, and we are hoping we are going to correct that baseline problem in time, but I am just concerned about if you think that it is a sufficient safety net.

Secretary JOHANNS. Well, you point out what you are going to face just like what we faced. It is not the baseline. And so in addition to the challenges the Chairman has just in terms of the overall budget baseline, he will be faced with what we faced. What gets added back in is about $1,000,000,000. It will score at about $1,000,000,000. I think our proposal scores just under that, about $800,000,000, if I am not mistaken, right in that vicinity.

The other thing I will tell you is this. We made adjustments pretty well throughout the commodities, and just in terms of trying to figure out a way to work with all commodities in, roughly, an equitable sort of way, some adjustments seem necessary here. We continue to keep the program in place. We continue to have the price support. We continue to have MILC in place, not at the level it was. So, actually, when you look at our overall MILC proposal, I really do believe it represents a reasonable approach to try to deal with, again, I think what you are going to be dealing with when you sit down, add and subtract.

Mr. HOLDEN. Okay. Mr. Secretary, I just want to make sure I understand you.

If we find the vehicle to get what I believe is $40,000,000 in for September, you are saying that will not make much of a difference as far as the baseline goes, or did I misunderstand you?

Secretary JOHANNS. If you find a vehicle to add $40,000,000, does that put it in the baseline?

Mr. HOLDEN. Does it make a significant difference in what we are going to be able to do to keep it at the 34 percent or higher?

Secretary JOHANNS. I think we already have a budget baseline. That is the problem you are going to run into. The baseline is there. It is not what I—certainly, I could not prepare proposals on the hope that something might happen. The budget baseline is there, and you are going to be faced with that just like we were.

Mr. HOLDEN. Thank you, Mr. Secretary.

I yield back, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

I am pleased to now recognize the distinguished Member from Oklahoma, Mr. Lucas.

Mr. LUCAS. Thank you, Mr. Chairman.

Mr. Secretary, let us return back for a moment to the topic of renewable energy and green production and maintaining that balance.

Last year, when it came time for the big rollover on CRP, that large portion of the approximately 37,000,000 acres was in CRP. The Department chose to offer very lengthy contracts from 1 year up to full 10 year enrollments.

Could you expand for a moment on the topic of how you view, and perhaps some input from Dr. Collins, on how you view the current price of corn affecting those short-term contracts. What percentage might potentially not be re-enrolled in an environmentally sensitive area, land, and how that will affect the supply of grain over the next 2, 3, 4, 5 years?

Secretary JOHANNS. This is something we are looking at. We continue to look at our CRP acres, and we will continue to do that. I signaled just a few days ago that sometime in early summer, maybe even before that, as we get better numbers about what corn acreage will be this year, we will make an assessment as to whether we might do something like let people out of CRP acres without penalty, that kind of approach.

You are absolutely right. We did this a little bit differently this time. We do have varying terms on our contracts, and you could look at those varying terms and say, there is a certain number of acres that are going to be available because the contract is of this period of time, what should we do with that? And you can literally make that assessment.

From a typing standpoint, it is an assessment that we feel we need to complete some time this spring, sometime early summer. Why? People just need to know as they think about the 2008 crop. It will not impact the 2007 crop. That acreage is going to be what it is, and like I said, we will have better figures here. I think we publish our first figures on the last day of March, but we will continue to look at that. We will continue to analyze whether there is a reason here to bring some acres out of CRP.

Mr. LUCAS. But it does stand to reason that with the high grain prices that potentially some of those acres that are not so environmentally sensitive, more productive, will most likely voluntarily come out simply because the land owners will not want to renew their contracts.

Secretary JOHANNS. Voluntarily, yes. I mean, they may look at $4.00 corn and say, this is a no-brainer for me. I can raise corn on this land. I can do it, and so, yes, from a voluntary standpoint, as those contracts come up, they may decide not to renew. In fact, I can tell you that, as of today, there are 3,000,000 acres that have at least sent a preliminary signal that they are not renewing, because they have not filed the short form or done whatever needs to be done in that program, so I can tell you that today for 2007.

Mr. LUCAS. So producers do respond to market signals, decisions are based on market circumstances. Expanding on that question, if potentially that is the case, then that means that we will have possibly several acres of authorized CRP that would not be in use. Would it be your intention within the Department to make those acres available or enrollment to bring more land of a higher environmentally sensitive rating into the program? Because our conservation friends out there are very—both in agriculture and outside of production agriculture, are very sensitive to how successful CRP has been. I believe there is a view from the hearings that we have had for years on this Committee that if acres come out, there should be the ability for acres to come in to maintain that balance out across the country.

Secretary JOHANNS. The answer to your question is yes, we are very concerned about the environmentally sensitive land and we focused on that. Let me offer one quick idea for you, and we put this in our proposals. We talked a lot about this. In your state and the state I come from, sure there is probably some land that could come out of CRP and maybe a gross of crop 2 out of 5 years. When that land really should stay in CRP, and we want it to stay in CRP, we have a proposal that basically says, keep that land in CRP, meet the environmental requirements you have agreed to meet, meet the nesting requirements for bird and wildlife and that sort of thing. But, let's examine the possibility of allowing a harvest off that land that would meet all of those requirements, maybe we would require a small reduction in the payment that we would make.

But again, what we are trying to do is encourage the landowner to think maybe out of the box a little bit and say no, I want my land in CRP. I can do this in an environmentally sensitive way. We can work with them *versus* that landowner saying well, I will take the risk of not raising a crop 3 out of 5 years, because in those 2 out of 5 years, I might make out very well. And it has to be targeted for cellulosic energy production, so it is a little bit down the road, but again, it may be the right approach in terms of how to manage this difficult issue.

Mr. LUCAS. Thank you, Mr. Secretary. Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman. I am pleased to recognize the Chairman of the Specialty Crop Subcommittee, Mr. McIntyre of North Carolina.

Mr. MCINTYRE. Thank you, Mr. Chairman. Mr. Secretary, thank you for your presentation. One of our areas of responsibilities on our Subcommittee that has been reconfigured includes rural development. Many of us have benefited from the positive impact of rural development in our districts. In your presentation, when you first released your proposal for the farm bill, you stated that $500 million would be made available to reduce the backlog of rural development projects. Is this money in addition to money that will be available for pending applications and upcoming projects in the new fiscal year? And if so, how much money will be available for new projects in the coming fiscal year?

Secretary JOHANNS. The answer is yes. In our book—and I don't have the specific page—but we refer to this as new money. So the answer to your question is yes. And Keith—Keith has the numbers. He can give you what we are doing this year.

Dr. COLLINS. Actually, I can't. I don't remember the 2007 numbers. This proposal begins with Fiscal Year 2008. And so it would be a one-time infusion of mandatory funds to address the backlog. Now the backlogs are changing. I can give you one example of the waste in the water and waste disposal backlog at the beginning of this year, it was like $2.7 billion. At the end of this year we expect it to be down to $2.2 billion. Now I can't tell you how meritorious all of those numbers are, but there is a sizable backlog out there. So we would address that with this proposal.

Mr. MCINTYRE. Okay. Well I believe it is on pages 119 to 120 of your proposal book. The $500 million is what you said would be for the backlog. So I don't know if you are saying, Dr. Collins, if you don't have the figures, but what new money will be available for the new projects?

Secretary JOHANNS. It is actually about a $1.3 billion between loans and grants. This would be in addition to that. What we were trying to do was to say, as we continue to build up this backlog, is there an amount of money we can put in in addition to what we are doing to try to deal with the backlog? Now, even with the additional money we are putting in, I would tell you our estimate is that we will probably deal with conservatively 30 percent of the backlog, maybe more than that, because when you get into these projects, not all of them are ready for funding or ready for a loan. They just aren't. So we might be able to do better than that, but that is what that number would purchase in our proposal.

Mr. MCINTYRE. Okay.

Dr. COLLINS. It is in addition to the numbers you are looking at on page 43.

Mr. MCINTYRE. Okay, in addition to the numbers we are looking at?

Dr. COLLINS. Yes.

Mr. MCINTYRE. Okay. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman. Now pleased to—we are going to be recognizing people as they were here, when we started and so forth. So let's see, Mrs. Musgrave left. Mr. Kuhl? He left. Mr. Conaway next.

Mr. CONAWAY. Thank you, Mr. Secretary, for being here today. I want to talk about the adjusted gross income changes that you are proposing for, producers should get direct payments. How did you pick the $200,000 number?

Secretary JOHANNS. Here is what we did. Currently, there is an adjusted gross income number. And if I am not mistaken, it is $2.5 million. So the first thing we asked was, who is impacted by $2.5 million of adjusted gross income? And keep in mind, this isn't the gross. This is after you have deducted everything.

Mr. CONAWAY. I am a CPA.

Secretary JOHANNS. Then you know what I am talking about. It is the lowest number. We found out as best we could tell that $2.5 million impacted .0007, seven in 10,000 taxpayers, didn't really impact very many people.

Mr. CONAWAY. Right. We are talking about ag taxpayers here?

Secretary JOHANNS. Right. Then we started to try to analyze what number we could arrive at that we felt was a reasonable approach to adjusted gross income. At $200,000, we impacted—we impact in the overall picture about 2.3 percent of tax filers, but you can slice that a little thinner and actually get down to about 38,000 I believe.

Mr. CONAWAY. These are farmers?

Secretary JOHANNS. No.

Mr. CONAWAY. Okay. We need to be talking about farmers, ag guys.

Secretary JOHANNS. These are schedule F people.

Mr. CONAWAY. The $200,000, putting it there, how much does that save?

Secretary JOHANNS. A billion and a half over 10 years.

Mr. CONAWAY. And if we put it at $500,000, what could it save?

Secretary JOHANNS. We could run an analysis of that, I think.

Mr. CONAWAY. So there was some magic between getting from $2.5 million to $200,000. Mechanically, how does a taxpayer implement this? In other words, if I have—and I know your proposal here doesn't talk about a 3 year average, but since subsequent to this, you have talked about some sort of 3 year moving average. I have 3 years moving average of $199,999. I qualify for $360,000 in payments. I have a moving average of $200,000 and a buck, I don't qualify for anything.

So I am not sure how—if we believe predictability and stability is a benefit for a farm structure program—that not being able to predict year to year things that are outside the farm business impacting your qualifications, I don't know how you run a business that way; particularly with partners who may assume you are getting a payment and that affects the way the partnership was drawn up.

Suddenly, you sell some land somewhere else and you have a big 1 year where you are over that. Mechanically, how we are going to do this? If you don't qualify 1 year, do you get to go back and enroll like we did in the old tax days where you carry back your losses and all those kinds of things?

Secretary JOHANNS. It is a 3 year approach but having said that, because of Congress' direction, we have implemented it now.

Mr. CONAWAY. Two million five dollars, we both agree that the precious few people have been impacted by it, and at $2.5 million, those taxpayers have a lot more wherewithal to respond to changes within that number than some $200,000.

Secretary JOHANNS. Oh, I just—you probably—you can run circles around me when it comes to looking at tax returns. But having said that, these folks are doing well; $200,000 of adjusted gross income is great in any state, in any county, an individual who is successful, very successful, just by tax statistics in the top 2.3 percent. That means they are doing better than 97.7 percent of the rest of the population.

Mr. CONAWAY. Let's be careful about that line of logic, because if I have flood insurance on my home, it doesn't matter what I make. So as we begin to introduce this idea that we will look at your whole picture, as opposed to what should ag do. I don't disagree that we should limit the recreational farmer and move them out of this process, but there are big farming operations where family-owned—everything they have is in this deal. They could have big swings from year to year that these payments are imported to, even though they would be above the $200,000 number at some point in time. So I am cautious about the theory behind going this direction.

At $2.5 million, I don't think many people paid attention to it because it was such a number that there were a handful of folks impacted, and there again, their ability to respond to changes in the overall farming environment is better at $2.5 million than $200,000. Anyway, we will continue the discussion. Thank you, Mr. Chairman. I appreciate getting to talk and we will talk about this further.

The CHAIRMAN. I thank the gentleman. I am pleased to recognize the Chairman of the General Farm Commodities Subcommittee, Mr. Etheridge of North Carolina.

Mr. ETHERIDGE. Thank you, Mr. Chairman. Mr. Secretary, welcome. Thank you for coming. I know you have been busy. I think you would agree that if we write a farm bill that is critical, maybe the most important one we are dealing with as the farmers face a lot of uncertainty. I am going to try to ask three quick questions in the essence of time, if you will refer to them, please.

As you probably know, we have a lot of important poultry in North Carolina. We rank number two in hogs, pigs and turkeys, number three in poultry and eggs. As we look forward toward a new and different renewable energy source, do any of the Department's proposals address utilization of waste such as livestock waste, such as manure and poultry litter, as an alternative to a renewable energy source? I think that is important.

As we deal with these issues, you talk about it. And let me move now to my next question. As you can expect, some of us have some problems with your approach, your payment limits, as you have just been talking and your recommendations to lower the AGI count to $200,000. I am concerned about those people who receive the AGI cap to really move to a bare subsistence, or even the negative level they approach or implementing.

While I am not saying that this would happen to all, roughly 38,000 taxpayers, Dr. Collins, that you say will be affected. It could happen to some of them. I am not on this Committee to help put farmers out of business, and I don't think you are either. Have you asked, or will you ask the IRS to perform an analysis on the 38,000 to see how many would have a negative or subsistence under AGIs if your proposal were implemented?

And Mr. Secretary, on that, do you have a concern of how this proposal might affect the interests of people to participate in conservation programs? This would put them over the cap and might have a negative impact on the conservation.

And final question, your proposal calls for termination of extra long staple cotton competitiveness programs. This program has not been challenged by WTO. It costs only about $10 million a year, and has been highly beneficial and strongly supported by the industry. Can you share with us why, in your proposal, it has been terminated?

Secretary JOHANNS. Okay. Let me kind of work down through the list. The answer to your question on livestock waste is yes. We are targeted, focused on that. We think that is important also. I would mention the 9006 program, but again, that is a part of our proposal. The payment limit cap, no.

We agree with you. We don't want to put anybody out of business. But again, I do believe that by any definition, these are successful people. Now, averages can be very, very misleading, as you know, but I will tell you if you take the amount of money here, divide it by just the number of people impacted, it comes up to about—I don't know, 15,000 average, 13,000 average.

So how much they will be impacted, of course, depends upon the individual, how they are structured, a whole host of things. But again, I would just point out that these really are in the top 2.3 percent of tax filers in the U.S. The conservation programs, could they exceed the cap with conservation program?

I could envision a circumstance where somebody is maybe close to that level, and all of a sudden, their participation and conservation would get them there. I am not—everybody makes their own decisions, but I would wonder whether somebody at that level of income would really be influenced not to do something from an important conservation standpoint because of that.

But yes, the answer to your question, just to be very candid with you, I could envision a circumstance where somebody is at that level and they could be put over the $200,000 AGI. The ELS cotton program, you are right. It was not challenged. Having said that, it is identical to the Step 2 program. I don't think there is any difference between what was challenged and this program. And again, what we try to do is focus on those approaches that hopefully, at the end of the day, we can assure farmers we have the best chance to withstand a challenge. And, this one really is very similar, virtually identical to the step two program that was challenged.

Mr. ETHERIDGE. Thank you, Mr. Secretary. It seems to me on that one we were surrendering before we challenged. Thank you. I understand your position, but I yield back.

The CHAIRMAN. I thank the gentleman. I am pleased to recognize a new Member, Mr. McCarthy from California.

Mr. MCCARTHY. Thank you, Mr. Chairman. Mr. Secretary, I just have two quick questions. In reviewing your proposal, and you talked about it today, the provisions to assist specialty crops, I applaud you for that. One of the keys to these growers is food safety, as is evidenced in *E. coli* and other fresh food safety scares, that hurt crops in California which I come from. Currently, growers are able to come together and agree on grade standards, packaging research but not food safety. I was wondering if you have looked at, or if there is reason why you haven't proposed, to allow marketing orders to include food safety procedures.

Secretary JOHANNS. We have not. That is a good question, and probably the best I can do today is follow up on that. And see if that is something that would make sense to look at the marketing order approach and I will do that.

Mr. MCCARTHY. I would like to work with you on that if possible.

Secretary JOHANNS. Yes. Chuck just pointed out to me that that certainly would be included in our research dollars. As you know in our proposal, we boost funding for research in this whole area significantly for the non-program crops. So under this proposal, there would be a funding source there.

Mr. MCCARTHY. To actually look at it?

Secretary JOHANNS. Again, we can look at it to see if that is a good approach and we would love to work with you.

Mr. MCCARTHY. Just one last question. The Administration has proposed eliminating flex acreage prohibition to comply with the WTO Brazil cotton case. My district includes many fruits and vegetable growers. Has the Department looked at or analyzed the cost to change to the fruit and vegetable growers?

Secretary JOHANNS. Yes, we have, and I am going to draw your attention to an article that I read some time ago. In fact, I will even hand it to you.

Mr. MCCARTHY. Well, thank you.

Secretary JOHANNS. It is an excellent analysis. We would be happy to supply copies to the Members of the Committee. And I just happen to run across that this morning. I was trying to catch up on some reading, and it is very, very good. Here is kind of the net of what the article says. Don't anticipate a great consequence here, but it could be regional. What is probably a nonevent in one part of the country could be important in your part of the country. And so we probably need to work with you to try to get some fine-tuning, but overall, I don't think there is huge impact here. I actually—the article concludes there would not be a significant impact.

Now here is kind of the dilemma you will face and we face. This is a situation where the WTO ruling was adverse. We appealed. This was not a situation where we tried to anticipate what they might rule. We appealed. We battled and said you are wrong, we lost. Basically, what they are saying is that our direct payments could end up in the amber box, would end up in the amber box, that is a problem. And that is a very, very important issue for the Committee to address. We felt we had to address it. I think of all of the things we have proposed, our specialty crop farmers were very supportive when I visited with them about what we had in mind. All things being equal, they would love to see this issue go away. I don't think it is going to go—it won't go away. We have to somehow figure it out.

Mr. MCCARTHY. Well, thank you. Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman. I am pleased now to recognize the Chairman of the Livestock Subcommittee, Mr. Boswell from Iowa.

Mr. BOSWELL. Thank you, Mr. Chairman. And thank you, Mr. Secretary, for spending this time with us. I appreciate the depth of what you bring to what is on the discussion on the table. Mr. Holden made some comments about the MILC, the concerns dropping 34 to 20. I think we will need to continue that dialogue as we go along, but I don't want to belabor that this morning at this time. Thinking of something that was said by Dr. Collins or maybe yourself, the crop insurance backbone for the safety net for the individual producer. Have you ever thought about having something of that ilk or that like for the milk producer? Have you had any discussion about that possibility? Or does that even create any interest in raising that point?

Secretary JOHANNS. I will ask Dr. Collins to offer a thought on that.

Dr. COLLINS. Yes, sir. We have had discussion from private individuals who are interested in proposing a price insurance product for milk. And if I am not mistaken, I think that has been submitted, to the USDA. There has been a proposal submitted. It is under what we call a 508(h) submission under the Federal Crop Insurance Act, which means that it is a private company's or a private interest's idea. So it is confidential. It is protected by business confidentiality and I can't discuss how it works. But that idea has been submitted to USDA and it will be considered by the Board of Directors of the Federal Crop Insurance Corporation. That would be a price insurance product similar to the kinds of price insurance products that we now sell for fed cattle, feeder cattle, hogs and sheep, something along those lines.

Mr. BOSWELL. I think what you just told me is we can't talk about it.

Dr. COLLINS. Well, we can talk about the concept but exactly how it works, who has submitted it and so on——

Mr. BOSWELL. May I ask you this, do you have any feeling on the timeline on when that will be out in the open, or we can talk about it? Because I think this is something that has got some potential.

Dr. COLLINS. I really—under the law, the Board of Directors is required to provide a Notice of Intent to disapprove a product for sale that a private sector person wants to sell within 90 days. If the Board doesn't do that, then the product is automatically available for sale. So I can't say it will happen within 120 days. Often these things get tabled and there is a great deal of discussion between the submitter of the product and the Department, and sometimes it takes a year or two, and then, of course, there is a period of time when we run a pilot program.

So I can't tell you. But I can tell you there has been a little bit of concern among the Board of Directors about a milk price insurance program operating at the same time we have a price-based product like milk operating. So there is just that general philosophical concern that the board has, and our question of redundancy of the current milk program operating parallel with the price insurance product.

Mr. BOSWELL. I appreciate that. I yield back, Mr. Chairman.

Mr. BONNER. Mr. Chairman?

The CHAIRMAN. The gentleman from Alabama.

Mr. BONNER. Would it be possible for the chair to advise Members, on both sides of say the next four Members, who are going to be recognized? Because some of us have other Committee hearings.

The CHAIRMAN. I can do that. I thank the gentleman from Iowa. The next person is Mr. Walberg from Michigan on the Republican side and Mr. Baca, then Mr. Graves, is he here? Mr. Hayes. So it will be Mr. Walberg, Mr. Hayes, Mr. Baca, and Mr. Cardoza are the next four. Do you want to know what number you are?

Mr. BONNER. That would be great.

The CHAIRMAN. All right. I might start a trend here. If I can figure out—let's see, you are number ten. You are number ten and we are on—so actually, you are, like, three or four on your side down.

Mr. BONNER. Thank you very much.

The CHAIRMAN. So Mr. Walberg from Michigan, welcome.

Mr. WALBERG. Thank you, Mr. Chairman. And thank you, Mr. Secretary, for being here. Having the privilege of having a major land-grant university in my state, Michigan State University, and its research issues and vitality, your support for integrating a couple research and extension services into one single agency, the Research, Education and Extension Services, the funding for specialty crop research and extension will be very important to Michigan.

And so the one question I would like to ask for clarification is, what is the mechanism for distribution of that $100 million per year for this research in speciality crops?

Secretary JOHANNS. We prefer the competitive approach. You probably have seen that in the way we approach budgets and in our programs. We think we get the best opportunity to get really quality research by going out, literally into the marketplace of universities, and approach it that way. So that would be the emphasis as to ask universities to submit their proposals and try to decide which is best and fund that approach.

Mr. WALBERG. Okay. Well, that bodes well for Michigan State. So thank you.

Secretary JOHANNS. Pretty good school.

Mr. WALBERG. I yield back.

The CHAIRMAN. Thank you. The chair recognizes the gentleman from California, Mr. Baca.

Mr. BACA. Thank you, Mr. Chairman and thank you, Mr. Secretary, for being here. I want to start on the positive note. First of all, I want to thank you for submitting your proposal, and thank you for suggesting a recommendation and a change in the food stamp program name. So I want to thank you for suggesting that we change the name at this point to food and nutritional program. It seems like a minor change, but a very important proposal, especially as we look at 36 million people, 11 percent of our population now, that fall under the category of poverty or in the need for food stamps. "Food stamps" is a term that carries a huge stigma, and that is an important change even though it is minor. In my district in the Latino community, have had a hard time accepting food stamps because the term "food stamp" suggests that people don't work. And that applies to a variety of different people, and so just changing the name itself will help get people to apply for the food and nutritional program *versus* the food stamp negative connotation.

So I commend you for that. And I think that is positive. Nutrition and food stamps are a huge obligation for our Committee and sometimes—we take it very seriously. So I thank you for highlighting it in the proposal, but there are some concerns that I have. And one of the areas that I want to ask you, Mr. Secretary, is you have made several good suggestions in your proposal for the food stamp program, such as removing the cap on the childcare expense, and then excluding of college savings and retirement fund from the asset test to qualify for food stamps.

Those are good suggestions, but then, however, I am concerned about your suggestion to eliminate categorical eligibility for food stamps program. Not only does it seem to discourage people from participating in food stamps, it also seems like a confusing change that will affect many states. For example, this past December, the State of Minnesota, which happens to be the home of the Chairman, decided to move categorical eligibility with temporary assistance from needy families program.

If your proposal goes through, Minnesota will have to completely undo the change and it will cause a lot of confusion at that state level. I am afraid that this proposal will affect services to our families and go against the USDA's desire to streamline the administration nutrition program. Could you please comment on that?

Secretary JOHANNS. I am going to ask, if you don't mind our deputy to offer a few thoughts here, because he has worked this area much more extensively than I have.

Mr. CONNER. Congressman, let me just say that with regard to categorical eligibility, we are not eliminating categorical eligibility for food stamps. If you are, for example, the recipient of cash benefits under TANF, you would remain categorically eligible for the food stamp program.

I think where we are making some change, for example, is where a person may not be receiving cash benefits, but may be receiving something as simple as literature from that program, or some kind of service-oriented situation.

In that case, we would ask them to go through a regular eligibility check for food stamps, not to just simply automatically assume that they are eligible. But if you are a recipient of cash benefits under TANF, you would remain categorically eligible.

Mr. BACA. But what effects would it have on Minnesota with the change, though, that would undo what they have done right now and that would be confusing to that state?

Mr. CONNER. We could provide for the record, I think some data for the State of Minnesota, on how many of your TANF recipients would involve cash payments *versus* these other services they may be receiving. And I don't have that at my fingertips for Minnesota, but we can provide that for the record.

Mr. BACA. I know that I am going to be running out of time. But Mr. Secretary, as you know, we rely on states to implement the new state food stamp program. This is often one of the biggest parts of the budget and their largest responsibility. As a result, we make sure there are strict quality controls in how the money is spent.

But I am—someone just handed me a note—but as a result, we make sure that there are strict quarter controls in how the money is spent. But I am confused by the suggestion that excessive negative errors would cost states five percent of the administrative cost. This seems like huge burdens that would hurt our state, and ultimately hurt our working families. I feel like errors could be addressed more constructively. I would like to hear your reasoning for this proposal.

Mr. CONNER. Well, again, Congressman. I would say generally speaking, as you know we are very, very pleased with the progress that we have made in the food stamp program. I don't have the error rate figures exactly at my fingertips, but you know, the error rate has dropped very, very dramatically with regard to that program. We feel like we have had good cooperation with the states in getting that reduction in error rates. In this case, for this particular provision we want to continue to obviously run the best possible program that we can with the fewest error rates that we possibly can.

So this incentive, I guess, if you will, for states that remain above—have higher error rates we feel it is important to continue to put that pressure on them. That is the reason for our provision.

Again, I would say, generally speaking, though, we feel like we have made great progress in bringing the error rates of this program down very, very substantially.

Secretary JOHANNS. I might just offer a thought here. This is one we would love to work with you on, because I think there is a looming issue here. Those unjustly denied—I think if you look at those numbers, they are going up. I don't think anybody here wants that to become a major problem. We are trying to figure out how best to address that. And the proposal that we have submitted really tries to get to that issue. But, if you look at it, I think what you are hoping to achieve here could be achieved through our proposal.

Because again, I don't think you want people unjustly denied. Now the question is what is the best approach? We like our approach. I think the state would have to have a problem 2 years in a row before we would head in this direction. So we would continue to work with the state to solve this problem. But on the last day, we are headed in the wrong direction in this area, where we have had—we have had good results as the deputy has indicated in other areas of food stamp administration, really good results. I think it is pretty well regarded now that this is a well-run program, but I think this is a looming problem.

Mr. BACA. Thank you very much. I know my time has run out, Mr. Chairman. But I would like to, for the record, ask additional questions or submit them for the record, one that deals with dairy's role in nutritional program. The other one dealing with renewable energy and livestock, but I will submit them for the record.

The CHAIRMAN. Without objection, the gentleman's questions will be submitted as well as any Members that have additional questions, I am sure the Secretary will be happy to answer them.

We now have the gentleman from North Carolina, Mr. Hayes.

Mr. HAYES. Thank you, Mr. Chairman. Mr. Secretary thank you and your fine staff for being here, for your very thoughtful proposal. There are a couple issues I would like to go over with you.

On the issue of AGI limits for farmers, IRS says two million over $200,000 filing; 85,000 schedule F, they were—that is about 25,000 to receive payments. This is a very critical area. If you look at it in one way—and I agree that these folks are doing well, the risk is very great, but something we haven't mentioned, these are people that own very, very valuable farm land that we want to keep in production. They are making that kind of money, they understand the importance of making a profit. I want to make sure in our deliberations that we don't create an incentive for them to sell that land into development as opposed to keeping it in crop land.

So if you could speak to that. Next on the ethanol. I appreciate all the thoughtful comments from Members and from all of you all. It is a critical part of our energy independence. Farmers have been talking to me a lot in the livestock and poultry, a critically important role. How about production? Is production going to go up? With seed corn $200 a bag, you can't get it. It is something that you all maybe could do internally to help stimulate production by helping with availability and price of seed corn.

If you would comment on that, and last, and especially not least, thank you for the incredible productivity and good things that are generated, commerce and farmers by Rural Development. John Cooper is a real hero in our area. The things that you all do through Rural Development knows no boundaries. It has nothing to do with politics, it just helps move the economy forward. So anything that you can do, and you have already done it in your proposal, to keep that program going. Back to the issue of the payment limits. What are the thoughts—are we concerned about an effect of penalizing folks and kind of incentivizing the sale instead of farming? I think a farmer in my district, 150 family members that was a year ago, all of them involved in a very large farm. And I don't want them going in to something else.

Secretary JOHANNS. Well, here is what I would offer. We heard a lot about development pressure when we were doing the Farm Bill Forums. I think that is especially true in parts of the country where you have growing cities and suburbs that are created, and some of the land prices just knock your socks, off. I mean, it is just remarkable that people would pay that much for an acre of land, but they do. I would hesitate to design farm policy trying to get in the way of that.

We certainly are mindful of it. I think there are some things that we are proposing that are helpful. I think our beginning farmer initiative is very important here to try to help farmers get started and take over that land. But I would hate to promise because I know I couldn't fulfill that somehow if we did this, that phenomena would ease up or go away.

Mr. HAYES. If you remember, I do, you were in Union County very graciously last year, and the Cox family and you all had a great conversation, that is one of many examples. Charlotte is spreading that way and driving the price of land.

Secretary JOHANNS. It is a national phenomena, even in the most rural state, if you go to a city, go to the edge of that city and you will see those growth pressures. The seed corn, I think what is probably happening, although, again, we won't have a good picture for 60 days here, is you are probably seeing some people moving toward corn production because the price is strong. It has put some pressure on that seed corn industry to get the seed out there. I know nothing else beyond that. I would be happy to check into it and see what I could find out.

Mr. HAYES. One more thing before my time runs out. The Chairman, Mr. Peterson, and my Chairman, Mr. Boswell, on the Livestock Subcommittee, have really been working hard on this animal ID issue. You all have made great strides on the voluntary program. He and I maybe disagree on one percent of the overall picture. Keep pressing to get that voluntary ID program in place before the bureaucracy gets the other option, so that we have the best system, least priced, most productivity, where they understand it, don't have to have a lawyer to read it. This is what we want to have certify your beef.

Secretary JOHANNS. Congressman, I will leave this with you. I will put this in your hands, but this deals with the animal ID program and we did meet our goal. We have 25 percent of the premises registered, that is where we wanted to be at this point in time. But thank you for your comments. This one is not an easy one, but we will keep working.

Mr. HAYES. Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman. I am pleased to recognize the Chairman of the Horticulture and Organic Agriculture Subcommittee, Mr. Cardoza from California.

Mr. CARDOZA. Thank you, Mr. Chairman. And thank you, Mr. Secretary, for being with us today. I think that the proposal you have put forward is thoughtful, and I applaud you for doing so. You also came to my district during the rollout, and I appreciate that, and listened to my farmers. I especially want to point out in the proposal that you paid attention to the air quality concerns in the Central Valley of California. You mentioned that there would be an opportunity to possibly carve out some funds from the EQIP program to deal with some of the challenges there that farmers have in meeting air quality needs.

And what I am going to do today because of the limited amount of time is ask my questions—and this one in particular, because it is more detailed, I would ask that that one be submitted back in writing because the air quality questions are pretty technical, and I would like to have you answer those specifically. Which takes me to the next issue, which is dairy and methane digesters. Producers generating electricity from livestock waste currently receive a tax credit of .9¢ per kilowatt hour for power generated and transmitted to a utility.

Those generating power from wind and solar equipment receive a tax credit about twice that amount. And so my first question is, the livestock credit expires at the end of 2007, would you all support extending that credit? And would you support increasing the livestock credit to equal that of other competing technologies?

Secretary JOHANNS. The Department has not taken a position on that, but I would promise you this, I would sincerely look at that and let you know where we would be on that if we take a position today. But you know, in my judgment, just again speaking here, these programs do good things, and we have to weigh if it makes sense to extend that, and whether we want to be in favor of that, but I promise you, I will take a look at that.

Mr. CARDOZA. I would appreciate that Mr. Secretary because many of my producers are under tremendous pressure in some of these areas about the air quality and the water quality standards in the Central Valley, and those digesters can be part of the answer. And we certainly need them to be competitive with other competing technologies.

The next thing I would like to mention to you is section 32 funds. One of your farm proposals calls for increasing the overall section 32 fruit and vegetable purchases. The $2.75 billion over 10 years because your Department currently spends roughly $275 million per year on fruits and vegetables, ten times this would equal exactly $2.75 billion as you proposed. Or is the Department actually recommending an increase in that amount, ramping up the minimum per year? Is it the same proposal as in the past or is it more?

Secretary JOHANNS. It is new. It is more. And that is outlined in the book and I can't put my fingertips on it, but I know this was proposed as an increase in that funding.

Mr. CARDOZA. I did read that section. I was a little confused. So I appreciate your clarification and we will ask you more about that in our Horticulture hearings. Finally on block grants: As you know, Congress has established a successful block grant program in 2003, state departments of agriculture used these grants to develop—for the development and marketing of speciality crops that are important to the state's agriculture economy. Can you explain what led the Department to decide not to include these programs in your proposal, even though we received some support for it at the hearings?

Secretary JOHANNS. Oh, I knew—we had talked about that. It is authorized through 2009 currently, and that is why it wasn't included in this proposal because that is there through that year.

Mr. CARDOZA. But it would expire——

Secretary JOHANNS. It would expire in 2009, and it actually came about through a separate Act, I believe. The Speciality Crop Act. So that Act would have to be reauthorized in whole or in part to deal with that. But again, we saw it there through 2009, and just didn't take a position on it. It is in a separate Act in the farm bill.

Mr. CARDOZA. So we may or may not want to look into that, as the Chairman desires.

Finally, I know Mr. McCarthy asked this question on flex acres. I would just like to share with you that farmers in my area are also very concerned about the flex acre proposal and the Department's suggestions, and would like to have you respond to that again.

Secretary JOHANNS. We will. That article that I provided came out of *Amber Waves*. And it is a pretty good article. But like I said, this is one we have to figure out. I don't think the issue can be ignored. In fact, I am very confident the issue can't be ignored.

Mr. CARDOZA. Thank you, Mr. Secretary.

The CHAIRMAN. I thank the gentleman. I am now pleased to recognize the gentleman from Alabama, Mr. Bonner.

Mr. BONNER. Thank you, Mr. Chairman. Mr. Secretary, it is good to have you before the Committee. I will be at the Budget Committee tomorrow to welcome you back. I know you are coming back up for dual testimony this week. One of the primary concerns I hear from our southern peanut growers in the industry at large is the elimination for funding of the storage and handling payment program. Many growers have told me and other Members from the Southeast that they will literally go out of business if this payment program is not restored in some way in the 2007 Farm Bill. What are your thoughts regarding this issue? And how do you feel that the Administration could be more supportive of peanuts and since it is Valentine's Day, I didn't bring Alabama peanuts, but our friends from North Carolina have some if you would like to taste them.

Secretary JOHANNS. Well, I do have some North Carolina peanuts here. I will wait until the hearing is over, though, to start munching. But here is kind of what it came down to. We looked at this program and we don't provide storage in other areas. This was unique. And I don't think it was provided before 2002, if I am not mistaken. I may be remembering that wrong. But it is not in the other programs, and so our proposal was to take that out, and again it kind of gets back to the equity issue, what are you doing for other crops, and how are you treating them? And storage was not a part of other crops.

Mr. BONNER. Okay. Let me throw another one to you real quick like. I know you have heard from Mr. Conaway, and others have, or will, raise the concern about the $200,000 AGI limit. One of the concerns that I have specifically is how this proposal might have a disproportionate effect on those who live in the southeastern region of the country. So my question to you is, do you have any information on where the approximately 80,000 farmers that would be affected negatively by this reside? And if not today, could you provide that to us?

Secretary JOHANNS. We do have that. And actually, I am going to ask Dr. Collins to address that. But actually, when you slice through this, it is actually 38,000 farm operators who have an AGI over $200,000, but only about 25,000 of those receive farm payments. So you can slice that even a little finer when you figure out who is getting the payments. But Keith, if you could talk a little about where these people are from.

Dr. COLLINS. Yes, just to re-emphasize the Secretary's point that the data on schedule F filers with AGI over $200,000 from the IRS, and it is available up on their website, shows that 4.2 percent of all filers had AGI over $200,000 in 2004. That is the most recent year available. But if you go to the next group, the group of AGI filers, the group of schedule F filers with AGI over $200,000 that get government payments, that is only 1.2 percent of all filers, and they get less than five percent of government payments. I know there has been a concern expressed here whether this is going at the heart of commercial agriculture. Commercial agricultural producers, those with sales above $250,000 get 55 percent of all government payments. Schedule F filers with AGI over $200,000 getting government grants only get less than five percent of government payments. So I don't think we are piercing the heart of commercial agricultural production here.

But to get to your question about the regional distribution, I don't have regional distribution because it is not available from the

IRS on filers with AGI over $200,000 that get payments. I only have it for those with over $200,000, schedule F filers with over $200,000. And as I said, they account for 4.2 percent of all filers. If you look at Alabama, 4.1 percent, same as the national average. If you look at Georgia, it is higher in Georgia; 6.8 percent. If you look at—well, let's find another couple of states here.

Mr. BONNER. Mississippi.

Dr. COLLINS. Mississippi, 4.4 percent. Right next to that, Louisiana, 4.4 percent. So in many of the southern states, it is very parallel to the national average. When you get to the northeastern state, for example, then you get up into some of the double digit 10 to 15 percent.

Mr. BONNER. Right. Thank you very much. Thank you, Mr. Chairman, and happy Valentine's Day to you too.

The CHAIRMAN. Thank the gentleman, and I am pleased to recognize the gentleman from Georgia, Mr. Scott.

Mr. SCOTT. Thank you, Mr. Chairman. Mr. Secretary, good morning. How are you?

Secretary JOHANNS. Doing great.

Mr. SCOTT. Congress passed the 2002 Farm Bill that included radical changes for the peanut program. We saw pre-2002 peanut support prices fall from $610 per ton to $355 per ton for the marketing loan program in 2002. Yet U.S. peanut exports continue to fall because of the loan repayment rate being set so high by your Department. And according to the University of Georgia's National Center for Peanut Competitiveness, exports have fallen dramatically since early—the early 1990s when we had a supply management program. And our new program is supposed to increase exports. The 2002 Farm Bill directed the Secretary to establish a loan repayment rate that the Secretary determines will have four major points: One, minimize the potential loan forfeitures, minimize accumulation of stocks of peanut by the Federal Government. Minimize the cost of the Federal Government in storing peanuts and allow peanuts produced in the United States to be marketed freely and competitively, both domestically and internationally.

Now without a change in the loan repayment rate formula by your Department, whereby other peanut exporting nations are considered in the process, U.S. peanut producers are not competitive in the international marketplace.

My question is, will you ask your staff to take a look at how the process for determining the loan repayment rate can be changed in order to better reflect the intent of Congress, and ensure that U.S. producers of peanuts can once again be competitive in the world marketplace.

Secretary JOHANNS. Congressman, I am always happy to do that. I am always happy to look at how our programs are operating and whether there is something we are not paying attention to. So the answer to your question is of course. As you were asking the question, I was asking Dr. Collins—and there is some history here, and I would ask Dr. Collins to offer a thought, if you want to hear it. Which is maybe a little step beyond your question, but we would be happy to offer some thoughts on this situation.

Dr. COLLINS. I would say, Congressman, you have identified an issue that is particularly difficult for the Department of Agriculture. I don't think we have spent more time studying any loan repayment rate than we have for peanuts. We have contracted with a private company to give us ideas on how to establish the longer payment rate formula economics, we have had internal task forces to review how a payment rate can be set. We have met with the industry several times.

I attended one meeting with 70 representatives from the peanut industry to discuss alternative methods for setting the loan repayment rate. The difficulty has been that there is not clear, transparent price discovery for peanuts in the United States. There are very few shellers, very hard to come up with the appropriate peanut price. What we do is we use a system where we weigh four different price inputs to establish the loan repayment rate. We utilize foreign peanut prices. We utilize stock market peanut prices as reported by the Agricultural Marketing Service. We use prices received by farmers for peanuts as reported by the National Agricultural Statistics Service, and we use forecasted prices as forecasted by the World Agricultural Outlook Board. We take those four sources of peanut price information and with those we establish the loan repayment rate.

And we do believe that the loan repayment rate has been fairly representative of market prices. If it wasn't, we would have wholesale forfeitures of peanuts, which we have not seen. If we set that loan repayment rate unduly low, it is a huge budget exposure to the taxpayer. So we have to balance this between some of the factors that you have mentioned, such as competitiveness, as well as, the cost of the peanut program to the taxpayer, and as the Secretary said, we are always open and willing to take a look at any new idea that comes along with respect to the peanut loan repayment rate.

Mr. SCOTT. Let me just follow up on that very quickly, Mr. Secretary. In this upcoming farm bill, your proposal lowers the loan rate for peanuts from $355 per ton to $336 per ton. It eliminates the separate payment limits for peanuts, and it maintains the same direct payment for 2008 and 2009. U.S. production decreased about 30 percent in acreage in 2006. Now my producers in Georgia are telling me that the acreage decreased in 2007 could be as much as 40 percent. Now if the industry is declining this much under the 2002 bill, how can the U.S. Department of Agriculture expect the U.S. peanut industry to survive with the cuts you have offered for this next farm bill?

Secretary JOHANNS. I would offer a couple of thoughts. One is, first that I would really be anxious to talk to the industry about where these farmers are going. What other crop are they going to grow? What is drawing them away from peanuts and try to make an assessment about that because again, they have the ability to make that assessment, and they may make a financial decision about where they should end up. Should it be peanuts? Should it be this commodity? And so sometimes the overall figure just doesn't tell the whole story.

The second thing I will tell you, in terms of the loan rate we arrived at, it is based upon the market. We just simply looked at the market price over the last 5 years and we took out the high year, we took out the low year to try to avoid distortion on both ends, and we took the average called the Olympic average to arrive at that loan rate, and literally our proposal is based upon the market for that commodity.

Secretary JOHANNS. Now, in addition, we have a cap, and I just put that in so you have the whole picture, but the cap is the House-passed version of the loan rate for the 2002 bill. The House actually passed loan rates before it was sent over to the Senate. We said that has been through the House process. That will be what we agree upon internally in terms of our proposal, and that is how we ended up with the loan rate we ended up with—market-based, capped by the House version. And again, I would be anxious to meet with your producers or to talk to them and see what commodity they are moving to or thinking about *versus* peanuts, and that can happen. Decisions can be made, and then the direct payment goes up.

The other thing I should mention for your peanut producers—and maybe they have not connected with this—is the direct payment does go up in years 3, 4 and 5 to $261 a ton in those out-years, and the thing about that is that it is very predictable. I was in Georgia this year, and I visited some peanut acreage, and where there was not going to be much of a crop because of drought.

In fact, we pulled up peanut plants, and it looked bad, very bad, and I am guessing there was not much harvest in that area. This they can plan on. This they can literally take to the bank if it is approved here on the Hill.

Mr. SCOTT. Thank you very much, Mr. Secretary, and peanuts, of course, are very, very important. It is probably our most agricultural product in Georgia, and I certainly look forward to working with your office as we move forward in addressing the peanut producers' concerns.

Thank you, sir.

Secretary JOHANNS. Great. Thank you.

The CHAIRMAN. I thank the gentleman, and I will now recognize the gentleman from Texas, Mr. Neugebauer.

Mr. NEUGEBAUER. Thank you, Mr. Chairman.

Mr. Secretary, it is good to have you here.

Secretary JOHANNS. Thank you.

Mr. NEUGEBAUER. I have kind of some rapid-fire questions here, and you can get me this information, but of the 25,000 folks, Dr. Collins, could you tell me what percentage of the total production that that 25,000 is representing? If you do not have that, you could give me, maybe, your best guess—I do not know—but if you could do that. I think we have kind of covered the AGI, and so I want to move on to a couple of other issues.

One of those is, Mr. Secretary, you talk about moving more to direct payments, and part of that is you think that makes this farm bill maybe more till friendly in some respects. One of the things I am hearing from the producers, though, on the direct payments is that there is some concern about what that does to the tenant-landlord relationship there, that we are, in fact, moving payments to those landlords. To a certain degree, it might be a disincentive for them, really, to be engaged in a very aggressive agricultural program, and that it might actually raise the rents for those folks who are the tenants of that.

Can you give me some feedback on that?

Secretary JOHANNS. Yes, I sure can.

There is a discussion always about what impact our subsidies have on land rent and prices, and there is no question everywhere in America, land rent and land prices have gone up in the last years. In fact, it has been on a steady climb over a significant period of time. What is happening out there? Well, you can say, "Mike, I think it is direct payments." I would tell you ultimately whether it is countercyclical, loan deficiency payment, direct payment, I believe it is going to be reflected.

I am not offering this or suggesting this, but if you literally took subsidies down to zero, you could assure yourself that you are not distorting anything or impacting land price, but as a policy matter, we do not want to do that. As a policy matter, I argue that investment in agriculture makes a great deal of sense. But, I will tell you, in the end, I think you are going to see the subsidies capitalized into land costs and higher cash rent, and it may make some difference initially that it is a direct payment *versus* LDP, but I think, in the end, you are still going to get the same result.

Here is one other thought I would offer. One of the things we found, which, I guess, is no surprise to anybody in this room, is farmers and landowners are very sophisticated businesspeople these days. They know these programs better than we do. They can cite page and verse. I mean, they are really very, very sophisticated businesspeople, and so the owner of that land, of course, is going to know about where that tenant is going to end up, again, whether it is direct payment or whatever, and you know what? When they sit down to pencil out what the cash rent can be, they are going to look to their neighbors, and they are going to try to figure out what the neighborhood is doing. But again, in the end, it is all capitalized maybe a little quicker with direct payment, but in the end, I think it all factors into where those rent and land costs are at.

Mr. NEUGEBAUER. Thank you. I want to move to your crop insurance proposal because, as you know, I have a great deal of interest in that, and you have heard from people in West Texas and, I know, across the country about the crop insurance issue. I do think we need to improve it because it is really not, for many producers, providing an adequate safety net.

I noticed in your proposal that you had a formula, I believe, for an every one percent decline in county yield below the 90 percent expected yield that five percent of the producers' deductible on an individual policy would be covered. I believe that is the formula.

Can you expound on how you came to that number?

Dr. COLLINS. That number, Mr. Neugebauer, is, more or less, an example of how this could work. The idea would be that we would like to be able to compensate someone for the value of their production that is not covered by the insurance policy. That may or may not be their deductible. It could be less than their deductible if their return is above their coverage level on their policy.

In our example that you are referring to, we said someone could buy an area yield policy exactly as you have proposed in your own legislation. If the county yield is below the county yield trigger, then someone would get a portion of their deductible covered or the portion of the value of their production not covered by their policy.

They would get that covered up to the point where 100 percent of that gap could be covered if the county yield falls far enough.

So, for example, if the county yield is 90 bushels an acre on average and the actual turns out to be 89, then that 1 bushel drop would translate into a small portion of the person's uncovered portion of their crop. A small portion of that would then be covered. If the county yield falls far enough—I think in the example we used, if it fell below 70 percent of the average county yield, then 100 percent of that portion of their crop that is not covered by insurance would then be covered.

So the value of their individual policy plus their deductible portion as determined by the county area yield policy could add up to 100 percent of the value of the crop or it might not. It might turn out to be less than that. It all depends upon what the county yield is in relation to the average county yield.

Secretary JOHANNS. If I might just add something here.

Mr. Goodlatte, when we were talking about the revenue-based countercyclical, raised the issue of how do local conditions factor into this, and it is a good question. But, when you consider our approach here in terms of crop insurance and the approach to a revenue-based countercyclical program, again, I think you can see that you just have a more certain safety net for somebody who is in that problem of not raising a crop because of drought or some other conditions. This, we think, is going to go a long way to provide a better safety net in those disaster conditions when you put those two together.

Mr. NEUGEBAUER. Well, I am very interested. Mr. Conner and I have had a conversation as you and I have, Mr. Secretary, and Mr. Collins, I am very interested in taking your idea and my idea and meshing those together. I think that in the long term gives our producers a much better certainty, and one of the things I heard you say a while ago that is important is that, with farmers who are out there taking the kind of risks that they are taking, they need to have some certainty of what their expectations are in the event of certain catastrophic or bad things happening. So, I look forward to that, and I thank the Chairman for the time.

The CHAIRMAN. I thank the gentleman.

The gentlelady from South Dakota is recognized.

Ms. HERSETH. Thank you, Mr. Chairman, and thank you, Mr. Secretary, for your testimony and for a very thoughtful proposal. I do want to follow-up, though, on questions posed by the Chairman and the Ranking Member and some points of clarification from questions posed by Mr. Neugebauer.

On the revenue-based program, I understand, in response to the concerns expressed that I have, as well because of producers in South Dakota that would fall through the cracks under this proposal, take out the gap coverage insurance proposal for a moment.

Why not use county level rather than the national average in this revenue-based program?

Secretary JOHANNS. The programs are national. I mean, when you pass a farm bill, you are going to have a national farm bill.

Keith, how would you do it county-based?

Dr. COLLINS. You could, but it just expands the level of complexity substantially. I mean we have a national average price. We have a national average yield. We do not have a county price, for example. We do not necessarily have a county yield for every county either, and some of the county yields, if we use the National Agricultural Statistics Service data, are very, very thin.

For example, we do not offer group risk protection, GRP coverage, in every county where major crops are produced because we do not have good yield data in some of those counties. So maybe you could go to broader production regions. Maybe not a county. You know, maybe you might be able to conceive of this being expanded to or applied to a broader production region. But, I think a county is getting it down to a level of detail where you get into some administrative complexity and lack of some data that we currently have.

Ms. HERSETH. And I appreciate that, and I appreciate the response in terms of that this is a new type of proposal. I am glad that you have investigated it further. As you know, some of the national commodity organizations have done a lot of work to try to propose something that they think would be workable as well. So, I am glad that you might be open to kind of looking at how we could kind of structure it slightly differently, maybe on a regional level, as we gain additional statistics to narrow the set of individuals who might fall through the cracks and, again, looking at other proposals with the gap insurance coverage that you provided.

Now let me move to the direct payment proposal. A lot of the producers who I have spoken with who have had a chance to take a first look at what USDA has set forth here think that counter-cyclical payments and LDPs are more in line with our desire to provide a real safety net, a better, a maybe more pure safety net, than direct payments, because they are tied to commodity prices. So let me share with you my three concerns, one that Mr. Neugebauer already raised and you addressed.

First, in South Dakota, my understanding is that you are not making many recommendations or suggestions to change the way we are calculating the direct payment. So we have outdated data in some instances. In South Dakota, a lot of the bases are on small grains that, by and large, are not grown in terms of the number of acres that were grown 20, 30, 40 years ago. I do not think you are recommending any updating of the yield, so I have producers in South Dakota who are going to be at a disadvantage compared to producers in Iowa or in Illinois. So that is my first concern. I am just wondering if you would consider steps to remedy the issue of bases and yields.

Then you addressed the issue about increased direct payment and the effect on its sort of being capitalized into higher land costs or cash rents, so I appreciate your response there.

My third concern is maybe what is being proposed here with direct payments based on where they would go in terms of the boxes on international trade issues. Is this being driven more by the trade considerations in WTO than the pure safety net issues that we want to have an adequate safety net? And I just want to know, on balance, if this is a 50–50 trade safety net or how that is coming into play?

Secretary JOHANNS. It is a more predictable situation for farmers. Let me tell you that you face exactly what we face when we sit down to try to figure this thing out. You are going to have a baseline, which we did, and every program outside of the baseline then is added. You are going to have to come up with money, anything beyond the baseline, and the baseline is low because prices are very high in these program crops, especially in four out of five, cotton not so much, but it is definitely the other four.

We sat down on the direct payments, and we said to ourselves, “what we can we do that is going to be certain?” Because predictable was something we believe farmers wanted to try to achieve. We actually came up with $1,000,000,000 to add to that base payment for those four program crops in years 3, 4 and 5. So here is your challenge.

If you come in and say, “I want loan rates where they were or maybe higher. I will give up on the—we do not want to raise the direct payment,” you just took $1,000,000,000 out of the pockets of producers of those four commodities in this country, because we literally identified $1,000,000,000. In adjusting loan rates, when you have $4.00 corn, it is not going to make any difference, and the other thing you are going to have to do is you are going to have to base it on some projection. Somehow, some way, you are going to have to sit down and say to yourself what is the price of corn today and tomorrow and a year from now, and 2 years from now and 3 years from now. You are going to have to do that across the commodities. So, again, you will face those issues.

Now, in terms of your question about updating, the only thing I will tell you about that is, again, I feel strongly about this. It is no safety net to put a bulls-eye in a farmer’s back. I do not care if you are pro-trade or anti-trade. It is no safety net to say to a farmer, “we are going to do this, but I am not sure it will survive during the farm bill.”

Now, keep in mind, we will fight for every program we have, just like we did for the cotton program, but there are rules, and you can get really good advice as to what works and what might not work, and then make your assessment as to how best to approach this. But, if you update, you are going to have a situation where you are just inviting problems, and you know, I am the Agriculture Secretary. I am not a trade lawyer, but I do believe that you will have problems there.

So, straight out, we just said, “What is the best approach?” We identified $1,000,000,000. It is predictable. It is understandable. Farmers can plan on it. We increased the cotton direct payment by about 65 percent. Again, in the cotton case, this is real. It is not something that might happen to us. The case that is pending now is an enforcement action. We lost that first case, aggressively defended it, took it up on appeal, aggressively defended it, lost it again, and Brazil and a whole host of countries who joined the fray immediately said, “Well, you have not complied.” It is the Marketing Loan Program that is the problem, it is the countercyclical that is the problem.

So, again, adjusted loan rates this time, I do not think you are going to have any impact. I do not think you are going to see a different baseline. You have $4.00 corn out there. You have $6.50 soybeans, on and on. The one thing we can tell the farmers is, if you set aside $1,000,000,000, you are going to get it if it is in the direct payment. It is there. It is mandatory. It is real. Plan on it. Take it to the bank.

Ms. HERSETH. Thank you, Mr. Secretary.

Mr. Chairman, I know I am out of time, but I am going to submit questions.

The CHAIRMAN. We have a number of Members who want to speak, and I do not know—how long does the Secretary have?

Secretary JOHANNS. I am fine. I can stay as long as the Members want to ask questions.

The CHAIRMAN. Well, I may not be able to stay that long, but you know.

Ms. HERSETH. No. I will just be submitting this question in writing about the Administration's proposal to continue the RUS Broadband Program and clarification on the rent changes. Thank you.

The CHAIRMAN. I thank the gentlelady, and maybe we need to get a little more strict on the 5 minutes here. I have been letting things slide to try to make sure that we give everybody a chance to speak.

So the next Member to be recognized is Mr. Smith from Nebraska.

Mr. SMITH. Thank you, Mr. Chairman and Mr. Secretary, and I will not even take up my 5 minutes.

Now, you touched on the wheat producers and the impact. Again, what was that number? I assume you are utilizing factors of the last 5 years as they would be applied forward, perhaps, in your estimation.

Secretary JOHANNS. The wheat producers will receive an increased direct payment in years 3, 4 and 5 of 6½ percent, if I am not mistaken, 7.2 percent.

Mr. SMITH. 7.2 percent? Okay.

Secretary JOHANNS. So it would go from $0.52 to $0.56 a bushel.

Mr. SMITH. Okay, and then any other commodities that would be in a similar situation?

Secretary JOHANNS. Yes. I mean they would.

Cotton gets the large bump because adjusting loan rates for cotton does impact there, so they get a bump of 65 percent, but the rest of the commodities are 7.2. It is in the seven percent range for the rest of the commodities.

Mr. SMITH. Okay. Thank you. I yield back.

The CHAIRMAN. Thank you.

Mr. Barrow.

Mr. BARROW. Thank you, Mr. Chairman, and thank you, Mr. Secretary, for being here today.

First off, I want to ask you for your help in something. I would like a status report and an update on the civil rights litigation and settlement procedures. I would like for the members of your staff to get that. I can tell you I get serious complaints and concerns about the way that is working out in my district, and I would like the folks on your staff to visit with us some so we can get an overview of that.

Now I want to talk peanuts for a second. Dr. Collins, thank you for your assessment and for your response earlier. I am not taking issue with you, but I am reacting to the statement that everything is okay with the loan repayment rate because we have not seen wholesale foreclosures. I do not think wholesale foreclosures is the best test of whether or not we are getting squeezed, or whether or not things are moving in the right direction or the wrong direction just yet. We have lost our entire foreign market, or so it seems. If it had not been for the expansion of our share of the domestic market, things would be a lot worse than they are. So I want you to know that there are concerns there that need to be addressed, and I do not know if they have been addressed today.

On the subject of the storage issue that Mr. Bonner picked up, I want to return to that just for a second. You know, storage fees was a part of the deal in the buyout program to move us from an old-fashioned, New Deal type of program to a market-based program. Because of the unique features in that sector of the ag economy, storage fees was a part of the deal—it was part of the bargain—and margins are so close right now with them in the picture. But, considering what is happening to our foreign market share, what is happening locally, if we do not look out—if the margins are as close as they are, if we pull that out of the system, we are going to be basically killing the domestic share of the market as well and allowing the foreign producers to move in. So I have to tell you, I think that is an issue.

What do I tell people who say this Administration and this proposal is reneging on the deal that was made as a part of the buyout program?

Secretary JOHANNS. For all of history? I mean that is the question.

Mr. BARROW. A page of history is worth a volume of logic, and I ain't got a volume of logic to give all these folks. I am trying to deal with the history of how we got to where we are.

Secretary JOHANNS. Yes. I was not here for the 2002 negotiations, obviously, but it does raise that issue.

Was the storage rate situation for the farm bill that was passed in 2002, recognizing that every 5 years, Congress does pass a new farm bill, or is it for all of history?

Then the second thing. It is not foreclosures that we are talking about. It is forfeitures. Yes.

Mr. BARROW. Foreclosures is right around the corner, but I know what you mean.

Secretary JOHANNS. Well, "forfeiture" is literally where a farmer says, "I am better off to turn this over to the government."

Mr. BARROW. Right, but you get the point I am making.

Secretary JOHANNS. Yes.

Mr. BARROW. The trend is that all of the things that should be moving up are moving down, and that is what worries us.

Secretary JOHANNS. Yes, but you know, here is kind of what it came down to with the storages. We just do not do it across commodities.

Mr. BARROW. Well, I recognize that, but that is a part of the history that brought us to that point where that was not a part of the picture with respect to everybody else in ag. It was an important part of keeping margins competitive in the peanut sector, and it was just that different then as a result of a whole host of historic factors, and that history ain't going anywhere.

Secretary JOHANNS. Yes. The deputy points out—and he is absolutely right—that there was a point in time where storage was normal. We paid storage on all commodities, but we have pretty well gotten away from that.

Mr. BARROW. Well, peanuts are different, and there are factors in its marketability that make it an important factor, and we need help with that, so I want to continue that discussion with you.

Finally, on a pretty constructive note, I want to call your attention to the fact that, in my district, just last week, we broke ground on the first commercially viable cellulosic ethanol plant in the country. We are petitioning and working with Secretary Byron to try and get him to continue to support and award them the support that they need. It is Slash Pine. It is a non-program ag product that does not cannibalize or feed on that sector of the ag community that—you know, where nature is doing most of the cooking to get you for the short jump from ethanol to gas in the tank. It is going to take stuff—it is going to take beef off the table and take food out of production. The highest and best use of some of our products is food. They ain't had a much better use for Slash Pine and cellulose than putting it in a gas tank.

So I want to encourage your Department to devote as much of your research dollars as you possibly can to cellulosic ethanol research development and non-program commodities, because that will allow for the highest and best use of products right now, which are being seriously deranged in the market because of the ease with which we can convert what nature has almost gotten into ethanol. We are just going to take this short step, and we need to invest in something that will produce a much higher and better use than non-program ag products that are lying all over the ground in my state.

Secretary JOHANNS. We have $150,000,000 in our proposal for the Wood-to-Energy Program to accelerate development in this area. So, gosh, if you are doing something like that in your state, I hope——

Mr. BARROW. Well, listen. There are rice growers in California who find similar cause with us because they have a lot of cellulosic stuff in what is an ag waste product. They are having a hard time managing. You have lots of potential in this area where you can raise their profile and create a higher and better use for a lot of ag waste.

Thank you.

Secretary JOHANNS. Thank you.

Mr. HOLDEN [presiding.] Mr. Fortenberry.

Mr. FORTENBERRY. Thank you, Mr. Chairman.

Mr. Secretary, it is nice to see you. I appreciate this first marker you have laid down to begin the overall farm bill discussion. I think you have taken the framework of what has worked well and have built upon it and have made some adjustments, particularly with your countercyclical idea, direct payment limitations, increased emphasis on conservation, new farmers entering farmer programs.

I do want to talk specifically about your energy title, though, because ag-based renewable energy production is a huge opportunity for America, and a huge opportunity for our farmers. I am really pleased with your emphasis on it, but I do want to unpack some things a little bit. Before I do that, I also want to commend you for pointing out the impact of the 1031 exchange issue on agriculture and bringing that up in your proposal. I think that is not a well-understood factor in raising land values, and I am glad you brought attention to this.

In that regard, in Colfax County, back home in Nebraska, you might know Danny Kluthe. Danny has an 8,000-head hog operation. He captures the manure, turns it into methane from its digester, and burns it right on the spot, putting electricity back into line. It is a fascinating project. We are so proud of him because he has helped lead the way in this regard, and he did that by stringing together—there is a big capital barrier there, obviously, and he strung together some grants from USDA Rural Development, Environmental Trust, Nebraska Environmental Trust, as well as the public power district.

The $500,000,000 that you are proposing for new projects such as that, is that on top of other programs that would apply in the USDA Rural Development?

Secretary JOHANNS. Yes. That is new money.

Mr. FORTENBERRY. That is new money. Okay.

The other project, of course, is where we have a need—we have a fascinating project in which—of the 30,000 head of cattle, the manure from that is captured and placed in a patented methane digestion process. The gas then is used to burn the ethanol plant, and the distiller's grain is fed back to the cattle. This closed-loop energy system greatly enhances the energy output-to-input ratios over the traditional ethanol plant. So I put that on the radar screen as other new developing technologies that are out there that are converting substantial amounts of what used to be considered waste into great new energy opportunities.

I do have a suggestion on an idea in regards to your Loan Guaranty Program on cellulosic, and I understand the reason and the intent of trying to drive policy in that direction. Given that—and this might contradict my friend Mr. Barrow's statement a bit, but given that we are some years down the road in that regard, particularly in our area of the country with the inputs that we might use for cellulosic where we are, would it be possible to conceive of an adjustment that would—if you committed to heading in the direction of a cellulosic ethanol plant, but took advantage of traditional inputs at the moment—in other words, you would refit later or somehow guarantee you could refit later—that you may be able to take advantage of what you are offering here in this initial stage? It is just an idea for you to consider.

Secretary JOHANNS. Yes, we would be happy to look at that idea. It is an interesting idea, because I suspect you will have plants maybe look at this and say, "We would do better with a cellulosic approach *versus*"——

Mr. FORTENBERRY. Yes, but we can get going now with the inputs that we do have. Yes.

Secretary JOHANNS. Okay.

Mr. FORTENBERRY. Thank you.

Secretary JOHANNS. Yes.

Mr. FORTENBERRY. I yield back.

The CHAIRMAN [presiding.] I thank the gentleman.

Now I recognize the gentleman from Georgia, Mr. Marshall.

Mr. MARSHALL. Thank you, Mr. Chairman.

Mr. Secretary, I apologize. I had to be at an Armed Services Committee meeting, so I have not been here to listen to your testimony and to the questions that have been asked. I understand a number of people have brought up a subject that is near and dear to the hearts of anybody from Georgia, and that is the loan repayment rate that has been set for peanuts, which has been an absolute disaster as far as export competitiveness is concerned. A number of people have already talked about that briefly.

Have you committed to do something about that? I hope you have during this hearing.

Secretary JOHANNS. Well, I was asked are you willing to look at it, and absolutely. Dr. Collins kind of went through what we have done to try to figure this out because price discovery with peanuts is a perplexing problem that we have, but the answer to the question is yes. If we are overlooking something, if there is not something we have not paid attention to, we are happy to——

Mr. MARSHALL. I appreciate that, Mr. Secretary.

All I can tell you is that, as I talk to my guys—and it has been over a year now that this conversation has been occurring. It almost seems like Nero fiddling and Rome is burning. That is how bad this is. I mean, our stock of peanuts seems utterly inconsistent with the Congressional intent in the 2002 Farm Bill legislation for the USDA not to take some action on that subject and fix it, and you had a year to sort of fiddle with it, and Rome is burning as we speak. I will bet that you have been asked by plenty of people about that subject.

Your plan contemplates flexibility where base acreage planning is concerned, and what that may mean is that a number of folks will choose to go into fruit and vegetables. We have fruit and vegetable growers who specialize in that area who are wondering what impact that might have on their business, their market, *et cetera.*

Have you done a state-by-state analysis, and if you have, could you share that so that we can get an idea of what sort of impact you project that might have?

Secretary JOHANNS. We have done an analysis. I am not sure it is state by state, certainly region by region, but absolutely, we will put that in your hands.

Mr. MARSHALL. Is it possible for you to do a state-by-state? I would love to have an analysis of the impact on Georgia if that is possible to do.

Secretary JOHANNS. I would imagine it is possible. Like I said, I have not seen anything we have done there.

Dr. COLLINS. Well, we just finished a rather lengthy project on this issue and have confined it to a regional basis. I hope that will be helpful to you. I know there are some private sector studies going on. I really do not know if they are going to do it on a state-by-state basis, but between what we have done and what the other studies have done, hopefully you will get a pretty good picture of what the analysts think the impacts will be.

Mr. MARSHALL. Yes. For many of the reasons cited by Mr. Barrow, we are pretty excited in South Georgia about the possibilities where cellulosic ethanol is concerned, and arguably, since that is where originally TNT came from, there is a huge potential if the thing can be figured out appropriately. It may mean that we can produce an awful lot of energy without diverting a lot of our acreage into that process and consequently having an impact upon the price of corn, the price of chicken, *et cetera*.

I heard from the Chairman recently that, in your state, I believe, Mr. Secretary, you are doing some research on sweet sorghum. Is there some potential in that crop that——

Secretary JOHANNS. I think there is potential in any biobased crop. I think the opportunities for cellulosic ethanol in the future are so exciting, and there is so much potential there.

Mr. MARSHALL. Well, from our perspective, conservation-wise and then just, frankly, national resource-wise, it would be great if you can, in any way possible, support these efforts that are ongoing to develop the cellulosic ethanol process, and like I say, we are pretty excited about that in South Georgia. In the meantime, our farmers are ready, willing and able to assist with corn and other products—sweet sorghum might be one—but you do need to fix the loan repayment rate for peanuts. I mean, all of these grand things that we all need to be working on and worrying about are important, but this is something that is already in the law, and it is a problem that has existed for a year, and you know, Nero seems to be fiddling while Rome is burning on this one.

Thank you, Mr. Secretary.

Secretary JOHANNS. Yes, absolutely.

Dr. Collins, indicated, yes, we did do a grant for sweet sorghum, so we do have some things there. We would love to sit down with you on this peanut issue because I will promise you this: It is not because people are sitting with their feet on their desks. This is a problem that we have tried to figure out, and we have worked with the industry. We have brought the industry in. We have brought some very good minds in and, quite honestly, obviously, not with much success, but we would be happy to sit down with you and try and see if there is something we are overlooking.

Mr. MARSHALL. If I could, Mr. Chairman, just add one more comment here.

You know, a lot of what I see in your proposal makes a lot of sense to me. There is an awful lot of change that is very dramatic that is contemplated and problematic because there are an awful lot of people out there who have made business investments around an expectation that we are not going to do some sort of grand, radical change to the way we support our farm programs. Among those things that are problematic is this business with peanuts, but then the AGI changes that you are suggesting are way too dramatic. The three-payment limit rule, that is way too dramatic. There are just a number of other things that you have suggested that change things so dramatically that you can expect a lot of failures and farm bankruptcies if we implement those things, but the peanut program is something that is there. You do not have to change anything. Just do what is right right now.

Thank you, sir.

Secretary JOHANNS. Thank you.

The CHAIRMAN. I thank the gentleman.

Now I will, please, recognize the very patient Ranking Member, Mr. Moran from Kansas.

Mr. MORAN. Mr. Chairman, thank you. I am happy to be patient for you and for the Secretary.

I am delighted that you would join us today. I just have a couple of comments and then a couple of questions.

I am very interested in the revenue-based issues, the program that you suggest, but I do know that the National Association of Wheat Growers has indicated that, in 2006, no Kansas wheat farmer would have received a payment under this proposal despite terribly low yields and higher prices. It may suggest that there is a target price issue in the development of this program, but if we can move in the direction of assuring revenue, I think that is a concept that has validity.

I also am pleased that we would move in the direction of strengthening the direct payments for a number of reasons. In fact, that was the House position when we went to conference in 2002, that we were for a larger component compared to payments based upon production.

We were interested in trying to enhance the role that the direct payment plays. Again, that is important for a number of reasons, but one is based upon the history we have had in our state of multi-year disasters. I am concerned about the allocation of how you got to the direct payment portion and its balance between a variety of crops.

I had some interest in—you know, it seems to me that there were some benefits that maybe were accruing to cotton that were not accruing to wheat, for example. Of course, now that Kansas has become a cotton state, I am interested in that, but one of the things that we would be missing is a base. We do not have base acres for cotton.

So, again, I would only highlight the need to try to rebalance these direct payments among the various commodities.

Finally, as far as a comment, I wanted to commend this Critical Access Hospital Program. The two things I spend most of my time on in Washington, D.C. are agriculture and health care, and for much of the time I have been here, I have chaired the Rural Health Care Coalition—that is 185 of us, Republicans and Democrats, banded together to try to make sure that health care is delivered to rural America. There is no state with more critical access hospitals than Kansas, and this cost-based reimbursement, so-called "cost-based reimbursement," that those critical access hospitals receive is important. But, it does nothing to replenish the equipment, or to refurbish the buildings, or to build a new facility, and if this program fills that mission, I think it has great benefit for rural development. If you lose your hospitals and you lose your doctors, you lose your communities as well.

Finally, on the question side, the supplemental deductible coverage that you are suggesting—what I think you said, Mr. Secretary, was, instead of insuring for 70 percent, it would allow you to insure for 100 percent.

That concept has a lot of appeal to me. My guess is that it has to be priced in a way that will be unaffordable for most farmers, and I would like your response to that. I do not know whether this issue will address what I have been trying to get from RMA for a multitude of years, which is how do we address the multi-year disaster problem on crop insurance. Perhaps this should be directed to Dr. Collins, but we have been anxiously awaiting proposals from RMA—I do not know—for 3 years now, to try to address multi-year disasters, and the answer that I get is it is coming soon, and maybe this is a component. I do not know whether this is part of what they developed.

Finally, before I lose my time, I want to get my words in. Commodity prices are important in your assumptions, and the largest fear I have about the Administration's farm bill proposal is it is based upon the assumption that prices will remain where they are or perhaps higher, and again, maybe this is Dr. Collins'—it is for him to respond, but what kind of statistical data, what kind of analytical process have you gone through that can help me feel comfortable? When you say that the current farm bill would have paid less money than your proposal, that is only true if commodity prices remain high, and I began to worry in the last few weeks or months that maybe we really do need to extend at least the commodity title, if this could be done.

Theoretically, we need to extend the commodity title with not one change so that we can keep the safety net in place for the out-years when prices are diminished. My concern was highlighted this morning when I was told that you do not take a position on ethanol and the tax credit or the tariff. I assume that that has got to be built into the assumptions that your economist is using to develop what the commodity prices are going to be in the future. I also am interested in what portion of those prices is related to the ethanol market today, how much of a factor, of a driving factor, is that in commodity prices?

Thank you.

Secretary JOHANNS. Just to address that last point, the position we take is that those things are in place, and we have not asked for their repeal, or change, or alteration. We just acknowledge that those things are in place and will be through the time limit that Congress has set, and somewhere out there, you will decide if that has been sufficient or if you need to extend it.

Here is what I would tell you about wheat, and this is—if you ran the revenue-based countercyclical as if it were the 2002 bill, we would have ended up better off by about $810,000,000. That would not be true of every commodity, but it is true of wheat, and if I remember the numbers—I do not have them in front of me—I think it all occurred in that first year. Under the revenue-based approach for wheat, your wheat growers would actually have had a better situation, at least based upon our analysis.

On the direct payments, I appreciate your comments. You are right. There was a lot of support for our approach, actually, when the 2002 Farm Bill was written. The thing I can tell you again about the direct payments is, if you adjust the loan rates for those four commodities, quite honestly, it is not going to make a lot of difference.

The money we found to enhance direct payments was $1,000,000,000, and we had to find it. We did not achieve that. There really is not that savings that popped that money up. We just went out and said, “In the 3rd, 4th and 5th years, let us increase those direct payments for those other commodities.” We will put in the record the critical access hospital list. It will do a lot of good. I will end my comments there.

On the price for the insurance that will—yes. It is slow, Keith says, and now I will let him talk about price or about insurance. Here is what I wanted to say about commodity prices.

You know, you are going to sit down just like we did, as I have said, and you are going to start somewhere, and CBO will sit down with you or give you information, and somewhere you are going to arrive at what these numbers should be. Congressman, I am just going to guess, when it is all said and done, that we will not be that far off. These are not numbers we dreamed up or tried to make things look a little better than they are. Like I said, in the end, lay CBO next to our projections, and you are going to be about the same. The one thing about going to the direct payment that helps all of those commodities is, look, that is certain. Your farmers out there are going to know, and they are not going to worry about did I raise a crop; did I not raise a crop; can I LDP something I did not raise if drought continues, *et cetera*. If they receive that direct payment, it is truly in the bank. It is there just like our current direct payment system.

The CHAIRMAN. Be very brief, Dr. Collins.

Dr. COLLINS. Very brief.

I will just mention to Mr. Moran that the average premium rate on our current county-based area yield policies is 3.2 percent. That means 3.2 percent of your crop value are your liability. If you look at corn, something like corn is probably ten percent.

So our area yield policies are cheaper than our individual policies, and this gap coverage is an area yield policy whose liability is only the deductible portion of the policy, so that should bring the premium rate down even more. I do not think it is going to be a high price for farmers.

Regarding your question about declining——

Mr. MORAN. Does this solve that problem, the multi-year disasters? Are these related to it?

Dr. COLLINS. Well, it will help solve that problem because, currently, individual policies are based on your own 10 year history, and the area yield policy is based on county history. So, if you have a poor history relative to your county, buying a county policy will help you provided your own individual yield is correlated with the county yield over time, so it will partially help that. But, we do have two products as you know—you have heard this apparently from talking with RMA—two products in stream to address the secular decline in yields. That is due to weather. Honestly, I do not know where they are in the development process today, but I will find out and let you know.

Mr. MORAN. Mr. Chairman, thank you for your patience.

I would like USDA to put before us, or before me at least, the addendum that I keep looking for that is their projection. I assume Dr. Collins' projections about commodity pricing is on which you base your assumptions.

Dr. COLLINS. We will.

Mr. MORAN. Okay. Thank you, sir.

The CHAIRMAN. I thank the gentleman.

The chair recognizes the gentleman from California, Mr. Costa.

Mr. COSTA. Thank you very much, Mr. Chairman.

I would like to thank the gentlewoman from New York and the gentleman from Wisconsin for yielding. I have another place I have to go.

I want to ask one question, and I will submit the other questions, Mr. Secretary, for you to respond to at a later date. Thank you for being here today, and for your visit to our district last year and during your listening tour.

I do want to associate my support with the comments that were made with Congressman McCarthy on the *E. coli* issue and the food safety. In California, we are coming up with an effort to try to provide greater food safety as a result of recent events. I believe it ought to be a national effort. Frankly, having individual state standards for food safety, I do not think is a good way for us to go. We should work more on that.

I also want to associate my comments with Congressman Cardoza on the efforts with hopping energy and methane as it relates to dairies. I look forward to your response on that question that he asked you earlier. I will submit to you questions as they relate to some additional efforts on BSE efforts that the Department is involved with and Energy. I hope it came across your radar screen that I and others, on a bipartisan basis, have introduced legislation in the House, and there is a separate effort going on in the Senate as it relates to the freeze impact that occurred in California last month. It has not only impacted California, but obviously, there has been also devastation that has occurred in the Midwest and in other parts of the country in agricultural regions.

I would like to know if you have had a chance to look at the freeze package that we have put together and what the response would be by the Department and, if you have not had a chance to take a look at it, conceptually what your response might be, and to whether or not we can work with you.

Secretary JOHANNS. You can always work with us. I emphasize that. We may not always agree at the end, but we certainly are open.

I did have a meeting when I was in California. One of our meetings when we released our proposal was in California, and some commodity groups and growers wanted to meet with me. We had a very early morning meeting on the freeze, and they gave me a great update on what they were dealing with.

Mr. COSTA. We are looking at over $1,200,000,000 in losses, exceeding the 1998 freeze.

Secretary JOHANNS. Yes. It was just a tragic situation, no doubt about it, and we are working with California to do all we can do from the USDA's standpoint. I must admit it would probably be best if I responded to your request about the package, and I will be happy to do that and give you a response.

Mr. COSTA. All right. Look at the 1998 Federal template as a start because we are trying to follow that in terms of the Federal, state and local response in 1998 which lost over $800,000,000. This is $1,200,000,000. It is just not the citrus industry, but it is the packing sheds. It is the farm workers who have lost their livelihoods. It is unemployment insurance. It is housing. It is health care, and the ripple effect has also impacted fresh market growers, vegetable growers, some Southeast Asian farmers who do not have a bank loan or who are farming 5 or 10 acres, and you know, it is just their family. They do not have employees. So the ripple effect, we believe, is going to be significant, and we would really like to have the same sort of support on the Federal level that we received in 1998 as a minimum.

Secretary JOHANNS. Thank you.

Mr. COSTA. I thank my colleagues for yielding.

The CHAIRMAN. Yes. I thank the gentleman, and I will now recognize the gentlelady from New York, Mrs. Gillibrand, and thank you for your patience.

Mrs. GILLIBRAND. Thank you, Mr. Chairman.

Thank you, Secretary, for being here and Deputy Secretary and Dr. Collins.

I come from upstate New York, and we have a lot of dairy farmers, and I have been meeting with them for over a year and a half, and the stories they tell me are, in their region, there used to be 200 dairy farms. Now there are 20. It is costing them $17 to $18 per hundredweight to produce the milk, and they are getting reimbursed $12 per hundredweight. If this trend continues, we will not have dairy farms in upstate New York. That is of grave concern to me and to our communities, not only because it is part of our heritage, part of our culture, part of our quality of life, part of our economic security, but it is also part of our nation's national security. We need to make sure we have food production throughout the country always, and having small farms be sustained is part of my mandate for my district. But, it should be part of what we want to do as legislators in this Congress and as policymakers as part of the Administration.

So I have read your plan, and I was grateful that you had a continuation of the MILC Program in it, and I recognize that that was a significant step, and we are very encouraged by that, but in your recommendation, you phased down the percentage, and so my question is why did you choose to do this. What is your long-term goal for the program, and can you explain the rationale for the Department's decision not to maintain the program, at least at its current level?

Secretary JOHANNS. Yes. I can tell you our goal is exactly what we have laid out there, to continue the MILC Program, through the life of the next farm bill, and yes, we do stair-step it down, but very clearly, we stay with the MILC Program. We also keep the Price Support Program at $990 million, and so, actually, the only change made here was in the stair-stepping down. We pretty much keep the same MILC Program.

Congresswoman, here is the—you know, again, I have been saying you will face many of the same challenges we did, and you will. One of the challenges to the MILC Program is that the baseline is what the baseline is. This is not in the baseline. So, when you advocate for a program that is not covered in the baseline, what you are saying is we are going to have to find this money somewhere. That is what we faced, and so, there are just simply restrictions on how much money is available.

The other thing I will tell you is that we did make changes in other commodities, and so this change, if you study it in terms of what we are proposing, is in line with some other things that we have done for other commodities, but again, I will just emphasize this one is not in the baseline. This is money we had to go out and identify and find to continue funding. This one, the score on this one, is about $800,000,000 over 10 years. The cost of a full program would be more than that.

Mrs. GILLIBRAND. You also mention that you want a shift to 85 percent of the 3 year average in milk market during the Fiscal Years 2004 and 2006. What is the intention of that?

Secretary JOHANNS. It is the same approach we followed in terms of other commodities.

Mrs. GILLIBRAND. Well, to our dairy farmers, this is going to be very troubling to them. The combination is going to be seen as something that is really going to undermine their ability to actually stay in business.

So what are your thoughts about the long-term survivability for dairy farms in upstate New York?

Secretary JOHANNS. I grew up on a dairy farm. I think I probably have as much feeling for dairy as anything I do, and I grew up on a farm of 30 cows, 32 cows at the most. I mean it was the average dairy farm. I believe that dairy in the Northeast part of the United States, whether it is upstate New York or wherever—Pennsylvania, Wisconsin, Minnesota—is very important. You know, we have done some studies on the MILC Program that, quite honestly, might have led you to the conclusion that there was no chance you would see MILC continued in the Administration's proposal. I do think it is important, and we made a case for it, and we identified the funding for it, admittedly not at the full level that you would like to see, so we have made a pretty strong statement here of our support for your dairy farmers and for Northeast dairy.

I will also say—and you will not have to look very far to find this. There are folks in the dairy industry, more so in the western part of the United States, that fundamentally really disagree with the MILC Program, and they are in the House and in the Senate. I was questioned very vigorously in my Senate hearing about "Why are you doing this? You have criticized it in the past as a Federal department. Why are you continuing it?"

Again, I think it is important, and so I think we have made a very positive statement about your industry but, really, for the Northeast part of the United States.

Mr. CONNER. Congresswoman, if I could just add as well, for your region of the country, our environmental provisions and the resources that we have added to that particular title have a great deal of impact upon the ability to sustain a viable dairy sector in the Northeast region of the country. I think these programs are critical as that region continues to grow. The ability of agriculture and urban America to interact in some of those areas is critical, and those conservation dollars will be a great boost to your producers.

Mrs. GILLIBRAND. We are appreciative of that trend.

So thank you.

The CHAIRMAN. I thank the gentlelady, and I now recognize the gentleman from Wisconsin, Dr. Kagen.

Mr. KAGEN. Thank you, Mr. Chairman.

I apologize for this microphone. It has a medical problem that I am not licensed in this state to address, but on a very serious note, I appreciate the fact that you have come from the dairy industry and a dairy family.

I do represent Wisconsin. As you know, we have received the most from the MILC Program over the years, but at the same time, the farm bill proposal that you put forward really is a reflection of your values and what sort of landscape you are intending to create by instituting these proposals.

Would you not agree that with the ratcheting down of the MILC Program and the 85 percent peg that you are really going to see far fewer family dairy farmers in Wisconsin?

Secretary JOHANNS. No, not necessarily. I would not agree with that, and here is why.

We did decide to keep this program, and again, we have done studies that were pretty critical of the program. We did decide to keep the milk support at $990 million. The Deputy's comment is a very, very good comment. There are many programs that we will offer through our proposal that will be very helpful to the dairy industry, and we will do everything we can to try to reach out to the industry, whether it is in Wisconsin or upstate New York, to try to get those programs to the people there and be as aggressive as we can. There are many things about our proposal that I believe are very positive for that industry.

Mr. KAGEN. Notwithstanding your opinion, but wouldn't you agree that, in the communities that we live in in Wisconsin, with this that you have proposed we will see far fewer smaller——

Secretary JOHANNS. I would not necessarily agree with that, again, because if you look at the totality of our proposal, we have some very, very good things for your dairy industry, for Wisconsin in general, some very, very positive things in our proposal.

Mr. KAGEN. Thank you for being here.

Secretary JOHANNS. Thank you.

The CHAIRMAN. I thank my neighbor and friend, Dr. Kagen; and I welcome another neighbor and good friend, Mr. Pomeroy from North Dakota.

Mr. POMEROY. Thank you, Mr. Chairman.

Mr. Secretary, you have a sincerity about your testimony that is effective, and I have noted by watching you work that you have put a lot of time into your proposal. The farm bill will be written in the Agriculture Committee, and your offering will have some useful guidance, although certainly it will not be determinative. Fundamentally, do you see a farm bill—what is the core purpose, in your view, of a farm bill?

Secretary JOHANNS. The core purpose, in my view, is that it supports agriculture. Now, farm bills over time have expanded. There was a time when you talked about a farm bill, you talked about commodities, and once you addressed commodities, you were pretty well done with the farm bill. Now we support a whole host of things through our farm bills, but fundamentally what I believe we should be about is supporting agriculture.

Mr. POMEROY. I thank you for your comment, and I agree with you. Although, to press the point a little further, I believe that the core purpose of a farm bill is to provide some protection against price collapse. It is the core fundamental purpose, an assurance against ruinous price collapse. That is the risk on the family farm that they can't otherwise protect. If you don't give them protection against price collapse, inevitably you are going to reduce the number of family farm operations.

I think it is extremely dangerous to write a farm bill in times of good prices, because the risk is not at the forefront of what people are thinking about. They are thinking about good prices.

Chairman Roberts in this Committee—I was one of seven on the Committee when we wrote Freedom to Farm—took an approach that strikes me as eerily similar to the one that you are supporting, and that is to maximize payments. I think we need to maximize protection. And if you push payments out, irrespective of how the pricing environment is, you are inevitably going to have lower resources to respond when prices collapse and farmers need to help.

My purpose as an advocate for production agriculture is not to secure every budget dollar available to farmers, as surprising as that may seem. It is to secure for them the most protection so that they have a good response when they need a response. I am not concerned about getting them money when they don't need money because prices are good. So, really, it is a philosophical approach.

But moving the money into direct payments in the way you have away from the ability, the loan deficiency payment specifically that responds to price collapse, I think diverts the purpose of the farm bill in a way that I disagree with.

Now, before the time runs out, the Chairman has been infinite in his patience, but I want to ask you about the way you have structured these direct payments. Because you have structured them based upon the loan rate in support of the commodities.

Now, those loan rates are not set at equal levels of protection per commodities. We heard, for example, as we had the hearings—and I know you heard a good deal about it, too—there was a lot of support to continue the farm bill. We didn't hear that too much from wheat, because they feel they have an insufficient LDT. The problem with converting the loan deficiency payment into a direct payment and shipping it out is the inequities of the 2002 Farm Bill are simply continued, maybe even magnified in that approach. How did you wrestle with that issue of equity of cross-commodities?

Secretary JOHANNS. We recognize that issue, and you are absolutely right. If you talk to the wheat grower, they are pretty cool on the 2002 bill. They feel like there was something that happened in that 2002 bill, that their argument is it just wasn't fair across commodities.

But if you look at the adjustments we have made in loan rates, the adjustment for cotton actually resulted in the arrival at a number. You actually were going to have an impact on spending into that area. So you have a higher direct payment. It really was put back into that commodity.

If you look at the others, the adjustment of the loan rate because the prices are high, it just doesn't move any budget numbers for you, and you will find that. You will find that. We looked out there and, kind of in the vein of what you are talking about, we said, there could be some changes as we look out there. Let's improve the direct payment. And we identified a billion dollars to spread across those commodities for about an average increase of 7.2 percent thereabouts.

Again, here is what I would say. You will start where we started. It is pretty straightforward. You will have projections, you will have a budget, you will have to make decisions as to how best to approach this. But I can tell you this: based upon what you are going to see, which is probably what we saw, if you decide not to enhance those direct payments, I would just advise you, that is a billion dollar hit to wheat growers, to corn growers, to soybean growers, to rice growers across the country. Every farm bill is built upon the shoulders of the last.

You know, I was running for Governor when Freedom to Farm was getting so much criticism; and the extra amped payments, the largest payments ever made in the history of farm programs, was in the year 2000, $32 billion. Were things better for farmers then? No. Were prices high? No. Too many other things weren't working right for farmers.

So, however you state it, I believe we have the same goal here. How you do it is terribly important, and it is a combination of factors, and that kind of puts the puzzle together.

But, again, the numbers I cited at the start of my testimony, very, very definitely we have different circumstances today than we had at the time of the 2002 Farm Bill. No doubt about it. But I will just make a very forceful argument to you that we tried to take into account all of the things that you are talking about; and develop a farm bill that makes a lot of sense for producers out there and does what you hope we achieve, which is to provide that safety net. In my judgment, farmers are going to do better in your state with this revenue approach. I just think they will.

Mr. POMEROY. I think the revenue change specifically to countercyclical is a positive improvement. I do. I think a sincere approach has been made, Mr. Chairman; and I appreciate the Secretary and his A-Team with him.

I just worry very much about the billion dollars in the payments, diluting the kind of protection we can afford when prices collapse. You build a farm bill for bad times, not good times. We will be wrestling with the same finite numbers you did, and we will see where it comes up.

Thank you.

The CHAIRMAN. I thank the gentleman.

Secretary, you have been very patient, but do you have time for one more question from me and Mr. Goodlatte? And then hopefully nobody else will show up.

Secretary JOHANNS. Yes.

The CHAIRMAN. Thank you, Mr. Secretary.

When your proposal for this farm bill was released, officials from a number of our international friends reacted somewhat negatively, suggesting that the Doha Round was threatened because you didn't propose further reductions in the commodity spending. The EU ag spokesman was quoted as saying, if we are to have a successful outcome to Doha, the U.S. will need to propose more ambitious cuts and disciplines and trade-distorting domestic farm subsidies.

In your opinion, why is it that our negotiating partners, if you will, or whatever you want to call them, the EU in particular, why do they expect that we would unilaterally alter our programs before we have commitments from them for increased access and programmatic reforms in some of these issues, barriers that they continue to throw up? You know, what is your reaction to their comments and their approach in all of this?

Secretary JOHANNS. You know, that is a very good, straightforward question. I am going to give you, hopefully, a straightforward answer; and that is that the EU, I believe, does not want to open its market further than what it has on the table; and I also believe that they must.

We have always said we are there to negotiate. So I think the EU is trying to do everything they can to talk the world down, relative to our farm bill proposal. But maybe, Mr. Chairman, what it also indicates is that we tried to concentrate on a proposal that was also very good farm policy.

Now you and I may disagree about some of the pieces of this, but we have the same purposes in mind, and that is to get a good farm bill for agriculture. We have benefited from a strong agricultural system, but at the risk of being too blunt, quite honestly, what the EU needs to do is step up and be willing to open up their markets. And we can move the Doha Round and we can make the case here on the Hill that we have ended up with an agreement that hopefully can be approved, but, to date, their market access I don't believe is enough. And if it was just the EU, that would be one thing, but keep in mind that the developing countries will be based upon ⅔, in all likelihood, of the developed countries. So if you settle here, you are not going to end up very well in that piece of the equation. So I think they have to do better. I think they are reluctant to do it, and they are talking down our proposal.

The CHAIRMAN. Thank you, Mr. Secretary.

Mr. Goodlatte?

Mr. GOODLATTE. Well, thank you, Mr. Chairman.

If I might just amplify that, I want to commend you on putting American farmers and ranchers first. We have a lot of opinions about the best way to do that. That is what a farm bill should do; and it should not be catering to European trading partners who enjoy a sizable trade surplus with the United States in agricultural production. Even though we are clearly the larger and more significant agricultural producer—at a time when they subsidize their agricultural production maybe differently than we do but to a greater amount per acre and maintain much higher market access. So I commend you for that.

I also commend you for, nonetheless, notwithstanding that, attempting to address the existing problem we have with the existing WTO agreement where our cotton program, and potentially some of our other programs, are in a jam over that. This does look very creatively at ways to address those.

So I appreciate that, and I join with the Chairman in expressing concern about the reaction we have received from the Europeans in particular.

I wanted to ask you further about dairy programs.

First, with regard to the Federal milk marketing order, I note that you made some comments while you were in the Senate regarding the Federal milk marketing orders, and I would like you to expand on. I understand that the Department has taken steps to improve the time it takes to address Federal milk marketing order decisions. However, it still takes an average of 2 years for the USDA to reach a final decision.

By contrast, I understand California maintains its own milk pricing system that takes only 4 months to make decisions. Given the importance of these decisions to the dairy industry—and I heard this all over the country when we talk to dairy farmers—shouldn't we include FMMO process revisions in the 2007 Farm Bill?

Secretary JOHANNS. Well, we heard the same criticism. Anytime we were out there talking to farmers, if there was any dairy around, we get criticized for the impossibly slow pace of the marketing order system.

Here is the difficulty. It is a rule-making process that we have to go through. So we have to go through hearing and all of the steps that are involved in rulemaking. So even an improved system, just to be very candid with you, is probably a 12 to 18 month system, and we are taking too long. We want to try to streamline that. We think we can do some things, but, in the end, we are still going to deal with the Federal rule-making process as it is currently structured, and that just takes a while, especially in complicated cases.

Mr. GOODLATTE. Do you think that is beyond the scope of our jurisdiction in the Agriculture Committee to——

Secretary JOHANNS. You are not going to impact rulemaking very much, I would guess, although you will have an ally here if you want to take it on, because it is really cumbersome.

Mr. GOODLATTE. Well, I think we should. Maybe just to get the ball rolling, and it may be something that requires a broader look at that problem, but we also ought to look at whether we can target this process in such a way that it can be done more quickly.

Secretary JOHANNS. Okay.

Mr. GOODLATTE. I would also like to ask you about dairy forward contracting. You spoke about the USDA support for a dairy forward contracting program as a means for producers to manage risk. Now I know that you have already stated that the Department is in favor of this program, but I would just like to clarify a few points.

I know that cooperatives are already allowed to forward contract, and widely do. In fact, I understand about 84 percent of the milk is moved through cooperatives that forward contract. So is it the case that this program would just allow about 16 percent of the milk sold to proprietary plants to be forward contracted and treated like milk marketed through processor dairy cooperatives?

Secretary JOHANNS. I just asked the expert, and he said I don't know the answer to that. But if we can respond in writing I would be happy to do that.

Mr. GOODLATTE. I would appreciate that.

You studied the forward contracting program. Did your experts find that dairy forward contracting undermines the Federal milk pricing system or, for that matter, any of the components of the Federal milk marketing order?

Secretary JOHANNS. No. No, we didn't. We did not find that.

Mr. GOODLATTE. Will the handler still be responsible to pay into the producer pool even though he has a contract with some of his farmers?

Secretary JOHANNS. We will get an answer to that, too. We are not remembering the answer to that. So if you don't mind, we will submit a written response to your questions.

Mr. GOODLATTE. Well, thank you.

My objective is to be consistent and fair to everybody in this process, and this is one of the keys to your farm bill proposals, and that is to try to help farmers find new ways to manage risk.

Secretary JOHANNS. Yes.

Mr. GOODLATTE. Forward contracting orders that are available to some dairy farmers but not available to others, I think that they should be consistent, and I hope we can work toward that policy.

Secretary JOHANNS. Great. Thank you.

Mr. GOODLATTE. Thank you.

The CHAIRMAN. I thank the gentleman.

Mr. Secretary, you have been very generous with your time, and this discussion has been useful, and we appreciate you making the time for us.

Secretary JOHANNS. We appreciate——

The CHAIRMAN. Dr. Collins, we appreciate your being with us as well.

Mr. Goodlatte and I will be spending a lot of time talking to you, I assume, over the next few months. I agree totally with you that our objectives are the same, and I have no doubt that we will come together in a place that would be good for American agriculture and get this process done on time.

Secretary JOHANNS. We look forward to working with you.

The CHAIRMAN. Thank you very much.

Secretary JOHANNS. Thank you.

The CHAIRMAN. Okay. I guess we have some final—without objection, the record of today's hearing will remain open for 10 days to receive additional material and the supplementary written responses to any question posed by a Member of the panel.

This hearing of the House Agriculture Committee is adjourned.

[Whereupon, at 1:27 p.m., the Committee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUBMITTED QUESTIONS

Responses from Hon. Mike Johanns, Secretary, U.S. Department of Agriculture

Questions Submitted By Hon. Collin C. Peterson, a Representative in Congress from Minnesota

Question 1. Your proposal includes a number of comments from farmers about the difficulties both new and current farmers face with increasingly higher rents and higher land values. But aren't direct payments under criticism as income transfers to landowners, and consequently, a major cause of these inflated rents and land values? Won't increasing direct payments for all farmers and giving new farmers a 20% bonus on top of that—as you propose—simply send rents and land values even higher?

Answer. We believe that the proposed increase in direct payments would likely lead to only a slight increase in cropland rents or land values because the proposed increase is modest relative to total direct payments. The Administration's 2007 Farm Bill proposal would increase direct payments, including the increase for beginning farmers, by an estimated $5.75 billion over 10 years, or $575 million per year. There are about 265 million base acres eligible for direct payments so the proposed increase in direct payments raises direct payments by an average of only about $2.25 per base acre. It is very unlikely such an increase in payments would raise cropland rents and land values very much. While the proposed increase in direct payments for upland cotton amounts to about $23 per base acre, the increase in direct payments is largely offset by lower marketing assistance loan benefits on acreage planted to upland cotton under the Administration's 2007 farm proposals.

Question 2. Do you envision the 20% bonus in direct payments for beginning farmers potentially being shared with landowners in share rent situations when both the landowner and the tenant producer share in the risk of production—and hence are both eligible for farm payments—or should we establish this 20% bonus exclusively for the beginning farmers?

Answer. We envision that a producer who meets the definition of a beginning farmer and who receives direct payments would receive a 20 percent increase in those payments under the Administration's direct payment bonus for beginning farmers. We do not envision the landlord receiving a share of this payment—its purpose is to assist beginning farmers.

Question 3. According to your proposal, the recommendation to set loan rates at 85% of recent prices is designed to provide a more market-based solution for setting loan rates and to avoid the unintended consequences of creating incentives for producers to plant one crop over another. If you intend a market-oriented approach to setting loan rates, how do you justify a cap on loan rates?

Answer. From a broad policy perspective, we propose to continue support for production agriculture while shifting that support so the market, not the government, serves as the primary signal for what and how much America's farmers should produce. As you know, a significant component of our proposal is to lower loan rates from their current levels. This action would reduce non-market incentives that loan rates and consequent LDPs create for producers' crop mix and planting decisions. In turn, we propose shifting expected savings from the marketing assistance loan program to the direct payment program, thereby shifting increasingly to non-trade-distorting support.

If prices for commodities remain relatively high, then the maximum loan rates we propose will continue to provide revenue support, *albeit* at lower levels, and provide a vehicle for producers to obtain interim financing. However, if one commodity's market value falls to levels near or below the loan rate, the Department considers it appropriate to lower its support level (*i.e.,* to 85% of the Olympic average) relative to those of other commodities. In so doing, we would reduce the program-based incentive for producers to continue planting and harvesting a commodity that the market has consistently valued at a relatively low level.

Congress would appear to agree with these arguments for capping loan rates, since caps on loan rates have been included in both the 1996 and 2002 Farm Bills as well as other farm bills. The caps on marketing assistance loan rates contained in the Administration's 2007 Farm Bill proposals were included in the House-passed version of the 2002 Farm Bill.

Question 4. Some commodity groups have criticized the current target prices for the countercyclical program as being too low. Yet the Department used those same target prices for its revenue-based counter cyclical proposal. Was there any consideration to changing the target prices to more closely reflect relative crop prices and values? Why did you use them in your proposal?

Answer. We reviewed the current target prices for all program crops and believe that current target prices combined with the Administration's countercyclical revenue payment proposal along with the Administration's other proposals to improve the commodity, conservation, trade, credit, research, energy and miscellaneous titles of the farm bill will provide an adequate safety net for farmers and ranchers, while staying within the fiscal constraints of the budget.

Question 5. Many of your recommendations for the Commodity Title appear to be based on the assumption that the U.S. will lose its pending appeal with Brazil regarding cotton. Is it the Administration's expectation that we will lose this appeal?

Answer. In shaping these farm bill proposals, our primary goal has been promoting good farm policy. This means a more market-oriented approach that is predictable and balanced, an approach that provides farmers and ranchers with a safety net, yet doesn't distort market signals.

We believe that steps we have taken regarding GSM credit programs and the elimination of the Step 2 program sufficiently address the WTO cotton panel findings and recommendations regarding prohibitive export subsidies and serious prejudice. As the record reflects, Brazil argued that we have not fully complied with the ruling. Arguments by Brazil and the United States were made before a compliance panel in Geneva on February 27–28, 2007. A public decision by the compliance panel is not expected until summer.

Question 6. The competitiveness provisions for extra long staple (ELS) cotton cost the government about $23 million in FY06, is projected to cost $17–$19 million annually in your 5 year budget, and it has never been challenged in the WTO. Why do you propose the elimination of this program?

Answer. The ELS competitiveness provisions are essentially the same as those for upland cotton, which were found to be illegal under the WTO. Our proposal is to treat ELS cotton the same as upland cotton and eliminate what has been found to be a prohibited export subsidy.

Question 7. We have heard much from fruit and vegetable growers about the potential consequences to their industry should the planting prohibitions on program base acres be removed, as you proposed. I want to take a step back from those specific consequences and look at broader impacts. Without the prohibitions in place, the utility of program base acres increases, and likewise the value of those acres. Additionally, fruit and vegetable growers will now have an incentive to seek out these acres for their plantings or else suffer a potential competitive disadvantage to competitors that do grow on program base acres. It seems this could exacerbate the whole high land value, high rent problem. Has USDA looked at the consequences on land values and rents for program crop acres' should the planting prohibitions be lifted? Are the consequences previously described not a possibility?

Answer. Removing the planting restrictions on program base acres will have a minimal impact on land values and rents. Agricultural land value and rent reflect expected net returns from the use of the land, including the value of payments. Any producer who acquires rights to base acres pays a higher price for that land, reflecting the value of the payments. Current owners of the base acres capture most of the current and future value of the payments. Permitting fruit and vegetable production on this land will not alter the value of the payments.

Land values and rents may increase if fruit and vegetable producers are willing to outbid program crop producers for land, including base acres. ERS analysis indicates that significant increases in fruit and vegetable production are unlikely given the barriers to entering these markets. Startup costs for a new (and sometimes for an existing) grower of fruit or vegetables can be substantial. Agronomic and economic constraints limit incentives to expand production of many fruit and vegetables. The fruit and vegetables category includes a diverse group of hundreds of individual commodities; each has specific production and marketing characteristics and limitations. Specialized production and marketing constraints limit incentives to expand acreage devoted to these commodities. A new grower would need to (1) develop specialized expertise, (2) invest in capital equipment and irrigation, (3) hire expensive and often difficult-to-obtain labor to harvest the crop, (4) modify program crop production practices by restricting herbicide use before switching to a food product, and (5) locate and develop markets or contracts for the crops.

Question 8. One of your proposals in the payment and eligibility limits section calls for new rules that strengthen requirements for the active management contribution to an operation that allows individuals to qualify for commodity payments without contributing labor to the operation. Who are you targeting with these stronger requirements? Why can't these new rules be implemented administratively through rule making?

Answer. The current rule on what constitutes a significant contribution of active personal management provides that the determination takes into consideration whether the claimed management is critical to the profitability of the farming operation, considering the individual's share. Problems can arise when multiple individuals claim that they are jointly providing critical contributions of active personal management. It is common to see claims that all contributions of active personal management in a farming operation are being provided jointly by all of the members of the farming operation. It is asserted that the members meet or otherwise communicate with each other and jointly make decisions which are critical to the profitability of the farming operation. When farming operations are structured to maximize eligibility for payments and include multiple entities involving the same individuals, these assertions strain credibility, but can be difficult to disprove.

Question 9. How does USDA ensure farmers are complying with the current AGI limit, and what new rules and procedures do you want to institute to ensure compliance, as your proposal recommends?

Answer. The Department has established rules, regulations and procedures to ensure that producers comply with the current AGI limit for receiving farm program and other payments. These procedures include a system of reviews to determine whether producers are in compliance with the regulations. We do not believe that new rules and procedures would be needed to institute or to ensure compliance with the Administration's AGI proposal.

Question 10. Can you please explain your rationale for leaving the AGI limit for conservation payments the same, and how you reconcile that with your reasons for changing the AGI limit for farm safety net payments?

Answer. There are important differences between commodity programs and conservation programs which must be taken into consideration. First, commodity programs relate directly to income connected with the farming or ranching operation. As Farm Bill Forum input indicated, and our analysis further verified, there is a current imbalance of commodity program distribution under current law. Conversely, conservation programs currently have a more even distribution across farms of all acreage and size. In fact, most conservation programs are connected with small and mid-size farming operations. Under conservation programs, the government is either sharing in the cost of a particular conservation practice, purchasing an easement, or receiving some sort of new conservation benefit. In the end, wildlife and natural resources do not recognize property boundaries, political boundaries or differences in income. We want to seek out the greatest environmental benefits that can be purchased on behalf of the entire nation.

Question 11. Does the Department have projections for budget outlays for your proposed changes to direct payments, countercyclical payments, and marketing loans divided by commodity? Can you tell us in the aggregate how much cotton, rice, wheat, corn, and soybeans would receive under your proposal as compared to the January 2007 baseline? What are your price projections for these crops?

Answer. Yes, the Department does have projections for budget outlays for the proposed changes to direct payments, countercyclical payments and marketing loans divided by commodity. The estimated changes in total payments by crop year under the Administration's proposals compared to the FY 2008 President's Budget baseline for corn, wheat, upland cotton, rice and soybeans are as follows:

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
	million dollars									
Corn	−72	−70	103	96	81	−69	−77	−79	−91	−91
Wheat	−40	−40	53	56	58	−18	−16	−15	−12	−12
Soybeans	−43	−47	−21	−56	−77	−138	−150	−147	−160	−160
Upland Cotton	−268	−314	−343	−343	−418	−336	−438	−425	−562	−562
Rice	−15	−15	21	22	23	−6	−6	−5	−4	−4

The price projections for these crops under the Administration's 2007 Farm Bill proposals and under the FY 2007 President's Budget baseline are as follows:

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
	FY 2008 President's Budget Baseline									
Corn	3.50	3.60	3.35	3.20	3.15	3.10	3.05	3.05	3.00	3.00
Wheat	4.25	4.20	4.30	4.35	4.35	4.40	4.45	4.45	4.45	4.45
Soybeans	7.10	7.10	6.75	6.45	6.35	6.30	6.25	6.30	6.20	5.95

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
FY 2008 President's Budget Baseline										
Upland Cotton	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Rice	8.95	9.20	9.35	9.41	9.43	9.50	9.50	9.70	9.83	9.96
Administration's 2007 Farm Bill Proposal										
Corn	3.50	3.60	3.35	3.20	3.15	3.10	3.05	3.05	3.00	3.00
Wheat	4.25	4.20	4.30	4.35	4.35	4.40	4.45	4.45	4.45	4.45
Soybeans	7.12	7.11	6.75	6.45	6.35	6.31	6.26	6.31	6.22	5.97
Upland Cotton	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Rice	8.94	9.20	9.35	9.41	9.43	9.49	9.49	9.69	9.84	9.95

N/A—The Department is prohibited by law from publishing price projections for cotton.

Question 12. Your proposal states "loan rates guarantee farmers a 'safety net' per unit" of covered commodities. But if the loan rate becomes set at 85% of a commodity's previous 5 year Olympic average, what happens to the loan rate and the utility of it as a safety net if the commodity experiences a prolonged period of low prices?

Answer. The loan rate would continue to serve as a safety net in a period of low prices. Because the loan rate is a 5 year average, it takes years for it to adjust to a prolonged, lower level of market prices. During that adjustment period, the loan rate may actually be above the market clearing, or market equilibrium, price. Such a situation should be temporary, if the loan rate is supposed to help stabilize markets but not distort price signals. Once the loan rate fully adjusts to the lower price levels, it would still support farm prices received by producers, because prices may be quite variable within a year. A move to a new, prolonged period of lower market prices may have many causes. If the move reflects increases in long-run productivity, reductions in production costs, or changes in global competitive positions, the new lower prices may reflect a new, expected and sustainable level of market prices. In that case, it would be inappropriate to keep the loan rate reflective of past market prices and artificially high, because it would be inconsistent with the new price equilibrium. It would be appropriate to set the loan below the historical average of past prices, as we have proposed, to prevent an unduly high loan rate from interfering with market-based decisions of producers. Moreover our countercyclical revenue proposal is structured to provide greater income protection in a less production distorting way as the loan rate is reduced.

Question 13. I assume you have consulted with USTR to determine how your proposed changes would be classified by the WTO and whether the result would be in compliance with our current WTO obligations. What has USTR told you about your changes to the commodity title?

Answer. The proposals we have outlined are not only good farm policy but would diminish any possible trade distortions, which is the concern addressed by the current WTO rules. For example, the marketing loan program is a major contributor to the so-called "amber box," measures that are considered more than minimally trade distorting. Our proposal will reduce budget outlays under that program. At the same time, our proposal would increase direct payments and would remove planting restrictions on base acres. The increased planting flexibility better reflects the considerations underlying the WTO rules for so-called "green box" (non- or minimally-trade distorting programs). Conservation and environmental programs are also entirely consistent with WTO rules for green box programs. Our proposal would increase that funding. On balance, we think these proposals move U.S. farm policy in the right direction in terms of the WTO rules; they minimize possible trade distortions in our programs, decrease funding under programs in the amber box, and replace it with funding under non- or minimally-trade distorting ("green box") programs. Having said that, there is no question that the protections provided by a peace clause are significant. Yet another reason a successful conclusion to the Doha Round is so important.

Question 14. You have stated publicly on more than one occasion that wheat growers did not get a fair shake in the last farm bill. The Department's proposal includes a $.04 increase in the direct payment rate for wheat that only comes in the out years. Is this increase sufficient to restore fairness to wheat growers?

Answer. During the 2002–06 crops, wheat producers have experienced stronger market prices relative to other commodities. For example, wheat producers received an average farm price of $3.60 per bushel during the 2002–06 crops, compared with just $2.78 per bushel during 1997–2001 prior to the enactment of the 2002 Farm

Bill. This represents a 29 percent increase in average prices for wheat, compared with lesser increases for other crops (20 percent for corn, 22 percent for soybeans, eight percent for rice, and a two percent decline for cotton).

To enhance the safety net for all producers of program crops, the Administration's farm bill proposal modifies the countercyclical payment program to make it responsive to not only prices but also yields. Thus, if targeted wheat revenue per acre falls below prescribed levels, producers will receive revenue-based countercyclical payments. Had the Administration's proposal been adopted in the 2002 Farm Bill, wheat producers would have received about $810 million more in payments over the 2002–06 crop years under the Administration's proposal than they received under the 2002 Farm Bill's commodity programs.

Question 15. Wheat growers do not expect to receive a countercyclical payment for the 2006 crop. Given your best estimates for the season average price for wheat for 2006, would wheat growers have received a payment had your countercyclical revenue program been in place?

Answer. The Administration feels very strongly that its 2007 Farm Bill proposals treat all commodities fairly. The formulas for computing each safety net benefit are the same for each eligible commodity. Providing the same program structure across all commodities is a fair way to assure equitable treatment of all eligible commodities. In addition target prices and program yield factors used to determine program benefits are those used in previous farm legislation. For wheat producers specifically, the Administration has estimated that benefits received under the proposed safety net structure would have resulted in increased payments of $810 million for the 2002–06 crops, compared with payments received under the 2002 Farm Bill's direct payment, countercyclical payment and marketing assistance loan programs. Payments for 2006 would have been $81 million higher under our proposal than under current law.

Question 16. Mr. Secretary, your proposal for sugar is based on a presumption that you will be able to reduce U.S. sugar production to accommodate import surges that otherwise would over supply the market and cause CCC loan forfeitures. At a minimum, it is important that Mexico live up to its NAFTA obligations and allow U.S. sugar producers the promised unimpeded access to the Mexican market. As you know, Mexico is currently not living up to those obligations; the tariff it currently applies to U.S. sugar imports is far above what NAFTA calls for. What can you tell the Committee about Administration efforts to rectify this situation?

Answer. We share your belief that the current tariff applied by Mexico on U.S. sugar imports violates NAFTA. We have indicated to Mexican authorities that the tariff on U.S. sugar imports should be reduced and made commensurate with the U.S. tariff on Mexican sugar imports of 1.6¢ per pound. Mexican authorities have indicated that they will review their current tariff on U.S. sugar imports and indicated that as provided under the NAFTA Mexico's tariff on U.S. sugar imports will be eliminated on January 1, 2008.

Question 17. In the near-term, what is your projection for imports from Mexico in 2008, 2009, and 2010? For those same years, what is your assumption with respect to tariff-rate quota imports under commitments established in WTO agreements and existing Free Trade Agreements? Again for the same years, what are your projections for additional import access commitments that you anticipate will be granted in free trade deals that are not yet completed or implemented?

Answer. In the FY 2008 President's Budget baseline, which was prepared in October through December 2006, imports of sugar from Mexico were projected to exceed 800,000 tons annually in crop in FY 2008, FY 2009 and FY 2010. In recent months, lower sugar production in Mexico, reduced Mexican imports of HFCS and increasing corn prices in Mexico and the U.S. have greatly lowered projected U.S. imports of sugar from Mexico. We currently project for that Mexican imports of sugar to the United States could drop to 75,000 tons in FY 2008. While the Department will not revise its forecasts for FY 2009 and FY 2010 for a few months, it would appear that if the same factors mentioned above continue, projected imports of Mexican sugar to the U.S. in FY 2009 and FY 2010 would fall appreciably. Our projections assume tariff-rate quota (TRQ) imports under commitments established in WTO and other existing Free Trade Agreements would be at the minimum levels established under those agreements with the exception of a small increase in the TRQ for specialty sugar. These minimum import levels include 1,256,000 tons in 2007/08, 2008/09 and 2009/10 under the WTO Agreement and 123,000 tons in 2007/08, 131,000 tons in 2008/09 and 134,000 tons in 2009/10 under the CAFTA–DR Agreement. The FY 2008 President's Budget baseline does not assume any additional import access under future trade agreements that have not been implemented.

Question 18. In your proposal you recommend extending the MILC program, but you phase down the percentage. What is the long term goal of this program? Can you explain the rationale behind the Department's decision not to maintain the program at its current level?

Answer. The proposal recognizes that milk prices have been well above support prices in recent years and that trend is expected to continue. Therefore, our proposal focused on a safety net for dairy farmers to address the variability in milk prices. We maintain the MILC program but propose to make MILC payments consistent with our other countercyclical, safety-net programs. The payment rate would be phased down over the life of the program, and payments would be based on 85 percent of historical milk marketings over the fiscal 2004–06 period. This proposal is also good WTO policy, because payments based on historical production are less trade-distorting.

Question 19. As we look toward new and different renewable energy sources, does the Department have any proposals that would utilize livestock wastes, such as manure, in alternative power generation? Do you envision increased use of methane digesters? Are there any related incentives for dairy producers in your proposal?

Answer. Since the inception of the Renewable Energy Supply and Energy Efficiency Improvements Program in FY 2003, there have been 91 digester projects funded. Many of those digester projects were funded to assist farmers or ranchers construct digesters to handle dairy and other animal waste. We will continue to utilize this program and other USDA Rural Development business programs to support such innovative renewable energy ventures. If the USDA proposal to increase this program by $500 million is enacted, USDA envisions significantly more methane digesters installed in cooperation with rural electric cooperatives and dairy farms. The EQIP program has also been an effective program for helping to construct methane digesters. If additional funding and program improvements are enacted as proposed by the Administration, this important function is expected to expand. In addition, The Conservation Security Program currently offers producers enhancement payments for production of electricity from methane digesters.

Question 20. Though I know these questions will come from many sectors of the agriculture community whether it is from commodity groups, livestock or processors, but what has the USDA done in this proposal to look at the issue of increased renewable production as it co-exists with livestock production?

Answer. The 2007 Farm Bill provides an opportunity to address the implications of expanding renewable energy to support the President's goal of reducing gasoline consumption by 20 percent in 10 years. The Administration's 2007 Farm Bill Proposals augment efforts of the Environmental Protection Agency and other Federal agencies, and is a comprehensive program that promotes research and development (R&D), feedstock availability, and cellulosic ethanol production.

With respect to R&D, the 2007 Farm Bill proposal would create an Agricultural Bioenergy and Biobased Products Research Initiative. This initiative would be funded at $500 million over 10 years and would focus research and development (R&D) on improving biomass production and sustainability and improving biomass conversion in biorefineries. A second proposal would build on the Biomass Research and Development Act and provide $150 million over 10 years to increase the annual competitive grant funding for biomass research, focusing on cellulosic ethanol. The focus on biomass to produce ethanol would reduce the pressure to use more feed grains to produce ethanol, this enabling expanded ethanol production while providing sufficient feed supplies for livestock.

To insure cellulosic ethanol producers have access to a reliable feedstock, the 2007 Farm Bill proposal would provide the authority for a Cellulosic Bioenergy Program. The Cellulosic Bioenergy Program would be funded at $100 million and would share the cost of biomass feedstocks used by cellulosic ethanol producers. In addition, the 2007 Farm Bill proposes a Biomass Reserve Program (BRP) operated in parallel with the Conservation Reserve Program (CRP). The BRP would establish clear requirements that biomass could only be harvested with sufficient environmental and wildlife protections, including development of management criteria consistent with the wildlife conservation purpose of CRP, and rental payments would be limited to income forgone or costs incurred by the participant to meet conservation requirements in those years biomass was harvested for energy production.

The 2007 Farm Bill proposal would also create a Forest Wood-to-Energy Program. This program would be funded at $150 million over 10 years and its goal is to accelerate development and use of new technologies to more productively utilize low-value woody biomass resources, offsetting the demand for fossil fuels and improving the forest health.

Question 21. I understand it takes an average of 2 years for USDA to reach a final decision Federal Milk Marketing Order cases? What further administrative action can be taken to streamline this process? Should the farm bill include provisions to promote speedier decisions on FMMO amendments?

Answer. Federal milk marketing orders are authorized under the Agricultural Marketing Agreement Act of 1937. The Congress from time-to-time does get involved in major changes concerning Federal orders such as the reform implemented in 2000. However, Federal milk marketing orders are generally and routinely modified using Federal rulemaking procedures. USDA believes that rulemaking using public hearings enhances transparency, including cross-examination of witnesses and issuance of preliminary decisions, and offers the best opportunity for all interested parties to present their ideas and views for consideration.

In large part, the pace of the Federal milk order rulemaking process is due to the statutory requirement for formal rulemaking, conducted under procedures defined by the Administrative Procedures Act. Formal rulemaking ensures maximum public input through very structured procedures that tend to take time. To address the issue of timeliness, the staff of the Agricultural Marketing Service has already instituted changes to streamline the process (such as pre-rulemaking consultations with interested parties to identify key issues, setting internal delivery dates, etc.).

However, we remain open to finding additional ways to improve the speed and efficiency of milk order rulemaking. The Department is committed to continue to improve the rulemaking process. But the complexity of issues often require sufficient time to ensure the perspectives of all stakeholders are thoroughly vetted and considered in an open and transparent process.

Title II—Conservation

Question 22. It is becoming widely recognized that the biggest conservation issue is actually the ability to deliver the financial assistance provided by the various farm bill conservation programs. What is the Administration proposing to deal with this workload situation?

Answer. It is important for the Administration's FY 2008 Budget Request and 2007 Farm Bill proposal to be considered in their totality. In developing the FY 2008 Budget, the Department based its request only upon current law and changes to mandatory program requested in the President's Budget. In contrast, the 2007 Farm Bill proposal presents our view of what future programs can and should look like.

We offer several dramatic new concepts in our farm bill proposal relating to the consolidation and streamlining of conservation programs. Moving six cost-share programs into one focused effort, as well as merging three easement programs into a single effort are examples of a new approach and new philosophy. The opportunities for administrative savings and relief to NRCS field offices and staff are tremendous. Under current conditions, field staff spends inordinate amounts of time on differing program applications, computer software and duplicative financial tracking systems. We feel that by freeing up agency personnel from administering twenty-three programs, more time can be spent out on the land with farmers and ranchers. It is also important to note that we also propose additional technical assistance resources related to working with limited resource and beginning farmers.

As you know, technical assistance funding related to farm bill programs is derived from those mandatory accounts. As we proposed to increase conservation title programs, technical assistance funding to support those programs would be expected to increase.

Question 23. Tell me more about the "market-based approach to conservation" that is suggested in the proposal. I understand that you had a WRP sign-up that was operated in this way. Can you explain how farmers reacted to it?

Answer. Current USDA conservation programs would be amended to introduce market forces and to provide additional incentives for greater environmental returns on Federal and landowner investments. In cost-share programs for example, a portion of the funds would be used in local bidding pools to select the least cost environmental benefits. This portion of cost-share would also incorporate a sliding scale that relies on the market to promote practices with higher environmental returns. By changing enrollment to a market-based competition approach and using targeted incentives, programs can ensure the maximum environmental benefits for each public dollar spent. Access to bidding pools for limited capital agricultural producers would also be provided. Auctions, specifically reverse auctions to promote bidding down, would be used in the easement programs.

Farmer response was mixed in the recent WRP reverse auction pilot program. It enrolled 3,500 acres with a bidding process that reduced easement acquisition costs by 14 percent—saving nearly $820,000 in Fiscal Year 2006. Farmers who applied could be characterized as those who would not typically be able to compete in the normal WRP ranking process because of their property size or their wetland value. The following table highlights the results of the sign-up.

WRP Reverse Auction Funding Recommendations

State	Number Applied	Number Bids/Funded	Acres Funded	Initial Bid Provided
California	1	1	541	$1,244,300.00
Colorado	2	2	136	$158,750.00
Delaware	1	1	13	$9,750.00
Georgia	8	8	2,135	$3,658,125.00
Idaho	2	1	160	$240,000.00
Kentucky	3	1	507	$769,080.00
Missouri	12	2	97.5	$96,062.50
Total	**29**	**16**	**3,589.5**	**$6,176,067.50**
Savings				**$820,000**

The WRP Reverse auction was conducted in 7 states in FY 2006.

Question 24. You propose a "market-based approach" that would favor landowners with more resources to contribute to conservation activities. Are you concerned about the impact such an approach will have on the participation of limited-resource producers to participate?

Answer. Market-based approaches can provide new opportunities for limited resource producers. The idea is to introduce new financial resources and incentives into conservation, in order to further reward and encourage good conservation practices. For example, a business that has a point source water quality concern could pay a farmer to establish buffer strips to reduce nutrient runoff. Limited resource producers would be likely beneficiaries and recipients of this new conservation funding.

Question 25. It has been reported that the Department is not going to hold any general CRP sign-ups for the next 2 years. Why was this decision made?

Answer. At this time, USDA does not expect to conduct a general sign-up for Fiscal Year 2007 but is open to the possibility of new enrollments for 2008. USDA has offered new general CRP signups only 4 of the past 7 years. This decision reflects the opportunity the Administration provided to CRP contract holders having contracts that mature during FYs 2007–2010 to re-enroll or extend their contracts. In addition, low stock levels and record-high prices are expected for some major field crops over the next several years. In this environment of very tight crop markets and limited acreage expected to exit the CRP over the next 2 years as a result of re-enrollments and extensions, the USDA believes it is prudent to consider not holding general signups that could result in acreage being withdrawn from crop production, exacerbating increases in feed and food prices. However, continuous sign-up of high-priority buffers, wetlands and other initiatives, as well as the Conservation Reserve Enhancement Program, will continue. USDA encourages farmers and ranchers to consider these opportunities. We will monitor CRP and crop markets closely to determine when it is appropriate to resume general signups.

Question 26. Under the Department's projections, how many acres will be coming out of the CRP?

Answer. Under USDA's long-term projections the CRP would decline from 37 million acres currently to a low of 32 million acres in 2009 and rise to 39.2 million by 2016.

Question 27. Does the Department have the authority to allow early outs of CRP acreage? What procedural steps must the Department undertake to allow early outs and what has been done to date? Do you expend to recommend Congressional action in this area?

Answer. The Department has the authority to allow early outs of acreage enrolled in the Conservation Reserve Program (CRP). In fact, the Department offered early outs to some producers enrolled in the CRP in 1995/96 after yield prospects declined sharply for 1995-crop corn and the price of corn rose sharply. Secretary Johanns has announced that no early outs will be provided for 2007. However, we will continue to monitor the corn and other commodity markets. If at some future time, we determine that early outs should be permitted, we will advise the Congress of this decision and any limitations or requirements that would apply. Our first priority will be to continue contracts conserving marginal cropland with a high degree of erodibility or acreage which provides important wildlife habitat.

Question 28. Several places in the conservation title proposals, there is mention of WTO compliance and concerns about not going beyond "income forgone" (page 51–52) and trying to ensure that payments remain green box (page 52, 46–47). Has any nation threatened to challenge U.S. conservation program payments?

Answer. No WTO member has challenged or threatened a challenge to U.S. conservation program payments. All USDA conservation and environmental programs are consistent with WTO criteria for green box programs. In the Administration's 2007 Farm Bill proposals, we crafted each proposal in light of WTO disciplines to continue to ensure WTO compatibility.

Question 29. You propose elimination of the regional equity provision for conservation program funding. Did you give any consideration to other methods for promoting the type of balance that this provision was intended to provide?

Answer. Across the country at the Farm Bill Forums, producers and landowners expressed opinions regarding funding of conservation programs and the processes used to select projects. These producers and landowners wanted conservation program funding to be targeted to the most areas with the most significant resource concerns. In effect the regional equity provision acts like an earmark that distorts the quantitative, merit-based formulae used to determine allocations to the states. The proposed consolidation of cost-share and easement programs also expands program eligibility to a wider range of landowners and land uses.

We propose to replace the regional equity provision with allocation formula that are resource need-based. Funds would go to states where our natural resource-based formulas identify priorities based on data showing natural resource problems such as soil erosion and degradation, water quality and water quantity concerns, fish and wildlife habitat conservation needs and areas of pressing regulatory compliance.

Indeed, rather than balance conservation programs funding, it was our experience that the regional equity provision created an imbalance in conservation program allocations that reduced the effectiveness of conservation programs and increased their costs. For instance, EQIP contracts have a national average cost share rate of 59 percent. Regional Equity states cost share rates are much higher, on the order of 66 percent. This implies that less conservation is paid with tax dollars in these states than in non Regional Equity states. Furthermore, funds are re-directed toward Regional Equity states after the formulae allocations. In effect, this partially offsets the efficiency of resource based formulae. Allocating funding in this manner does not guarantee that tax dollars are being used to purchase the greatest social good, as would be the case in a switch to resource based formulas, as proposed above.

Funding is currently allocated from the national level for all programs except for CRP and CSP and is currently based on natural resource based formulae. The exception to this is the regional equity provision in Section 1241(d) of the 2002 Farm Bill.

Question 30. You indicated in response to a press question that the consolidation of conservation programs includes real reform for the benefit of specialty crop producers. Please explain your meaning in this regard.

Answer. The conservation program with the greatest emphasis on conservation issues related to specialty crops is the Agriculture Management Assistance program (AMA). However, the AMA statute limits program availability to the 15 states where participation in the Federal Crop Insurance Program has been historically low. The eligible states include: Connecticut, Delaware, Maine, Maryland, Massachusetts, Nevada, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Utah, Vermont, West Virginia, and Wyoming. By combining the key elements of the AMA program in the new EQIP program, assistance to specialty crop producers in transitioning to organic farming, for example, will be available to specialty crop producers in all states and total funding available for such practices will be expanded.

Question 31. In looking at the operation of the Emergency Conservation Program and the Emergency Watershed Program and proposing to combine them, did you also look at the disparities between how various types of natural disasters are treated? Such as whether more assistance is available to deal with drought situations, rather than blizzards or floods?

Answer. An analysis of the disparity between various disaster events has not been done. Comparing available funding would be problematic because funding is provided through supplemental appropriations based upon the level of damage caused by the disaster event, regardless of the type of event.

Question 32. You propose consolidating the current NRCS working lands easement programs, FRPP, GRP and Healthy Forests, into one program. How would the new program protect against the inevitable pressure to protect as many acres of land at the lowest cost? Only one of the programs targeted for this consolidation (FRPP) relies solely on permanent conservation easements as the legal instrument for protection. How does USDA plan to address the structural differences between the three candidate programs?

Answer. Regarding the question on protecting against the pressure to protect as many acres of land at the lowest cost, the new Private Lands Protection Program (PLP) would continue to use ranking criteria for acquisition of easements. The ranking criteria would include factors that address environmental and other goals. In effect, the overarching goal of the new program would not be to maximize the number of acres, but maximize the environmental benefits of the conservation easements.

The new PLP would emphasize the structural strengths and popular attributes of each existing program. For example, the new program would incorporate landowner contributions and other leveraging opportunities of the Farm and Ranchland Protection Program (FRPP) as a key feature. It would take from the Grassland Reserve Program (GRP), the provision that allows third parties to hold easements while preserving the option for the Federal Government to hold the easement. Another key feature of the combined program—derived from GRP and the Healthy Forests Reserve Program (HFRP) (and similar to the Wetland Reserve Program)—would allow the landowner to perform restoration of the site. Finally like the HFRP, the new program would provide assurances and certainty in compliance with Federal and state regulations.

Although most program funds will be utilized in the traditional way, PLP would have the flexibility to use local markets to set payment rates through an auction approach which will provide another option to increase participation in conservation programs and extend funding to more projects.

Question 33. With regard to your proposal to remove Tier II under the Conservation Reserve Program (CSP). How many farmers currently receive tier II payment? What would happen to them under this proposal?

Answer. Our proposal does not seek to eliminate Tier II. Instead, our proposal seeks to create a progressive Tier, which would be a combination of the existing Tier I and Tier II. Currently, 6,520 participants receive a tier II payment. Under the Administration's proposal there would be a two tier system, a Progressive tier and a Master tier. It would only be speculation on NRCS's part at this time as to what level the current 6,520 tier II participants would be placed into or whether the prior year contract participants would remain under the current rules and regulations.

Title III—Trade and Food Aid

Question 34. You propose authorizing use of up to 25% of the P.L. 480 Title II request to procure food from selected developing countries near the site of a crisis (instead of using U.S. food and U.S. carriers). In making this recommendation, did you consult with commodity and labor groups that would be affected by the proposal? What is the current state of play in the WTO negotiations on food aid, and is this proposal consistent with the U.S. position in those negotiations?

Answer. The Administration has had a number of discussions with a variety of stakeholders, including representatives from commodity groups and others, on the issue of local procurement. WTO discussions are ongoing. The local procurement proposal is completely consistent with the U.S. position in WTO, which is that it is important to have as many tools as possible to address emergencies, including both in-kind food aid and cash. What is paramount is having adequate food aid available when needed to save lives. The U.S. position on food aid in the WTO is quite clear; the focus has to be on disciplines to prevent commercial displacement rather than cash *versus* in-kind or the reform of food aid.

Question 35. I didn't see a recommendation with regard to the Foreign Market Development Program? Is there a reason you did not include that program in your proposal?

Answer. The Foreign Market Development program, which largely targets program crops, remains a core program in our export expansion strategy. The President's FY 2008 budget request would continue to fund the Foreign Market Development Program at the current level of $34.5 million. The Market Access Program, which is similar to the FMD program, received a significant increase in funding.

Question 36. Are organic trade or producer associations currently prohibited from participating in the Market Access Program? If not specifically prohibited, what are some of the obstacles to their participation?

Answer. No. Organic trade and producer associations are allowed to participate in the Market Access Program (MAP). In fact, USDA proposes expanding mandatory funding for the MAP by $250 million over 10 years and focusing the additional funds on non-program commodities.

Question 37. Regarding the new grant program to address international sanitary and phytosanitary issues: Who would be eligible for these grants? How would research priorities be set? Would there be a cost-share requirement?

Answer. The new grant program could be modeled after the existing Technical Assistance for Specialty Crops (TASC) program. Under that program, eligibility is limited to projects addressing sanitary, phytosanitary, and related technical barriers to trade (SPS–TBT) that affect the export of U.S. specialty crops. Under the new program, in addition to specialty crops, all other agricultural commodities and products would be eligible. Using the TASC model, any government or non-government entity could apply including universities, agricultural trade associations, or private companies. Proposals that are time sensitive and reflect the existence of a barrier to U.S. exports would take priority. There is no specific cost share requirement, but applicant contributions are encouraged and may make a proposal more competitive.

Question 38. Why do you propose mandatory funding for USDA staff support for international standard setting bodies? Have current funding procedures led to insufficient representation?

Answer. This proposal is intended to strengthen American representation and provide additional staff resources to the international standard setting bodies that play a very important role in international agricultural trade—*Codex Alimentarius* for food safety, the International Plant Protection Convention (IPPC) for plant health, and the World Organization for Animal Health (OIE).

The Associate Professional Officers (APO) program provides the opportunity for member governments to place their nationals on the staffs of these organizations. By doing so, they are in a position to influence their policies and programs.

European countries have a successful recruitment strategy, which includes financing large numbers of entry-level APOs, who in time rise up the ranks to become decision makers. For example, there are approximately 100 APOs at the FAO which hosts the *Codex Alimentarius* and IPPC. The Netherlands alone funds about 30 APOs, followed by Germany with 11, Italy nine, and Spain eight.

By contrast the United States funded only two APOs last year and is planning to fund one this year. This imbalance is believed to have led FAO to taking a more Eurocentric approach to its analysis and hiring permanently more Europeans in entry-level positions.

This concern was noted in two separate reviews by the Government Accountability Office in 2001 and 2006, which recommended funding of entry-level professional staff where Americans are underrepresented.

In past years, the Foreign Agricultural Service has funded APO positions at approximately $200,000 per year, which has allowed only one or two APOs to serve each year. The 2007 budget requested that $200,000 again be made available.

The lack of dedicated funding and the limited amount available have hindered the ability of the United States to take advantage of the APO program and, therefore, U.S. representation in the organizations has been limited.

Providing mandatory funding of $15 million over 10 years is proposed to ensure regular, annual funding will be available to plan, recruit, and retain long-term U.S. technical and senior-level presence in these influential standard-setting bodies. USDA would expect to target the new APOs to strengthen our voice in these organizations that have a tremendous impact on our ability to export agricultural products overseas. In addition to providing funds towards the APO program, the proposal would provide funding for USDA to place seasoned director-level staff—including from the Foreign Agricultural Service, Animal and Plant Health Inspection Service, Food Safety and Inspection Service, and other technical agencies—in international organizations that have the experience, background, and savvy to effectively influence decision making.

Question 39. How is the Administration's proposal to provide technical assistance to resolve trade disputes different from TAAP? How can we avoid a similar imbalance of operational costs *versus* benefits?

Answer. The Trade Adjustment Assistance for Farmers program (TAA) provides producers, who have been adversely affected by import competition, free technical assistance and cash benefits. TAA does not provide technical assistance to address unfair trade practices, it seeks to help producers adjust to severe changes in trade patterns. In the Administration's farm bill proposal, USDA is seeking broad discretionary authority to provide enhanced monitoring, technical assistance, and analytical support to agricultural groups to address unfair trade practices.

When industries are faced with unfair practices by our trading partners, they are often at a disadvantage due to limited information and resources. At the same time, U.S. industries may be challenged by other trading partners. Although the preferred route to address unfair trading practices may be to initiate a World Trade Organization (WTO) case, this may be impossible for limited resource industries. This situation adversely affects smaller groups and industries much more than larger, more resourceful entities. Trade dispute cases are typically very lengthy and resource intensive, often spanning several years. USDA can provide needed technical and analytical expertise to assist in the event of such action.

The Administration proposes giving USDA broad discretionary authority to provide enhanced monitoring, technical assistance, and analytical support to limited resource agriculture groups if the Secretary of Agriculture determines that it would be beneficial to U.S. agriculture. Already, the restructuring of the Foreign Agricultural Service at the USDA, with the creation of a Monitoring and Enforcement Division, has enhanced our ability to monitor trade barriers and countries' compliance with remedies.

Title IV—Nutrition

Question 40. There are several worthwhile and thoughtful suggestions to the food and nutrition programs, including removing the cap on childcare expenses, exclusion of college savings and retirement funds from asset limits. However, your proposal to eliminate categorical eligibility for the food stamp program has caused some concern. Besides resulting in fewer food stamp participants, the change would appear to add burdens on the states. Minnesota recently implemented a reconfiguration of its TANF and food stamp operations based on categorical eligibility. What comments do you have regarding this concern? Did you work with state governments in the development of this proposal?

Answer. Categorical eligibility was originally designed to facilitate the certification of persons who met income and asset tests in other programs with similar eligibility standards such as Temporary Assistance for Needy Families (TANF). However, this policy was expanded in 1999 to allow states to confer categorical eligibility to those receiving any TANF funded services, including those provided without income or asset tests. For example, some states distribute pamphlets and brochures to food stamp applicants as a part of its TANF services. In some instances this has resulted in food stamp eligibility being extended to some who may not have met the Food Stamp program income and asset requirements.

The biggest impact on state agencies would be in those states that have non-cash programs that confer categorical eligibility making the entire TANF population categorically eligible. These states include Delaware, Minnesota, Michigan, South Carolina, Texas, Oregon, Wisconsin and Massachusetts. These states, under this proposal, would still be required to confer categorical eligibility to those households that receive TANF cash assistance therefore maintaining the administrative ease that was the original intent of categorical eligibility. Thus, the only households that will lose food stamp eligibility will be those with either income or resources higher than allowed by program rules or those that do not separately apply. At the same time this proposal will also ensure that only those households that meet the individually state determined income and asset tests under TANF and receive TANF cash will be categorically eligible for food stamps. This proposal, in tandem with our proposal to exclude the value of retirement, military combat pay, and education savings accounts from the resource test, will strengthen the program by creating a more uniform and rational set of national eligibly standards while easing the burden on state agencies.

Question 41. You propose a five percent of administrative costs charge against states with excessive negative error rates. Can you provide the Committee with a list of states to which this penalty would apply and your estimate of the sum of those charges?

Answer. The Food Stamp Program currently has no penalty associated with high rates of negative errors—improper denials and terminations. Our proposal is to assess a penalty of five percent of a state's administrative costs for certification when their negative error rates exceed the national average by 50 percent for 2 consecutive years. States should respond by reducing their negative errors.

We cannot provide a list of states to which this penalty would apply upon implementation because it depends on future state performance. Had this provision been in effect in 2004 and 2005 and negative error rates remained as measured for those years the penalty would have been applied to California, Guam, Idaho, Illinois, Maryland, and Michigan, totaling over $15 million.

Question 42. Regarding the privatization of state food stamp programs, could you offer your perspective on the success and/or failure of streamlining efforts in Florida and Texas?

Answer. Both the Florida and Texas experiences offer valuable insight into the future of state modernization efforts. In Florida the experiment began slowly, on a small scale, and expanded statewide after the state demonstrated success. Florida used state staff for all of its operation but also reached out to community based partners to provide additional points of program access. The Florida model implements new technology, new partnerships, policy simplifications, and process re-engineering while closing some offices and reducing administrative staff. It is too early to draw conclusions about the impacts of the project on payment accuracy and program access. USDA initiated a study of the project and expects to release it this summer. We remain committed to supporting Florida in its endeavor to improve administration of the Food Stamp Program, including program access and integrity.

The Texas effort fell short of expectations when backlogs in processing benefits, unacceptable wait times, and other problems arose for people needing help at the pilot call center sites. Implemented in January 2006, the state placed pilot operations on hold in April and then made the decision to delay indefinitely further roll-out in June 2006. In December 2006 the state substantially scaled back the contract with the private firm hired to operate the centers, and then canceled the contract with Accenture in March 2007. Texas is currently reevaluating its modernization plans. USDA monitored the state's progress with on-site reviews, a review of reporting documents, and participation in regular conference calls regarding the status of the project. We believe that the goal of making it easier to access program services through call centers and other technology efforts is laudable, and support the state in their decisions to redesign their project to ensure proper administration of the Program.

In Texas, USDA maintained control of Federal funding for the pilot and required that the state meet benchmarks in service and functionality before we authorized further expansion. We will continue our oversight as we work actively to ensure that the new strategy meets food stamp timeliness and quality standards and achieves the administration's goal of ensuring food assistance to the needy.

Question 43. Regarding the proposed competitive grant program to develop and test solutions to the rising rate of obesity: how would this support or complement current state nutrition education efforts?

Answer. With respect to Food Stamp Nutrition Education (FSNE), state agencies work through cooperating organizations to deliver nutrition education to low income people eligible for food stamp benefits. The goal of Food Stamp Nutrition Education (FSNE) is to improve the likelihood that persons eligible for the FSP will make healthy food choices within a limited budget and choose physically active lifestyles consistent with the current *Dietary Guidelines for Americans* and *MyPyramid*. Thus, the competitive grant program would be highly supportive of and consistent with existing FSNE educational goals. Several features of the proposed grant make it a value-added nutrition education initiative:

First, the grants would provide resources that could be used to reinforce existing FSNE messages in a variety of ways, such as incentives at point-of-sale for purchases of fruits and vegetables by food stamp participants, grants to connect food stamp shoppers with farmers markets, and integrated communication and education programs. This can only strengthen the overall impact of FSNE since the likelihood of behavior change is increased when consistent and repeated messages are delivered through multiple channels.

Second, by providing 100 percent Federal funding for the demonstrations, USDA can focus initiatives on new and promising areas that states are not yet pursuing with their own funding.

Third, the grant program would include funding for rigorous evaluations that can produce definitive answers. In contrast, states face the on-going challenge of setting aside sufficient resources to fund the necessary research and securing the necessary expertise. The research associated with the proposed grant program is expected to provide a scientific basis for future state obesity prevention efforts.

Question 44. One concern I have heard is that the current Food Stamp Nutrition Education Guidance narrowly defines "allowable" activities to focus on one-on-one direct education, which is more expensive and reaches fewer people. Is there anything in your proposal that addresses this limitation? What are the reasons for restricting education efforts in this way? What needs to be changed to allow broader outreach efforts?

Answer. FNS has never restricted allowable educational efforts only to direct education. As documented in state plan guidance, allowable Food Stamp Nutrition Education (FSNE) includes not only direct education but also indirect and social marketing nutrition education methods. For example, appropriate social marketing that targets nutrition messages to food stamp eligibles are allowable with approval from FNS.

Title V—Credit

Question 45. The last two farm bills have required the Farm Service Agency increase its focus of borrower training with the goal of graduating more and more FSA credit program borrowers to commercial lenders. What can you report about the Department's record in this area?

Answer. In Fiscal Year 2005, 3,611 (4.63 percent), direct loan borrowers graduated to commercial credit. In Fiscal Year 2006, 2,824 (3.83 percent), direct loan borrowers graduated to commercial credit. These rates are comparable to graduation rates over the past ten years.

Question 46. You propose that additional credit be made available for beginning farmers. Does the Administration's budget call for an increase in FSA personnel to process the loans? If not, how can the increase be implemented?

Answer. The Administration does not have any proposal to increase personnel to process these loans. However, we believe current staffing levels are adequate to manage the potential increases in loan applications.

Question 47. Would you suggest that we leave the borrower term limits in place for guaranteed loans? Congress had to extend the waiver on term limits until September 30th of this year.

Answer. Guarantees are generally only sought by lenders for as long as they are needed because of the lender's administrative cost to obtain and maintain the guarantee. Agency regulations limit a lender's ability to recover these costs. Thus, lenders have an incentive to request guarantees only so long as they are absolutely necessary.

Title VI—Rural Development

Question 48. The 2002 Farm Bill provided mandatory funds to clear out the RUS backlog of loans and grants. How quickly did we get that money out? Given the backlog and need do you feel there are better ways of helping communities address water and waste treatment?

Answer. The 2002 Farm Bill was signed May 13, 2002. On August 20th, in just over 3 months, we awarded $703 million to fund 377 water and waste disposal projects in 47 states and Puerto Rico.

USDA Rural Development shares your desire to find ways to help communities address their water and waste disposal needs. We're also looking for better ways to utilize the Federal investments and encourage communities to establish a more regionalized approach to developing water and waste disposal projects. We recognize that many communities need some type of Federal assistance and promote the use of private sector funds as leverage. We also coordinate with other Federal and state water agencies to make best use of available resources.

Other Rural Development efforts include:

- Ensuring the project is sustainable and can maintain the facility without additional Federal subsidies.
- Including conservation measures to reduce water consumption and waste generation.
- Providing access to the commercial market so communities can acquire financing for future capital improvements.
- Ensuring governing board members and system operators are properly trained in the management of their water facilities.
- Providing continuing support to board members and operators *i.e.,* circuit riders and board training.

Question 49. The 2002 funding ($360 million) for backlogged loans and grants was used exclusively for waste and wastewater treatment. How will the $500 million proposed by the Administration be allocated among the various programs?

Answer. The proposal will allow for approximately 40 to 50 percent of the applications we currently have on hand to be funded. However, as you know, we continue to receive applications, so there will likely be more prior to farm bill enactment. We have not yet prioritized the applications. However, should this provision become law, we will look forward to working with you to develop a prioritization for the use of these funds.

Question 50. The 1996 Farm Bill created the Rural Community Advancement Program (RCAP) which was partly designed to provide more flexibility to local communities (i.e., a percentage of funds could be moved around from one account to another). For the 2007 Farm Bill, you propose consolidating legislative authorities for rural development programs to provide additional flexibility. Has RCAP provided significant flexibility in the allocation of loans and grants to communities and regions? How will the Administration's proposed consolidation contribute to greater flexibility?

Answer. Historically, the annual appropriations bill has blocked transfers between the three identified function categories specified in RCAP: (1) Rural Community Facilities, (2) Rural Utilities, (3) Rural Business and Cooperative Development. The Administration's 2008 budget preserves transfers within the functional categories. The proposal simplifies the budget presentation. It is not expected to affect either the distribution of funding or how programs are delivered to recipients.

Regarding the Administration's farm bill proposal, the purpose of the streamlining and consolidation is to remove unnecessary statutory inconsistencies among programs that have built up in the Consolidated Farm and Rural Development Act (CONACT) over the decades. This would enable these programs to more efficiently and effectively work together.

Also, the CONACT contains a number of provisions that unnecessarily constrain the administration of these programs and remove the flexibility for Rural Development to adjust the programs to meet the changing economic development needs of Rural America. Rural Development is ready to work with the Congress to craft amendments to the CONACT that build on the work of Rural Development's Delivery Enhancement Taskforce to streamline and consolidate the program regulations to create wealth and improve the quality of life in rural America.

Question 51. With regard to your proposal to create a multi-department energy grants platform, please provide some more detail about how it would work. Are other Federal agencies also contributing mandatory money for this joint venture? How well have the DOE–USDA joint programs worked to date?

Answer. The energy grants platform proposed in the farm bill would consolidate the USDA energy grant programs under the authority in the Biomass Research and Development Act of 2000. Programs included in this platform will be Section 9006 Renewable Energy Systems and Energy Efficiency Improvements Grants and Section 9008 Biomass Research and Development Grants. The proposal does not seek to combine USDA energy programs with those administered by other departments such as the Department of Energy (DOE), into this platform. Other departments are not expected to provide mandatory funding.

By streamlining our programs, we believe we can work more effectively with the Department of Energy and other Federal partners to take advantage of synergies between the programs and minimize duplicative effort. USDA has a very good working relationship and closely coordinates its energy-related activities with DOE. Examples of current coordination include DOE's participation in USDA's Energy Council, co-chairing of the Biomass Research and Development Board and Technical Assistance Advisory Committee created by the 2000 Biomass Research & Development Competition Grants Program (Section 9008 of the 2002 Farm Bill).

Question 52. The Administration is also proposing to create a Business and Community Grants Program Platform, thereby presumably streamlining service provision. What evidence can you provide this Committee that existing program organization creates obstacles to regional and community access to the various loan and grant programs administered by USDA Rural Development? Is the Administration also proposing mandatory funding for these two new program platforms?

Answer. To facilitate the coordination of rural development activities, the farm bill proposes to group authorities to reflect the customers who either directly benefit from the programs or are essential to their operation. Two of these platforms are for: (1) business grants and (2) community programs.

Historically, when a problem develops in rural America, new programs have been developed to address them. As a result, USDA Rural Development has two loan guarantee programs that can provide assistance to construct renewable energy systems, six grant programs that facilitate commercial business development and two separate program areas that are designed to assist rural communities in developing rural infrastructure and community assets. These programs generally have adopted different approaches to rural development. Because rural development activities are separated into individual legislatively mandated categories, it is difficult for USDA to embrace emerging rural development opportunities, such as renewable energy as quickly as we otherwise would. This situation has also created a complex and confusing maze of programs for customers to understand and access.

While some Rural Development programs are designed with very distinct purposes, they share common features with other Rural Development programs. For example, the Water and Waste programs and Community Facilities programs serve some of the same rural communities. By consolidating the legislative authorities of the various loan, loan guarantee and grant programs, we can improve access to these programs for rural communities.

Rural Development is already working with the Office of Management and Budget, through regulations, to consolidate and streamline the common elements of our loan guarantee programs. We believe this effort will make it easier for our customers to fully utilize our programs and for us to administer them. Ultimately, we hope to do the same thing with our direct loans and grant program. We are developing improved performance measurement standards for these programs so we can better evaluate their effectiveness in order to improve their performance in the future.

The farm bill proposals also request $500 million in mandatory funding to reduce backlog of several Rural Development infrastructure programs, including Community Facilities and Water and Waste Development. Additionally, mandatory funding is requested to complete reconstruction and rehabilitation of all 1,283 certified Rural Critical Access Hospitals within the 5 years covered by the farm bill. This proposal would invest $85 million to support an estimated $1.6 billion in loans and $5 million for grants.

Title VII—Research

Question 53. You are proposing the merger of ARS and CSREES into a single agency. As you know, the National Association of State Universities and Land-Grant Colleges is also proposing a reorganization of the Research, Education and Extension agencies of USDA. What are your comments about the features of these two proposals? Are you concerned in either case about the impact on ARS and its ability to serve its stakeholders?

Answer. There are some important distinctions between the USDA proposal and CREATE–21. As proposed by CREATE–21, consolidation would remove the ARS, CSREES, ERS, and Forest Service research and development from the Department and be made into an independent agency led by a Director appointed to a 6 year term. The USDA proposal creating the Research, Education, and Extension Service would maintain the agencies with in the overall structure of the Department and the subcabinet level position responsible for the oversight of these activities. CREATE–21 would also abolish the National Agriculture Research, Extension, Education, and Economics Board. Additionally, there are other major differences concerning budgeting, reporting, and program formulation.

The farm bill proposal to reorganize USDA's agricultural research, education and extension programs will help improve the efficiency and effectiveness of existing programs; strengthen linkages and coordination with university partners and other cooperators; and highlight and enhance the quality of USDA conducted and supported science. Under the proposed merger, USDA's intramural research program, currently in ARS, would be even better positioned to serve stakeholders. Currently, stakeholders must interact with two separate agencies to communicate their priorities and learn about scientific advances. The new agency would streamline this process in Washington, while maintaining the structure and relationships at the local level.

Question 54. Do you believe that the intramural and extramural components of USDA's REE portfolio should coordinate efforts and funding? Is that better achieved by having separate and disparate efforts or via a single integrated agency?

Answer. We believe a single integrated agency would be more effective and provide tangible benefits for producers, consumers and taxpayers. For example, producer groups must currently go to two separate agencies within USDA to provide input and solicit assistance to address their needs. The current system can lead to confusion for stakeholders, as well as potentially result in duplication of effort. By having one agency responsible for both intramural and extramural programs, stakeholders will have a more clear pathway to communicate their priorities and the new agency will be better able to allocate resources to intramural and extramural programs. These benefits will extend to consumers through the continued enhancement of our safe, affordable and nutritious food supply. Finally, taxpayers will benefit because taxpayer dollars will be allocated in a more focused and efficient manner that will decrease duplication.

Question 55. Do you believe that USDA's research efforts should become more competitive in nature?

Answer. The Department believes that the competitive process is one of the most effective ways to ensure that the highest quality research is identified, prioritized, and supported. Therefore, the Department supports making USDA's research efforts more competitive in nature. For example, the Administration has consistently proposed increases in the National Research Initiative (NRI), with proposed funding of $265 million in the FY 2008 Budget.

Question 56. You are proposing a specialty crop research initiative. How many programs are currently dedicated to specialty crops? How much funding?

Answer. USDA's Research, Education and Economics (REE) agencies support research in a broad range of programs related to specialty. The Agriculture Research Service specialty crops program includes Citrus Fruits, Tropical/Subtropical Fruits, Deciduous Tree Fruits, Small Fruits (including grapes), Tree Nuts, Potato, Vegetables, and Nursery Crops and Ornamentals. Within CSREES, specialty crop research is supported principally with funding under the Hatch Act, McIntire-Stennis Cooperative Forestry, Evans-Allen, National Research Initiative, and Integrated Activities programs that address a variety of specialty crops. The Economic Research Service also has areas of research encompassing specialty crops including market analysis and outlook, consumer demand for specialty crops (particularly fruits and vegetables), and organics. Total funding in FY 2006 within the REE agencies for specialty crops was approximately $280 million consisting of $191 million in ARS, $87 million in CSREES and $2 million in ERS.

Question 57. You are proposing a Bioenergy and Biobased Products Initiative. How many programs are currently dedicated to energy? How much funding?

Answer. USDA has energy programs in seven agencies and staff offices. The programs encompass research and development, commercialization, outreach and education. Funding (budget authority) for bioenergy programs is $77 million for FY 2007.

In addition, the Agricultural Bioenergy and Biobased Products Research Initiative is designed to enable USDA to better address this high priority issue. USDA's current network of intramural laboratories has an ever increasing capacity in the area of bioenergy and bio-products. This network, coupled with the expertise represented by the Federal-state partnership with the nation's universities, will ensure that this initiative is conducted in a collaborative way to maximize the strengths of USDA's intramural and extramural science, as well as engage private sector partners and other government entities such as the Department of Energy.

Research conducted through this new initiative will complement the work supported by the Biomass Research and Development Initiative. USDA's intramural and extramural programs are already closely coordinated with the Department of Energy and USDA's Rural Development regarding the Biomass Research and Development Initiative and this continued coordination will help ensure that the programs are complementary. The primary vehicle for this coordination is USDA's Energy Council.

Question 58. Several of the focus areas under the proposed Specialty Crop Research Initiative are similar to various proposed rural development grant platforms. Is this overlap intentional?

Answer. The focus areas under the Administration's Specialty Crop Research Initiative reflect the research needs identified during the USDA listening sessions, as well as priority areas identified by the National Agricultural Research, Education, Extension and Economics Advisory Board. The Specialty Crop Research Initiative will provide science-based solutions to the unique challenges facing the specialty crop industry and complement the other specialty crops farm bill proposals, as well as ongoing USDA programs aimed at assisting the industry.

Question 59. Where would the Initiative be located? CSREES–ARS?

Answer. Under the Administration's proposal to merge the Agricultural Research Service (ARS) and the Cooperative State Research, Education and Extension Service (CSREES), the Specialty Crop Research Initiative would be administered by the newly created Research, Education and Extension Service (REES). Under the new organizational structure, this initiative will be better able to engage the respective strengths of USDA's intramural capacity and extramural partners.

Question 60. How does the Initiative fit in with the goals of the National Specialty Crop Research Program which was authorized in the Specialty Crop Competitiveness Act, but never funded?

Answer. The Specialty Crop Competitiveness Act, signed into law in January of 2005, was focused primarily on providing block grants to state departments of agriculture for the purpose of marketing and promotion of specialty crops. The law specifically defined specialty crops as including fruits and vegetables, tree nuts, dried fruits and nursery crops (including floriculture). This definition has allowed USDA to focus on specific crop groups to develop priorities for addressing the needs of specialty crop producers.

The section of the Specialty Crop Competitiveness Act that authorizes the National Specialty Crops Research Program reads as follows:

> "Research and extension grants may be made under this section for the purpose of improving the efficiency, productivity and profitability of specialty crop production in the United States."

Even before the Specialty Crop Competitiveness Act became law, CSREES had undertaken the development of a national strategic research and extension plan for specialty crops by working with various segments of the specialty crop industries to develop strategic plans for that industry. Upon completion of the individual plans, a national workshop will be held to weave them together into a single plan that recognizes the intrinsic differences while focusing on the common themes that bridge the needs of the various groups. To date, CSREES has partnered with the tree fruit industry, the grape and wine industry and the berry crop industry to successfully develop strategic plans that focus on problems that have their solutions in research and extension. CSREES is currently working with the vegetable crop industry in finalizing a similar plan.

As an outcome of these activities, the tree fruit, tree nut, citrus, grape and wine, and berry crop industries have come together to form a Specialty Crop Research Team to address research and extension needs that are common to the various industries. These efforts of the specialty crop industries can now be used to help inform USDA as it completes its national strategic research and extension plan for specialty crops. This plan will be utilized to help guide activities funded under the new Specialty Crops Research Initiative.

Title VIII—Forestry

Question 61. With regard to your proposal for comprehensive statewide forest planning, do you believe it will facilitate the goal of ensuring that state foresters are included in NRCS programs such as EQIP and CSP?

Answer. Statewide forest resource assessments and plans will be an important tool in developing a more cohesive, integrated forest management strategy. State foresters already have an important role in NRCS State Technical Committees. The information from the new assessments and plans will result in a better understanding of role of NRCS programs in meeting the forest needs within a state.

Question 62. In the 2002 Farm Bill, Congress made a strong commitment to private landowner assistance by making the Forest Land Enhancement Program (FLEP) mandatory funding. However, much of its funding has been diverted to firefighting costs and other needs. What can be done to protect the use of this funding for its intended purpose?

Answer. Funds for the Forest Land Enhancement Program were used for program purposes and other funds were transferred for fire suppression under the Congressional authority in the annual appropriations bill for the Forest Service that allows for funds available to the agency to be transferred. Congress cancelled remaining funds for FLEP in FY 2005. Since the passage of the 200 Farm Bill, Congress also enacted important changes to the Internal Revenue Code to permit taxpayers—both private individuals and companies—to expense up to $10,000 of qualifying reforestation expenditures incurred during the taxable year for a qualified timber property. In the case of an individual, the amortization deduction is allowed in determining adjusted gross income (i.e., an "above-the-in-line deduction") rather than as an itemized deduction. This encourages taxpayers to make investments in reforestation.

Title IX—Energy

Question 63. Several Departments of the executive branch have important roles to play in increased production and use of renewable energy. What can you tell the Committee about how the various efforts are coordinated?

Answer. The Biomass Research and Development Act of 2000, as amended, created a Biomass Board and a Technical Advisory Committee. The role of the Biomass Board is to coordinate programs within and among Federal departments and agencies for the purpose of promoting the use of biobased fuels and products. This board is co-chaired by USDA and DOE and has active members from other Federal departments.

The Technical Advisory Committee is comprised of members from private and public sector organizations that have an interest in promoting the use of biofuels and biobased products. The Technical Advisory Committee provides advice to the Biomass Board on technical focus and direction on the use of biofuels and biobased products and facilitates consultations and partnering among Federal, state, research community and private sector.

In addition, the Secretary of Agriculture has established the USDA Energy Council and the Biobased Products and Bioenergy Coordination Council which provide forums through which USDA agencies and other departments can coordinate, facilitate, and promote research, development, transfer of technology, commercialization and marketing of biobased products and bioenergy using renewable domestic agriculture and forestry materials.

Question 64. It looks like you're shifting several programs that are in the 2002 Farm Bill's energy title over to the rural development area, such as the Renewable Energy and Energy Efficiency Program and the Biomass R&D Program. Why was this done?

Answer. Rural Development already administers both of these programs. The Administration's 2007 Farm Bill proposal recognizes that many of our programs share certain features with other Rural Development programs. By consolidating the Rural Development authorizations for various loan, loan guarantee and grant programs, we can improve access and simplify the application and implementation procedures for rural communities. Rural Development is already working with the Office of Management and Budget to consolidate and streamline the common elements of our loan guarantee programs regulations. We believe this effort will make it easier for our customers to access our programs and for us to administer them.

Question 65. How long are you envisioning the need for the loan guarantees for cellulosic ethanol production? What size plants are you envisioning that would use the $100 million guarantees? How does your proposal interact with the DOE's Title 17 loan guarantee program?

Answer. Cellulosic ethanol production is still at its infancy. To advance this technology, the Administration's proposes to promote ethanol production from cellulosic material by funding research and providing incentives through a variety of program initiatives that augment efforts by the Department of Energy. The Administration proposes a loan guarantee program funding level of $210 million, which would support $2.1 billion of guaranteed loans over 10 years for cellulosic projects.

To ensure successful commercialization of cellulosic ethanol technologies, other initiatives in the 2007 Farm Bill proposal have been created to promote research and development (R&D), feedstock availability, and cellulosic ethanol production. The Administration's 2007 Farm Bill proposal creates the Agricultural Bioenergy and Biobased Products Research Initiative. This initiative would be funded at $500 million over 10 years and would focus research and development (R&D) on: improving biomass production and sustainability, and improving biomass conversion in biorefineries. A second proposal builds on the Biomass Research and Development Act and provides $150 million over 10 years to increase competitive grant funding for biomass research, focusing on cellulosic ethanol. Since little ethanol is currently being produced from cellulosic material, there is no way of knowing how much ethanol production the proposal would incentivize. While current capital costs for cellulosic plants are now quite high compared with grain ethanol plants, they are expected to decline over time. Thus, a $100 million guaranteed loan is expected to fund increasingly larger plants over time. The estimated loan level is a placeholder base on the historic subsidy cost of the current program and does not necessarily reflect future projects. USDA is evaluating the impact of proposed programmatic changes on the subsidy cost.

These policies are reflected in our farm bill proposals and we believe that the resources projected are sufficient, when leveraged with investments from the private sector to rapidly develop a strong domestic cellulosic ethanol industry. These efforts are in coordination with DOE efforts to take advantage of synergies between the programs and minimize duplicative effort. The key is positioning the Federal research and financing programs to lead and encourage work with promising technologies. Once a technology or process is recognized as commercially viable by private capital markets and lenders, the Federal Government should allow the private sector take over.

Question 66. Do you see a need for a cellulosic production incentive during this farm bill? How far away is cellulosic production?

Answer. The Administration believes, based on estimates within the scientific community that we are within 3 to 5 years away from commercial cellulosic ethanol production. Our proposals are designed to ensure appropriate R&D is in place. We see a very real need for funding Federal programs focused on cellulosic ethanol production in the next farm bill. Developing this technology in a way that enables commercialization depends on quality, high-quality focused research and production incentives. Yet, bioenergy research and development currently totals only two percent of USDA's entire research and development portfolio. This level of support is inconsistent with our nation's energy supply and security priorities. Even with the success of corn and soybean biofuels, to substantially reduce America's dependence on imported oil, biofuels will need to be made from cellulosic processes that use feedstocks such as specialty crop biomass, switchgrass, corn stover, straw, and woody biomass. Some cellulosic conversion processes have been scientifically demonstrated to be capable of producing biofuels and other energy. The Department of Energy recently announced six selectees for up to $385 million in grants for cellulosic biorefineries. In addition, research at DOE is focused on the goal of making cellulosic ethanol cost-competitive by 2012.

Question 67. In your proposals you frequently mention cellulosic ethanol production. How about the other types of biofuels that can be produced from biomass, such as the chemical or thermo-chemical processes that lead directly to gasoline and other products? Can such processes be accommodated within the scope of your proposals?

Answer. While cellulosic ethanol is a major component of our proposals to support renewable energy production, our energy proposals for the 2007 Farm Bill are much broader than cellulosic ethanol. The purposes of the Administration's proposal are to expand Federal research on all types of renewable fuels and bioenergy and reauthorize, revise, and expand programs that advance the production and commercialization of renewable energy. Funding basic and applied research, as well as sharing the risk through loan and loan guarantee programs, helps to improve the economic, technical, and commercial viability of new, high capacity renewable energy processes. Once a process is recognized as having achieved commercial viability, the Federal Government should refocus support on other less developed, yet promising processes for producing renewable energy.

Question 68. Can you tell us how much is already being spent under the various accounts like ARS and CSREES in the energy area? What is the justification for the $500 million in new spending that you're calling for and how is it related to what we're already spending in this area?

Answer. USDA bioenergy research funding in FY 2006 was $20.739 million in budget authority for the Agricultural Research Service (ARS) and $6.003 million in budget authority for the Cooperative State Research, Education and Extension Service (CSREES). In addition, the U.S. Forest Service (FS) utilized another $12.75 million in budget authority for renewable energy research programs. The ARS and CSREES funds were used almost exclusively for research and development with a small amount going to outreach and education. About ¾ of the FS funds were used for commercialization activities with the remainder going to research and development. The proposed farm bill initiative for renewable energy research would add an average of $50 million per year in mandatory research funding. The purpose of the funding is to accelerate the commercial development of renewable energy with a focus on cellulosic ethanol. While USDA energy research programs currently conduct a range of projects related to biomass production and use, the farm bill initiative would expand activities in the areas of feedstock design; feedstock production; logistics, including baling, storing, and transportation; and feedstock conversion.

Question 69. The President's Biofuels Initiative calls for replacing 30% of the nation's gasoline consumption with biofuels by 2030 (the "30 × '30" proposal). The Initiative also calls for making cellulosic ethanol cost-competitive with gasoline by 2012. Your farm bill proposal, however, calls for less than $1 billion in total energy title incentives through 2017. Given the Administration's ambitious biofuels vision, and given our national interest in weaning our nation from insecure foreign oil supplies, how can we meet these objectives with such a low funding proposal?

Answer. We believe that the President's goal of 35 billion gallons of biofuels and alternative fuels by 2017 is attainable through the Administration's proposed initiatives and aggressive private sector investments. The Administration's proposals include a total of $800 million to support research and development towards achieving the President's goal. In addition, over $700 million is included in the proposals to support renewable energy systems grants and loans and $100 million to provide direct support to producers of cellulosic ethanol. These investments will provide a bridge for promising technologies to reach a level of development to encourage private sector capital investment. These efforts, coupled with funding and programs of other Federal agencies with which we are coordinating, including the Department of Energy and the Environmental Protection Agency, will provide support and encouragement to build the foundation for a domestic renewable fuel industry that can meet the President's goals.

Question 70. The Section 9006 program has proven to be very popular, yet USDA is proposing only $71 million in total annual funding for the Section 9006 grant and loan guarantee program. How important do you regard this program among the Department's energy efforts?

Answer. This program is important to USDA. The 2008 budget request will provide program level funding of almost $15 million in grants, and $195 million in guaranteed loans. The Administration's 2007 Farm Bill proposal includes an additional $500 million in grants and funding to support an estimated $2.17 billion in guaranteed loans to fund cellulosic ethanol projects over 10 years. The estimated loan level is a placeholder based on the historic subsidy cost of the current program and does not necessarily reflect future projects. USDA is evaluating the impact of proposed programmatic changes on the subsidy cost. In addition, the Rural Development Business and Industry Program, with a program level of $1 billion in guaranteed authority can also be accessed for additional energy business guarantees, as well as other rural business ventures. Together with the new cellulosic guarantee proposal, these programs represent substantial USDA emphasis on renewable energy financing.

Question 71. The Biomass Research and Development Act of 2000 calls for not only research but development activities to introduce biomass energy as a sustainable energy source. Beyond its research activities, what are the plans of the Department to facilitate commercial development of energy crops?

Answer. The Administration's 2007 Farm Bill proposal provides several ways to facilitate commercial development of energy crops. It includes $150 million of mandatory funding for the Biomass Research and Development Program to continue the support for demonstration projects. A new loan guarantee program is proposed to support an estimated $2.17 billion in funding for cellulosic ethanol projects that might exist in the later stages of the demonstration phases of development. The estimated loan level is a placeholder based on the historic subsidy cost of the current program and does not necessarily reflect future projects. USDA is evaluating the impact of proposed programmatic changes on the subsidy cost. In addition, $159 million is proposed for a new the Forest Wood to Energy Program aimed at accelerating the development of new technologies to better utilize low-value woody biomass into biofuels. The Administration is proposing $100 million to help plants purchase cellulosic feedstocks. We are also proposing a long-term biomass reserve program is proposed to stimulate production of dedicated feedstocks such as switchgrass.

Question 72. Would you support additional incentives to support transitional crops to help get the feedstock production pipeline moving?

Answer. It remains to be seen what the most competitive ways to produce ethanol will be. We are reviewing, in this early stage, what the feedstocks for those processes are and whether a transitional crop is warranted. Well-intentioned incentives for crops associated with a technology that does not pan out may hurt farmers, as well as the environment. At this time, we believe that support is best applied to the research and of biofuel technologies and the initiatives outlined in the response to the prior question.

Question 73. What incentives, if any, do you think should be offered to producers to encourage them to grow crops that are suitable as energy feedstocks? Should basic farm programs be modified to encourage planting of energy crops?

Answer. Discovering and producing viable feedstock is a promising endeavor. This is one of the reasons we have proposed the Cellulosic Bioenergy Program, which will provide $100 million in direct support to producers of cellulosic ethanol.

At this time we believe that support is best applied to the research and commercialization (loan/grant programs) of biofuel technologies and the proposals to cost share the purchase of cellulosic feedstocks and create a long-term biomass reserve.

Question 74. Local ownership of bioenergy plants, wind energy farms and other renewable energy facilities offer the best economic development benefits for local areas. How has the USDA promoted community ownership of renewable energy facilities, and what more can the farm bill do to promote local ownership?

Answer. From Fiscal Years 2001 through 2006, Rural Development has invested over $480 million in 1,134 renewable energy and energy efficiency projects of which $349 million has been invested through Business and Cooperative Programs. The Section 9006 Renewable Energy Program accounted for over 800 of the individual projects. In fact since its inception, there have been 91 local digester projects funded. Many of those digester projects have been to assist farmers or ranchers construct digesters to handle dairy and other animal waste. We will continue to utilize this program and other USDA Rural Development business programs to support such innovative renewable energy ventures.

Title X—Miscellaneous

Organic Agriculture:

Question 75. Can you tell the Committee what portion of conservation funding currently goes to organic farmers?

Answer. Within our internal tracking system, participating organic farmers are not separately identified, so it is unknown what percentage of cost-share is utilized by this particular group. The Agricultural Management Assistance (AMA) program and the Environmental Quality Incentives Program (EQIP) offer a practice for 'Transition to Organic Production'. EQIP contracts from Fiscal Year 2003 through 2006 document completion of this practice on 299 contracts at a cost of $602,656. AMA contracts from Fiscal Year 2004 through Fiscal Year 2006 document completion of this practice on 116 contracts at a cost of $591,160.

Question 76. Consumer demand for organic products is growing steadily. How would your proposal assist farmers in meeting the serious challenges associated with transitioning from conventional to organic production? What is the role of EQIP in this area?

Answer. There is increased demand for organic products and more farmers are interested in transitioning from traditional farming to organic farming. However, the requirements to be certified organic are lengthy and can be quite costly, especially for small farmers. Fees may range from $500 or less for very small farms to $5,000 plus for larger farms and processors based on acreage and gross sales. Typical certification costs may be around $1,500 for a small-medium farm. In addition, a key to expanded opportunity in organic production is adequate market data to inform farmers, processors, wholesalers and retailers. And, organic farmers, just like traditional farmers, are looking for opportunities in the global marketplace.

The Department's farm bill proposal recognizes the needs of the organic agricultural industry and identifies several initiatives to assist it. These organic farming initiatives represent $61 million in additional funding over 10 years. We propose to expand and increase the cost share certification reimbursement program for all states and for all producers and processors. Reimbursement would be increased from the current $500 annually to $750 annually or 75 percent of certification costs, whichever is smaller. This program has been very helpful to producers transitioning to organic farming, and expanding this program will help the organic sector continue to grow.

Farmers or ranchers who desire to transition toward organic farming practices that may result in reduced fertilizer/pesticide application, or change the way in which nutrients are applied to their fields can receive assistance through NRCS and the Environmental Quality Incentives Program (EQIP) specifically. The EQIP program already has national priorities that connect directly with the objectives of organic farming:

- Reductions of non-point source pollution, such as nutrients, sediment, pesticides, or excess salinity in impaired watersheds consistent with TMDLs where available as well as the reduction of groundwater contamination and reduction of point sources such as contamination from confined animal feeding operations.
- Conservation of ground and surface water resources.
- Reduction of emissions, such as particulate matter, nitrogen oxides (NO_X), volatile organic compounds, and ozone precursors and depleters that contribute to air quality impairment violations of National Ambient Air Quality Standards.
- Reduction in soil erosion and sedimentation from unacceptable levels on agricultural land.
- Promotion of at-risk species habitat conservation

In addition to the priorities already contained in the EQIP program, the Department's farm bill proposal calls for merging the authorities of the Agricultural Management Assistance (AMA) program, and specific authorities relating to organic transition into EQIP.

Question 77. Are there any obstacles or inducements to participation in conservation programs for organic farmers?

Answer. The conservation cost-share programs do offer inducements (a higher percentage of cost-share) for limited resource farmers and ranchers and for beginning farmers and ranchers, but not specifically for organic farmers. There is a practice for 'Transition to Organic Production,' which has been an inducement for producers to begin using an organic management system. There are no known obstacles to participation in conservation programs for organic farmers. It has been said that organic farms were not meeting soil index criteria for CSP due to tillage practices.

However, it has been our experience that many organic farms have met this criteria because the application of manure and other organic material off-sets the results of tillage.

Question 78. What kinds of risk management tools are currently available to organic farmers? What are the obstacles for organic growers to participate in crop insurance programs? Does your proposal address their needs in any way?

Answer. In addition to providing producers with Federal crop insurance to help farmers manage production and revenue risks, RMA is particularly proud of its successful Risk Management Research, Education and Outreach partnership agreements. Since 2002, RMA has funded over $2.2 million in Risk Management Education and Outreach projects that are available to organic farmers (see chart below). Using these partnerships, RMA reaches producers with the best risk management information possible through universities, community and tribal-based organizations, commodity groups and an array of state programs.

RMA is working with partners to create non-insurance risk management tools for organic producers. Since 2002, RMA has funded 12 partnerships totaling $8.3 million related specifically to organic farming, including an interagency agreement with the Agricultural Marketing Service (AMS) to collect and report price data on organic commodities separate from their conventional counterparts. Other partnerships are geared toward collecting and reporting organic price information at either the producer or local level. Whether this data could be used for price elections will need further evaluation. These partnerships are also developing price and risk models for both conventional and organic production for selected commodities. In addition, RMA is providing funding to the Economic Research Service for a nationwide survey of organic producers to collect data on numerous aspects of organic farming. The chart below has details regarding risk management tools developed through partnerships with RMA.

Some of the tools that are currently available online for organic producers include:

- Cost of Production *Calculator* for Grapes/Tree Fruit in Pacific NW available at *www.nwgrapecalculators.org.*
- Georgia Organics: Direct Marketing Strategies *Workbook* available at *www.georgiaorganics.org.*
- University of Minnesota: Organic Farm Business Management *Class* available at *www.mda.state.mn.us/esap/organic/ofbmbrochure.pdf.*
- Benchmarking Reports for organic crop and livestock operations is a Non-Insurance Risk Management tool available at *www.finbin.umn.edu.*
- Directory of Organic Farms In MN available at *www.mda.state.mn.us/esap/organic/directory.pdf.*

All of the Federal crop insurance programs available to conventional farmers are also available to organic growers. In 2006, RMA had 2,538 policies insured with nearly 355,000 acres and a liability of over $82 million for organic and transitional to organic farming practices in the Federal crop insurance program. RMA is providing the maximum coverage available based on the limited data it has. Participation in crop insurance with an organic type factor has grown since 2005 by approximately 30 percent from 1,950 to 2,538 policies with similar increases in the number of acres, liability and premium. California, Iowa, Minnesota, North Dakota and Washington remain the five states with the largest number of organic practice policies. With the exception of Minnesota, which still saw a seven percent increase in policies, other states had substantial increases, from 32 percent over prior year in Iowa to 43 percent over prior year in Washington.

RMA has some positive steps underway to capture more organic data. In August 2006, RMA entered into an interagency agreement with AMS. AMS has been collecting and reporting prices on a limited number of organic fruits and vegetables at a few wholesale markets around the country. RMA is providing funding to AMS to expand this effort to a somewhat larger number of wholesale and retail operations throughout the country. While AMS modifies its software system to accommodate expanded organic coverage, a pilot project has been initiated to begin collection of retail prices directly comparing organic and conventional fruit. USDA's 2007 Farm Bill proposal would build on these efforts to further expand organic market reporting. As organic price data becomes available from AMS, RMA will continue to analyze empirical information for possible development of unique organic prices as actuarially appropriate.

USDA-Risk Management Agency
2002-2006
Funding for Organic Partnerships for
Research, Risk Management Education and Outreach

	Research (Non-Insurance RM Tools)	Risk Management Education	Community Outreach
2006	$1,200,000	$583,905	$610,000
2005	$1,461,841	$19,264	$430,000
2004	$743,050	$255,750	$65,000
2003	$4,726,444	$129,775	$170,410
2002	$158,473	n/a	n/a
Total	$8,289,808	$988,694	$1,275,410

Total All Organic Related Partnership Agreement Funding	$10,553,912 as of 4/07

Question 79. Are organic producers participating in the crop insurance program required to pay surcharge in their crop insurance rates. How are price elections determined for organic crops? Do the guarantees generally reflect the higher market value of organic crops?

Answer. Yes, a five percent surcharge on the standard base rate is charged for the organic farming practice. Currently, very limited data are available on organic production, yields and pricing. For this reason, RMA is unable to estimate empirical premium rates or expected yields for organic production for any crop. Beginning with the 2004 crop year, RMA established an option for the organic practice to allow for unique identification of organic practice experience data in RMA databases. The very limited data available to RMA suggested greater yield variability for organic production and, consistent with standard actuarial practices, an additional rate load was created to account for the indicated higher variability. RMA established a preliminary organic practice rate factor of 1.05, in essence a five percent surcharge on the standard based rate.

A significant dataset of organic crop insurance experience is only available for the 2005–2006 crop years. For the 2005 crop year, organic practices were carried out on units covering some 423,000 acres, with a resulting combined loss ratio for these units of 1.19. For the same crops and counties, but on units where conventional practices were carried out, the combined loss ratio was 0.59. For the 2006 crop year, organic practices were carried out on units covering nearly 355,000 acres, with a combined loss ratio for these units of 1.01. For the same crops and counties, but on units where conventional practices were carried out, the combined loss ratio was 0.94. This results in an average loss ratio of 1.10 for organic practices and 0.77 for conventional practices over the 2 years with data available. Although this empirical information reflects only 2 crop years, the data clearly identifies two different pools for risk classification and reinforces the current procedure for an organic practice surcharge. It should be noted that 2006 crop year loss experience may not be entirely complete for both pools, as Approved Insurance Providers (AIPs) may still be submitting loss claims. As more years of organic practice experience data are accumulated, RMA hopes to gradually incorporate empirical information into the rate and yield estimation procedures.

Multiple Peril Crop Insurance (MPCI) policies for all 300+ commodities currently covered by the crop insurance program are available for crops grown using organic farming practices. The five percent premium surcharge applies to all of the products that incorporate the producer's past production history of growing the crop as part of the basis for establishing the insurance guarantee, including: Actual Production History (APH or traditional MPCI), Catastrophic Risk Protection (CAT), Crop Revenue Coverage (CRC), Income Protection (IP) and Revenue Assurance (RA). These plans also include a price component per unit (bushels, cwt., cartons, etc.) of the insured crop. Losses in the insured's production or revenue are indemnified with these plans. In addition, Dollar Plans of Insurance provide protection against declining value due to damage that causes a yield shortfall for several crops.

Note: Organic producers are not charged an additional five percent in premium for crops covered under the Group Risk Protection (GRP), Group Risk Income Protection (GRIP), Adjusted Gross Revenue (AGR) and AGR-Lite plans of insurance due to the following:

- GRP policies use a county index as the basis for determining a loss. When the county yield for the insured crop, as determined by the National Agricultural Statistics Service (NASS), falls below the trigger level chosen by the farmer, an indemnity is paid. However, individual crop losses may not be covered if the county yield does not suffer a similar level of loss.
- GRIP makes indemnity payments only when the average county revenue for the insured crop falls below the revenue chosen by the farmer.
- AGR and AGR-Lite use information from a producer's Schedule F tax forms to calculate the policy revenue guarantee. These plans do not distinguish between organic and conventional farming practices.

Currently, RMA does not differentiate between organic farming and conventional farming practices for crop value or price election(s) due to the lack of pricing data on organically grown commodities.

RMA has established an "organic option" for the organic farming practice on the Actuarial Documents to allow for the unique identification of organic farming practice experience data in RMA databases. As organic farming practice experience data is accumulated, RMA hopes to gradually incorporate empirical information into unique organic rate, price and expected yield offers. Until that data is available, RMA believes it would be prudent to continue to publish and use the price elections and dollar amounts of insurance for the crop grown under conventional farming practices for crops grown under organic farming practices. In recognition of the growing need for price information on organic farming, RMA is funding several interagency agreements with other USDA components and partnerships with private entities to collect and report price information. Details on these partnerships are noted below.

Under most of the Federal crop insurance programs guarantees do not reflect a higher market value for organic products. However, two insurance products can assist producers with protection against loss of revenue should they have a higher market value for their organic crop. The Adjusted Gross Revenue (AGR) and AGR-Lite programs are whole-farm revenue products available in 28 states that protect against low revenue due to unavoidable natural disasters and market fluctuations that occur during the insurance year. Most farm raised crops, animals and animal products are eligible for protection. Organic producers can take into account expected organic premiums since the guarantee is based on the producers own previous 5 years of adjusted farm revenue. An annual farm report is submitted, with a list of commodities produced, quantities expected and expected prices for the organic crop for the covered year.

Question 80. As organic products continue to penetrate the consumer marketplace, credibility in enforcement of the organic standard is critical. The National Organic Program (NOP) ensures the credibility of the organic label and bolsters consumer confidence. Recently, there have been news reports about improperly labeled organic products in stores. There are currently six employees in the NOP office, and only three in the Audit Review and Compliance Branch to enforce the rule. In your opinion, is there sufficient staff to investigate complaints, write and issue rules, and respond to new issues in a timely matter?

Answer. The National Organic Program (NOP) has eight professional staff members. Auditors from the Agricultural Marketing Service Audit Review and Compliance Branch and investigators from the AMS Compliance and Analysis Program are assigned to do NOP work as needed. USDA requested an increase of $1.3 million for the NOP in FY 2007. The same request is anticipated for FY 2008.

Question 81. The Administration's proposal provides $10 million in mandatory funding for organic research focusing on conservation and environmental outcomes and seed varieties suited for organic farming. There were many agriculture research programs that were authorized with mandatory spending under the 2002 Farm Bill . . . is there an existing research program that these types of proposals would fit under?

Answer. The 2002 Farm Bill authorized the Organic Research and Extension Initiative and provided $3 million per year in mandatory funding. This program is complementary to the additional $10 million included in the Administration's farm bill proposals.

Specialty Crops:

Question 82. The Administration's proposal ramps up Section 32 spending by $2.75 billion over ten years. Under current law, Section 32 purchases must be a minimum of $200 million per year, but the actual spending has been approximately $275 million. What detail can you provide the Committee regarding how this dramatic increase in spending would be used?

Answer. This proposal is for Section 32 funding to be directed toward purchasing more fruits and vegetables for distribution to USDA feeding programs to enhance consumption of these commodities according to the USDA Dietary Guidelines for Americans. The Administration is not proposing a $2.75 billion increase over ten years in total Section 32 funding. Currently, there are situations where USDA does not spend all of its Section 32 funding. The additional commodity purchases would come from this unused spending authority. No cuts in other commodities purchased under existing programs are being proposed.

Question 83. Can USDA currently purchase value-added items with Section 32 funds, or does the Administration's proposal require new authorization to do this?

Answer. USDA can purchase value-added items with Section 32 funding. Generally, Section 32 funds are used to remove surplus commodities, including value added products from those commodities, from the normal commercial markets.

Question 84. Your proposal briefly mentions the Department of Defense Fresh Program but does not address the School Snack Program. The school program has proven very popular in the 14 states and three Indian Reservations where it is authorized. Is it the Administration's position that these programs should be discontinued? If so, why?

Answer. The Administration has not proposed to discontinue the Fresh Fruit and Vegetable Program (FFVP) in the communities where it currently operates. This program has been well received by students and by state and local school administrators in those locations, and it supports the *Dietary Guidelines for Americans* (DGAs) recommendation to increase consumption of fruits and vegetables.

The Administration is committed to increasing fruit and vegetable consumption given their importance to health and the specific recommendations of the Dietary Guidelines for Americans. To support the Administration's goal to increase fruit and vegetable consumption, the Administration has proposed to provide $500 million over ten years for additional fruits and vegetables through the National School Lunch Program (NSLP) and the School Breakfast Program (SBP).

The Department considered a range of approaches to increase the availability of fruits and vegetables in schools, and ultimately selected this approach because it has the potential to increase fruit and vegetable access to the greatest number of school children. On average, over 31 million children eat a school meal each school day. In contrast, if the FFVP were expanded in its present form (25 schools in each state and select Indian and Tribal Organizations), its benefits would reach far fewer children—roughly 650,000 each day.

Question 85. What does the Department estimate would be the cost of all the program changes proposed to benefit specialty crops? How much of that would be mandatory spending? What offsets is the Department proposing to pay for specialty crop programs?

Answer. The Administration strongly supports increased assistance to specialty crops. The Administration's 2007 Farm Bill proposals would change several titles to increase substantially the support to specialty crops, including greater mandatory funding. We believe these proposals, which target a series of mutually reinforcing changes to the conservation, trade, nutrition, rural development, energy, research and miscellaneous titles of the farm bill, provide the best, comprehensive set of programs to assist specialty crop producers. The Administration's 2007 Farm Bill specialty crop proposals would increase assistance to specialty crop producers by nearly $5 billion over the next ten years and include increased mandatory funding of $68 million for Trade Assistance for Specialty Crops, increased mandatory funding of $250 million for non-program crops under the Market Access Program, increased mandatory funding of $500 million for fruit and vegetable purchases for the School Lunch Program, and increased mandatory funding of $1 billion for specialty crop research. Our proposals also includes targeting $2.75 billion of Section 32 funding for increased specialty crop purchases for use in food assistance programs.

Question 86. The Specialty Crops Competitiveness Act of 2004 established a program of block grants to states that is operating in FY 2006 and FY 2007 on a $7 million annual appropriation. The state departments of agriculture use the grants to support the development and marketing of specialty crops that are important to the state's agricultural economy. Does the Administration support the continuation of the block grant program? Would the Department recommend mandatory funding for the program?

Answer. Authority extending through Fiscal Year 2009 already exists for the Specialty Crops Block Grant Program with nearly $14 million in appropriated (FY 2006 and FY 2007) to fund it. The Administration's proposal does not change or provide mandatory authority for this existing authority. Grants have been approved for six states, with several additional applications under review. Over the next 3 years we will have an opportunity to determine the effectiveness of funds provided in this manner.

Question 87. The specialty crop sector is quite united in its support for continuing the limitation on planting flexibility to exclude planting fruits, vegetables, and wild rice on commodity program base acres. The Department's farm bill proposal would eliminate that restriction. What is the Administration's view of the effect of the proposed elimination of the planting restriction on individual specialty crop producers and on the sector as a whole?

Answer. Eliminating planting restrictions keeps us in compliance with our WTO commitments today. Additionally, the recent Economic Research Service report entitled "Eliminating Fruit and Vegetable Planting Restrictions: How Would Markets Be Affected?" suggests that planting restrictions are not as critical for the specialty crop industry as they might initially appear. A possible exception to this is dry edible beans. For example, in 2003 and 2004, only about five percent of fruit and vegetable production was on base acres for program crops—but 99 percent of the farms using base acreage had a history of planting fruit and vegetables on those base acres. This is the case because the new entrants to the specialty crop business are few and far between, as a result of a series of formidable barriers that include the need for specialized equipment, contracts for produce headed to processing, processing expertise, higher production costs, excessive labor needs for harvest and limited seasonal production time.

Question 88. The Administration's proposal provides an additional $50M annually for the purchase of fruits and vegetables for school meals, some of which is to be transferred to DOD Fresh at the Secretary's discretion. How would this money be processed or spent if not through DOD Fresh? What are the factors which might affect the Secretary's decision to utilize these funds through DOD Fresh?

Answer. The Department envisions providing an additional $50 million for fruits and vegetables to be used annually for the purchase of fresh, frozen and canned commodities. At the Secretary's discretion, funds would be directed to DOD Fresh, the Agricultural Marketing Service (AMS), or both for the purchase of fruits and vegetables. Funds would be allocated to each state proportional to the state's commodity entitlement under the National School Lunch Program. The Department would determine the amount of funding that would be directed to DOD Fresh and AMS based on a number of factors, including school preferences for fresh, frozen and canned fruits and vegetables and market considerations including product availability, prices, and transportation considerations.

Question 89. In consolidating various grant programs under the new "Business Grants Platform," what will happen to funding levels? The proposal says that specialty crops would get priority in the value-added grants portion, but would the amount of money available be reduced as a result of combining programs?

Answer. The new "Business Grants Platform" is intended to standardize administrative processes and forms, not to influence program funding levels.

Question 90. How will your proposal to consolidate research programs affect implementation of the proposed Specialty Crop Research Initiative? How would the ongoing plant breeding programs to develop improved fruit and vegetable varieties be affected by the proposed research reforms?

Answer. The Administration's proposal to merge the Agricultural Research Service and Cooperative State Research, Education and Extension Service would facilitate an improved management structure to support the Specialty Crops Research Initiative. By bringing together the Department's intramural and extramural research programs and having a single National Program Staff, the Department will be better able to identify the comparative strengths of the USDA intramural laboratory network and our extramural partners to ensure that resources are better focused to address the challenges facing the specialty crops industry. Ongoing plant breeding programs to develop improved fruit and vegetable varieties would be enhanced by providing closer linkages between these efforts and the complementary capacity represented by the Department's overall research, education and extension programs. A key benefit will be facilitating more interaction between the applied research on plant breeding conducted intramurally with the vast extension network across the nation.

Beginning Producers & Disadvantaged Producers:

Question 91. Though you have quoted Lorette, who spoke at the North Carolina listening session, and indicated that, "we need a lot more resources to work one-on-one with farmers to eradicate all the problems in the system, to get farmers into the programs that do exist", it appears that your farm bill proposal does not envision any additional funding for the Section 2501 Outreach Program. And your FY08 budget request only asks for $7 million, a million dollars above the FY06 and FY07 amounts. Do you not feel that additional funding is appropriate in this area?

Answer. The Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers Competitive Grants Program, also known as the Section 2501 program, plays an important role in USDA's efforts to provide opportunities for socially disadvantaged farmers and ranchers to successfully acquire, own, operate, and retain farms and ranches; and helps ensure equitable participation in the full range of USDA programs. USDA strongly supports this program and its continuation in the 2007 Farm Bill. Continuation of the 2501 program will complement the additional beginning and socially disadvantaged farmer and rancher programs proposed in the USDA's farm bill package, along with other ongoing USDA programs that assist farmers and ranchers.

Question 92. Do you believe that the outreach efforts of locally-based organizations are necessary to help smaller producers effectively use the programs you've suggested making changes to?

Answer. USDA's Farm Service Agency continues to actively utilize outreach efforts whenever possible and any partnership with locally-based organizations is welcome.

Questions Submitted By Hon. Terry Everett, a Representative in Congress from Alabama

Question 1. As you know, the 2002 Farm Bill directed the Department of Agriculture to establish a loan repayment rate for peanuts that you determine will: minimize potential loan forfeitures; minimize the accumulation of stocks of peanuts by the Federal Government; minimize the cost by the Federal Government in storing peanuts; allow peanuts produced in the United States to be marketed freely and competitively, both domestically and internationally. However, U.S. peanut exports continue to fall because of the loan repayment rate being set so high by the USDA. Why does the rate remain at a level that prohibits peanuts produced in the United States to be marketed freely and competitively, both domestically and internationally? What are you doing to make U.S. peanuts more competitive internationally?

Answer. U.S. peanut exports have remained stable under the changes enacted in the 2002 Farm Bill, and the outlook for U.S. peanut exports remains optimistic. Marketing year 2006 peanut exports are currently projected to increase 12 percent over 2005; season-to-date exports through January are 30 percent over the same period in 2005.

During the years leading up to the 2002 legislation, the observed peanut export pattern was one of variable export volume dependent primarily upon annual U.S. peanut production. Because the previous marketing quota program guaranteed a lower support price to over-quota peanuts [$132/short tons] and required them to be crushed or exported, peanut producers and shellers were more willing to match competitor prices in international markets in order to sell peanuts. Peanut export volume in a given year was largely a function of production or available supply of over-quota peanuts.

Now, peanuts produced in excess of food requirements are no longer required to be exported or crushed, and may be marketed freely among uses. As a result, U.S. peanut exports have centered around the core market for high-quality food uses, with gains in some years.

Peanut butter exports nearly doubled between 2002 and 2005, increasing from approximately 14,000 tons to 26,000 tons of peanut butter. On a farmer stock (in-shell) basis, the addition of peanut butter exports brings total 2005 raw peanut equivalent exports to almost 300 million tons, an increase of nine percent from 2002.

Despite evidence of a stable peanut export market, the peanut industry has repeatedly contended that the level of the loan repayment rate or National Posted Price (NPP) is responsible for a perceived loss of export market share. This is simply not the case. It appears that the industry wishes for the peanut program to be operated as an export subsidy program, possibly similar to the former Step 2 cotton program. But a marketing assistance loan program that establishes a single repayment rate for all end-uses, domestic and international cannot target one end-use over another.

USDA's recent analysis on the peanut industry proposal to establish the NPP revealed that U.S. peanut prices would need to decline considerably for U.S. producers to gain an appreciable increase in export volume. Peanut export competition is intense, especially to the European Union, and significant discounting would be necessary to entice buyers away from competitors in Argentina, China, and Brazil.

Artificially lowering the NPP to enhance exports significantly increases taxpayer costs to operate the Marketing Assistance Loan program beyond the baseline costs established for the program. The analysis established a baseline over the 2007–17 period that reflects peanut supply and use and budget implications associated with implementation of the proposal. Compared to baseline costs estimated in the Fiscal Year 2008 President's Budget, the proposal adds $4.9 billion to government outlays over a ten year period, or 3.5 times the original budget estimate. The majority of the increase comes from marketing loan gains, as countercyclical payments are maximized when peanut prices decrease to the $355 per ton loan rate.

More importantly, lowering the NPP to levels proposed by the peanut industry would likely present serious World Trade Organization (WTO) concerns and possible challenges against the U.S. government. Marketing loan gains are subsidies for the purposes of the WTO Agreement on Agriculture and the WTO Agreement on Subsidies and Countervailing Measures (SCM Agreement). As such, they qualify as amber box support and count toward the total U.S. support limit of $19.1 billion per year. In addition, the SCM Agreement provides that no country should cause, through the use of any subsidy, serious prejudice to the interest of another country. When the perceived effect of a subsidy is significant price suppression, price depression, or lost sales in an individual market or in the world market, the WTO may rule, as it did in the upland cotton case brought against the United States by Brazil, that a subsidy creates serious prejudice.

Question 2. The President's farm bill proposal lowers the loan rate for peanuts from $355 per ton to $336 per ton. It eliminates the separate payment limit for peanuts. In addition, it maintains the same direct payment for 2008–09. U.S. production decreased about 30% in acreage in 2006. My producers tell me that the acreage decrease in 2007 could be as much as 40%. If the industry is declining this much under the 2002 bill, how can USDA expect the U.S. peanut industry to survive with the cuts you have offered for the next farm bill?

Answer. The 2002 Farm Bill transitioned the U.S. peanut program from a quota program to a market-oriented program, thereby allowing the peanut industry to respond to market dynamics. The elimination of peanut marketing quotas brought shifts in peanut production both within and between the three producing regions (Southeast, Virginia-North Carolina, and Southwest). The movement to new, more productive peanut acreage has increased average yields and production, with shifts in regional peanut production favoring the Southeast.

The U.S. peanut industry has flourished under the 2002 Farm Bill. The reduction in peanut prices (from $610 tons under the previous program) has served to increase domestic food use of peanuts and improve the competitiveness of U.S. peanuts. U.S. peanut food use increased 17 percent between 2002 and 2005, with domestic origin food use increasing 19 percent over the same period, as peanut imports fell sharply.

In 2005, peanut acreage rose 16 percent, with production increasing 14 percent over the previous year to the second highest level on record. Although peanut use increased over the period following the 2002 legislation, peanut stocks built to 52.2 percent of use at the end of the 2005 marketing year, which had a depressing effect on option prices offered to farmers in early 2006. Peanut acreage decreased 25 percent in 2006, as the market responded to these burgeoning peanut stocks.

Current offerings on 2007 crop runner peanuts (approximately 80 percent of total peanut production is runner peanuts) are $60–$90 per ton above the loan repayment rate, easily the highest option prices offered since 2002. Between 2002 and 2006, runner option prices ranged from $10–$45 per ton above the loan repayment rate. As peanut producers have noted, higher corn prices makes corn a profitable alternative to peanuts this year. If peanut planted acreage decreases by 40 percent in 2007, it is likely due to the attractiveness of alternative crops.

Questions Submitted By Hon. Tim Walberg, a Representative in Congress from Michigan

Question 1. Again, with the Administration's goal of improving the safety net for producers in mind, how does reducing the incentives (premium subsidies) and increasing the costs for catastrophic coverage for crop insurance help improve producer's safety net? Are you attempting to fix specific areas of the country where there are problems with crop insurance indemnity ratios, due to high repetition of weather problems, (like drought in the Dakotas), at the expense of greater participation in areas of the country where loss ratios are okay?

Answer. The Administration's proposal would require producers to purchase a buy-up level of crop insurance in order to be eligible for farm program benefits. This means, participation would be expected to increase in all areas of the country. To offset the increased costs of greater program participation, several proposals are made to garnering savings. One proposal is to reduce premium subsidies by five percentage points for coverage levels of 70 percent or below and two percentage points for coverage levels of 75 percent or higher. Current subsidy rates vary by coverage level ranging from about 67 percent at lower coverage levels to 38 percent at higher coverage levels.

Due to the higher premium, the dollar value of the subsidy is greater at higher levels of coverage than at lower levels of coverage. To avoid too great an impact, the proposed reduction of these higher levels of coverage is less. However, it is inevitable that a small number of producers would reduce their crop insurance coverage level by a step (five percentage points) to offset the higher costs. However, these lower buy-up levels will still provide important risk protection.

Another proposal to garner savings to offset the increased program costs is to restructure the administrative fee producers pay for catastrophic (CAT) coverage to better reflect the size of the farming operation. This would be accomplished by charging an administrative fee on CAT coverage equal to the greater of $100 or 25 percent of the CAT premium, up to a maximum of $5,000. There have been numerous complaints that some large producers are receiving millions of dollars of indemnity for $100, while small farmers get minimal benefits for their $100. This change makes the program more equitable between large and small producers. Currently, the CAT fee is $100 regardless of the amount of protection provided. In addition, the Administration's proposal would further increase direct payments to farm program participants. Hence, more money will be automatically placed in the hands of eligible producers, regardless of price and yield fluctuations over the course of the year. Producers will clearly be in a better financial position to afford crop insurance given the availability of the direct payments.

Question 2. With the Administration's goal of improving the safety net for producers, how does the Administration's proposed change from a countercyclical payment based on price (from the 2002 Farm Bill) to one based on revenue, ensure a stronger safety net for producers of different commodities in different regions of the country? Do we know it will work the same for a corn producer in Iowa, *versus* a corn producer in Michigan? (Michigan Farm Bureau)

Answer. The Administration's proposal would create a countercyclical program that is more responsive to actual conditions by replacing current price-based payments with revenue-based payments for program crops. Current price-based countercyclical payments are based on fixed program payment yields and acreages. Thus when market prices drop below the level that triggers a countercyclical payment, payments are made regardless of the level of yields.

Since current countercyclical payments are not directly tied to actual yields, they may over-or-under compensate producers for annual fluctuations in market revenue. For example, when yields are above trend, causing market prices to decline, current countercyclical payments can over-compensate producers since higher yields offset some revenue lost from lower market prices. The opposite occurs when yields are below trend. In this situation, lower production can cause market prices to increase and countercyclical payments to decline—even to zero. However, because revenue per acre may change only slightly or even decrease as a result of declining yields per acre, revenue-based payments would be more responsive to actual conditions.

Questions Submitted By Hon. Bob Etheridge, a Representative in Congress from North Carolina

Question 1. Do you envision the 20% bonus in direct payments for beginning farmers potentially being shared with landowners in share rent situations when both the landowner and the tenant producer share in the risk of production—and hence are both eligible for farm payments—or should we establish this 20% bonus exclusively for the beginning farmers?

Answer. We see no reason why the 20 percent bonus in direct payments for beginning farmers should be shared with landowners in share rent situations when both the landowner and the tenant producer share in the risk of production. We envision that a producer who meets the definition of a beginning farmer and who receives direct payments would receive a 20 percent increase in those payments under the Administration's direct payment bonus for beginning farmers.

Question 2. Last week at the Senate hearing, Dr. Collins said there were about 38,000 Schedule F and Form 4835 filers who have AGIs over $200,000 and who receive farm payments. This is the universe that would be affected by the proposed $200,000 cap. Will USDA be asking the IRS to analyze how many of those tax filers would see negative AGIs if you eliminated the farm payments from their tax returns?

Answer. The Administration has proposed to reduce the AGI eligibility cap for receiving farm commodity and other payments from $2.5 million to $200,000 in order to make the distribution of payments more equitable and prevent payments from going to the wealthiest Americans. As you correctly point out, there were about 38,000 Schedule F and Form 4835 filers or about 1.4 percent of all Schedule F and Form 4835 filers in 2004 who had and AGI over $200,000 and who receive farm payments. We do not know how many of those tax filers would have had negative AGIs if they were no longer eligible for farm program payments.

Question 3. According to your proposal, the recommendation to set loan rates at 85% of recent prices is designed to provide a more market-based solution for setting loan rates and to avoid the unintended consequences of creating incentives for producers to plant one crop over another. If you intend a market-oriented approach to setting loan rates, how do you justify a cap on loan rates?

Answer. From a broad policy perspective, we propose to continue support for production agriculture while shifting that support so the market, not the government, serves as the primary signal for what and how much America's farmers should produce. As you know, a significant component of our proposal is to lower loan rates from their current levels. This action would reduce non-market incentives that loan rates and consequent LDPs create for producers' crop mix and planting decisions. In turn, we propose shifting expected savings from the marketing assistance loan program to the direct payment program, thereby shifting increasingly to non-trade-distorting support.

If prices for commodities remain relatively high, then the maximum loan rates we propose will continue to provide revenue support, *albeit* at lower levels, and provide a vehicle for producers to obtain interim financing. However, if one commodity's market value falls to levels near or below the loan rate, the Department considers it appropriate to lower its support level (i.e., to 85% of the Olympic average) relative to those of other commodities. In so doing, we would reduce the program-based incentive for producers to continue planting and harvesting a commodity that the market has consistently valued at a relatively low level.

Our proposals would leave the safety net for American producers intact, but the market, not the government, would increasingly serve as the signal for what and how much to produce.

Congress would appear to agree with these arguments for capping loan rates, since caps on loan rates have been included in both the 1996 and 2002 Farm Bills as well as other farm bills. The caps on marketing assistance loan rates contained in the Administration's 2007 Farm Bill proposals were included in the House-passed version of the 2002 Farm Bill.

Question 4. Some commodity groups have criticized the current target prices for the countercyclical program as being too low. Yet the Department used those same target prices for its revenue-based counter cyclical proposal. Was there any consideration to changing the target prices to more closely reflect relative crop prices and values? Why did you use these same target prices in your proposal?

Answer. We reviewed the current target prices for all program crops and believe that current target prices combined with the Administration's countercyclical revenue payment proposal along with the Administration's other proposals to improve the commodity, conservation, trade, credit, research, energy and miscellaneous titles of the farm bill will provide an adequate safety net for farmers and ranchers.

Question 5. Many of your recommendations for the commodity title appear to be based on the assumption that the U.S. will lose its pending appeal with Brazil regarding cotton. Is it the Administration's expectation that we will lose this appeal?

Answer. In shaping these farm bill proposals, our primary goal has been promoting good farm policy. This means a more market-oriented approach that is predictable and balanced, an approach that provides farmers and ranchers with a safety net, yet doesn't distort market signals.

We believe that steps we have taken regarding GSM credit programs and the elimination of the Step 2 program sufficiently address the WTO cotton panel findings and recommendations regarding prohibitive export subsidies and serious prejudice. Arguments by Brazil and the United States were made before a compliance panel in Geneva on February 27–28, 2007. A decision by the compliance panel is not expected until summer.

Question 6. We have heard much from fruit and vegetable growers about the potential consequences to their industry should the planting prohibitions on program base acres be removed, as you proposed. Without the prohibitions in place, the utility of program base acres increases, and likewise the value of those acres. Additionally, fruit and vegetable growers will now have an incentive to seek out these acres for their plantings or else suffer a potential competitive disadvantage to competitors that do grow on program base acres. It seems this could exacerbate the whole high land value, high rent problem. Has USDA looked at the consequences on land values and rents for program crop acres' should the planting prohibitions be lifted? Are the consequences previously described not a possibility?

Answer. The adverse ruling in the WTO cotton dispute necessitates removing the planting flexibility limitations. Overall, the market effects of eliminating restrictions are likely to be small for most fruits and vegetables. In November 2006, USDA's Economic Research Service published a study entitled "Eliminating Fruit and Vegetable Planting Restrictions: How Would Markets Be Affected?" This study provides information on the effects of eliminating the planting restrictions from a farm, regional, and national perspective.

The USDA proposal contains significant funding increases and policy changes in various assistance programs, value-added programs, and research programs that are targeted to specialty crop producers. A few specific examples include—an annual $100 million competitive grant program specifically geared toward specialty crops research; an additional $275 million annually in Section 32 purchases of fruits and vegetables; an additional $50 million in annual spending for purchases of fruits and vegetables through the National School Lunch Programs; and significant increases in both the Market Access Program and the Technical Assistance for Specialty Crops Program.

Additionally, 85 percent of total farm family income is from nonfarm sources. By investing in rural America through programs outside the commodity title, the USDA proposal provides support that aids agricultural producers regardless of their farm size, the crops they raise, or their income. USDA's rural development and energy proposals alone would infuse over $2 billion into rural communities, including $1.6 billion to complete reconstruction and rehabilitation of over 1,200 rural critical access hospitals and $4 billion in Business and Industry Loans to create jobs and invest in value-added businesses.

By providing bonus direct payments and other incentives for beginning and socially disadvantaged farmers, USDA's proposal will help those who are under-represented in production agriculture and generally have difficulty entering the business due to economies of scale, high land values and rental rates, and lack of capital. In addition to the direct payment bonuses, the USDA proposal targets a significant portion of conservation programs and loan programs to beginning and socially disadvantaged farmers.

USDA's proposed Adjusted Gross Income eligibility requirement and program payment attribution will help ensure that those most in need receive assistance, while the nation's largest and most wealthy are graduated from direct subsidy programs.

Question 7. One of your proposals in the payment and eligibility limits section calls for new rules that strengthen requirements for the active management contribution to an operation that allows individuals to qualify for commodity payments without contributing labor to the operation. Who are you targeting with these stronger requirements? Why can't these new rules be implemented administratively through rule making?

Answer. The current rule on what constitutes a significant contribution of active personal management provides that the determination takes into consideration whether the claimed management is critical to the profitability of the farming operation, considering the individual's share. Problems can arise when multiple individuals claim that they are jointly providing critical contributions of active personal management. It is common to see claims that all contributions of active personal management in a farming operation are being provided jointly by all of the members of the farming operation. It is asserted that the members meet or otherwise communicate with each other and jointly make decisions which are critical to the profitability of the farming operation. When farming operations are structured to maximize eligibility for payments and include multiple entities involving the same individuals, these assertions strain credibility, but can be difficult to disprove.

Question 8. How does USDA ensure farmers are complying with the current AGI limit, and what new rules and procedures do you want to institute to ensure compliance, as your proposal recommends?

Answer. Under current procedures, an individual or entity subject to the average AGI limitation must either: provide a statement from a certified public accountant or an attorney that the average AGI does not exceed the limitation; or certify that their average AGI does not exceed the limitation. The reviewing authority may request tax records and other documentation if they question the accuracy of the certification. Additionally, cases are selected for review as part of a nation-wide selection. We would implement similar procedures under the proposal.

Question 9. Can you please explain your rationale for leaving the AGI limit for conservation payments the same, and how you reconcile that with your reasons for changing the AGI limit for farm safety net payments?

Answer. There are important differences between commodity programs and conservation programs which must be taken into consideration. First, commodity programs relate directly to income connected with the farming or ranching operation. As Farm Bill Forum input indicated, and our analysis further verified, there is a current imbalance of commodity program distribution under current law. Conversely, conservation programs currently have a more even distribution across farms of all acreage and size. In fact, most conservation programs are connected with small and mid-size farming operations. Under conservation programs, the government is either sharing in the cost of a particular conservation practice, purchasing an easement, or receiving some sort of new conservation benefit. In the end, wildlife and natural resources do not recognize property boundaries, political boundaries or differences in income. We want to seek out the greatest environmental benefits that can be purchased on behalf of the entire nation.

Question 10. Does the Department have projections for budget outlays for your proposed changes to direct payments, countercyclical payments, and marketing loans divided by commodity? Can you tell us in the aggregate how much cotton, rice, wheat, corn, and soybeans would receive under your proposal as compared to the January 2007 baseline? What are your price projections for these crops?

Answer. The Department does have projections for budget outlays for the proposed changes to direct payments, countercyclical payments and marketing loans divided by commodity. The estimated change in total payments by crop year under the Administration's proposals compared to the FY 2008 President's Budget baseline for corn, wheat, upland cotton, rice and soybeans are as follows:

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
					——million dollars——					
Corn	−72	−70	103	96	81	−69	−77	−79	−91	−91
Wheat	−40	−40	53	56	58	−18	−16	−15	−12	−12
Soybeans	−43	−47	−21	−56	−77	−138	−150	−147	−160	−160
Upland Cotton	−268	−314	−343	−343	−418	−336	−438	−425	−562	−562
Rice	−15	−15	21	22	23	−6	−6	−5	−4	−4

The price projections for these crops under the Administration's 2007 Farm Bill proposals and under the FY 2007 President's Budget baseline are as follows:

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
					——million dollars——					
Corn	3.50	3.60	3.35	3.20	3.15	3.10	3.05	3.05	3.00	3.00
Wheat	4.25	4.20	4.30	4.35	4.35	4.40	4.45	4.45	4.45	4.45
Soybeans	7.10	7.10	6.75	6.45	6.35	6.30	6.25	6.30	6.20	5.95
Upland Cotton	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Rice	8.95	9.20	9.35	9.41	9.43	9.50	9.50	9.70	9.83	9.96
					——Administration's 2007 Farm Bill Proposal——					
Corn	3.50	3.60	3.35	3.20	3.15	3.10	3.05	3.05	3.00	3.00
Wheat	4.25	4.20	4.30	4.35	4.35	4.40	4.45	4.45	4.45	4.45
Soybeans	7.12	7.11	6.75	6.45	6.35	6.31	6.26	6.31	6.22	5.97
Upland Cotton	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Rice	8.94	9.20	9.35	9.41	9.43	9.49	9.49	9.69	9.84	9.95

N/A—The Department is prohibited by law from publishing price projections for cotton.

Question 11. Your proposal states "loan rates guarantee farmers a 'safety net' per unit" of covered commodities. But if the loan rate becomes set at 85% of a commodity's previous 5 year Olympic average, what happens to the loan rate and the utility of it as a safety net if the commodity experiences a prolonged period of low prices?

Answer. The loan rate would continue to serve as a safety net in a period of low prices. Because the loan rate is a 5 year average, it takes years for it to adjust to a prolonged, lower level of market prices. During that adjustment period, the loan rate may actually be above the market clearing, or market equilibrium, price. Such a situation should be temporary, if the loan rate is supposed to help stabilize markets but not distort price signals. Once the loan rate fully adjusts to the lower price levels, it would still support farm prices received by producers, because prices may be quite variable within a year. A move to a new, prolonged period of lower market prices may have many causes. If the move reflects increases in long-run productivity, reductions in production costs, or changes in global competitive positions, the new lower prices may reflect a new, expected and sustainable level of market prices. In that case, it would be inappropriate to keep the loan rate reflective of past market prices and artificially high, because it would be inconsistent with the new price equilibrium. It would be appropriate to set the loan below the historical average of past prices, as we have proposed, to prevent an unduly high loan rate from interfering with market-based decisions of producers. Moreover our countercyclical revenue proposal is structured to provide greater income protection in a less production distorting way as the loan rate is reduced.

Question 12. I assume you have consulted with USTR to determine how your proposed changes would be classified by the WTO and whether the result would be in compliance with our current WTO obligations. What has USTR told you about your changes to the commodity title? In the absence of an effective Peace Clause what assurance can you provide that if Congress adopts the Administration's commodity title in its entirety that the programs could be successfully defended in the WTO?

Answer. The proposals we have outlined are not only good farm policy but would diminish any possible trade distortions, which is the concern addressed by the current WTO rules. For example, the marketing loan program is a major contributor to the so-called "amber box," measures that are considered more than minimally trade distorting. Our proposal will reduce budget outlays under that program. At the same time, our proposal would increase direct payments and would remove planting restrictions on base acres. The increased planting flexibility better reflects the considerations underlying the WTO rules for so-called "green box" (non- or minimally-trade distorting programs). Conservation and environmental programs are also entirely consistent with WTO rules for green box programs. Our proposal would increase that funding. On balance, we think these proposals move U.S. farm policy in the right direction in terms of the WTO rules; they minimize possible trade distortions in our programs, decrease funding under programs in the amber box, and replace it with funding under non- or minimally-trade distorting ("green box") programs. Having said that, there is no question that the protections provided by a peace clause are significant. Yet another reason a successful conclusion to the Doha Round is so important.

Question 13. Secretary Johanns has stated publicly on more than one occasion that wheat growers did not get a fair shake in the last farm bill. The Department's proposal includes a $.04 increase in the direct payment rate for wheat that only comes in the out years. Is this increase sufficient to restore fairness to wheat growers?

Answer. During the 2002–06 crops, wheat producers have experienced stronger market prices relative to other commodities. For example, wheat producers received an average farm price of $3.60 per bushel during the 2002–06 crops, compared with just $2.78 per bushel during 1997–2001 prior to the enactment of the 2002 Farm Bill. This represents a 29 percent increase in average prices for wheat, compared with lesser increases for other crops (20 percent for corn, 22 percent for soybeans, eight percent for rice, and a two percent decline for cotton).

To enhance the safety net for all producers of program crops, the Administration's farm bill proposal modifies the countercyclical payment program to make it responsive to not only prices but also yields. Thus, if targeted wheat revenue per acre falls below prescribed levels, producers will receive revenue-based countercyclical payments. Had the Administration's proposal been adopted in the 2002 Farm Bill, wheat producers would have received about $810 million more in payments over the 2002–06 crop years under the Administration's proposal than they received under the 2002 Farm Bill's commodity programs.

Question 14. Wheat growers do not expect to receive a countercyclical payment for the 2006 crop. Given your best estimates for the season average price for wheat for 2006, would wheat growers have received a payment had your countercyclical revenue program been in place?

Answer. The Administration feels very strongly that its 2007 Farm Bill proposals treat all commodities fairly. The formulae for computing each safety net benefit are the same for each eligible commodity. Providing the same program structure across all commodities is a fair way to assure equitable treatment of all eligible commodities. In addition target prices and program yield factors used to determine program benefits are those used in previous farm legislation. For wheat producers specifically, the Administration has estimated that benefits received under the proposed safety net structure would have resulted in increased payments of $810 million for the 2002–06 crops, compared with payments received under the 2002 Farm Bill's direct payment, countercyclical payment and marketing assistance loan programs. Payments for 2006 would have been $81 million higher under our proposal than under the current law.

Question 15. Why did the Administration determine that the 75% farm, ranch or forestry income exemption be eliminated?

Answer. The Administration believes the AGI should be administered on the basis of income from all sources. Tax filers with AGI of $200,000 or more are the highest income people in the United States. The Administration believes that those with incomes at the level, regardless of source, should be able to succeed with out farm program assistance.

Questions Submitted By Hon. K. Michael Conaway, a Representative in Congress from Texas

Question 1. Mr. Secretary, you state that your farm bill proposal is intended to address situations where farmers lose their crop but still do not receive help under the farm bill. However, you also propose to make $2.5 billion in cuts to the Federal Crop Insurance Program which is intended to deal with crop loss situations (p. 183). The idea of permitting supplemental insurance that is triggered on an area-wide basis on top of individual coverage (p. 151) has merit in meeting the risk management needs of farmers and is worth exploring. But, the $2.5 billion in cuts I believe will result in higher farmer paid premiums and less affordable coverage levels to farmers. How would you respond to this?

Answer. Only part of the $2.5 billion in savings will have a direct effect on farmer paid premiums. One proposal that directly affects farmer paid premiums is to trim premium subsidies by five percentage points for coverage levels of 70 percent or below and by two percentage points for coverage levels of 75 percent or higher. Current subsidy rates vary by coverage level ranging from about 67 percent at lower coverage levels to 38 percent at higher coverage levels. After the proposed changes to the subsidy rates, the dollar value of the subsidy will still be greater at higher levels of coverage than at lower levels of coverage because premiums are greater at higher coverage levels. Despite this, it is expected that some producers will scale back their coverage level by one step (five percentage points) to offset the effects of the proposed reduction in subsidy rates. However, the coverage provided should still provide a valuable risk management tool.

Another proposal that directly impacts farmer paid premiums is a revision to the fee charged for catastrophic (CAT) coverage. Currently, farmers may obtain CAT coverage for $100, regardless of the dollar amount of insurance obtained. This proposal would allow the fee for CAT coverage to vary according to the dollar amount of insurance obtained. This change makes the program more equitable between large and small producers.

Question 2. Mr. Secretary, the Administration's plan states that higher direct payments and revenue-based countercyclical payments will help make up for cuts in cotton loan rates. However, the yield base for these payments is well below current yields. How will this be addressed?

Answer. Under the Administration's farm bill proposals, the decline in payments to cotton producers from lowering the loan rate is offset by increasing direct payments for cotton. While the yield used to determine these payments is below current yields, the payment rate for direct payments is adjusted to compensate cotton producers for the loss in payments from reducing the cotton loan rate.

Question 3. Mr. Secretary, you propose in your farm bill proposal that Congress give the Secretary of Agriculture expanded authority to adjust farm policy not only to comply with existing trade commitments—as was allowed for under the 2002 Farm Bill—but also any future trade agreements (p. 38). Does this mean that Congress could pass a 2007 Farm Bill, and then the Secretary could unilaterally change existing farm law to comply with the new trade agreement(s)?

Answer. The current circuit breaker provision authorizes the Secretary of Agriculture to make adjustments in the amount of certain expenditures during a particular period to ensure that the United States does not exceed "the total allowable domestic support levels under the Uruguay Round Agreements." This revision also authorizes adjustment of payments. As the statutory language of the current circuit breaker provision is explicitly limited solely to the Uruguay Round Agreements, however, by definition it could not apply to domestic support levels that may be agreed to under the current Doha Round negotiations (or any other World Trade Organization agreement). Consequently, we believe this change would simply facilitate implementation of any agreement that may succeed the Uruguay Round Agreements.

Question 4. Mr. Secretary, I noticed that your proposal does not impose a reformed AGI test on conservation programs. Why has the USDA taken the position that an individual's AGI is not relevant with regard to conservation programs *versus* commodity programs?

Answer. There are important differences between commodity programs and conservation programs which must be taken into consideration. First, commodity programs relate directly to income connected with the farming or ranching operation. As Farm Bill Forum input indicated, and our analysis further verified, there is a current imbalance of commodity program distribution under current law. Conversely, conservation programs currently have a more even distribution across farms of all acreage and size. In fact, most conservation programs are connected with small and mid-size farming operations. Under conservation programs, the government is either sharing in the cost of a particular conservation practice, purchasing an easement, or receiving some sort of new conservation benefit. In the end, wildlife and natural resources do not recognize property boundaries, political boundaries or differences in income. We want to seek out the greatest environmental benefits that can be purchased on behalf of the entire nation.

Question 5. Mr. Secretary, an AGI cap like the one you propose makes it very difficult for a lender to measure cash flows from year to year. How and when will lenders know if a farmer qualifies for payments each year? In the absence of current tax returns, how can it be determined if a farmer qualifies for payments in the next operating year?

Answer. The $200,000 limitation would be based on the average AGI for the previous 3 years, just as is the case with current $2.5 million limitation. Persons who are unsure whether their average AGI will exceed the limitation (because they haven't filed their tax return for the last year) should either delay signing up for a benefit until they are sure of their average AGI or be prepared to repay benefits if their average AGI does, in fact, exceed the limitation.

Question 6. Mr. Secretary, since an S-corporation reports an AGI, but a C-corporation does not, is a C-Corp exempt from the AGI limitation?

Answer. A C-corporation is not exempt from the proposed Adjusted Gross Income (AGI) limitation. A C-corporation has a reported net income. Under the current $2.5 million AGI eligibility criterion, the AGI for a corporation is defined as the total of final taxable income and any charitable contributions reported to the Internal Revenue Service on form 1120 or comparable forms.

Question 7. Mr. Secretary, an AGI is a calculated value net of all operating expenses. But this does not take into account the principal portion of a taxpayer's debt service. A $200,000 AGI max would severely limit the ability of a loan customer to meet principal debt repayment on land and equipment. Since the announcement of your proposal, are you hearing concerns regarding some of the potential unintended consequences?

Answer. We do not believe that the Administration's 2007 Farm Bill proposal to decrease the AGI eligibility cap for farm commodity program payments from the current $2.5 million to $200,000 would severely limit the ability of a loan customer to meet principal debt repayment on land and equipment. We have not heard from producers or farm credit lenders that the proposal would reduce the ability of producers to repay farm real estate and operating loans. Expensing and depreciating are subtracted from gross farm income when calculating AGI, which reduces AGI for those who have financed the purchase of eligible assets.

Question 8. Mr. Secretary, at the Senate Agriculture Committee hearing on renewable fuels, either you or your Chief Economist, Keith Collins mentioned that the USDA is excited about the role of sweet sorghum in the ethanol industry. What role or how large of a role does USDA envision sorghum playing in starched-based renewable fuels industry? Could you provide me with additional details on what role USDA expects sweet sorghum to play in the industry? Are there ag policies or programs at USDA that you intend to change or promote sorghum production as a local feedstock for the local renewable fuels industry?

Answer. The idea of using sweet sorghum for commercial ethanol production is not new, and there are many benefits of using sweet sorghum. Sweet sorghum is a low input, high carbohydrate crop that can be cultivated in nearly all temperate climates. In addition, each acre of sweet sorghum could yield between 500 to 800 gallons of ethanol, which is larger than the ethanol yield from corn.

The reason sweet sorghum is not a popular source of ethanol is due to the high costs associated with constructing and operating a central processing plant. While starch can be stored for long periods of time, the simple sugars directly derived from sweet sorghum are quite perishable and have to be fermented immediately. In addition, the harvest season for sweet sorghum is only a few months and since sorghum juice cannot be easily stored, ethanol production would be limited to a few months a year making its use generally uneconomic compared with corn.

However, researchers at the USDA–ARS Sugarcane Research Laboratory in Houma, Louisiana have found that it may be possible to plant sweet sorghum during the spring and summer months on fallowed sugarcane fields for use as a complementary biofuel feedstock. The integration of these two crops could assure a continuous supply of feedstock to the ethanol producer.

In 2005, as part of the Biomass Research and Development Initiative, USDA provided a $1.9 million grant to the Tampa Bay Area Ethanol Consortium for the implementation of a scale-up pilot plant demonstration facility. This project will demonstrate how the production, harvest, transportation, storage, handling and conversion of multiple feedstocks compatible with the climate and soil of Florida can be managed to economically produce ethanol. The project will focus on the development of a flexible-feedstock process that will enable the use of a combination of several feedstocks, including citrus pulp and peel waste, sweet sorghum, and nonfood, high starch sweet potatoes to enable stable-year-round ethanol production. This entails designing and constructing a 2 million gallon per year flex-feed ethanol plant.

Therefore, while sweet sorghum will not likely replace corn as the feedstock of choice for ethanol production in the United States, we believe it has the potential to complement other feedstocks and allow regions of the country that may not be efficient corn producers to enter the ethanol market.

Questions Submitted By Hon. Stephanie Herseth, a Representative in Congress from South Dakota

Question 1. Mr. Secretary, I am pleased to see that the Administration's 2007 Farm Bill proposal would reauthorize the Rural Broadband Loan Program. As you know, this valuable program provides access to advanced telecommunications services to many parts of South Dakota and other rural areas throughout the country. However, while I support the program's goals, I am concerned that the focus of the program has lost its focus on rural, unserved areas. As we work to write a new farm bill, I look forward to working with you, in the coming months, to address these concerns. In the USDA FY 2008 Budget Summary (page 44), you explain that "Regulations are being changed to correct certain weaknesses that have become apparent since the program was established a few years ago. The new regulations will ensure that program funds are focused on rural areas that are lacking existing providers, and that applicants meet high enough standards to ensure long term success." May you please expand upon these comments? What specific changes are you proposing to make to the RUS Broadband Loan Program in the 2007 Farm Bill that will address the "unserved" issue? Will the funds granted by the continuing resolution for FY 2007 still be made available to providers to serve already served communities this fiscal year, or will the regulation changes you propose apply to 2007 funds?

Answer. We share your assessment that broadband is a critical component to the future of rural America. The Broadband programs have moved us closer to achieving this vision. Through more than $1.1 billion in loans for broadband deployment more than 1,000 rural communities will receive broadband service. Approximately 40 percent of these communities had no broadband service at the time the loan was approved, and an additional 20 percent had limited access to broadband services. Currently, eight projects have been completed (Kansas, Louisiana, Michigan, North Dakota, Nebraska, South Dakota, Texas and Washington), 37 are in progress, and 13 more are getting started.

Even with this level of success, the program needs to be adjusted to better serve unserved or underserved communities. In response, we are proposing new rules that seek to address this and other critical issues, and further facilitate the deployment of broadband service in rural America as directed by Congress.

While we have placed a priority on projects that target unserved communities, the competitive nature of the broadband market, coupled with lower densities and higher cost to serve these areas lead applicants to include other rural, but more densely populated areas in their proposals. The fact is we have not received an application in the loan program proposing to serve only unserved areas.

With regard to our proposed regulations, we are applying the lessons we have learned since the program's implementation in proposing new rules that seek to improve the program's support of unserved areas and other critical issues, and further facilitate the deployment of broadband service in rural America as directed by Congress. While we are not able to discuss the substance of the proposed regulations, the following is a summary of the major issues addressed by the proposed rulemaking:

1. Establish requirements to provide service to un-served and underserved areas;
2. Establish criteria to exclude funding for broadband in certain served areas;
3. Provide potential applicants with a clear definition of which communities are eligible for funding;
4. Establish equity and cash requirements that mitigate risks; and
5. Impose new time limits for build-out and deployment to ensure prudent use of loan funds and timely delivery services to rural customers.

Until the new rules are final, Rural Development will accept and process applications under its current rules and regulations.

Question 2. Mr. Secretary, USDA provides 18¢ per meal in school lunch commodities, but does not provide any commodities for the school breakfast program. Given the importance eating breakfast, we could support the breakfast program and support agriculture if USDA provided schools with commodities for breakfast. Would you support such an initiative? (The schools are seeking 10¢ per meal for breakfast.)

Answer. USDA agrees that a good breakfast, at home or in school, is critical to good school performance and classroom behavior. We are pleased that USDA has seen an increase in student participation in the School Breakfast Program (SBP). Total breakfast participation increased from approximately 7.5 million in FY 2000 to nearly 9.8 million in FY 2006.

The Administration is committed to the continued success of the SBP and supports the Program in several ways. Although USDA does not provide commodity foods through the SBP specifically, school food authorities may elect to use commodities received through the National School Lunch Program, such as fresh, canned, dry and frozen fruit, to prepare healthful breakfasts. Schools can also obtain fruits and vegetables by purchasing fresh produce from the Department of Defense (DOD) to take advantage of lower food prices that come with DoD's bulk buying.

Furthermore, the USDA's 2007 Farm Bill proposals would provide new mandatory funding for the purchase of additional fruits and vegetables for use in the National School Lunch and School Breakfast Programs. This $500 million of funding over 10 years represents a net increase in the total purchase of fruits and vegetables for school meals over levels available under any other authorities.

Given these proposals and other existing resources available to schools for the SBP, the Department believes that providing additional funds for commodities is not necessary.

Questions Submitted By Hon. John R. "Randy" Kuhl, Jr., a Representative in Congress from New York

Question 1. I noticed with interest that your farm bill proposal includes several provisions for specialty crops. We grow a number of them in New York. We held a field hearing last summer in my district, and I think that many of my colleagues were surprised to learn that New York has agriculture! What I heard during that hearing from our specialty crop growers is that they face challenges like never before. From sky rocketing land costs to a near agriculture trade deficit, ever-increasing regulations and labor shortages, it is a new era and if we are to retain our domestic specialty crop industry we need to invest more money in programs designed to help them stay competitive. That is why last session I cosponsored H.R. 6193—The EAT Healthy America Act, and we are getting ready to reintroduce that bill very soon. Your proposal represents a step in the right direction, particularly the emphasis on research. However, there were some programs, which were missing, programs that I have heard a lot about from my growers. Specifically: Your proposal would increase funding by $50 million annually for schools to purchase fruits and vegetables. In announcing your farm bill proposal, you suggested that schools would have the option to choose whether to use these funds from among the fruit and vegetable snack program or school meal programs. However, your actual proposal appears to exclude the snack program. I hope it would be included. Can you please clarify your proposed use of this $50 million?

Answer. The Administration's proposal is intended to support efforts to offer school meals based on the most recent Dietary Guidelines for Americans. In developing this proposal, the Department considered a range of approaches to increase the availability of fruits and vegetables in schools and ultimately selected the approach that has the potential to reach the greatest number of school-age children. Because most schools across the country participate in the National School Lunch Program (NSLP), targeting the fruits and vegetables to the NSLP will reach the greatest number of school children nationwide. On average, over 31 million children eat a school meal each school day. In contrast, if the same level of funding was directed toward the nationwide expansion of the Fresh Fruit and Vegetable Program (25 schools in each state and select Indian and Tribal Organizations), approximately 650,000 children would benefit in about 1,325 schools.

While the Department is not seeking to expand the Fresh Fruit and Vegetable Program, any USDA commodities provided to schools may be used for any purpose that is principally for the service of children, including snack programs operated by the school.

Question 2. Your proposal does not include any funding for the Specialty Crop Block Grant Program. The block grant program, authorized under the Specialty Crop Competitiveness Act, provides funding to the state departments of agriculture to be used by grower groups and specialty crop producers for programs that enhance competitiveness.

Answer. Authority extending through Fiscal Year 2009 already exists for the Specialty Crops Block Grant Program with nearly $14 million appropriated (FY 2006 and FY 2007) to fund it. Grants have been approved for six states, with several additional applications under review. Over the next 3 years we will have an opportunity to determine the effectiveness of funds provided in this manner.

Question 3. In FY06, this program received $7 million in appropriations, or just over $100,000 for New York. Given our current budget constraints it is not realistic to expect a program like this to depend on the appropriations process each year. This is the kind of program that ought to receive mandatory funding (for stability and continuity) under the farm bill. This program recognizes the diversity of specialty crops from state to state, offering maximum flexibility for projects that support research, promotion, exports, consumer health, and food safety. Could you please explain why the Administration chose not to provide mandatory funding for this program?

Answer. Authority extending through Fiscal Year 2009 already exists for the Specialty Crops Block Grant Program with nearly $14 million appropriated (FY 2006 and FY 2007) to fund it. Grants have been approved for six states, with several additional applications under review. Over the next 3 years we will have an opportunity to determine the effectiveness of funds provided in this manner.

More broadly, the Administration strongly supports increased assistance to specialty crops. The Administration's 2007 Farm Bill proposals would change several titles to increase substantially the support to specialty crops, including greater mandatory funding. We believe these proposals, which target a series of mutually reinforcing changes to the conservation, trade, nutrition, rural development, energy, research and miscellaneous titles of the farm bill, provide the best, comprehensive set of programs to assist specialty crop producers. The Administration's 2007 Farm Bill specialty crop proposals would increase assistance to specialty crop producers by nearly $5 billion over the next ten years and include increased mandatory funding of $68 million for Trade Assistance for Specialty Crops, increased mandatory funding of $250 million for non-program crops under the Market Access Program, increased mandatory funding of $500 million for fruit and vegetable purchases for the School Lunch Program, and increased mandatory funding of $1 billion for specialty crop research. Our proposals also include $2.75 billion for Section 32 specialty crop purchases for use in food assistance programs.

Questions Submitted Hon. Jim Costa, a Representative in Congress from California

Question 1. Mr. Nunes, and I, recently introduced a bipartisan bill to provide assistance to farmers and farm workers who have been impacted by this year's devastating freeze as well as 2005 and 2006 natural disaster events. We respectfully request the Secretary's comment on this legislation.

Answer. We assure you that USDA will continue to fulfill its commitment of using all existing resources to assist farmers and ranchers who are affected by natural disasters. A list of ongoing disaster programs, administered by FSA is available online at: *http://disaster.fsa.usda.gov.* Should legislation be signed into law that authorizes broader assistance for losses resulting from natural disasters, USDA will work diligently to provide that assistance in an expedient manner.

Question 2. Florida recently received Section 32 funding to cover losses incurred during the recent tornadoes. Will California growers be able to receive Section 32 funding to facilitate cleanup of the groves affected by the freeze?

Answer. We have no plans at this time to utilize Section 32 funds for this purpose.

Question 3. The Administration has indicated that pursuing clean, renewable energy is a priority for the 2007 Farm Bill. Much of the focus of the Administration's proposal is on cellulosic ethanol, which can be generated from a wide variety of crops. In the Administration's view, which crops show the most promise, and will most likely receive the most funding, for producing this fuel? Beyond cellulosic ethanol, what other biobased energy does the Administration suggest pursuing?

Answer. As we attempt to grow the cellulosic ethanol industry as rapidly as is practical, choice of the feedstocks we emphasize will be very critical. They must be efficient in their conversion and must be easily and readily attainable. Several feedstocks show great long term promise, yet will require the establishment of a full scale production sector. At the present, we must keep our attention focused on cellulosic feedstocks with reliable near term availability. Contending feedstocks would be corn stover, rice and wheat stalks, wood pulp and residues, and yard residues.

Rural Development agricultural economists have indicated that "Switchgrass is noteworthy for ethanol production because of its potential for high fuel yields, hardiness and ability to be grown in diverse areas" ("From Grass to Gas", Rural Cooperatives Magazine, Ethanol Issue, September/October 2006). They also indicate that the net gain from cellulose from a crop such as switchgrass could be triple that of corn, particularly because switchgrass can be grown with no "fertilizer, irrigation, or other energy intensive activities". However, any plant crop or plan waste could be used in the production of cellulosic ethanol.

From FY 2003 through FY 2006, USDA, in conjunction with the Department of Energy, has funded 55 research and development projects totaling $58.1 million under the Biomass Research and Development (Section 9008) grant program. The heaviest dollar investments outside of cellulosic ethanol have been in Feedstock Development ($18.3 million), Bioproducts ($14.9 million), and Bioenergy Analysis ($12.2 million), respectively. Also during the same time period, Rural Development has funded 846 grants and loans under the Renewable Energy Systems and Energy Efficiency (Section 9006) grant and guaranteed loan program where all loan guaranteed have been for renewable energy projects other than cellulosic ethanol. The heaviest dollar investments outside of ethanol production have been in Biomass ($47 million), Wind ($33.5 million), and Anaerobic Digesters ($25.9 million). Any of these energy types may prove to be continued worthwhile investments.

The Administration is also pursuing biodiesel as an alternative fuel. Biodiesel is a biobased alternative to fossil fuel that shows promise. Pure biodiesel emits 75 percent less carbon dioxide than petroleum diesel. Using a blend of 20 percent biodiesel to 80 percent petroleum diesel reduces carbon dioxide by 15 percent. And, biodiesel can be used in conventional diesel engines. From FY 2003 through FY 2006, the Section 9008 program has provided $4.3 million for research and development in this field. Additionally, the Section 9006 program has provided $7.8 million in grant funding and $9.7 million in loan guarantees for biodiesel projects.

Question 4. Your proposal would authorize and additional $500 million in mandatory research funding for biobased energy over the next 10 years. Will there be any process by which we can evaluate the effectiveness and the efficiency of these expenditures? How do you propose monitoring these projects to expedite the application of the science? Is there any oversight component to the grant process?

Answer. USDA's intramural and extramural research programs both have strong mechanisms in place to ensure that expenditures under the Agricultural Bioenergy and Biobased Products Research Initiative will be carried out efficiently and effectively.

For intramural programs, the Agricultural Research Service has an Office of Scientific Quality Review (OSQR). OSQR manages and implements the ARS peer review system for research projects, including peer review policies, processes and procedures. OSQR centrally coordinates and conducts panel peer reviews for project plans within ARS' National Programs every 5 years.

The peer review process is an opportunity for researchers to obtain constructive feedback on ways to improve the scientific quality of their projects from their peers. The review criteria and project plan design policies assure that ARS research scientists develop carefully conceived project plans that focus on three key elements of research planning: (1) adequacy of approach and procedures, (2) probability of successfully accomplishing the project's objectives, and (3) merit and significance as it aligns with the National Program Action Plan.

The Cooperative State Research, Education and Extension Service (CSREES) administers USDA's extramural competitive grant programs. CSREES utilizes a highly effective peer review process to ensure quality and relevance. Reviews are conducted by relevant subject matter experts in the areas of research, extension and education. Evaluation criteria include scientific merit, scientist qualifications, facility capacity, project planning and management and overall relevance.

Question 5. Last week yet another case of BSE was confirmed in a Canadian bull. The past 2 years countries like Japan and Korea have rejected countless shipments of U.S. beef, citing safety concerns. Still the U.S. continues to allow cattle under the age of 30 months from Canada to enter the U.S. herd with no distinction as to its country of origin. If we are going to continue accepting shipments from a country with numerous cases of BSE, how do you propose to defend the safety of our beef products?

Answer. USDA's efforts to reopen Asian export markets to U.S. beef remain a top priority. In our negotiations on this issue, we have consistently pressed for trade agreements that are based in sound science. Neither USDA's existing regulations nor the proposed rule concerning Canadian ruminant imports is being raised as an obstacle in our negotiations with Japan and South Korea, and we have received assurances from officials of both countries that the proposed rule will not affect these efforts. In 2004, a joint United States-Japan press statement regarding the resumption of trade in beef and beef products contained a provision indicating that "additional BSE cases will not result in market closures and disruption of beef trade patterns without scientific foundations."

USDA believes it is vital that we continue to work to persuade our trading partners to adopt science-based trade policies that are consistent with international standards. We continue to believe that the most effective way to ensure trade in safe products is to base our own policies in sound science, and to encourage our trading partners to enter into trade agreements that are similarly based in sound science.

In regards to identification, USDA requires that Canadian feeder cattle imported to the United States be branded—CAN—and identified as Canadian, age certified, enter in sealed vehicles, move as a group only to approved feedlots, and then move as a group under permit to slaughter before 30 months of age. For animals headed directly to slaughter, they are allowed to enter only at certain ports, be accompanied by appropriate certification, enter in sealed vehicles, sent only to approved slaughter facilities, and their ages are verified by FSIS personnel to ensure that they are under the 30 month age limit. Any animal that does not meet the identification or age requirements is condemned and does not enter the human or animal food chain. USDA and Canadian officials have and are working closely together to ensure that only animals and products that meet USDA requirements enter the United States.

It is also important to note that the single most important thing we can do to protect human health regarding BSE is the removal from the food supply of specified risk materials (SRMs)—those tissues that, according to the available scientific evidence, could be infective in a cow with BSE. USDA's Food Safety and Inspection Service (FSIS) enforces this ban domestically and ensures that all countries exporting beef to the United States comply with the SRM ban. Likewise, the most significant step we can take to prevent the spread of BSE and bring about its eradication in the animal population is the ruminant-to-ruminant feed ban. It is because of the strong systems the United States has put in place, especially these two essential firewalls, that we can be confident of the safety of our beef supply.

Response from Keith Collins, Ph.D., Chief Economist, U.S. Department of Agriculture

Question Submitted By Hon. Collin C. Peterson, a Representative in Congress from Minnesota

Question. Last week at the Senate hearing, you said there were about 38,000 Schedule F and Form 4835 filers who have AGIs over $200,000 and who receive farm payments. This is the universe that would be affected by the proposed $200,000 cap. Did USDA ask the IRS how many of those tax filers would have negative AGIs if you eliminated the farm payments from their tax returns?

Answer. The Administration has proposed to reduce the AGI eligibility cap for receiving farm commodity and other payments from $2.5 million to $200,000 in order to make the distribution of payments more equitable and prevent payments from going to the wealthiest Americans. As you correctly point out, there were about 38,000 Schedule F and Form 4835 filers or about 1.4 percent of all Schedule F and Form 4835 filers in 2004 who had and AGI over $200,000 and who received farm payments. We do not know how many of those tax filers would have had negative AGIs if they were no longer eligible for farm program payments.

Most farm sole proprietors affected by the proposed $200,000 cap are subject to the cap because of their off-farm income. Based on 2004 Internal Revenue Service tax information, three out of four farm sole proprietors with an AGI of $200,000 or more reported a farm loss. For those with an AGI between $200,000 and $1 million and a positive farm income, their average farm income was $38,700.

In addition, less than two percent of crop share landlords would be subject to the cap. The average payment received by these landlords was only $5,430 in 2004. Since some of these payments are conservation payments, the actual number affected and the average payments would be even lower.

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