HEARING TO REVIEW U.S. AGRICULTURE POLICY IN ADVANCE OF THE 2012 FARM BILL

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

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HEARING TO REVIEW U.S. AGRICULTURE POLICY IN ADVANCE OF THE 2012 FARM BILL

WEDNESDAY, APRIL 21, 2010

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

The Committee met, pursuant to call, at 11:00 a.m., in Room 1300 of the Longworth House Office Building, Hon. Collin C. Peterson [Chairman of the Committee] presiding.

Members present: Representatives Peterson, Holden, McIntyre, Boswell, Baca, Scott, Herseth Sandlin, Cuellar, Walz, Kagen, Schrader, Halvorson, Dahlkemper, Bright, Markey, Kratovil, Schauer, Kissell, Murphy, Pomeroy, Childers, Minnick, Lucas, Goodlatte, Moran, Johnson, Graves, King, Neugebauer, Conaway, Smith, Roe, Luetkemeyer, Thomas, Cassidy, and Lummis.

Staff present: Aleta Botts, Dean Goeldner, Craig Jagger, Keith Jones, John Konya, Clark Ogilvie, James Ryder, Lisa Shelton, Anne Simmons, Cherie Slayton, Tamara Hinton, Josh Mathis, Josh Maxwell, Nicole Scott, Pelham Straughn, and Sangina Wright.

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

The CHAIRMAN. The hearing of the Committee on Agriculture to review U.S. agriculture policy in advance of the 2012 Farm Bill will come to order.

Good morning, everybody. Welcome to today's hearing of the Committee. Mr. Secretary, welcome. We appreciate very much you taking the time to be with us today and look forward to you sharing with us your views on how things are going with the current farm bill and where we are heading in the future.

It seems like we just finished work on the 2008 Farm Bill, and we are here again. I guess that is probably my fault. I think it is good for us to get an early start to take a look at where we are, where we are heading and if there are things we can do in a better way.

The 2008 Farm Bill was more than just about farms. It did continue the safety net that protects farmers and ranchers, provides them with some certainty that they rely on to stay in business. But, the farm bill also made historic investments in nutrition, conservation, renewable energy for the first time, research, rural development, fruit and vegetables, and organic agriculture. In fact, when you consider farm bill funding, less than 14 percent of the farm bill's funding is spent on traditional farm programs and crop insurance. In reality, we maybe shouldn't be calling this a farm bill. It should be the food bill. I think we did name the bill, the Food, Conservation and Energy Act of 2008.

While traditional farm programs are a relatively small portion of the proportion of the funding, these programs are seen as essential by a lot of folks in U.S. agriculture. We have a system of independent farmers and ranchers working the land and without some certainty that farm programs provide, these farmers would have a much more difficult time getting financing, putting their crops in the ground and staying in business. There are very few farmers today, small, medium or large, who have enough up-front capital to put a crop in the ground without financing from a bank or some other financial institution, and without farm programs, many farmers wouldn't have the backing or the resources to be able to get that financing from those institutions.

For those who complain about agribusiness and big farmers controlling farming today, I can assure you that if we got rid of farm programs or the safety net like some ideologues want us to do that we would end up with corporate agriculture running and then producing the food in this country. Our farms then end up being in the hands of people that have deep pockets and that is in my opinion the exact opposite direction of what we want to do.

Just as agriculture has evolved over the years, I believe that our farm programs must also evolve to ensure that the safety net or risk management tools, whatever you want to call them, for farmers and ranchers are there. Considering today's economic realities, we need to decide if the existing farm programs are providing adequate protection and to take a look at kind of where we are. I have asked the farm groups to consider new policies or programs that might do a better job of giving them the risk management tools that they need to stay in business.

Yesterday the Committee had a hearing in Pennsylvania. I thought it was an excellent hearing. The dairy industry is ahead of the curve. I would have been shocked to say this 2 or 3 years ago but I guess $9 milk, $10 milk gets people's attention and they have seriously engaged on an effort to reform the dairy program. I am very impressed with the progress that has been made, the way the industry is coming together, and frankly, they are ahead of the curve. They are ahead of all of the other farm groups because they were forced to be ahead of the other farm groups. I would encourage all the other folks that haven't been in a crisis necessarily to take a look at things now before they get in a crisis and find out that what is in place is not going to be adequate to get them through it.

So we also have to be realistic in terms of our budget situation. I think most of us on this Committee are not interested in running up the deficit. In fact, we are probably more interested in trying to get the deficit under control. And so as we move ahead with this farm bill, I am not going to be looking for additional resources. I think we have to live within the baseline that we currently have for the farm bill and we will proceed in that manner.

So I want to welcome the Secretary to the Committee today. Over the last year and a half, the Secretary, Members of this Committee, and I have worked closely to see that for the most part the 2008 Farm Bill has been implemented in the way Congress intended. There have been some challenges along the way but I appreciate the good communications and the relationship that we developed in the process. I very much appreciate, Mr. Secretary, that you are not out having 50 town meetings around America with your own farm bill. That is very helpful from my perspective. We understand that you are going to have ideas and we welcome your ideas and input as we move ahead with this. But, I want to see us work together so that we are all heading in the same direction. There aren't enough of us left in agriculture to be heading in different directions. We need to work together. We have been doing that and I very much appreciate the relationship that we have developed.

I also want to say as we did in the last farm bill that I am committed to this process being open, transparent, bipartisan. I look forward to working with any of my colleagues on both sides of the aisle from all regions to make sure that we put together a bill that supports food, fiber, conservation, energy, rural development and the needs of people in rural America. There is a lot of ground to cover. It is time to get started.

[The prepared statement of Mr. Peterson follows:]

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

Good morning and welcome to today's hearing of the House Agriculture Committee. I know that it seems like we just finished work on the 2008 Farm Bill, and here we are again to talk about the next farm bill, which we will come up in 2012.

The 2008 Farm Bill was about much more than just farms. It did continue the safety net that protects farmers and ranchers and provides the certainty they rely on to stay in business. But the bill also made historic investments in nutrition, conservation, renewable energy, research, rural development, fruit and vegetable products, and organic agriculture.

In fact, when you consider farm bill funding, less than 14 percent of the farm bill's funding is spent on traditional farm programs and crop insurance. In reality, we could be calling this the "food bill" instead of the "farm bill."

While traditional farm programs have a relatively small proportion of funding, these programs are essential to the continuing success of U.S. agriculture. We have a system of independent farmers and ranchers working the land, and without the certainty that farm programs provide, these farmers would not be able to get the financing that they need to put a crop in the ground. There are very few farmers—small, medium, or large—who have enough up-front capital to put a crop in the ground without financing from the bank. Without farm programs, many farmers would not be able to stay in business. And for those who complain about agribusiness and big farmers controlling farming today, I can assure you that if we got rid of farm programs, like some ideologues want, corporate agriculture would become the only reality.

Now, just as agriculture has evolved over the years, I believe that our farm programs must also evolve, to ensure that the safety net provides adequate support for our farmers and ranchers. Considering today's economic reality, we need to decide if the existing farm programs are providing adequate protection, and I have asked farm groups to consider new policies or programs that might provide a better safety net for producers.

When considering economic realities, we also have to recognize that the fiscal situation facing this country is serious, and we are going to have to live within the budget we currently have for farm bill programs when we write the next bill. I will not ask for money outside of the farm bill budget as we did during the last farm bill because it is just too complicated to involve other Committees in the process.

I want to welcome Secretary Vilsack to the Committee today. Over the past year and a half, Secretary Vilsack has worked closely with the House Agriculture Committee to see that, for the most part, the 2008 Farm Bill has been implemented in the way Congress intended. There have been some challenges along the way, but I appreciate the good communications and relationship that we have developed in the process.

This hearing is the first step in the process of writing the next farm bill. A bill this large and that covers so many important issues takes a lot of time and effort to get it right, and I am committed to a process that is open, transparent, and bipartisan. I look forward to working with my colleagues on both sides of the aisle and from all regions of the country to be sure that we put together a bill that supports the food, fiber, conservation, energy and rural development needs of this country.

We have a lot of ground to cover, so let's get started.

The CHAIRMAN. I am going to recognize the Ranking Member, and Mr. Secretary, we will put you on for whatever time you may consume after that. Mr. Lucas.

OPENING STATEMENT OF HON. FRANK D. LUCAS, A REPRESENTATIVE IN CONGRESS FROM OKLAHOMA

Mr. LUCAS. Thank you, Mr. Chairman, and I want to thank you for being so proactive in starting these hearings in anticipation of writing the 2012 Farm Bill. As you are aware, we have quite a challenge ahead of us. I look forward to the Secretary's remarks. I hope we can all work together towards producing another viable safety net for our producers.

The 2008 Farm Bill was another investment in the future of rural America. Not only did we provide a viable safety net for producers but we also made substantial investments in conservation and nutrition programs during a time of need for many Americans. A lot of people do not realize that 75 percent of farm bill spending goes to nutrition programs. Yes, 75 percent of the farm bill spending. In addition to these investments, this Committee, led by Chairman Peterson, accomplished substantial reforms in the realm of payment limits. This is a fact that should not be forgotten by those who always seem ready to attack our programs.

This next farm bill is shaping up to be one of the most difficult since I have been in Congress. There are many challenges. Not least of all is the uncertainty of the budget parameters under which the next farm bill will be written. In 2002, the Agriculture Committee received $79.5 billion in additional funding. In 2008, we received an additional $7 billion that was targeted mostly towards nutrition programs. This time we will be lucky to receive level funding, but even that is a bit deceiving since many of the popular conservation programs do not have funding past the 2012 date. In essence, we already start with a deficit.

Another big challenge is the competing interest for precious funding. The Administration has made it clear that it wants to cut funding in Title I. The Administration proposed cuts to direct payments and crop insurance. It also proposed cuts to Title II funding such as EQIP, CSP and others. Those interests must be balanced to have a successful farm bill.

While I appreciate the Chairman's proactive spirit, I do have concerns about whether we have enough perspective regarding the effectiveness of many of the new programs authorized under the 2008 Farm Bill. For example, the ACRE program, which signed up nearly 13 percent of the base acres, has yet to make a single payment. The new SURE Program has had one sign-up and has issued payments only for the 2008 crop. The new CSP Program which this Committee did not even have in its original House version does not have final rules yet. I question if we can realistically look ahead to crafting the 2012 Farm Bill when we haven't had a full year or 2 of participation in some of these new programs.

In addition to all the challenges mentioned, we also have many non-farm bill issues that could have a much larger effect on our producers. The prospect of cap-and-trade or other carbon tax proposals still hangs over the head of our producers. The effect of cap-and-trade legislation must be considered regardless of whether we believe, like I do and many of my colleagues do on this Committee, that it will have a devastating impact on the agricultural community or agree with the Secretary, who stated that our farmers and ranchers will benefit from cap-and-trade.

I also have serious concerns about the effect of an EPA that is overreaching and what effect that will have on our producers. It seems every day that the EPA, the Environmental Protection Agency, is coming out with a new regulation that makes it harder for producers to make a living. The Department of Agriculture needs to be more of an advocate for our producers in this Administration.

With that said, I welcome the challenge. I welcome the debate we will have about the future of the safety net for our producers. I look forward to going into the field next week and simply listening. I want to hear from producers about what is working and what is not, and I have said it before and I will say it again, our farmers and ranchers produce the safest, most abundant, most affordable food and fiber supply in the history of the world. It is our job to produce policy that enables them to continue. I look forward to hearing from Secretary Vilsack today and hear about what the Department thinks of current and future agriculture policies. Thank you, Mr. Chairman.

Prepared Statement of Hon. Frank D. Lucas, a Representative in Congress from Oklahoma

Mr. Chairman, I want to thank you for being so proactive in starting these hearings in anticipation of writing the 2012 Farm Bill. As you are aware, we have quite a challenge ahead of us. I look forward to the Secretary's remarks. I hope we can all work together toward producing another viable safety net for our producers.

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I look forward to hearing from Secretary Vilsack today and hear what the department thinks of current and future agriculture policy.

The CHAIRMAN. I thank the gentleman for his statement and for the continued good way that we have been able to work together and look forward to doing that through this process.

The chair would request that other Members submit their opening statements for the record so that the witness may begin the testimony and we ensure that there is enough time for questions. Without objection.

So with that, I would like to welcome our witness, the Secretary of Agriculture, Mr. Vilsack, to the Committee one more time and we appreciate you being here and look forward to your testimony.

STATEMENT OF HON. THOMAS J. VILSACK, SECRETARY, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, D.C.

Secretary VILSACK. Mr. Chairman, thank you very much for the opportunity to appear this morning in front of this Committee, and I want to thank you and the Ranking Member for the opportunity that you have provided to me.

I want to first and foremost recognize the important role that this Committee has in beginning important work for rural America today with this conversation and discussion. You have my written testimony, but what I would like to, with your permission, is to speak from the heart today about the condition of rural America.

I want to first and foremost recognize the important role that rural America plays in our country and the significant role that the farm bill plays in assisting rural America in doing its job. It is, as the Ranking Member indicated, the source of our food, our fiber, our feed, our fuel, often not appreciated also, our water, and I would suggest to this Committee it is also the source of our values. When this country was founded many years ago, 90 percent of those in this country were farmers, suggesting that our value system began and was rooted very deeply in the soil of our natural resources in our rural areas.

With the Chair's permission, I would like to use a few slides to essentially show folks where we have been, where we are and hopefully as a guide to where we can go.

[The information referred to is located on p. 29.]

Secretary VILSACK. The first slide I want to present, and I believe the Committee has been furnished copies of these slides, is to simply suggest and to reinforce the comments of both the Chairman and the Ranking Member about the productivity of American agriculture. Back in 1940, one American farmer was responsible for feeding 19 people around the world. Today, one American farmer helps to feed 155 people. That number continues to grow. It is a fact and a statistic that is not fully appreciated by many in this country, in large part, because many are now more than several generations removed from those who farmed the land.

You would think, given the productivity of American farmers, the most productive in the world, that they would, as would be the case in most other occupations, be recognized for it, appreciated for it and would be able to make sufficient income from it to be able to support their families. But the reality is, and the next chart will show, what a challenge it is for American farm families. This chart essentially shows the percentage of income family farmers have in America today that comes from their farming operation. You can see that as of 2009, 81 percent of farm income comes from something other than the farm. Only nine percent comes from family farm operations. This suggests the need for a continuation and support for a very strong safety net, a safety net that includes investments in research and development to increase productivity, continued investment in conservation programs, particularly for small landholders, a continued emphasis as this Administration is focused on expanding exports, the development of additional domestic markets, the appropriate balance of crop insurance, disaster payments and direct payments. But, it also suggests that there is another aspect of the safety net that is often overlooked and underappreciated by those outside of rural America, and that is the significance and importance of jobs, good-paying, high-paying, quality jobs. Unfortunately today, too many of America's farm families are requiring off-farm income, and that makes it a challenge for us to focus on how we can create new and better opportunities in rural America.

At the same time that we are challenged with an income level that only creates nine percent of family farm income, we also see a significant aging of the farm population, which is another challenge that must be addressed as we discuss the next farm bill. This slide indicates and shows the rapid acceleration of the aging nature of American farmers today. In 1945, the average age of the American farmer was 39 years of age. Today it is 58. In just the last 5 years, we have seen an increase of 2 years. There is a substantial percentage of American farm families with farmers that are over the age of 65. In fact, it is roughly 28 percent of the entire farming population. That comes to about eight percent of the general working population. So this is a significant issue and it is one that directs us to focus on a robust effort to promote beginning farmers, expanding the good work that was started in the 2008 Farm Bill with the Beginning Farmer Program, but indicating a need for us to really focus over the next couple of years on how we can encourage development of new and innovative programs that will allow for sweat equity that will enable a young person to pursue the dream of being a farmer.

The aging nature of farms, the continued challenges of income are also reflected in the general economic conditions of rural America. This chart essentially shows the rapid increase of unemployment in rural America, which is a concern of all of us, and again suggests and directs that we need to make a renewed effort in developing quality jobs in rural America. In addition to unemployment, we also see a substantial difference between incomes, between those who live in rural areas and those who live in metro areas. This chart suggests that there is as much as $11,000 to $12,000 difference in income per capita between rural areas and metro areas. I think it is incumbent upon us to try to figure out strategies and ways in which we can reduce that gap so that people who want to live in rural America can afford to do so. Next slide.

The workforce in rural America also faces challenges in terms of education level. This chart suggests that those who work and live in rural America have fewer college degrees, more high school diplomas and more people without a high school diploma, a serious challenge in terms of creating a quality workforce. So some attention needs to be paid not just in this Committee but in other committees as well to the disparity in educational achievement levels. If we are going to build a quality workforce, then it has to be a well-educated workforce, and time and attention needs to be directed in this area. Next slide.

As is the case with farmers, it is also true in rural America that we are seeing an aging population. We have a substantially greater percentage of people in rural America that are over the age of 65, as this chart indicates. And so when you have high unemployment, low educational achievements, substantially lower incomes, what you have will ultimately be a loss of population. And this is a deep concern to me, and I believe a deep concern to this Committee, that we continue to see many of our rural counties losing population.

Let me suggest that this Committee should be congratulated for the work it did in 2008 on the farm bill and that this Congress and Administration should receive some credit for additional resources provided under the Recovery and Reinvestment Act. The reason being is what you have done with the work in the farm bill and additional investments through the Recovery Act and broadband is, I believe you have created a framework for a new rural economy, one that can help create quality jobs that keep people not only on the farm but in rural areas. The reality is that additional resources in broadband expansion, the energy title, the farm bill, additional opportunities in ecosystem markets, linking conservation payments to expanded hunting and fishing opportunities, as well as our efforts to try to link local production with local consumption, create a new dynamic in rural America. I think we need to build on that foundation. I think we need to continue to expand those opportunities.

I fully appreciate the challenges, economically, that this Committee faces and we will work and pledge to work with you to preserve as much of the baseline as is possible so that you have as much flexibility in your work as possible. Recognizing that this framework is in place, let me suggest that there is a need for better coordination between the programs that the USDA has and programs that are offered by other Federal agencies. Right now what we have are agencies working in isolation from each other. There is not much coordination. There is not the opportunity to leverage resources and to coordinate and consolidate resources so that they have a substantial outcome in changing the dynamic of the rural regional economy.

In addition, we can do a much better job of working with our local partners at the local level and a regional effort to try to stimulate growth and development around communities that will be the engines of economic opportunity. That will require us to have greater flexibility and a suggested opportunity for this Committee to focus our efforts on the specific results that you want us to obtain. I think those results ought to be about growing substantial income opportunities. It ought to be about continuing to expand innovatively the safety net that allows farmers to stay on the farm and to be able to expand our numbers. We have seen a loss of production agriculture in terms of numbers over the last several years. That is a trend which we ought to at least commit ourselves to trying to reverse.

Candidly and in conclusion, what I will simply say is this: The President and I have a vision which you all share, and that vision starts at a kitchen table in a rural community and could very well be on a farmstead in which a mother and a father are sitting around the table talking to their adult son or their adult daughter or it could be a grandchild. In that conversation, instead of encouraging them to look elsewhere for opportunities, they are encouraging them to stay in rural America, to build their life, to pursue their dreams and to create real opportunity for their families in rural America. The great thing about our country is that we have a strong core, and that core is rural America. While it only represents one in six of the country's population, 45 percent of the people that serve us in uniform come from rural America. That gets back to the point I made at the beginning, which is that our values are rooted in rural America. We cannot, we should not, and we must not allow opportunity to continue to be squeezed in rural areas because if we do, not only will farm families suffer, not only will small towns suffer, but our core values will suffer.

Mr. Chairman, again I appreciate the opportunity to be here. I recognize that our job is to help and assist this Committee in producing the very best bill it can produce, and I look forward to working with all of you to do so. Thank you.

[The prepared statement of Secretary Vilsack follows:]

PREPARED STATEMENT OF HON. THOMAS J. VILSACK, SECRETARY, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, D.C.

Mr. Chairman, Ranking Member and Members of the Committee, thank you for the opportunity to appear here today to discuss the implementation of the Food, Conservation and Energy Act of 2008, as well as to discuss future directions for farm policy. This hearing provides us with a chance to reflect on the many successes of the 2008 Farm Bill and discuss its implementation, all while thinking ahead to its reauthorization in 2012. I look forward to working with Members of this Committee, and other Members of the House and Senate, to help develop future policies, programs, and initiatives.

Let me start off by acknowledging the hard work of the Members of this Committee and your staff. Having worked diligently with my own staff across the country over the past 15 months to implement the bill, I can now fully appreciate the months of hard work that went into crafting this important piece of legislation. You are all to be commended for the strong bipartisan bill that overcame multiple obstacles before becoming law.

As you know, the breadth and depth of the farm bill is incredible. With the programs and authorities that Congress provided to USDA in the 2008 Farm Bill, we are in turn working to ensure that America's farmers and ranchers have the tools that they need to remain viable and on the farm. It is also with these authorities that we work to fund rural hospitals, schools and fire stations, maintain a safe food supply, and sustain export markets for the commodities produced by our nation's farmers and ranchers. Congress has given USDA an amazing opportunity to assist not only rural America with these tools and authorities, but the world.

Let me begin by focusing on the subject of the hearing and why I am here before you today, to review the status of implementation of the Food, Conservation and Energy Act of 2008.

2008 Farm Bill Implementation

The Food, Conservation, and Energy Act of 2008 was enacted into law on June 18, 2008. Since that time, USDA has worked diligently to draft and clear final farm bill regulations. Upon enactment of the 2008 Farm Bill, USDA began developing rules, procedures and policies to make efficient use of taxpayer resources and maximize program benefits to production agriculture and other rural constituents.

I believe that the United States Department of Agriculture and our partnership delivery system have an excellent story to tell in terms of implementing the 2008 Farm Bill. When I became Secretary I inherited the job of implementing the farm bill roughly 6 months after its enactment into law. I believe that USDA has taken aggressive action on every aspect of program delivery, with impressive results for our customers.

Mr. Chairman, you and Members of this Committee are to be commended for your work and vision on the many key provisions and policy modifications contained in the 2008 Farm Bill. While there are many excellent programs, initiatives, and provisions contained in the bill, I wanted to take a moment to highlight a few provisions that I feel are worth noting. The 2008 Farm Bill set a new course for agricultural research at USDA and substantially reorganized our structure in interacting with the academic community on key research initiatives. These provisions of the 2008 Farm Bill are far-reaching and provided the opportunity to better focus our scientific efforts on key priorities for agriculture and for the nation.

I am pleased to report that development and launch of the new National Institute of Food and Agriculture, authorized by the 2008 Farm Bill is complete. This exciting new organization is now under the capable and visionary leadership of Dr. Roger Beachy who is working to strategically apply resources, funding and staffing to effectively meet the most high priority research objectives. Just 2 weeks ago, NIFA announced an important round of grant competition aimed at addressing critical issues such as climate change mitigation and adaption, sustainability, and development and transfer of key agriculture technologies. These steps could not have happened without the foresight and action of this Committee during development of the 2008 Farm Bill.

A second example is the authorization of a new Office of Advocacy and Outreach at USDA. As you are aware, this Administration has taken clear and decisive action in settling the *Pigford* case and associated claims against the United States Department of Agriculture on the grounds of Civil Rights. In my time as Secretary, it is clear that in addition to getting serious about addressing Civil Rights complaints, USDA must have a firm commitment everyday toward better customer service, and improved customer outreach and support. In the 2008 Farm Bill, Congress authorized the creation of a new Office of Advocacy and Outreach at USDA. The mission of this new entity is to do a better job up front of assisting a diverse customer base and to better tailor the Department's services and activities toward meeting unique needs of communities and individuals. By better connecting with customers, we feel assured that fewer complaints will be filed in the future as the Department and its customers are better connected in a better working relationship. I am proud that USDA has taken aggressive and proactive steps to launch the new Office of Advocacy and Outreach. This new entity is now a visible part of the USDA leadership structure at our National Headquarters office and has been staffed by experienced and trained veterans of the USDA. By drawing upon the expertise and unique experiences of a diverse group of trained professionals, USDA has sent a clear message that the mission, roles, and functions of this office be central to the mission of the Department.

Beyond the implementation of special initiatives under tight timeframes at the beginning of this Administration, I am proud of the overall speed and through implementation record of our Department on the farm bill. For example, turning to our Commodity programs, USDA quickly published regulations in the *Federal Register* pertaining to key provisions of the 2008 Farm Bill. These provisions included all Title I provisions related to cotton, the Milk Income Loss Contract (MILC) program, and Farm Loan Programs. We also published regulations related to the Direct/Counter-Cyclical Payment Program (DCP) and the Average Crop Revenue Election (ACRE) Program, as well as payment limitation reform.

In 2009, USDA published nine farm bill regulations in the *Federal Register*, including all Title I sugar provisions, Marketing Assistance Loans and Loan Deficiency Payments (MAL & LDP), and the Biomass Crop Assistance Program (BCAP) Notice of Fund Availability, as well as the Conservation Reserve Program, Livestock Indemnity Program, Farm Storage Facility Loan Program, Emergency Livestock Assistance Program (ELAP), Livestock Forage Program (LFP), and the Supplemental Revenue Assistance Payments Program (SURE).

Mr. Chairman, the volume, complexity, and public policy impact of these provisions are great. Beyond the sheer number of rules and provisions that have been developed, deployed, and implemented, a massive volume of work has gone into appropriately weighing the voices of farmers, ranchers, and other constituents. In addition, economic analyses and environmental impact considerations, as well as an assessment of civil rights and business impacts, have been thoroughly considered. Combined with these efforts, the achievements of our Department in successfully delivering these key programs to farmers and ranchers are all the more impressive.

USDA was given the opportunity by Congress to implement fifteen titles and many special provisions. A full appraisal of the current implementation of those titles is attached as an appendix to this testimony. I am proud of the dedicated professional staff of the United States Department of Agriculture at all levels of the organization, and pleased to be working in partnership with Congress and our nation's producers, ranchers and a wide array of stakeholders on these important programs.

Beyond ensuring that rules are published and programs are made available through our field office delivery system, we have made great strides in ensuring that better policies for accountability are adopted. An example of this is a change in policy on base acreage calculations for key commodity programs. This change will formally reverse the decision by the prior Administration to eliminate base acres on federally-owned land. The decision by the prior Administration adversely impacted the market/rental value of federally-owned lands by eliminating the ability of buyers/renters to enroll in counter cyclical and crop revenue election programs.

Mr. Chairman, through successive farm bill legislation, Congress has provided the critical tools to ensure that America has access to a safe, affordable food supply and basic building blocks of the American economy. You and all of the Members of this Committee are to be commended for your staunch support and advocacy for rural America. The results of your work truly affect every American every day. And I would advocate that the 2008 Farm Bill has a more extensive impact on Americans than any other statute.

The Importance and Challenges of Rural America and its Future

Regardless of the positive impacts of the farm bill, many American's continue to question the efficacy of dedicating current levels of Federal resources and support through farm bill legislation. I believe that there is an important story that must be told regarding the importance of rural America, which serves as a basic building block for the rest of the economy. Despite the hardships, rural America is strong. At a time when our nation is experiencing one of the worst economic times in our history, it's our rural farm and ranch families that are working every day to provide food, feed, fiber and fuel for the rest of our nation.

In fact, it's our American farmers and ranchers who are responsible for a trade surplus at a time when our country talks only of trade deficits. American agricultural products represent a trade surplus, which provides $22.5 billion to the U.S. economy. Moreover, estimates show that agriculture is responsible for one out of every twelve jobs in the nation.

In addition, the actions that rural Americans take and their stewardship of the land directly impact water quality. As a result, rural Americans have a critical role in protecting the safety and security of our drinking water and the quality of our nation's rivers, lakes, and streams.

Rural America represents so much more than farming and ranching alone. Rural America also plays a critical role in our national security. For example, even though only one in six citizens call rural America home, forty-five percent of our nation's military is composed of Americans from rural areas. By providing food and fiber, a clean water supply, and security to our great nation, rural America truly serves as our backbone. In many ways, the welfare of rural America—its infrastructure, health, and education—is of vital importance to the success and well being of all Americans.

In the past 40 years, the United States lost more than one million farmers and ranchers. During that period, income from farming operations, as a percentage of total farm household income, plunged to half of the previous level. Today, only 11 percent of family farm income comes from farming. In order to maintain viable households, rural Americans have been forced to seek alternative sources of support, and benefits such as health insurance. These factors have changed the face of rural America.

From the perspective of employment and income, recent studies indicate that the per capita income in rural America is approximately $11,000 below the urban and suburban workforce. In addition, job loss rates are higher in rural areas, and rural Americans are finding it more difficult to find and maintain quality jobs. Specifically, loss of employment in light manufacturing sectors has been more severe in rural areas, meaning that rural families have reduced access to the key benefits that these quality jobs provide.

The difficulties for rural America mean that young rural people have fewer opportunities. Without viable employment opportunities, secure healthcare, modern infrastructure, and the growth of new industries, young people are choosing to leave their rural homes in search of jobs and opportunities elsewhere. As a result of these factors, the population of rural America faces significant challenges. The challenges described above and the nearly 2 decades of recession for rural America can seem overwhelming, but with the tools that Congress provided to USDA in the 2008 Farm Bill we are working to make rural America stronger. These needs can be even further addressed in the next farm bill.

We need to reverse population declines, increase educational opportunities and opportunities for our young people in rural America. It's not just about the economic connections that rural America provides, but it's about the value system that it provides. We need to develop new strategies to bring prosperity back to rural America in a sustainable and significant way.

I believe one model for the kinds of new creative approaches we can take in the next farm bill is found in USDA's new Regional Innovation Initiative. This new and innovative regional and collaborative approach will center on five separate pillars promoted by the Administration and arising from USDA's programs that assist rural America. Major emphasis will be placed on the following five key areas:

- Broadband,
- Renewable Energy and Biofuels,
- Regional Food Systems and Supply Chains,
- Forest Restoration and Private Land Conservation,
- Ecosystem Market Incentives.

USDA will work with Federal and private partners to develop metrics to measure and demonstrate the success of the approach. Based upon the sustained economic difficulties that rural America has faced, USDA will begin by measuring job development and preservation, along with growth of income. It is vitally important that rural America not only become a desired place for young people to secure long-term, quality employment. But even more importantly, rural America must become an attractive place for young people to establish homes and raise families. As such, the measures of success will be expanded to also track and report on population changes in rural places. In order to be truly successful in this endeavor, rural America must be at the heart of a thriving 21st Century American economy.

Another critical component of the next farm bill must be a continued focus on energy. Clearly energy conservation, development, and energy use policies have played an increasingly important role in agricultural and rural policy. I believe that the approach this Committee took in the 2008 Farm Bill was both visionary and very innovative. The mixture of research initiatives, grants for technology development and transfer are critical. In addition, program development and modifications that encourage the development of alternative and renewable energy sources is quite impressive. While many of the basic tools are in place, I would suggest that as a next step we need to better weave and integrate all of the tools into a more strategic framework. It is important to ensure that all of our authorities, program implementation practices, and future directions on energy and greenhouse gas issues are all working in concert. In addition, it will be important that we work on these issues within the framework of emerging ecosystem markets and thoroughly integrate these factors together along with public and private sector considerations. We will be doing a significant amount of work in the coming months to better assess and identify the kinds of changes that might best assist in this endeavor, and I look forward to working with this Committee on a holistic approach to energy in rural America.

Working Toward the Next Farm Bill

Mr. Chairman, as we move forward toward development of the next farm bill, it is important that we approach this new legislation with an eye toward truly making a difference in the future of the lives of millions of rural Americans. If we set our goals appropriately, we can properly assist and strengthen production agriculture, while also building and reinforcing the future of rural communities. Every opportunity for bettering rural America should be considered. We need to adopt innovative approaches and listen to the needs of production agriculture and rural communities. Again, I believe it is important to be ambitious and set our goals as high as possible. Rural America deserves no less from the next farm bill.

Over the past year, I embarked on a rural tour. During this process, I traveled more than 45,000 miles and met with countless local farmers, ranchers, town leaders, teachers, *etc.* While the process took time and involved very difficult travel, I came away with a greater appreciation for the will and determination of rural America to succeed. I also came away with a stronger appreciation for the needs and challenges that rural America faces.

In the coming months as we engage in development of the next farm bill, I look forward to bringing the experiences of these rural Americans, and others I have worked with to the table. I also look forward to offering the insights and expertise of our professional USDA staff, who have had the experience and pleasure of partnering with and learning firsthand about the needs of producers in the field. It is my pledge to appropriately assist, provide technical assistance and help better frame and push the debate toward the topics and issue areas that are most important to our constituents. I look forward to working with you, Mr. Chairman, and every Member of the Committee on that endeavor.

I would be happy to respond to any questions that Members might have.

Thank you.

APPENDIX

Title I—Commodity Programs
Title II—Conservation
Title III—Trade
Title IV—Nutrition
Title V—Credit
Title VI—Rural Development
Title VII—Research and Related
Title VIII—Forestry
Title IX—Energy
Title X—Horticulture and Organic Agriculture
Title XI—Livestock
Title XII—Crop Insurance and Disaster
Title XIV—Miscellaneous
Title XV—Trade & Tax

Title I—Commodity Programs

Nearly all Title I provisions have been implemented through either interim or final rules. The Department is actively moving to address public comments received on the interim rules in final rules. Recent progress on Title I programs include:

Payment Limitations and Payment Eligibility (Sec. 1603, 1604): A final rule was published in the *Federal Register* on January 7, 2010. The rule addresses the over 5,000 public comments received on the interim rule published in December 2008.

Partnership with IRS (Non-Farm Bill): On December 31, 2009, USDA announced a partnership with the Internal Revenue Service to reduce fraud in farm programs. The actions are intended to strengthen the integrity and defensibility of USDA farm safety net programs and help the agricultural industry to meet requirements included in the 2008 Farm Bill. USDA has finalized a Memorandum of Understanding with the Internal Revenue Service to establish an electronic information exchange process for verifying compliance with the adjusted gross income provisions, of the 2008 Farm Bill, for programs administered by USDA's FSA and Natural Resources Conservation Service. The electronic process that USDA developed with IRS reviews data from tax returns and compares these values to the AGI limitations from the 2008 Farm Bill. FSA and NRCS will receive a record that indicates whether or not the program participant appears to meet the income limits. Written consent will be required from each producer or payment recipient for this process. No actual tax data will be included in the report that IRS sends to USDA. As part of the review and evaluation process, participants whose AGI may exceed the limits will be offered an opportunity to provide third party verification or other information to validate their income.

Durum Wheat Quality Incentive (Sec. 1613): Provision authorized appropriations for payments of up to 50 percent of the actual cost of fungicides to control *Fusarium* head blight on durum wheat. The 2010 Appropriations Act provided funding for this program. A final rule implementing the program is under development and is expected to be published in June 2010.

Geographically Disadvantaged Farmers and Ranchers (Sec. 1621): Final rule is currently in Agency clearance and is expected to go to the Office of General Counsel during the next few weeks. Program will reimburse producers in Alaska, Hawaii, and U.S. territories and protectorates for high costs associated with transporting agricultural commodities and production supplies.

Base Acres on Federally-Owned Land (Sec. 1603): Final rule was on display at the *Federal Register* on April 13, 2010, and effective the same day. The final rule makes several technical corrections and will also amend existing regulations for DCP/ACRE to formally reverse the decision by the prior Administration to eliminate base acres on federally-owned land. The decision by the prior Administration adversely impacted the market/rental value of federally-owned lands by eliminating the ability of buyers/renters to enroll in the DCP/ACRE programs. The restriction has been waived for the 2009 and subsequent crop years allowing producers to maintain eligibility for DCP/ACRE.

Dairy Import Assessment (Sec. 1507): Required that dairy promotion and research assessments apply to all states, D.C., Puerto Rico and importers. The assessment rate was set at 15¢ per hundredweight for domestic milk and 7.5¢ per hundredweight for imported dairy products. The proposed rule was published May 19, 2009, with a comment deadline of June 18, 2009. A final rule is being prepared.

Dairy Commission (Sec. 1509): Created a Commission to conduct a comprehensive review and evaluation of the current Federal Milk Marketing Order (MMO) system and the other non-Federal MMO systems. The establishment of the commission was subject to the availability of appropriations and no funding has been provided. However, on January 6, 2010, USDA announced the selection of 17 members to a Dairy Industry Advisory Committee (DIAC), which will provide the Secretary with guidance on future dairy industry policy. The first meeting of the DIAC occurred in Washington, DC. on April 13–15, 2010.

Title II—Conservation

Nearly all Title II provisions have been implemented through either interim or final rules. The Department is actively moving to address public comments received on the interim rules and final rules. Recent progress on Title II programs include:

Wetlands Reserve Program (WRP) (Subtitle C—Sec. 2201): An interim rule was published in the *Federal Register* on January 15, 2009. An amendment was published on June 2, 2009, to ensure NRCS is able to restore all lands enrolled in the program despite events subsequent to enrollment, corrected the eligibility criteria related to closed basin lakes and potholes, and notified the public of the agency's continued dedication to proactive restoration. The amendment reopened the public comment period. A final rule is under development that responds to public comment received on the 7 year ownership requirement, riparian land eligibility, pothole eligibility, property transfers, various program definitions, and payment limitations.

Wetlands Reserve Enhancement Program (Subtitle C—Sec. 2206): A notice of funding availability for FY 2010 was published April 9, 2010.

Conservation Stewardship Program (CSP) (Subtitle D—Sec. 2301): An interim rule was published in the *Federal Register* on July 29, 2009. The public comment period closed September 28, 2009, but was extended 30 days on September 21, 2009 to October 28, 2009. A final rule is under development.

Farm and Ranch Lands Protection Program (FRPP) (Subtitle E—Sec. 2401): An interim rule was published in the *Federal Register* on January 16, 2009. A correction was published on July 2, 2009, that clarified the "contingent right of enforcement" and reopened the public comment period. A final rule is under development to respond to public comment on the contingent right of enforcement, Federal appraisal reviews, certification process, forest management plans, impervious surface limitation, national ranking criteria, credit for public access, and hazardous materials review.

Grassland Reserve Program (GRP) (Subtitle E—Sec. 2403): An interim rule was published in the *Federal Register* on January 21, 2009. An amendment was published on August 21, 2009, that clarified the "contingent right of enforcement" language, removed the prohibition of producing energy for off farm use, and reopened the public comment period for 30 days from date of publication. A final rule is under development that responds to public comments on various program definitions, wind power, native species, landowner contributions, long-term management funding, ranking priorities, state level priorities, and the terms and conditions of the GRP deed.

Environmental Quality Incentive Program (EQIP) (Subtitle F—Sec. 2501): An interim rule was published in the *Federal Register* on January 15, 2009. The interim rule was both corrected and amended. A correction was published on March 12, 2009, that corrected the application of payment limitation provisions as they apply to joint operations. An amendment was published on May 29, 2009 that reestablished policy that enables certain producers, who lease public lands, to be able to use EQIP funds on the public lands. A final rule is being developed to respond to public comment received on the following topics, public land eligibility, payment limitation, water rights, organic conservation assistance, at-risk species, and national priorities.

Agriculture Water Enhancement Program (AWEP) (Subtitle F—Sec. 2510): A notice of request for proposals for FY 2010 was published April 2, 2010. The FY 2009 notice was published March 26, 2009.

Wildlife Habitat Incentive Program (WHIP) (Subtitle G—Sec. 2601): An interim rule was published in the *Federal Register* on January 16, 2009. The interim rule was both corrected and amended. A correction was published on March 12, 2009, that corrected the application of payment limitations as they apply to joint operations. An amendment was published on July 15, 2009, that expanded the definition of agricultural lands to enable producers to enroll all lands included in their farming operation.

Chesapeake Bay Watershed Program (Subtitle G—Sec. 2605): A notice of funding availability for FY 2010 was published March 12, 2010. The FY 2009 notice was published January 22, 2009.

Regional Equity (Subtitle H—Sec. 2703): An interim rule was published in the *Federal Register* on January 13, 2009. This rule incorporated changes required by the 2008 Act and formalized agency regional equity provisions to establish consistency and certainty with implementation. NRCS evaluated the public comments and published a final rule in the *Federal Register* on December 4, 2009. The final rule responds to public comment received on the allocation process, contributing programs, obligation thresholds, and established deadlines.

Cooperative Conservation Partnership Initiative (CCPI) (Subtitle H—Sec. 2707): A notice of request for proposals for FY 2010 was published April 2010. The FY 2009 notice was published March 10, 2009.

State Technical Committees (Subtitle H—Sec. 2711): An interim rule was published in the *Federal Register* on November 28, 2008. The National policy, Standard Operating Procedures was published in the *Federal Register* on April 7, 2009. The final rule responds to public comment received on committee responsibilities, composition of local working groups and the State Technical Committee, communication, subcommittees and other issues related to matters of discretion and meeting organization. The final rule was published December 17, 2009.

Technical Service Provider Assistance (TSP) (Subtitle H—Sec. 2706): A final rule was published in the *Federal Register* on February 12, 2010. The rule included changes required by the 2008 Act, clarified the agency's role with training TSPs, and established a process to ensure fair and reasonable payment rates and responded to public comments on TSP agreements, certification, definitions, evaluating TSPs, general program rules, outreach, payments, procurement and socially-disadvantaged producers.

Conservation Practice Technical Assistance (Subtitle H—Sec. 2706): A notice that provided the results of a preliminary review of technical assistance and requests comments about how to improve the conservation practice standards was published in June 2009 with an initial 60 day comment period. An additional 30 days was subsequently added to the comment period.

Agricultural Management Assistance Program (AMA) (Subtitle I—Sec. 2801): An interim rule was published in the *Federal Register* on November 20, 2008.

This rule incorporated changes required by the 2008 Act and incorporated changes to improve program administration and align program implementation with other financial assistance programs. A correction related to the application of payment limitation provisions was published on March 12, 2009. NRCS evaluated the public comments and published a final rule in the *Federal Register* on December 8, 2009. The final rule responds to public comment on program purposes and applicability, various program definitions, national priorities, program requirements, State Technical Committee applicability to the program, payments, reestablishing failed practices, violations, agency access to operating units, and other minor clarifications.

NRCS Compliance with NEPA (Non-Farm Bill): An interim rule was published in the *Federal Register* on July 13, 2009, that identified additional categorical exclusions applicable to NRCS programs, which are actions that NRCS has determined do not individually or cumulatively have a significant effect on the human environment and, thus, should not require preparation of an environmental assessment (EA) or environmental impact statement (EIS) under the National Environmental Policy Act (NEPA). A final rule addressing comments received on the interim rule was published in the *Federal Register* on February 10, 2010.

Conservation Reserve Program (CRP) (Subtitle B—Sec. 2101–2111): An interim rule implementing mandatory CRP provisions was published in the *Federal Register* on June 29, 2009, and was effective on that day as well. On October 7, 2009, the distribution of CRP rental payments of $1.7 billion for FY 2010 was announced. A second interim rule implementing farm bill provisions pertaining to transition incentives is being developed. The rule is targeted for publication in spring 2010. FSA is in the process of completing a Supplemental Environmental Impact Statement (SEIS) for the remaining CRP provisions as required under the National Environmental Policy Act (NEPA). The SEIS must be completed before the remaining provisions can be implemented.

Title III—Trade

Consultative Group (Sec. 3205): On September, 23 2009, Agriculture Secretary Vilsack appointed 13 members to the Consultative Group to Eliminate the Use of Child Labor and Forced Labor in Imported Agricultural Products. The group represents a diverse set of government, private sector and non-governmental organization entities, and has been charged with developing and making recommendations to the Secretary of Agriculture regarding guidelines to reduce the likelihood that agricultural products imported into the United States are produced with the use of child or forced labor.

The Group has been meeting monthly in order to develop recommendations which are due to Secretary Vilsack by June 2010. An open meeting to provide an opportunity for public input was held on March 29. By June 18, 2011, the Secretary is required to release guidelines for a voluntary initiative to enable entities to address the issues raised by the Trafficking Victims Protection Act of 2000 (22 U.S.C. 7101 *et seq.*). The guidelines must be published in the *Federal Register* and made available for public comment for a period of 90 days. The Consultative Group will terminate on December 31, 2012.

Local and Regional Food Aid Procurement (Sec. 3206): In FY 2009, USDA awarded a total of $4.75 million under the Local and Regional Food Aid Procurement Pilot Project to the UN World Food Program for field-based projects in Mali, Malawi and Tanzania. In FY 2010, USDA has an additional $25 million available to fund field-based projects. The majority of this funding will be used in emergency programs to expedite the provision of food assistance to populations affected by food crises and disasters in sub-Saharan Africa. To date, four proposals for funding have been received. Two of the proposals were from a Private Voluntary Organizations and two were from WFP. USDA is in the process of reviewing these proposals and expects to award all of the available funding by the end of the fiscal year.

Title IV—Nutrition

Programmatic Provisions: All Title IV mandatory programmatic provisions were implemented by states pursuant to the statute's October 1, 2008 deadline. USDA provided statutory information and responded to technical questions, and monitored states to assure timely implementation. FNS will be following up with rulemaking to formalize the directives in 2010, as well as implement certain administrative provisions.

Healthy Incentive Pilot Projects and Evaluation (Sec. 4141): Authorizes and provides $20 million for pilot projects to determine if incentives at the point-of-sale increase the purchase of fruits, vegetables, or other healthful foods among SNAP participants. FNS has solicited (1) applications from state SNAP agencies to administer the Healthy Incentives Pilot, and (2) proposals to evaluate the Pilot. Links to the solicitations and related information is on the project web page at (*http://www.fns.usda.gov/snap/hip/*).

Reports: FNS is working on a number of reports, including:

➢ **School Food Purchase Study (Sec. 4307):** This study will collect data for Fiscal Year 2009 food purchases under the National School Lunch Program. A data collection notice was published in the *Federal Register* Dec. 22, 2008. The study is intended to provide statistically valid national estimates of the types, amounts, and costs of food acquisitions (both purchased foods and USDA donated commodities) made by public school districts participating in the National School Lunch Program. The contract for data collection has been awarded and work is underway.

➢ **Fresh Fruit and Vegetable Program Evaluation (Sec. 4304):** This study will assess the impact of the FFVP, which was expanded to high-poverty schools across the nation by the FCEA, on fruit and vegetable consumption. A contractor has been selected and work is underway.

➢ **Study on Comparable Access to Supplemental Nutrition Assistance for Puerto Rico (Sec. 4142):** This study will examine the potential cost, policy and operational implications of transitioning Puerto Rico from their block grant for nutrition assistance to the SNAP. FNS expects to submit the report to Congress in May 2010.

➢ **Commodity Procurement (Sec. 4404):** Directed USDA to make Section 32 specialty crop purchases of (in addition to the 2002 Farm Bill amounts): $190 million for 2008, $193 million for 2009, $199 million for 2010, and $203 million for 2011, and $206 million for 2012 and thereafter. AMS purchased $390.3 million in specialty crops in FY 2008 and $472.8 million in FY 2009. As of March 26, AMS has purchased $203 million in specialty crops for FY 2010.

Title V—Credit

Loan Servicing Activities (Sec. 5304, 5305, 14002): A proposed rule was published in the *Federal Register* on August 7, 2009. FSA has a target publication of a final rule in Summer 2010.

Loan Making Activities (includes land contract guarantees), Conservation Loan and Loan Guarantees, Highly Fractionated Indian Lands (Sec. 5002, 5005, 5501): Proposed regulations are under development and are expected to be published in the *Federal Register* by fall 2010. The agency is conducting consultations with Native American Tribal Governments in the development of the regulations.

Title VI—Rural Development

Most provisions in Title VI were implemented for 2009 through a Notice of Funding Availability (NOFA). The Department is developing regulations for these programs for 2010.

Broadband (Sec. 6110): Rural Development is drafting a rule that would implement the farm bill's broadband provisions. Revised regulations will be completed once Recovery Act funding has been fully utilized. Priority is being given to applications received under the NOFA implementing the broadband provisions of the Recovery Act. This work is being done in close coordination with the Department of Commerce, which also has funding for a similar program. Over 2,200 applications were received in response to the first NOFA for Recovery Act funding that was published in the *Federal Register* on July 9, 2009. Over $1.067 million in awards have been made to 68 broadband projects. Rural Development published a second NOFA in the *Federal Register* on January 22, 2010; the application window closed on March 29, 2010.

Rural Micro-entrepreneurship Assistance Program (Sec. 6022): This is a new program for providing both loans and grants for intermediaries to establish revolving funds to make small loans to micro-entrepreneurs and grants for technical assistance. Rural Development published a proposed rule to implement this provision October 7, 2009. Rural Development received over 400 comments, which were used to develop the interim rule. Funding will be made available after the final regulations are published.

Value-Added Producer Grants (Sec. 6202): A NOFA making available $18 million for FY 2009 was published in the *Federal Register* on May 6, 2009. However, that NOFA was withdrawn due to concerns related to certain new restrictions, including a $500,000 limit of producer income and scoring preference for innovative projects. A revised NOFA was published on September 1, 2009; the application window closed on November 30, 2009. Rural Development received 550 applications in response to the FY 2009 NOFA. The applications are currently under review and awards will be made in the third quarter of FY 2010. USDA is currently revising regulations for the value added program as required by the 2008 Farm Bill.

Rural Transportation Study (Sec. 6206): Required USDA and DOT to conduct a study of transportation issues regarding the movement of agricultural products, domestically produced renewable fuels, and domestically produced resources for the production of electricity for rural areas of the U.S., and economic development in those areas. A cooperative agreement with Washington State University has been approved. The report is being finalized for submission to Congress.

Title VII—Research and Related

Veterinary Medicine Loan Repayment Program (VMLRP) (Sec. 7105): An interim rule was published in the *Federal Register* on July 9, 2009. A Solicitation for Veterinarian Shortage Situations was published in the *Federal Register* on January 22, 2010. On March 25, 2010 NIFA submitted a final rule which establishes the process and procedures for designating veterinary shortage situations and administering the VMLRP as authorized by the National Veterinary Medical Services Act. In April 2010, NIFA anticipates simultaneously publishing in the *Federal Register* the Notice of Selected Veterinarian Shortage Situations and the Request for Applications for participation in the VMLRP which will be solicited for a 60 day period. NIFA expects to make loan repayment offers prior to the end of the fiscal year.

High Priority Research and Extension Areas (Sec. 7204): The Annual Report on Response to Honey Bee Colony Collapse Disorder was sent to Congress in June 2009.

Organic Agriculture Research and Extension Initiative (OREI) (Sec. 7206): In FY 2009 OREI funded twenty-seven awards, totaling $17.2 million. Further, the FY 2010 RFA was posted on *Grants.gov* on November 18, 2009, and closed on February 9, 2010. Total program funding of $19 million will be competitively awarded in FY 2010.

Specialty Crop Research Initiative (SCRI) (Sec. 7311): In FY 2009 SCRI funded thirty-five awards, totaling $46.6 million. Further, the FY 2010 RFA was posted November 3, 2009 and closed on January 14, 2010. Total program funding of $47.3 million will be competitively awarded in FY 2010.

Beginning Farmer and Rancher Development Program (BFRDP) (Sec. 7410): In FY 2009, $17.2 million was available to fund BFRDP. The competitively awarded FY 2009 BFRDP request for applications (RFA) closed on May 13, 2009. Twenty-nine (29) awards, totaling $17.2 million were processed prior to the end of the year. Further, the FY 2010 RFA was posted February 5, 2010 and will close on April 6, 2010. Total program funding of $18 million will be competitively awarded in FY 2010.

Agriculture and Food Research Initiative (AFRI) (Sec. 7406): In FY 2009, approximately $185 million was available to fund AFRI projects. Awards totaling $92 million were processed prior to the end of the year and $93 million was carried forward to FY 2010. On March 23, 2010, Dr. Beachy hosted a webcast to announce the availability of $262 million in FY 2010 for the AFRI Program as well as the release of six requests for applications (RFAs). One RFA calls for research projects addressing the six AFRI priority areas. The other five RFAs address these five societal challenge areas: childhood obesity, climate change, food safety, global food security, and sustainable bioenergy. In addition, a single, separate NIFA Fellowship Grant Program RFA to fund opportunities for pre- and post-doctoral fellowships will be released shortly. NIFA also will publish joint RFAs utilizing FY 2010 AFRI funds (*e.g.,* Joint Climate Change Prediction Research Program with the Department of Energy (DOE) and the National Science Foundation (NSF)).

Hispanic-serving Agricultural Colleges and Universities (HSACUs) (Sec. 7129): NIFA anticipates the publication of proposed rules associated with the HSACU certification process by June 30, 2010, and the HSACU Endowment Program by July 31, 2010.

Study and Report on Food Deserts (Sec. 7527): A study assessing the incidence and prevalence of food deserts was sent to Congress in June 2009.

REE Roadmap (Sec. 7504): The Roadmap was delivered to the House and Senate Agriculture Committees on Wednesday, March 31, 2010.

National Institute of Food and Agriculture (Sec. 7511): On October 1, 2009, Cooperative State Research, Education, and Extension Service (CSREES) became the National Institute of Food and Agriculture (NIFA). Dr. Roger Beachy, founding president of the Donald Danforth Plant Science Center, was introduced as the first director of NIFA on October 8, 2009. NIFA will be publishing revised delegations in the *Federal Register* to reflect the authorities that were transferred to the Institute from CSREES.

Plan of Work (Sec. 7505): In 2010, NIFA will convene a Panel of Experts chosen with input from the Regional Executive Directors for Research and Extension. The panel will be run in a manner similar to the external Portfolio Review panels NIFA convenes every 5 years to assess specific program portfolios, except as a collaborative effort with members from both the Land-Grant Universities and NIFA.

This membership on this panel will include a total of approximately ten persons from the Land-Grant University partners; at least two from each of the five regions for both research and extension. Of the approximately ten regional representatives, the panel will include at least two directors of research and two directors of extension. Other regional members of the panel from the Land-Grant University partners will include persons responsible for writing the Plans of Work in the state from research and extension, accountability and evaluation specialists, and budget officers. Membership on the panel from NIFA will include Planning and Accountability staff, Policy staff, National Program Leaders, and Information Technology staff. The Accountability and Reporting Leader from the Office of Planning and Accountability will provide primary panel support.

This Plan of Work and Annual Report of Accomplishments panel of experts will assess the relevance, quality, and usefulness of the performance data received from the Plan of Work and Annual Report of Accomplishments and Results beginning with the FY 2007 Plan of Work. Moreover, the panel will focus on, and make recommendations for improving and further streamlining the Plan of Work and Annual Report. These improvements include, but are not limited to, citing specific data elements for inclusion and exclusion. The panel will complete a written report to NIFA with these recommendations for implementation. Every 5 years a panel of experts will reconvene to further assess the relevance, quality, and usefulness of the performance data received from the Plan of Work and Annual Report of Accomplishments and Results and make recommendations to further its improvement if necessary.

Title VIII—Forestry

Forest Resource Coordinating Committee (Sec. 8005): The charter for the FRCC was signed by former Secretary Schafer. The nomination period ended on January 6, 2009 and the Forest Service received over 45 nominations. Once selections are made, selected members will be notified and a press release drafted. The target is to have the first meeting of the committee in 2010.

State Assessments and Strategies (Sec. 8002): State Forestry agencies are actively working on these documents which are due to be completed and submitted to the Forest Service by June 18, 2010. The Deputy Chief for State and Private Forestry will approve the Assessments and Strategies. They will define forest conditions, issues, and strategies for each state and will be used in to develop and implement programs and policies for the protection, conservation, and enhancement of forest resources.

Community Forest and Open Space Conservation Program (Sec. 8003): The FY 2010 budget included $500,000 to initiate implementation of the new Community Forest and Open Space Conservation Program. The Forest Service completed drafting the proposed rule for this program in February 2010. The working title for the Community Forest and Open Space Conservation Program is the Community Forest Program (CFP).

Cultural and Heritage Cooperation Authority (Sec. 8101–8107): The Forest Service Office of Tribal Relations is coordinating agency efforts to implement all provisions of the Cultural and Heritage Cooperation Authority. Three provisions (8103, 8104, and 8105) will require updates to direction provided in the agency's manual and handbook. While agency direction is updated, National Forest System units are accepting applications from Tribes wishing to utilize the new authorities on a case-by-case basis.

Temporary Closure for Traditional and Cultural Purposes (Sec. 8104): A revision to the regulation at 36 CFR 261 and updates to Forest Service Manual 2300 and 2330 and FS Handbook 2309.13, Chapter 50, are under development.

Reburial of Human Remains and Cultural Items (Sec. 8103): The Reburial Interim Directive has been issued providing guidance to field employees. A final directive will be issued once consultation with Tribes is completed.

Green Mountain National Forest Boundary Adjustment (Sec. 8301): The Green Mountain National Forest (Vermont) completed a boundary modification in 2008 to include 13 designated expansion units as authorized in Section 8031.

Lacey Act (Sec. 8204): The Lacey Act places strict controls on trade and domestic commerce in any plant, with some limited exceptions, taken or traded in violation of the laws of the United States or a U.S. state or most foreign laws. The Act also makes it unlawful to import certain plants and plant products without a plant import declaration. APHIS, in cooperation with other agencies, has taken a phased approach to enforcement of the declaration requirement and has taken into account comments received from foreign governments as well as commercial and environmental interests. On September 2, 2009, APHIS published a notice to inform the public of the Federal Government's revised plan to phase in enforcement of the plant import declaration requirement and other implementation plans. Among other issues addressed, the revised plan responds to earlier, comments stating that the requirement to identify the plant genus and species in composite and recycled or reused materials would be difficult and in some cases impossible. In response, enforcement of the declaration for such commodities has been delayed. Review of experience implementing the declaration is underway and rule making to define exemptions for common food crops and common cultivars is in process.

Healthy Forests Reserve Program (HFRP) (Sec. 8205): A final rule was published in the *Federal Register* on February 10, 2010. The rule included changes required by the 2008 Act, made minor administrative adjustments, and responded to public comment received during the 2006 interim rule comment period. The final rule also responds to public comment on landowner protections, ranking and funding allocations, compatible use authorizations, appraisals, carbon sequestration, coordination with state agencies, environmental credits, native species, conservation practices, restoration plan modifications, state-listed species, and other program requirements. HFRP is administered by the Natural Resources Conservation Service.

Title IX—Energy

Biobased Markets Program (Sec. 9002): A proposed rule to establish a voluntary labeling program for biobased programs was published on July 31, 2009. The comment period closed on September 29, 2009, and 35 comments were received. USDA is currently developing the final rule.

Biorefinery Assistance (Sec. 9003): In response to a Notice of Funding Availability (NOFA) that was published on November 20, 2008, USDA approved a conditional commitment for an $80 million guarantee for a cellulosic ethanol plant in Soperton, Georgia on January 16, 2009. The recipient, Range Fuels, also received a $76 million grant from Department of Energy (DOE) for this plant on November 6, 2007. Construction of the plant is underway. A second loan for $25 million was awarded and since cancelled after the applicant was unable to secure alternative private sector financing when the original lender pulled out of the project. A third loan was recently approved for Sapphire Energy for $54.5 million, in conjunction with a $50 million grant from DOE. A NOFA was published on March 12, 2010, making the residual amount of funding from the FY 2009 available. Rural Development anticipates the publication of permanent regulations in September 2010. A proposed rule was published in the *Federal Register* on April 16, 2010.

Repowering Assistance (Sec. 9004): The farm bill provided $35 million in 2009. A NOFA for $20 million to make payments for the conversion of biorefinery heating and power systems to renewable biomass was published in the *Federal Register* on June 12, 2009. Five applications for $13.2 million in funding were received in response to the NOFA. The applications are located in Minnesota, Kansas and Iowa. All applicants were ethanol facilities and use natural gas, electricity or coal for heat and power. A NOFA was published on March 12, 2010, making the residual amount of funding, $6.8 million, available. The application window closes on June 15, 2010. A proposed rule was published in the *Federal Register* on April 16, 2010.

Bioenergy Program for Advanced Biofuels (Sec. 9005): The farm bill provided $55 million in 2009. A Notice of Contract Proposals for $30 million to make payments to biorefineries for the production of advanced biofuels (other than kernel corn starch) was published in the *Federal Register* on June 12, 2009. USDA has provided 161 tentative contracts for execution by applicants; payments can be made to biorefineries for the production of advanced biofuels (other than kernel corn starch) by the end of December 2009. A NOFA was published on March 12, 2010, making the remaining funding from the 2009 NOFA available, $15.5 million; the application window closes on May 30, 2010. A proposed rule was published in the *Federal Register* on April 16, 2010.

Biodiesel Fuel Education Program (Sec. 9006): The $1 million in funding available for FY 2009 has been obligated by the National Institute of Food and Agriculture (NIFA) to the National Biodiesel Board and the University of Idaho. NIFA awarded continuation grants for an initial project period of 1 year and agreed to support the efforts for a predetermined period contingent upon the availability of appropriated funds and the satisfactory progress of this project. If these elements are met, additional support will be provided to the funded project in each of FYs 2010 through 2012.

Rural Energy for America Program (REAP) (Sec. 9007): A Notice of Solicitation of Applications (NOSA) soliciting applications for about $2.4 million in grants for energy audits was published in the *Federal Register* on March 11, 2009. A NOSA for the remaining portion of the $60 million available for FY 2009 was published in the *Federal Register* on May 26, 2009. This funding may be used for guaranteed loans and grants for a wide range of energy efficiency improvements and renewable energy systems and grants for energy audits and feasibility studies. Over 1,500 awards for grants, loan guarantees and loan guarantee/grant combinations were made in the 4th quarter of 2009. The 2010 Appropriation Act provided $39 million in funding for grants and loan guarantees in addition to the $60 million of farm bill mandatory funding. The combination of mandatory and discretionary funding will provide $408 million in program level in 2010. A NOSA to solicit application for grants and loan guarantees is under development. A proposed rule to incorporate the audit and feasibility provisions into the current regulation will be published soon.

Biomass Research and Development Initiative (BRDI) (Sec. 9008): Awards totaling $25 million were provided at the end of Fiscal Year (FY) 2009 from USDA and DOE's Office of Biomass Programs. The BRDI board met in March 2010 and was briefed on the development of the FY 2010 Notice of Solicitation of Applications. The 2008 Farm Bill provides $28 million for grants for FY 2010, in addition to $5 million of funding provided by DOE for a total of $33 million available in FY 2010. Grants funds are provided to eligible entities to research, develop, and demonstrate biomass projects for (1) Feedstocks Development, (2) Biofuels & Biobased Products Development, and (3) Biofuels Development Analysis. Administration of the BRDI grants program was delegated to NIFA. NIFA expects to release the RFA shortly.

Feedstock Flexibility Program (Sec. 9010): The program is on standby status until such time as the Commodity Credit Corporation acquires an inventory of sugar.

Biomass Crop Assistance Program (BCAP) (Sec. 9011): On June 11, 2009, FSA published a Notice of Funding Availability (NOFA) implementing BCAP provisions pertaining to payments for the collection, harvest, storage, and transportation (CHST) of biomass material delivered to an eligible biomass conversion facility. The CHST portion of BCAP operated under this NOFA until its termination with the publication of the proposed rule. CHST payments were authorized to continue through March 31, 2010, pending completion of regulatory development. FSA published a proposed rule, on February 8, 2010, implementing the BCAP program, the 60 day public comment period closed on April 9, 2010. The public comments are undergoing review and will be taken into consideration in the development of a final rule which is expected to be published later this year. A draft Programmatic Environmental Impact Statement (PEIS) was published in August 2009 with a 45 day comment period. The comments will be addressed in the final PEIS which will be published in the near future. Payments for CHST in FY 2009 were about $14.5 million and $165 million in FY 2010.

Forest Biomass for Energy Program (Sec. 9012): This program included an authorization to appropriate up to $15 million per year from 2009 through 2012. No funding has been appropriated. The FY 2011 budget requests $15 million to implement this program.

Community Wood Energy Program (Sec. 9013): This program included an authorization to appropriate up to $5 million per year from 2009 through 2010. No funding has been appropriated. The FY 2011 budget requests $5 million to implement this program.

Title X—Horticulture and Organic Agriculture

Section 32 Study (Sec. 10101): Required USDA to arrange for an independent study and evaluation of the purchasing processes principally devoted to perishable agricultural commodities provided in Section 32. AMS signed a cooperative agreement with the University of California at Davis on Sept. 19, 2008. The report will be released shortly.

Quality Requirements for Clementines (Sec. 10102): Added clementines to the list of products in Section 8e of the Agricultural Adjustment Act. Section 8e provides that whenever specified domestically produced commodities are regulated under a Federal marketing order, imports of the commodity must meet the same or comparable grade, size, quality and maturity requirements. Industry must request the establishment of a Federal clementines marketing order for the farm bill language to be implemented. No such request has been made.

Mushroom Promotion and Research (Sec. 10104): Allowed for the development of a program for good agricultural practices and good handling practices under the Mushroom Promotion, Research and Consumer Information Order, as well as reapportioned the membership of the Mushroom Council to reflect shifts in domestic mushroom production. AMS published the final rule implementing these provisions in the *Federal Register* on October 2, 2009.

Farmers' Market Promotion Program (FMPP) (Sec. 10106): Extended the FMPP through 2012 and provided $33 million in CCC funds: $3 million in 2008, $5 million in 2009 and 2010, and $10 million in 2011 and 2012. Sec. 10106 specified statutorily the categories of farmer-to-consumer direct marketing activities eligible for funding under the program, and required that not less than ten percent of the funds used to carry out the program in a fiscal year are to be used to support the use of electronic benefits transfers (EBT) at farmers' markets. AMS issued a Notice of Funding Availability (NOFA) on March 13, 2009 and AMS awarded 86 grants totaling more than $4.5 million covering 37 states for FY 2009. The 86 awards went to 65 nonprofit organizations, 16 local governments, two agriculture cooperatives, two Tribal governments, and one producer network. Thirty (30) of the 86 grants promote the use of new EBT projects. AMS is developing regulations for FY 2011 and subsequent years and anticipates publication of a final rule in December 2010. The 2010 NOFA was announced in the *Federal Register* on March 1, 2010.

Specialty Crops Market News Allocation (Sec. 10107): Authorized $9M for each FY 2008–2012, to remain available until expended, to carry out market news activities for fruits and vegetables. Although funding was not appropriated, AMS continues to carry out specialty crop market news activities as the Agency collects information on the current supply, demand and prices on nearly 400 domestic and 70 foreign grown fruits, vegetables, nuts, ornamental and specialty crops.

Expedited Marketing Order for Hass Avocados (Sec. 10108): Provided for an expedited marketing order for Hass avocados relating to grades and standards. The order is to become effective within 15 months of the date that the Department began the procedures for determining if the order should proceed. AMS has not yet received an industry proposal that would start the process.

Specialty Crop Block Grants (Sec. 10109): Provided the following CCC funding levels: $10 million in 2008, $49 million in 2009, and $55 million for 2010–2012. The section also: amended the definition of specialty crops by adding horticulture; added Guam, American Samoa, the U.S. Virgin Islands and the Commonwealth of the Northern Mariana Islands to the list of "states" eligible to apply for grants; and changed the grant allocation formula. These changes required AMS to undertake rulemaking which was completed on March 27, 2009 with the publication of the final rule in the *Federal Register*. AMS awarded 56 grants totaling $9.5 million in Fiscal Year 2008 and approximately $49 million for 745 projects in Fiscal Year 2009. The 2010 NOFA (approximately $55 million) was released on January 29, 2010.

National Organic Certification Cost-Share Program (Sec. 10301): Provided $22 million for FY 2008 for cost share activities to remain available until expended and increased the cost share reimbursement from $500 to $750. USDA is required to submit by each March 1 an annual report to Congress on program expenditures. The required report to Congress was delivered on March 20, 2009. For Fiscal Year 2008, $3,905,000 was allocated to the states while in Fiscal Year 2009 $4,320,000 was allocated to the states. On September 30, 2009, USDA announced the availability of funds for the cost share program for Fiscal Year 2010 at $4,660,000. The 2009 report was delivered to Congress on March 20, 2009. The 2010 report will be released shortly.

Organic Production and Market Data Initiatives (Sec. 10302): Directed USDA to collect data on production, pricing, and marketing of organic agricultural products. The farm bill provided $5 million in mandatory funding which was to remain available until expended and authorized additional appropriations of up to $5 million for each FY 2008–2012. The farm bill required a report to Congress within 180 days of enactment on the progress made implementing these activities and identifying additional production and marketing data needs. The report was delivered to Congress on Dec. 29, 2008 detailing how the money was allocated and would be used by each agency—AMS ($3.5 million), NASS ($1.0 million), and ERS ($0.5 million). AMS Market News (MN) has improved existing reporting of organic products and has planned for further enhancement of organic reporting and the development of additional organic market information tools. Specifically, AMS is undertaking modifications to the Market News Information System (MNIS) to: segregate organic data from conventional data; allow for input of data specific to organic commodities; migrate existing organic data from disparate systems; and create new reports and modify existing reports for presentation of organic market information.

National Honey Board (Sec. 10401): Made a number of amendments to the Honey Research, Promotion, and Consumer Information Act. First, the farm bill directed AMS to consider a national research and promotion program for honey packers and importers. AMS received a proposal for this packers and importers program and conducted a referendum on that proposal from April 2–16, 2008. In the referendum, 78 percent of those voting, representing 92 percent of the volume of those voting in the referendum; approved the program. The program became effective on May 22, 2008; 1 day after the final rule was published in the *Federal Register*. The first board meeting took place on September 4, 2008. With the approval of this new program, the collection of assessments under the Honey Research, Promotion and Consumer Information Order—authorized under the Honey Research, Promotion and Consumer Information Act—was suspended. A termination order for that program was published in the *Federal Register* on April 17, 2009.

The second major requirement under Sec. 10401 directed USDA to consider establishing a research and promotion program for domestic producers. On July 14, 2009, AMS published a proposed rule and solicited comments through September 14, 2009 for a domestic honey producer program. AMS reviewed the comments it received and determined that a program is warranted. As a result, AMS has drafted referendum procedures which are currently awaiting publication in the *Federal Register*. The referendum will be held May 10–28. A final rule will be published if the program is approved in the referendum.

Honey COOL (Sec. 10402): Provided country of origin labeling (COOL) requirements for honey that bears any official certificate of quality, grade mark or statement, continuous inspection mark or statement, sampling mark or statement or any combination of the certificates, marks, or statements of USDA. The Interim Rule was published in the July 8, 2009 *Federal Register* with comments due by September 8. This rule, which became effective October 6, 2009, would establish a new regulation addressing country of origin labeling for packed honey bearing any official USDA mark or statement and would add a new cause for debarment from inspection and certification service for honey. The final rule is under development.

Plant Pest and Disease Management and Disaster Prevention Program (Sec. 10201): APHIS hosted several stakeholder meetings from May–September, 2009, to seek input on the allocation of $45 million in farm bill funds to build and preserve critical plant health safeguarding infrastructure nationally for Fiscal Year 2010. Funding will be distributed to enhance state and national efforts for pest detection and mitigation as well as ensure the viability of small farms and specialty crops through protection from economically devastating plant diseases and pests. APHIS has allocated funding to more than 50 state cooperators, universities, Federal agencies, and nonprofit cooperators, supporting over 200 projects that will not only enhance pest detection and mitigation but will benefit both technology development and job creation.

National Clean Plant Network (NCPN) (Sec. 10202): By July 2009, two specialty crops; fruit trees (including apples, pears, peaches, plums, cherries and other stone fruits) and grapes (including table, juice, raisin, and wine fruit) were fully operational under the NCPN banner. As a result, five associated clean plant centers located in California, Missouri, New York, South Carolina, and Washington received $3.1 million in NCPN funding in September 2009 for pathogen diagnostics, therapy, and establishing disease free foundation plantings. Three other specialty crops are anticipated to be fully operational in FY 2010. They are citrus (serving both the fresh fruit and juice industry), berries (including strawberries, the blueberry/cranberry group, and raspberries, blackberries, and other bramble fruit), and hops. In FY 2010 it is anticipated that NCPN funding of around $5 million may support five specialty crop groups involving pathogen detection to produce disease free plants at 10–12 clean plant centers located in 9–10 states.

From July 2009 to January 2010, NCPN stakeholders also met on numerous occasions to advance several critical issues impacting the network. This included establishing a new grape clean plant foundation in the Middle Atlantic States and working towards strengthening audit-based state nursery certification programs to ensure that NCPN-developed clean plant material provided to industry remains uninfected as it moves through plant nursery systems.

The 3rd NCPN Annual Stakeholders meeting is planned for May 11–13, 2010 at the University of California at Davis. Since initiating the NCPN stakeholder database in FY 2007, the number of persons enrolled has increased from 125 to over 350 scientists, regulators, extension agents, and industry supporters in FY 2010. It is anticipated that 75–100 of these stakeholders shall attend the FY 2010 annual meeting and represent fruit trees, grapes, citrus, berries, and hops as well as potatoes, sweet potatoes, olives, roses, and other specialty crops.

Pest and Disease Revolving Loan Fund (Sec. 10205): Due to the absence of a suitable partner to act as the loan agent for the program the proposed rule for the Pest and Disease Revolving Loan fund has been withdrawn from the regulatory calendar.

Biotechnology Regulations (7 CFR Part 340) (Sec. 10204): In response to the proposed revision of plant-related biotech regulations, APHIS received over 66,000 comments from members of the public, which includes over 15,000 comments from an earlier open comment period last fall. APHIS is continuing to analyze those comments and working with policy officials to determine next steps.

Biotechnology Quality Management System (BQMS) (Sec. 10204): BQMS is a voluntary, audit-based compliance assistance program that assists universities, small businesses, and large companies develop sound management practices to enhance compliance with regulatory requirements for field trials and movement of regulated genetically engineered organisms. The draft audit standard for the BQMS was published on June 3, 2009, with a comment period which closed on October 23, 2009. BQMS pilot registration audits were successfully completed for all five pilot participants. APHIS is currently evaluating the pilot, including public comment and feedback from the pilot participants, to inform future iterations of the BQMS program.

Title XI—Livestock

Notification, Documentation, and Recordkeeping Requirements for Inspected Establishments Proposed Rule (Sec. 11017): Requires official establishments to (1) prepare and maintain current, written procedures for the recall of meat and poultry products produced and shipped by the establishment for use should it become necessary for the establishment to remove product from commerce; (2) document reassessments of their process control (HACCP) plans and; (3) notify FSIS if they have reason to believe adulterated or misbranded product is in commerce. The proposed rule was published in the *Federal Register* on March 25, 2010. Comments are due by May 24, 2010.

Catfish Inspection Proposed Rule (Sec. 11016): USDA is working to finalize the proposed rule establishing a mandatory catfish inspection program.

Catfish Grading (Sec. 11016): Directed USDA to establish a voluntary fee based grading program for catfish. AMS has conducted several meetings with representatives of the catfish industry, one meeting with National Marine Fisheries Service officials, and with FSIS officials to discuss grading and inspection services. AMS is drafting proposed standards, which will be published in the *Federal Register*.

Federal-State Interstate Shipment Cooperative Meat and Poultry Inspection Program (Sec. 11015): FSIS' published proposed regulations on Wednesday, September 16, 2009, (74 FR 47648). The comment period was extended from November 16, 2009 to December 16, 2009. FSIS held two teleconference public meetings on October 27 and November 5 to gather comments from stakeholders on the proposed rule. FSIS is analyzing comments received in response to the proposal. FSIS has projected that a final rule will be published in September 2010. FSIS is reviewing the public comments in preparation for development of a final regulation.

Livestock Mandatory Reporting (Sec. 11001): Required USDA to undertake a study on the effects of requiring packers to report information on wholesale pork cuts, due 1 year following enactment of the farm bill. USDA was also directed to implement an enhanced system of electronic reporting and to carry out a market news education program. AMS is seeking to develop and implement a proof-of-concept project that would add an improved user interface, including tools for data visualization, to its primary system for disseminating Livestock Mandatory Reporting information through the Web. Also, AMS finalized in August 2009 a cooperative agreement with a team of university researchers identified by the Livestock Marketing Information Center to complete the study of pork reporting. A draft report was received on November 23, 2009, and the final report was transmitted to the House and Senate Agriculture Committees on March 22, 2010.

Country of Origin Labeling (COOL) (Sec. 11002): Required country of origin labeling for muscle cuts and ground beef (including veal), pork, lamb, goat, and chicken; wild and farm-raised fish and shellfish; fresh and frozen fruits and vegetables; peanuts, pecans, macadamia nuts, and ginseng sold by designated retailers. The final regulation was published in the January 15, 2009 *Federal Register* and became effective on March 16, 2009. FSIS issued its Interim Rule for Country of Origin Labeling for Various Meat and Poultry Products on August 28, 2008, and the Final Rule on March 20, 2009. AMS' education and outreach program will assist industry in achieving compliance with the provisions and requirements of the agencies' rules.

National Sheep Industry Improvement Center (Center) (Sec. 11009): Provided for the re-establishment of the Center and its revolving fund to promote the strategic development activities and collaborative efforts that strengthen and enhance the production and marketing of sheep or goat products in the United States. The authorization provided $1 million in mandatory spending for Fiscal Year 2008 to remain available until expended. AMS continues to work with other USDA agencies to re-establish the Center.

Packers and Stockyards Act Regulations (Sec. 11005, 11006): GIPSA is in the final stages of developing a proposed a rule. OMB review of the proposed rule was completed on March 8, 2010. Proposed Rule is under final review for publication in the *Federal Register*. The proposed rule would establish criteria to be used in determining: (1) whether an undue or unreasonable preference or advantage has occurred in violation of the Act, (2) breach of contract, suspension of a contract, and unfair capital investment, and (3) whether the arbitration process provided in a contract provides meaningful opportunity for the grower to producer to participate fully in the arbitration process.

Annual Report (Sec. 11004): This section requires the Secretary to submit to Congress by March 1 of each year a report on investigations into possible violations of the Packers and Stockyards Act. The Secretary is required to report the number of investigations conducted by GIPSA and the number of referrals to the Office of the General Counsel and the Department of Justice. The 2009 report was submitted to Congress and posted on GIPSA website on March 20, 2009. The 2010 report was submitted to Congress and posted on GIPSA website on April 5, 2010.

Title XII—Crop Insurance and Disaster

Definition of Organic Crop (Sec. 12001): An interim rule with the new definition for organic crop was published in the *Federal Register* on 11/24/2008, and was in effect for 2009 spring crops and 2010 fall crops. The final rule was published 9/3/2009.

Reduction in Loss Ratio (Sec. 12003): The results from a contract to perform a comprehensive review of crop insurance rating methodology have been received and were released on the RMA website for public comment. RMA and the contractor have reviewed the public comments received and will be finalizing the report by April 15.

Premium Adjustments—Rebating (Sec. 12004): This was included in the 2009 Mandatory SRA Amendment.

Controlled Business Insurance (Sec. 12005): This was included in the 2009 Mandatory SRA Amendment.

Administrative Fee (Sec. 12006): A final rule was published 6/27/2008.

Catastrophic Coverage Reimbursement Rate (Sec. 12008): This was included in the 2009 Mandatory SRA Amendment.

Grain Sorghum Price Election (Sec. 12009): The farm bill required that RMA contract with participants from the grain sorghum industry and institutes for higher learning to develop a new process for establishing price elections. Five experts from USDA, the grain sorghum industry and institutions of higher learning proposed pricing methodologies. RMA solicited public comments on its proposed selected methodology in the *Federal Register* on July 24, 2009, and via a public meeting held August 20, 2009, in Kansas City, MO. RMA is implementing the selected methodology for establishing grain sorghum price elections for the 2010 crop year. The reports received from the expert reviewers and RMA's 2010 pricing methodology are available for review at RMA's website, *www.rma.usda.gov*.

Premium Reduction Authority (PRP) (Sec. 12010): PRP submission criteria were removed by a final rule published 2/26/2009.

Enterprise and Whole Farm Units (Sec. 12011): RMA implemented the revised subsidies for enterprise and whole farm units via Information Memorandum PM 08–057 effective for 2009 crop year crops with November 30, 2008 and subsequent contract change dates. A final rule revising the definition of enterprise unit in the Common Crop Insurance Regulations was published for purposes of program integrity on 11/23/2009.

Payment for Portion of Premium for Area Revenue Plans (Sec. 12012): Informational Memorandum PM–08–041 was posted 8/21/2008.

Denial of Claims (Sec. 12013): Included in the 2009 Loss Adjustment Manual.

Settlement of Crop Insurance Claims on Farm-Stored Production (Sec. 12014): The interim rule was published 11/24/2008. The final rule was published 9/3/2009.

Farm Stored Production Efficacy of Pack Factors (Sec. 12014(b)): A study to determine the efficacy and accuracy of pack factors used in the measurement of farm stored production is being conducted. RMA has entered into a partnership with the Agricultural Research Service (ARS) to conduct the required study, as well as develop a risk management tool for use by producers. A preliminary report is expected in FY 2010.

Time for Reimbursement (Sec. 12015): The farm bill requires that for the 2012 and subsequent reinsurance years, FCIC move the date the Agency pays the Administrative and Overhead (A&O) payment to Approved Insurance Providers out to October 1 from the current date of when the acreage report is submitted to the Agency. This will be incorporated into the 2011 SRA currently being drafted and negotiated.

Reimbursement Rate (Sec. 12016): Revisions were included in the 2009 Mandatory SRA Amendments.

Renegotiation of the Standard Reinsurance Agreement (SRA) (Sec. 12017): Beginning with the 2011 reinsurance year, the Agency may renegotiate the SRA once every 5 years. RMA intends to negotiate a new SRA for the 2011 reinsurance year. RMA notified the appropriate Congressional Committees of the commencement of the negotiations, and has entered into discussions with Approved Insurance Providers. A second draft of RMA's proposed 2011 SRA has been posted on the RMA website.

Change in the Due Date for Corporation Payments for Underwriting Gains (Sec. 12018): Beginning with the 2011 reinsurance year, the farm bill requires that FCIC move the date of underwriting gain payments from February following the reinsurance year out to October following the reinsurance year. This will be incorporated into the 2011 SRA.

Malting Barley Quality (Sec. 12019): This was implemented in the 2009 Crop Year Special Provisions of Insurance.

Crop Production on Native Sod (Sec. 12020): The interim rule was published 11/24/2008. The final rule was published 9/3/2009.

Information Management (Sec. 12021): The farm bill provided a mandatory source of funding for the RMA Information Technology Modernization (ITM) initiative. Analysis of system requirements is completed and development is in process. Full implementation is scheduled for 2011.

Data Mining (Sec. 12021): The farm bill provided a mandatory source of funding for continuation of the data mining project ($4 million for FY 2009 and subsequent years). Data mining is a critical component of RMA efforts to eliminate fraud and abuse in the Federal crop insurance program.

AGR for Beginning Farmers (Sec. 12023): A contract for research and development to modify the AGR programs to permit coverage of beginning farmers is anticipated to be solicited in Fiscal Year 2010.

Energy Crops (Sec. 12023): A study regarding a policy for selected energy crops, including switchgrass, has been completed. The study determined that while crops studied could be suitable for coverage under the existing pasture, rangeland and forage concept, the industries did not appear to be mature enough for inclusion under the program at this time. RMA has also learned through its own consultation with producers and industry representatives that they may have more desire for an individual yield based plan of insurance. A solicitation for proposals to conduct research and development of the feasibility of developing an insurance product for dedicated energy crops closed March 1, 2010. RMA is currently evaluating proposals submitted.

Poultry Insurance (Sec. 12023): RMA awarded a contract to research the feasibility of developing an insurance product for poultry to Watts and Associates on February 25. Work is underway, with a final feasibility study expected in Fall 2010.

Apiary Policies (Sec. 12023): RMA awarded the contract to conduct research and development regarding the feasibility of insuring honeybees to Ag-Force. Work began in October, 2009. A final report is expected in June, 2010.

Aquaculture (Sec. 12023): The farm bill required RMA to execute three or more contracts for research and development (R&D) of new aquaculture (insurance) policies for Bivalve species, Fresh water species and Salmon/Shrimp.

- *Bivalve:* Clam pilot complete; Oyster policy implemented February 2009.
- *Fresh Water:* Trout and Catfish policies completed expert review. RMA withdrew products from consideration by the FCIC Board due to issues with product design and will be initiating further research and development in Fiscal Year 2010.
- *Salmon/Shrimp:* Under review. Policies may be available in the private sector which would preclude FCIC involvement.

Skiprow Cropping Practices (Sec. 12023): A contract for research into needed modifications to corn and grain sorghum policies that permit skiprow planting practices was awarded to Windsor Strategy Partners. Work on the contract began in October 2009.

Organics (Sec. 12023): A contract for a study regarding organic price elections and rating (surcharge) was awarded February, 2009, to Watts and Associates. The initial report regarding available data was completed; as well as development of specific pricing methodologies for selected crops. Any pricing methodology developed would be applicable to crop year 2011 at the earliest. A final report on the rating review has been received and is under review.

Camelina Pilot Program (Sec. 12025): RMA is continuing to evaluate options for addressing the farm bill requirement to develop a pilot program for camelina. A study of the feasibility of including camelina under the existing pasture, rangeland and forage concept indicated that while camelina could be suitable for inclusion, the industry does not appear to be mature enough for inclusion at this time. In addition, RMA's own interactions with producers suggested that their interest was in an individual production based policy. RMA has included camelina as a crop to be studied further in a study of the feasibility of insuring dedicated energy crops, which is currently in the process of being awarded.

Sesame Pilot Program (Sec. 12025): The farm bill called for development and implementation of an insurance program for sesame production in Texas. A contract to develop a production based policy was awarded to Promar on January 6, 2009. The proposed Actual Production History Sesame pilot crop insurance program was approved by the Federal Crop Insurance Corporation Board of Directors for selected counties in Texas and Oklahoma on November 19, 2009. The APH-Sesame pilot will be effective for crop year 2011, pending identification of pay-go offsets for Oklahoma. Sufficient pay-go offsets have been located, so the Sesame APH pilot will be initiated for the 2011 crop year.

Grass Seed Pilot Program (Sec. 12025): The farm bill directed development and implementation of a policy for Grass Seed production in Minnesota and North Dakota. A contract to develop a production based policy was awarded to Watts and Associates on March 27, 2009. The Federal Crop Insurance Corporation approved referral of proposed program materials to expert review on November 19, 2009. Final action by the FCIC Board of Directors is anticipated for early 2010.

Risk Management Education for Beginning Farmers and Ranchers (Sec. 12026): Special emphasis was put on this activity beginning with the 2009 Outreach Partnership Agreements.

Declining Yield Report (Sec. 12030): The farm bill required reports to the appropriate Congressional Committees containing details about activities and options that address declining yields for APH histories and perennial crops including Pecans. Two reports are being developed, one that focuses on the specific issues of perennial crops (including Pecans), and a second that focuses on declining yield issues for annual and perennial crops. The report specific to perennial crops including Pecans has been completed and was submitted by the Department to the Senate and House Agriculture Committees. The second report on declining yield issues for annual and perennial crops should be complete by May 15, 2010.

Tobacco Definition of Basic Unit (Sec. 12031): The final rule was published on 3/26/2009.

Crop Insurance Mediation (Sec. 12032): A final rule was published 2/26/2009.

Livestock Indemnity Program (LIP) (Sec. 12033): A final rule was published in the *Federal Register* on July 2, 2009. Producers were able to begin applying for benefits on July 13, 2009. For livestock losses that occurred from January 1, 2008 to July 13, 2009, producers had until September 13, 2009 to file a notice of loss with their local FSA office. For livestock losses occurring after July 13, 2009, producers have 30 days from the date the death becomes apparent to file a notice of loss. A manual enrollment process is being used.

Emergency Assistance for Livestock (ELAP) (Sec. 12033): A final rule was published in the *Federal Register* on September 11, 2009. Producers were able to begin applying for benefits on September 14, 2009.

Livestock Forage Program (LFP) (Sec. 12033): A final rule was published in the *Federal Register* on September 11, 2009. Producers were able to begin applying for benefits on September 14, 2009.

Supplemental Revenue Assistance Program (SURE) (Sec. 12033): A final rule was published in the *Federal Register* on December 28, 2009. Producers were able to begin applying for benefits on January 4, 2010 for 2008 crop losses.

Tree Assistance Program (TAP) (Sec. 12033): A final regulation is under development in FSA. The target publication date is the spring of 2010.

Title XIV—Miscellaneous

Office of Advocacy and Outreach (Sec. 14013): The FY 2010 appropriations bill provided $1.7 million to establish the Office of Advocacy and Outreach (OAO). In addition, OAO will receive $20 million provided by the 2008 Farm Bill for the 2501 Grants Program (previously managed by NIFA); $4 million for the section 14204 Grants Program of the 2008 Farm Bill for agricultural labor force improvements that was transferred from RD; and an estimated $5.7 million in reimbursements for programs previously managed by the Office of Civil Rights (1890 and 1994 programs) and ARS (Hispanic Serving Institutions Program). This funding will allow OAO to begin efforts to lead USDA's outreach efforts for small, beginning, and socially disadvantaged producers. OAO will be responsible for: overseeing the Advisory Committees on Minority Farmers and Beginning Farmers and Ranchers; administration of the Outreach to Socially Disadvantaged Farmers Grant Program (2501 Grants Program); overseeing the activities of the Office of Small Farms Coordination and the Farm Worker Coordinator; managing the 1994, 1890, and Hispanic Serving Institutions Programs; and other outreach functions.

Race, Ethnicity, and Gender (REG) Data Collection (Sec. 14006): ASCR is moving forward on efforts begun in conjunction with Section 10708 of the 2002 Farm Bill to initiate Department-wide collection authority for RESNODA data. A working group has been formed consisting primarily of the Service Center Agencies (SCA), which includes Rural Development, Natural Resources Conservation Service, and the Farm Service Agency. The Risk Management Agency (RMA) is also participating. The working group has been meeting to draft the information collection package and associated Departmental regulation.

Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers (OASDFR) (Sec. 14004): OASDFR was transferred from NIFA to the Office of Advocacy and Outreach on October 1, 2009.

Cotton Classification User Fee Increase (Sec. 14201): Provided permanent authority for cotton classification services and allowed USDA to enter into leases of longer than 5 years or take title to property for the purpose of obtaining cotton classification facilities. The 2009 user fee for grower's cotton classification service will be increased, as determined by a new method allowed in the farm bill. The final rule was published June 4 with a July 1, 2009 effective date.

Cotton Research & Promotion (Sec. 14202): The provision adds Kansas, Virginia, and Florida to the definition of a cotton-producing state to be included in the Research and Promotion's State Support Program. A hearing on the proposed rulemaking was held at USDA on December 5, 2008. On October 5, 2009, the *Federal Register* published a proposed rule and final referendum requirements. The referendum was held October 13, 2009 through November 10, 2009. On January 25, 2010, AMS announced that the amendments were approved in the referendum. A final rule is being prepared.

Definition of Central Filing System Regulations (Sec. 14215): The provision amends Section 1324(c)(2) of the Food Security Act of 1985 (7 U.S.C. 1631(c)(2)) commonly referred to as the "Clear Title Program" to allow states to maintain a master debtor list with a SSN or EIN number and provide a method for lien searches. A proposed rule is under development.

Title XV—Trade & Tax

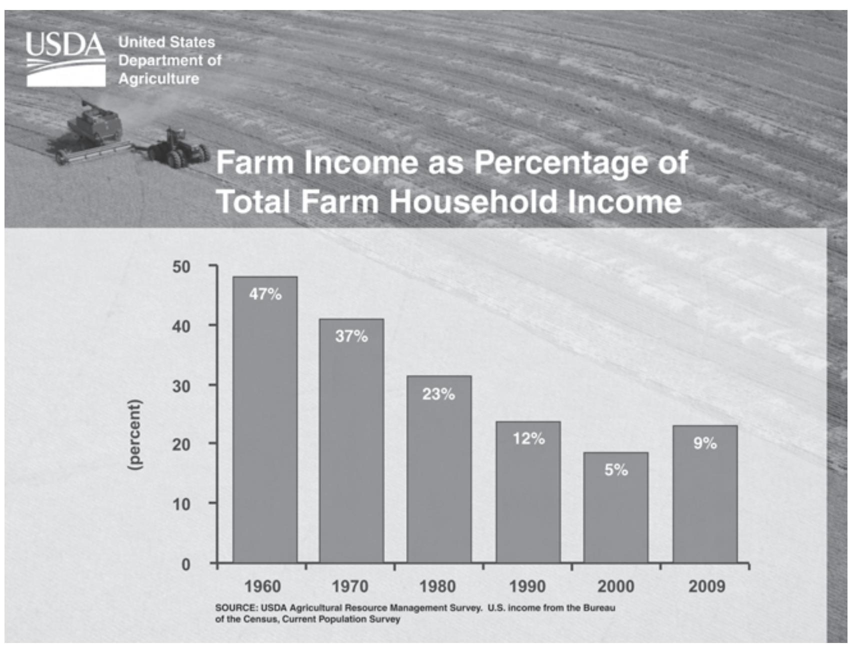
Qualified Forestry Conservation Bonds (Sec. 15306): The Internal Revenue Service has published a public notice soliciting applications for authority to issue qualified forestry conservation bonds. The notice was published on August 22nd and eligible entities have 60 days to file an Expression of Interest with the IRS. The Forest Service worked with Dept. of the Treasury on developing the notice.

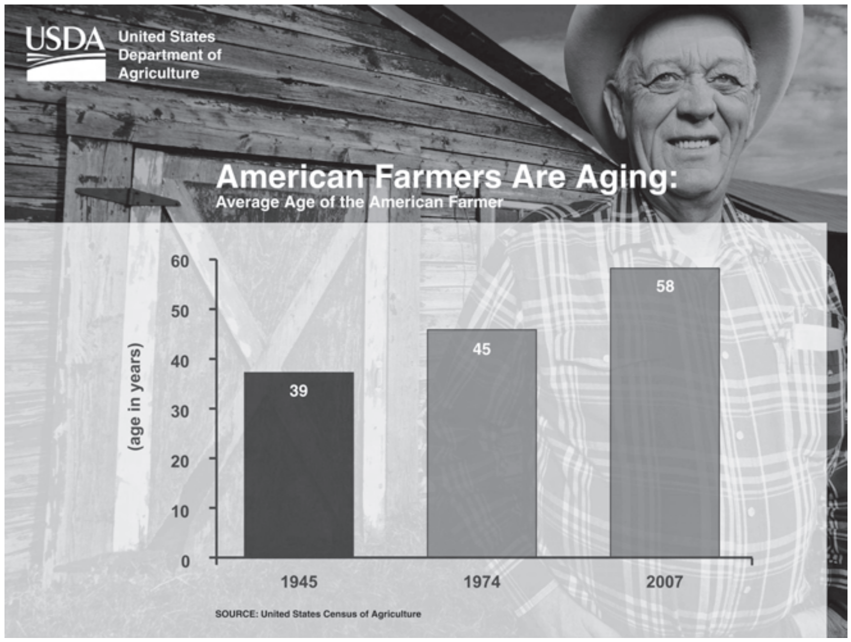
Comprehensive Study of Biofuels (Sec. 15322): Requires Treasury, Agriculture, Energy, and the Environmental Protection Agency to contract with the National Academy of Sciences (NAS) for the study. A contract with NAS was signed in September 2009, and is expected to be completed over the next 2 years. In early December NAS announced the roster of the Committee on Economic and Environmental Impacts of Increasing Biofuel Production. The first meeting of the committee was held on January 15 and 16, 2010, in Washington, D.C. A report is expected in approximately 19 months.

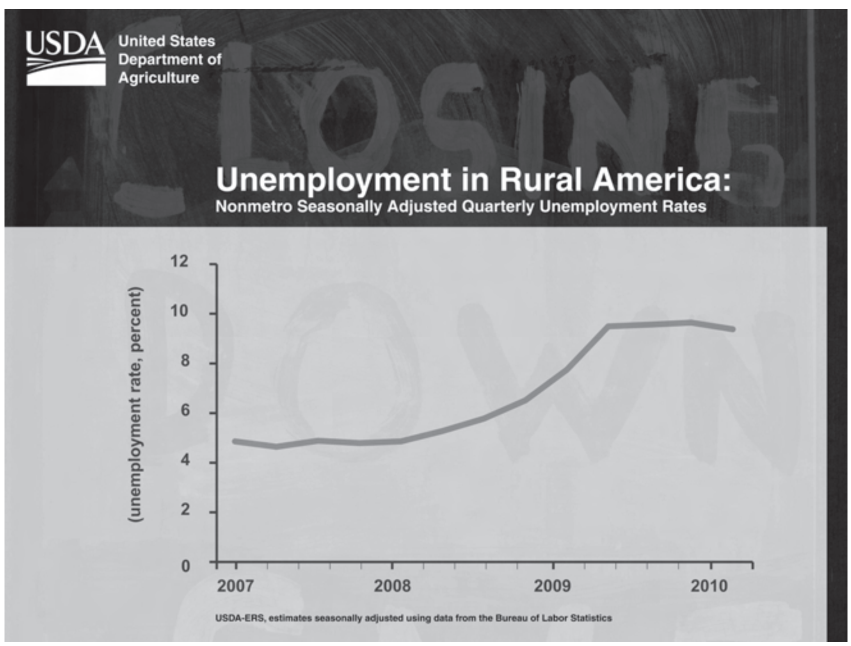
At the first meeting, the committee concluded that additional expertise is needed to carry out the tasks. As a result, four new members have been appointed to the committee.

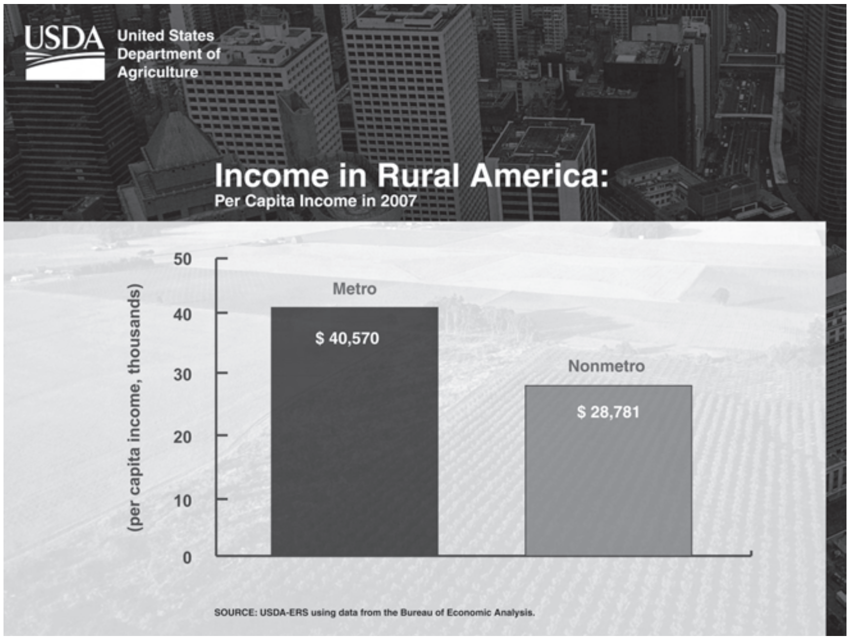
SLIDES

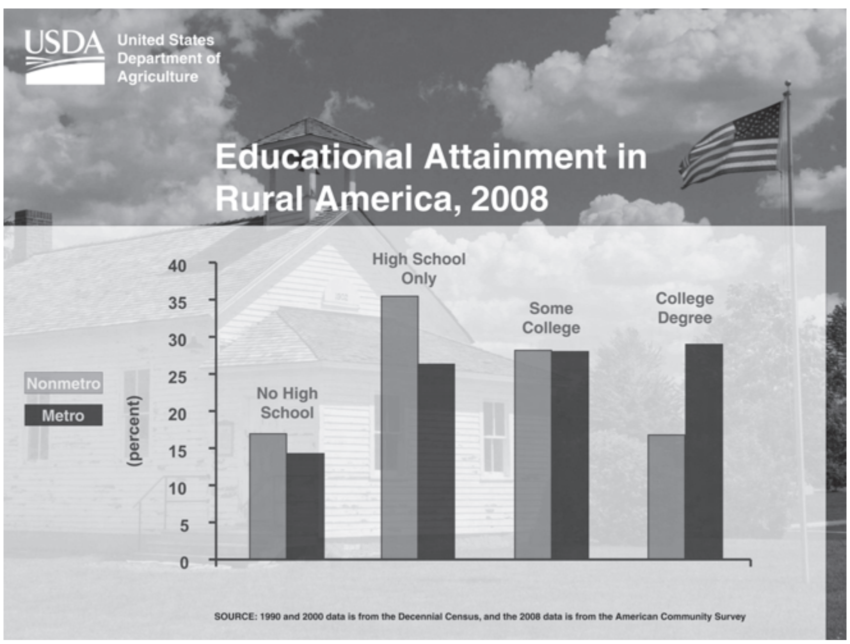

USDA United States Department of Agriculture
The Productivity of America's Farmers:
Number of People Fed Annually by One American Farmer
(people)
160
140
120
100
80
60
40
20
0
19
27
61
72
112
129
139
155
1940
1950
1960
1970
1980
1990
2000
current
SOURCE: American Farm Bureau Federation

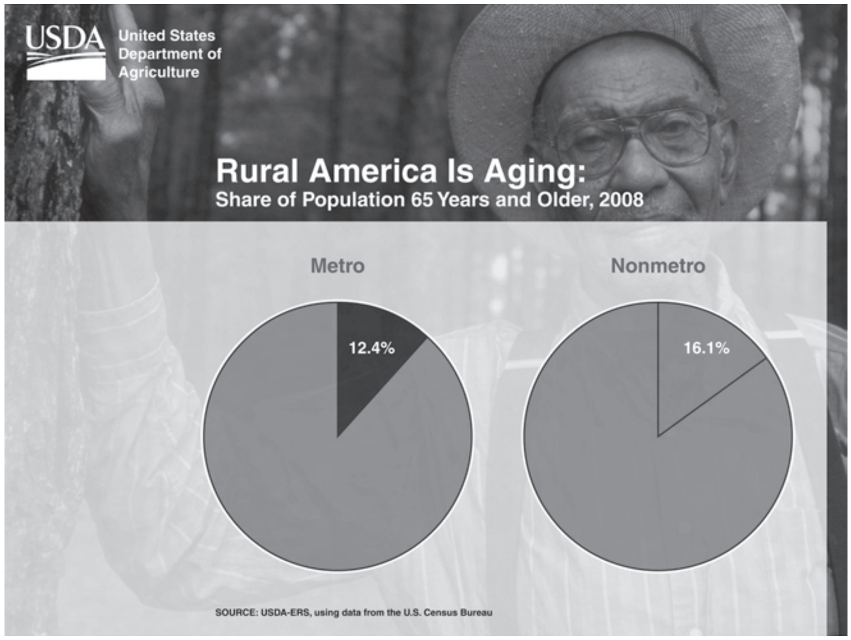

USDA United States Department of Agriculture
Farm Income as Percentage of Total Farm Household Income
(percent)
50
40
30
20
10
0
47%
37%
23%
12%
5%
9%
1960
1970
1980
1990
2000
2009
SOURCE: USDA Agricultural Resource Management Survey. U.S. income from the Bureau of the Census, Current Population Survey


USDA United States Department of Agriculture
American Farmers Are Aging:
Average Age of the American Farmer
(age in years)
60
50
40
30
20
10
0
39
45
58
1945
1974
2007
SOURCE: United States Census of Agriculture


USDA United States Department of Agriculture
Unemployment in Rural America:
Nonmetro Seasonally Adjusted Quarterly Unemployment Rates
(unemployment rate, percent)
12
10
8
6
4
2
0
2007
2008
2009
2010
USDA-ERS, estimates seasonally adjusted using data from the Bureau of Labor Statistics


USDA United States Department of Agriculture
Income in Rural America:
Per Capita Income in 2007
(per capita income, thousands)
50
40
30
20
10
0
Metro
$ 40,570
Nonmetro
$ 28,781
SOURCE: USDA-ERS using data from the Bureau of Economic Analysis.


USDA United States Department of Agriculture
Educational Attainment in Rural America, 2008
Nonmetro
Metro
(percent)
40
35
30
25
20
15
10
5
0
No High School
High School Only
Some College
College Degree
SOURCE: 1990 and 2000 data is from the Decennial Census, and the 2008 data is from the American Community Survey


USDA United States Department of Agriculture
Rural America Is Aging:
Share of Population 65 Years and Older, 2008
Metro
Nonmetro
12.4%
16.1%
SOURCE: USDA-ERS, using data from the U.S. Census Bureau


USDA United States Department of Agriculture
Rural America Is Losing Population:
Percentage of Counties Experiencing Population Loss, 2000-2008
Metro
Nonmetro
17.9%
56.3%
SOURCE: USDA-ERS, using data from the U.S. Census Bureau

The CHAIRMAN. Thank you very much, Mr. Secretary. I could first of all ask, we are going to be going out the weekend after next, in a couple of weekends we are going to travel around the country and listen to people. You have set up this dairy committee or whatever it is called, and I think that is good. What other things do you have planned at this point in terms of your involvement in this process or haven't you finalized anything too much?

Secretary VILSACK. Mr. Chairman, the advisory committee met for the first time in person last week. They did have a conference call in March. I spoke to the advisory committee and tasked them with getting straight to work. I think there is a consensus of large producers, small producers from most regions, if not all regions of the country, that there is a dissatisfaction with the current system. What we saw last year was a concerted effort by Congress and by the Administration to try to respond by providing additional commodity purchases, by providing additional price supports, by providing additional resources at the end of the year, which we tried to get out in an expeditious way.

We saw herds being reduced systemically and appropriately in the latter part of 2009. If that had continued, one assumes that prices would have continued to improve as they were at the latter part of last year. Unfortunately, what we have seen in the first part of 2010 is an increase in herd sizes. That is the reason why the advisory committee is so intent on getting a process in place that will allow us to have predictability and stability to broaden the price band. So we are focused on providing technical expertise and experience and information to that committee at their request, with the hopes that they will come up in a fairly expeditious way with a consensus for you as to what precisely needs to be done.

In the meantime, we are going to continue to monitor the situation. We are focused right now on trying to expand credit opportunities, recognizing that there are some serious challenges. We are suggesting that some dairy operations are large enough to consider the possibility of using the Business and Industry Loan Program, which often is not thought of as a vehicle for credit but is available and one that ought to be looked at, especially for larger operations. We are continuing to encourage our commercial banking friends to open up the credit. What we see is that for those who are very creditworthy there is not a problem getting credit. For those who are a little higher risk, whose equity has been diminished because of the recent losses, or those who wish to expand, or those who wish to get into the business are having an increasingly difficult time. We are going to continue to work with our own loan program to continue to press the guaranteed and the direct loan program and to work with farmers who are having a difficult time making payments. We have seen about 1,600 loans recently restructured, not just in the dairy industry.

I would say one other thing, and that is that our hope is that this advisory committee can come up with a consensus view. Our hope is that whatever Congressional regulatory action that is required to implement that program can be done in an expeditious way and that we can bring stability back to this market.

The CHAIRMAN. Thank you. In terms of other commodities, other parts of the farm program, do you have any plan at this point to be doing any hearings or any——

Secretary VILSACK. As I indicated to you, Mr. Chairman, if I understand your question, we see the responsibility of the USDA to work with this Committee. It is not our intention to go off on a separate track. It is not our intention to have a series of public meetings or hearings that are focused on the farm bill. Obviously, I am going to be out there listening to people as I did last year and obviously will be willing to share information with this Committee and hopefully with the folks behind me respond to any concerns that you have. Historically, this Committee has received from the USDA an outline or a framework. I would anticipate that we would probably provide that to you at some point when it is appropriate, but there is no intent to furnish you with a complete farm bill as I think has been done in the past.

The CHAIRMAN. Thank you very much.

Yesterday in the hearing in Pennsylvania, when they were asked—when the producers were asked what their number one priority was, it was to have a mandatory price-reporting system for dairy products. That came up again and again. It was said at the time by a couple of the people that, apparently, they have been in discussion with some people and been in discussion with your department, and that your response was that you don't have the resources to implement this. You know, we have to reauthorize the mandatory price-reporting bill this summer, and do you have the authority, first of all, to do the mandatory price reporting for dairy by component, and do you need any additional authority from us, and if it is a resource issue, what is the amount of the resource issue that is out there?

Secretary VILSACK. Mr. Chairman, we have the capacity to provide or the responsibility to provide some kind of report which we are attempting to do more frequently, but it is not as frequent or as complete. AMS estimates the cost of expanding the reporting program to be about $2.5 million.

The CHAIRMAN. That would be expanding it to like, for example, cheese and maybe different kinds of cheese? That is what people want. There is a lot of dissatisfaction with the CME price. It is a thinly traded market. We could go back into the history of how we ended up there, which I never thought was a good idea. But in any event, so it is about $2.5 million?

Secretary VILSACK. Yes, sir. We are currently doing this on a weekly basis, and this has to do with the need for, obviously, additional software and things of that nature.

The CHAIRMAN. Well, we need to work together to address this issue because we could set—the dairy industry is doing a great job in being forward looking and really looking at their program. We could set the stage for a productive farm bill outcome in dairy if we could get this price-reporting thing resolved. So I would like to work with you on that.

Secretary VILSACK. Well, I think there is momentum for that and we want to contribute to it and continue it.

The CHAIRMAN. And one last thing on the chart here, you and I have discussed this before, but one of the things that I am big on is transparency and everybody understanding what is going on. We are going do that during this farm bill process for the Members. I have had my staff putting together information by commodity and overall in terms of getting a better understanding of where this money is going and to what commodities and so forth, so we can kind of take a look at things. In that regard, this statistic kind of bothers me about the percentage of total farm income. We have discussed this before, and I think what the situation is: if you have 2.2 million farmers in this statistic. We are still using the definition that if you could produce $1,000 of income then you are considered a farmer. You don't have to produce $1,000 of revenue but if you could you are considered a farmer, right? We are still using that definition?

Secretary VILSACK. And it is 2.2 million farmers. That is correct.

The CHAIRMAN. And that is fine to look at it that way but I would like to see you provide some information to the Committee where if you boil this down to the 300,000 people that are producing 85, 90 percent of the ag products in this country, that statistic would be completely different. I would like to see it presented to us in those different ways so that we can understand.

Secretary VILSACK. It would be, Mr. Chairman, but it is important for me to respond to your comments. Fifty-four percent of American farmers do not identify farming as their principal occupation. I think this is a very important point. You and I have had this conversation so we will now have it publicly. To me, it is an important point in terms of repopulating rural communities, that we have to focus on the fact that we are not creating the kind of quality jobs in rural areas that we need to be able to create to give people an opportunity. There are many, many farm families, particularly smaller operations, that would like to keep the farm but have a hard time keeping the farm or even thinking about expanding the farm unless they have that off-farm income. So while taking nothing away from the 300,000 folks that produce the bulk of our food, and they clearly need a safety net, they clearly need the programs that you all are looking at, it is important to the base of rural America that we continue to focus on job opportunities and to recognize that we need to pay attention. *We* meaning not just this Committee but the country, the country needs to pay more attention to rural America. It needs to understand what is happening in rural America because candidly, when 80 percent of the folks live outside of rural America, they don't think about the poverty levels, the unemployment levels, the wage differences and the aging nature of rural America. If we don't continue to think about that and focus on it, we are going to have a harder and harder time meeting the food needs, not just of ourselves, but of a growing world population. I think it is an important statistic to focus on.

The CHAIRMAN. Well, I don't disagree. I am not saying I disagree with you. I understand that there are people moving out to the country that are working in town and they may eventually move over to being full-time farmers. Sometimes if you are into a niche market type of area, you can make a good living on 100 acres, depending on what you are doing. So that is not really the issue. I think that we need—we have gotten some information that we have asked for but I just think we need to have the information put out there to understand that there are different aspects of this.

Secretary VILSACK. We can furnish the Committee with that, but let me just simply say that these 300,000 folks you are talking about are the greatest farmers in the world. Now, if you were the greatest fill in the blank, lawyer, doctor, athlete, whatever, you would be making whatever the number is these folks are making, you would be making substantially more than these folks are making, and that——

The CHAIRMAN. We don't disagree on that.

Secretary VILSACK. That is part of the challenge.

The CHAIRMAN. I apologize for going over my time. Thank you very much, Mr. Secretary.

Mr. Lucas.

Mr. LUCAS. Thank you, Mr. Chairman.

Mr. Secretary, to be quite honest, in your written testimony under the heading "the importance and challenges of rural America and its future," nowhere do you talk about the farmer, the safety net or production ag. I worry that this may be symbolic of an issue that has become much more of a concern out in the countryside, and that is, is this Administration, does it have a disconnect with rural America. So I guess my question is, are you telling me, are you telling the Committee and myself that the Administration's key areas of emphasis in the next farm bill will be broadband, renewable energy, biofuels, regional food systems, supply chains, forest restoration, private land conservation and ecosystem market incentives? Are those really the primary issues where the Administration is going to go in this next farm bill?

Secretary VILSACK. Representative, I think that they are significant issues that need to be addressed, recognizing that this Committee will obviously focus on risk management tools, on direct payment programs, on the traditional safety net. I think it was important for us to expand the discussion, to understand and appreciate how important broadband is, how important potential ecosystem markets can be in terms of additional income sources for farm families, how significant it is that some of these other areas can create jobs that are, back to the discussion with the Chairman, necessary for people to be able to keep the farm. I just think it is important for us to see this as an expansion of the safety net, which is important to farm families.

Mr. LUCAS. So Secretary, can I assume that the Department's proposed proposals for the next farm bill will look something like the budget submissions that the Department has made during the appropriations process with the proposals for cuts in direct payments and crop insurance subsidies and most of the conservation programs? Will we see those kind of proposals in the next farm bill that we have seen in the annual budget submission?

Secretary VILSACK. Well, it is important for us, periodically, to sort of re-calibrate and there may be opportunities for us to utilize those resources in an effective way to help farm families, and to help build economic opportunity in rural America. There are 60 million people that live in these rural communities and obviously there is a tremendous amount of work based on these charts that needs to be done. So as you well know, Congress instructed us to take a look at the crop insurance program, which we are doing. We are working with the industry. I believe that the negotiations have gone pretty well, and my hope is that they ultimately culminate in a good agreement for the taxpayers. It is fairly clear that we have seen substantial increases in the amount of money that insurance companies are getting. The return on their investment is about 17 percent. We just want to get it down to about 14 percent, which is still a pretty good return. And we will work with this Committee on making sure as best we can to protect the baseline, which I know you all need to be able to do your work.

Mr. LUCAS. Absolutely do, Secretary. I am very focused on the conservation issues representing a district that was the abyss of the Great Depression, the Dust Bowl of the 1930s, and the horrible droughts of the 1950s, and as the Subcommittee Chairman under the 2002 Farm Bill, worked diligently on it, and under Subcommittee Chairman Holden's leadership in the 2008 Farm Bill I worked as a Ranking Member on those issues. Can you tell me how many of the conservation programs including EQIP and CSP and WRP and GRP actually have final rules in place now?

Secretary VILSACK. Well, we have rules that we are working under and we are getting resources out the door. We are in the process of finalizing the work, but it hasn't stopped us from entering into contracts. In EQIP, for example, there are a substantial number of contracts that have been entered into, about 13 million acres, close to $1 billion being provided, so we are continuing to work. There were 737 rules and action steps that needed to be taken to implement the farm bill that you all passed in 2008. Obviously this was a unique circumstance. Oftentimes farm bills are passed in the midst of or in the middle of an Administration so you don't have to work in terms of transition. We are working hard to make sure that we are getting the money to farmers and getting these programs up and running.

Mr. LUCAS. But Mr. Secretary, my concern and those shared by many people out in rural America, if we haven't had time to finalize the rules on things as popular as these conservation programs, yet in your budget proposal you called for reductions in spending in those conservation programs. If we are in effect, I guess, saying that the production agriculture component of the farm bill is not the relevant part that it used to be, then I almost have to ask the question I think that would be asked in my town meetings: With the focus that you have provided both budget and conceptual-wise, are you talking about turning rural America into a bedroom community?

Secretary VILSACK. Not at all, Congressman.

Mr. LUCAS. For people——

Secretary VILSACK. First of all——

Mr. LUCAS.—for people to go to work every and drive back?

Secretary VILSACK. No, no. This is a great question and I appreciate you asking it. First of all, it is fair to say that while what we are proposing doesn't get to the authorized level on many of these conservation programs, there are additional resources that have been added to and we are proposing additional resources in a number of these conservation programs. For example, the budget submission indicated a $28 million increase in EQIP. It is also important to note that the NRCS is under an audit in which, over the course of the last couple of years, there have been serious issues raised with the way in which these programs were administered in the past. We want to make sure that we administer them properly, so we are increasing our commitment as we can handle it appropriately and making sure that we are not paying folks for stuff that they weren't supposed to get paid for, or paying folks for things that they never promised to do. So that is one thing.

The second thing, as to your question about the rural economy, the reality is, if we can create better-paying opportunities within rural America, if you can create centers of energy production, for example, biorefineries, people who have to build those refineries, people have to maintain them, people have to work at them, and they are good-paying jobs, and you sprinkle and dot the landscape with those biorefineries. If you create broadband opportunities that allow, not only farmers and ranchers to have real-time information, but small businesses that they may be operating or that their spouse may be operating to have expanded opportunities to expand their markets from local to global markets, you are creating economic activity. If you keep the resources that are produced in the fall in the community by linking local production and local consumption, you create wealth and you allow that wealth to generate within the community. This is not about bedroom communities, this is about making rural areas vibrant places where young people, in particular, are anxious and interested in setting up their families and establishing a life.

Mr. LUCAS. Mr. Secretary, I just offer notice that in the past Administration, which was Republican, I am a Republican, when they chose to veto the farm bill that we in a very bipartisan fashion worked out together here, we overrode that veto. We did the right thing for rural America. The resource situation got tighter and tighter in 2008. It appears that it will be even tighter and tighter in 2012. I just note to you and to the Administration that you represent that this Committee will once again, I believe, work in a bipartisan interest for the best interests of rural America, and personally turning us into a bedroom community is not in the best interest of rural America, or production agriculture, or our food and fiber supply in this country.

I respectfully serve that notice and yield back my time, Mr. Chairman.

Secretary VILSACK. Mr. Chairman, I feel compelled to respond.

Representative Lucas, I want to make sure that you understand, that is not what we are suggesting, and——

Mr. LUCAS. Mr. Secretary, when you turn down the spending on all these programs——

Secretary VILSACK. Well, we are not——

Mr. LUCAS. When you chart down the direction of a certain course, you have to assume that is the ultimate outcome.

Secretary VILSACK. No, that is not true, sir. We are actually increasing the resources and we are suggesting that there could be a more creative way to use the resources. Instead of focusing on individual community investments within individual siloed programs, what we are suggesting is that we work with the local folks and have them understand what they are operating under is a regional economy; and that there are small towns, towns of 8,000, 10,000 that can be economic engines that create opportunities for folks both on the farm and off the farm; that if we really work this properly we can leverage additional resources from the Energy Department, the Transportation Department, HHS. If we leverage and coordinate those resources, we can have a much greater and more profound impact on creating economic opportunity. That is what this is about. It is not about bedroom communities. Let me be clear about that. I just want to make sure you understand that.

Mr. LUCAS. And I just ask as the President's representative on these agricultural issues, I believe to be the good and competent person that you are, deliver the message back.

I yield back, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

The gentleman, the Vice Chairman from Pennsylvania, Mr. Holden.

Mr. HOLDEN. Well, thank you, Mr. Chairman.

Mr. Secretary, Mr. Goodlatte and myself have been working in a very bipartisan manner to address the research concerns in the Chesapeake Bay. One issue we would like to explore is the concept of reasonable assurance, and we recently learned of the sage grouse initiative between USDA and the Fish and Wildlife Service. Can you tell us about this initiative and what do you think the benefits of this type of an agreement would give to the producer? Does it provide reasonable assurance, and do you think USDA and other Federal agencies should strive to enter into these types of agreements?

Secretary VILSACK. There is a deep concern about the sage grouse in terms of it potentially being indicated as an endangered species, which carries with it responsibilities for those who live in areas where this is an issue. Now, in an effort to try to help increase the population and also avoid the necessity of regulations that might make things more difficult rather than easier, we entered into this memorandum in which we essentially are putting roughly $16 million into an effort to try to rebuild the sage grouse habitat. In doing so, if farmers essentially enter into an arrangement to utilize these resources in a proper way, they will receive assurances that if the sage grouse is identified as an endangered species that they will in a sense already be in compliance with the rules and regulations. So it essentially creates an incentive rather than a regulation, and this is something that is going to be well received in the countryside. It is something that, frankly, we ought to be thinking more of opportunities to do in rural areas, especially in the Bay area in particular where you have a lot of folks who want certainty, they want to do the right thing for their operation, they want to do the right thing for the environment. They just simply want to know what the rules are and they want certainty, and this is a mechanism by which we can provide them that certainty.

Mr. HOLDEN. Well, we are glad to hear that and we have an idea we are going to run by you.

Mr. Secretary, getting back to crop insurance, the Department has a great deal of emphasis on promoting more help for underserved states which includes Pennsylvania. At the same time, USDA's latest position would reduce delivery reimbursement by more than ⅓. Pennsylvania takes risk management seriously enough that it provides monetary incentives to farmers who buy policies. I am concerned about how the RMA strikes a balance between putting more resources into making crop insurance available in underserved states *versus* making policy delivery more difficult in a state like Pennsylvania which is underserved.

Secretary VILSACK. Well, here is the dilemma that we face with reference to crop insurance, and that is, that we have seen a dramatic increase in the amount of money being paid to agents and companies without a corresponding increase in the number of policies. In fact, since 2000 we have seen a substantial decline in the number of policies written, and the compensation that is being paid is based on crop prices as opposed to policies issued. What we are proposing and suggesting is something that would on average provide an agent about $1,000 per policy for each policy that is written. We think that is a fair rate of return.

And in terms of the insurance companies, as I said earlier, our studies have suggested that over the course of the last several years their return has been about 17 percent on their money. We think an average return would be somewhere in the neighborhood of 12 percent, but we are not proposing that as a vehicle. We are suggesting 14 percent. We are trying to strike the balance which this Committee instructed us to do in terms of making sure that we have a fair deal for taxpayers, a fair deal for producers and one that provides greater stability, and taking some of that resource instead of redirecting it in other areas redirecting it back into the program to make sure that we level out the availability of crop insurance in all parts of the country.

Mr. HOLDEN. Mr. Secretary, I understand the direction that we gave you in the last farm bill, but we have made a lot of progress in Pennsylvania in crop insurance participation. So just take into consideration underserved states as we proceed.

And finally, Mr. Secretary, maybe you can clarify something on TEFAP for me. The Central Pennsylvania Food Bank came to me with a growing need for more food and additional administrative funding beyond even what was provided in the farm bill and the stimulus bill. Early in 2009, however, we were told that TEFAP was unable to spend all of the funding increase it received in those pieces of legislation. Can you clarify this for me and speak about the need for more emergency food assistance?

Secretary VILSACK. Let me just simply say that in terms of TEFAP, our focus recently has been on getting resources to folks to increase their equipment, to respond to their equipment needs, which we determined was a fairly significant effort. We did provide additional administrative resources. I will have to get back to you in terms of your specific question. My understanding was that those resources were utilized in a fairly rapid way. I have traveled to a number of food banks and a number of areas around the country, and I know that those resources were put to good use. That system, generally the food bank system has been under substantial stress because of hard economic times, and we have seen the same thing in terms of expanded involvement with our SNAP program. Obviously, when the economy improves and we're beginning to see some signs of that, our hope is that that takes some of the pressure off those food banks, and hopefully takes some of the pressure off of the SNAP program.

Mr. HOLDEN. Thank you.

I yield back, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

I now recognize the former Chairman of the Committee, a good friend of mine from Virginia, Mr. Goodlatte.

Mr. GOODLATTE. Well, thank you, Mr. Chairman, and Secretary, welcome. We are delighted to have you with us today.

I want to follow up on a question that Congressman Holden asked regarding the Chesapeake Bay but shift over to a different aspect of it, in particular with regard to the Environmental Protection Agency pressing forward with mandating a Federal TMDL for the Chesapeake Bay. The impact on farmers could be enormous, and I want to know if the USDA is communicating with the EPA about the potential impact on agriculture with regard to the EPA's Chesapeake Bay strategy and trying to ameliorate the impact on farmers who in my area, and I know in the gentleman from Pennsylvania's area as well, are very alarmed by the sudden Federal intervention in an area where they have been working with their state regulators for a long time and have made a tremendous amount of progress, by the way. The phosphorus and nitrogen discharges from farms in that entire mid-Atlantic region is down very substantially by 50 percent or more. There has been ongoing success in the farm contribution to the impact on the Bay. There are other problems that need to be addressed as well but farmers are feeling a little bit, in fact more than a little bit pressed by the EPA and we wonder if the USDA can help with that.

Secretary VILSACK. Let me first of all say that we have engaged with the EPA in conversations and discussions to inform them on precisely what steps have been taken in farm country to respond to some of the concerns that we are now dealing with in the Bay area. We will continue to do that, but we also felt it was necessary for the EPA to actually hear from farmers themselves, and so what we have proposed and EPA has agreed to do are a series of meetings which began last month and will continue next month. Last month we brought in the major heads of all the commodity groups to EPA to meet with Administrator Jackson. It was a very interesting conversation because there is a lot of misunderstanding about some of the rules and regulations. It was an opportunity for there to be clarification and a commitment to set up working groups with the EPA and the commodity groups. Next month the livestock producers will have that opportunity at USDA. We will be hosting a breakfast and a meal for livestock, those who are in charge of the livestock groups, and EPA Administrator Jackson. We will set up the same kind of regular conversation, regular communication system that for whatever reason has not been set up in the past, should have been set up, ought to be set up. We are learning is that EPA has a lot to learn and the commodity groups are learning a little bit about EPA's thought process. I think that kind of dialogue is quite helpful in clearing up confusion, in making sure that regulations are reasonable and take into consideration steps that have already been taken by the best stewards of the environment that we have which are farm families.

Mr. GOODLATTE. Thank you. And to follow up on that, going beyond just the total maximum daily load issue, the EPA has also taken an aggressive stance toward agriculture in enforcing the Clean Water Act, and this is particularly true in the Bay watershed but my guess is it is happening elsewhere as well. Now, last week the EPA conducted meetings, I think they have been in the gentleman's district as well, but they conducted one in my Congressional district that was very much not like the meeting you just described which would be productive. It was more along the lines of the EPA coming in and dictating to farmers and telling them what they expect will happen as opposed to the kind of dialogue that would create a greater understanding on the part of the EPA with regard to the challenges that are faced by farmers. I don't know that USDA was a participant in these meetings. Do you know if they were even notified of the meetings or did they participate?

Secretary VILSACK. I can't tell you for certain that they were notified or that they participated, but I will certainly be happy to go back and check and will provide that information to you, and in the event we were not notified, we will certainly make the request to be notified.

Mr. GOODLATTE. I don't know the answer to that. It is possible you were and it is possible you even had somebody present.

Secretary VILSACK. The challenge here obviously is to create a process in which people will listen to each other and to appreciate steps that have been taken, people get credit for the steps that have been taken. The more we can bring these folks together to talk, the better the outcome will be for everyone, and we are committed to that at USDA, and that is what we have been attempting to do for the last year.

Mr. GOODLATTE. Thank you, Mr. Secretary. I appreciate your help.

The CHAIRMAN. I thank the gentleman.

I recognize the Subcommittee Chairman from North Carolina, Mr. McIntyre.

Mr. MCINTYRE. Thank you, Mr. Chairman.

Good to see you again, Mr. Secretary. When do you expect the regulations for the Rural Entrepreneur and Micro-enterprise Assistance Loan Program to be published?

Secretary VILSACK. We anticipate that they will be announced shortly. We had some issues in terms of precisely the structure and format which had to be worked out. We were initially going to go with a NOFA, but we decided not to publish a NOFA but to go with a proposed rule. The interim rule has been drafted and we are in the process of negotiating it through the OMB process, and our hope is we get that completed soon.

Mr. MCINTYRE. And just roughly when you say *soon,* do you mean like 3 to 4 weeks or do you mean 3 to 4 months? What do you mean by *soon?*

Secretary VILSACK. If I had complete control of this, it would be tomorrow.

Mr. MCINTYRE. Amen.

Secretary VILSACK. You know, I can't commit OMB. I can tell you that this is an issue that is important to us. We recognize the significance of helping those who wish to help create equity opportunities for small business development. This is very consistent with what we need to be doing more of in rural America, so we are going to be working on this as quickly as we can. We have been focused with EPA this week on trying to get some of the energy title issues resolved.

Mr. MCINTYRE. Thank you, because that obviously leads to when people will be able to start applying for loans under the program. I guess that application can occur as quickly as possible after the regulations are published.

Secretary VILSACK. Yes, sir.

Mr. MCINTYRE. On another note, how do you see our Regional Economic Development Commissions? They were three that were added to the last farm bill including one that yours truly authored, the Southeast Crescent Regional Commission. The seven southeastern states of the United States unfortunately have the double whammy effect, as I like to call it, because it is an unfortunate situation with both the highest levels of unemployment and the highest levels of poverty. So obviously the Southeast Crescent Regional Commission is in a prime position now to bring economic growth and infrastructure developed to some of the underserved and distressed areas of our country. How do you see these commissions working alongside USDA's new Regional Innovation Initiative so that we can complement one another in getting these things going?

Secretary VILSACK. Well, first and foremost, those regional associations and efforts can help educate us in terms of the nature of the economy that exists and what the potential opportunities are in a particular region. One of the things that I don't think we have taken full advantage of in many of our rural areas are the natural resources that are located in rural communities, and there are ways in which we could substantially increase economic activity associated with natural resources. So, we need a better understanding of actually what is occurring. There is a process by which you essentially chart emerging industries, declining industries, potential opportunities, and with that chart you can better inform where resources need to be invested, how they need to be invested, who needs to be brought to the table in addition to USDA. As I said earlier, part of the challenge is that we do not reach across Federal agencies to figure out where is Transportation investing its money, where is DOE investing its money, where is HHS investing its money. If we create this kind of regional effort, what you will see is you will have greater cross-cooperation within Federal agencies, and if we can coordinate the investments, we will get a bigger bang for our buck than we currently are getting.

At the same time, if we do the same thing with state economic development efforts, these regional folks will have a better tie-in to state economic priorities and where state economic development resources are being invested if we can leverage those resources, and then they will know of local economic development efforts. There is a great deal of venture capital, things that are occurring in small ways. There are micro-enterprise opportunities that are occurring in small ways. If there is a way in which we can essentially coordinate all of that activity instead of what is happening today, which is happening in isolation of one another.

Mr. MCINTYRE. And when you say there is a way to chart emerging initiatives and declining industries, has that charting been done, so to speak, by anyone in your department that we could share?

Secretary VILSACK. There are a number of different groups that do these. It is essentially based on a proposal that Michael Porter from the Harvard Business School has put together. A lot of state economic development offices are doing this. We would be working with them if we are given the opportunity, but here is the challenge. The challenge is that we have siloed a lot of our programs. We have 41 different rural development programs and they all have different qualifications, different requirements, different thresholds. There is no capacity to reach across those individual programs to be able to utilize them in a consolidated and focused way to really fundamentally change the dynamic in the area. Right now what is happening is, somebody may get a community facility grant, and someone in isolation may get a rural enterprise grant, and someone might get a B&I loan but they are not necessarily coordinated. My view is, and the emerging view of many in economic development circles is that if you could ever get them coordinated, you would have much greater return for your investment, which is what you all want, and given the scarce resources, it is what we need to do.

Mr. MCINTYRE. Absolutely. Thank you, Mr. Secretary.

Thank you, Mr. Chairman.

The CHAIRMAN. The chair thanks the gentleman and recognizes the gentleman from Kansas, Mr. Moran.

Mr. MORAN. Mr. Chairman, thank you very much.

Mr. Secretary, thank you for joining us today. I have three relatively specific questions and I will ask all three of them so that I don't run out of time.

I asked your Under Secretary Tonsager last October about eligibility for the advanced biofuels producers grants, and the concern I raised was that your notice for contract proposal indicates that the companies must be owned by United States citizens. Yet, we have two companies in Kansas who in my opinion should be eligible for the grants but are not 51 percent owned by U.S. citizens. I have tried on numerous occasions to get a response, a justification for the Department's decision and the Under Secretary told me during that hearing that that's just the way we have done it in the past. Since then despite a couple of requests, no response, and we are in the process, in my opinion, of excluding a company that uses Kansas biofuels, employs Kansas people and this is an awfully important component of their financing.

Second, you indicated earlier, and I appreciate the announcement, that we are going to have a CRP sign-up, but we are beginning to run out of time. My question is, when is that sign-up going to occur? In July we will start preparing land for planting wheat and particularly the western part of Kansas, but if we don't have a CRP sign-up in the next month or 2, we are once again in trouble in making any kind of planting decisions. I guess if you tell me that the sign-up will occur in July or August, we probably need to have a short-term extension that takes land coming out of CRP of which a lot of it is in Kansas, and have an extension until next year.

And finally, I want to raise my concern with the crop insurance, the SRA negotiations, and in particular I want to talk about A&O expenses. It seems to me that in the first two drafts we are still not taking into account the appropriate way of setting the reference price for A&O methodology. And the reason I raise this topic is because I want to make sure these negotiations are based upon good policy that allow crop insurance companies and their agents to write policies, particularly in high-risk states, and it is not just another opportunity for crop insurance to be a bank for funding other proposals that USDA—that are outside the department.

Secretary VILSACK. I appreciate the question about the advanced biofuels assistance program. We obviously have received concerns in a number of different areas of the country about this issue. There is the consistency argument that has been addressed, that you have addressed, that we have essentially created this policy. I have asked in the rules that are being submitted for consideration in these programs that we solicit comments from folks about whether or not they want us to continue this proposal, the 51 percent, the reason being that there was a real desire to make sure that these resources were used to help create opportunities for American producers, and for opportunities for American business owners, and for American workers and to generate activity in rural areas. There is such an interest in this industry that I think we need to ask whether we should be rethinking that approach and whether or not we are giving up a lot more than we are getting with this program. We will be interested to see what the comments are and we will certainly respond to those comments. So that is on the front burner, so to speak, as is the case of whether or not these facilities ought to be solely located in rural areas, or whether or not they ought to be allowed to be located in urban centers and that is an issue that has cropped up because people say well, they want to locate here and it is going to help producers, but here it doesn't comport with our many definitions of *rural*. So there are two issues that we are going to ask for additional comment on.

On the CRP, we are awaiting the additional environmental information that has to be completed as a condition precedent to the general sign-up. Our hope is that we get this done expeditiously. Our hope is that we recognize the pressure that producers are under, landowners are under, and that we are under to try to get this done as quickly as possible. I am a little concerned about committing to you on a specific month because I just don't feel comfortable. In the limited time I have been in Washington, I have seen too often when I say July and it ends up being July of 2011 instead of July of 2010, but I will commit to you that we are very anxious to get this done quickly, as quickly as possible. As soon as that environmental work is done we are going to be ready to move.

Mr. MORAN. Can you commit to a quarter?

Secretary VILSACK. Well, I will be happy to commit to a quarter if you are a forgiving individual. We are going to do the very best we can to get this done as quickly as we can in all seriousness. It is the reason why we made the announcement. It is the reason why we are putting pressure to get the environmental work done.

On the crop insurance, we are obviously still in negotiation, and I will say that the negotiations have been good. They have been solid negotiations in which we put a proposal out, the industry responds. We try to respond to the industry's concerns. We are currently in the process on this A&O issue of looking at a variety of different methods and so that issue is part of the discussion that is going into the third draft that is going to be submitted soon.

Mr. MORAN. I thank you for your answers and particularly on the advanced biofuels. I am pleased to know that you are aware of this and in my world it is not about creating jobs or economic benefits for a foreign company or country, it is about jobs in rural America.

Secretary VILSACK. You know, it is an issue that we are confronting in a number of different programs and it is one that this debate is going to expand to other aspects of our program.

Mr. MORAN. Thank you, Mr. Secretary.

The CHAIRMAN. I thank the gentleman.

The Subcommittee Chairman, Mr. Boswell from Iowa.

Mr. BOSWELL. Thank you, Mr. Chairman.

I think with the Secretary being here, I would like to say to you, I appreciate the fact that you are calling to our attention that these are tough times and to be faced with this deficit situation that we may have to do things a little different. I appreciate that and that is the history that we have had to go through this, so we think that with you, Mr. Secretary, that we at Agriculture will be at the table and we want to be there. We want to be part of the discussion, part of the proposal and part of the solution, so we look forward to that, and I know we can depend on you to include us in that. We hope you will keep communicating with your peers at the Cabinet level that we expect to be part of it.

I have two or three questions. I am going to follow Mr. Moran and ask them all at once, but I would like to know where are we at on the proposed rule regarding catfish? I don't think I need to reiterate what I saw when I was over there a few months ago. I would like to know something about how we are coming on the SURE payments. Overvaluing was made of forage crops and it has caused offsetting problems, and I know you have been working on it. We have a problem probably across the country.

I appreciate what you just said on the crop insurance. We are walking into this with deliberation and going slow and trying to do it right, and you are in your third response time, comment time. I just want to compliment you and your staff from RMA and SRA that are really cooperating and working hard together and we are trying to do this and do our best to do it right.

And last, yesterday you were quoted, the fact that "so many youngsters are not fit for military service is a wake-up call for this country," said Agriculture Secretary Tom Vilsack. I, over the last several years, became aware of a program going on in our state, which I think you are at Grundy Center, the PE for Life, and it is very important. I know in the 2008 Farm Bill we included provisions to provide competitive matching grants for school to access local foods and create school gardens. We would like for you to share what you can, to tell us about what is going on there, if you can, and provide any data on utilization rates or suggestions on how we might improve it. I am curious also about the results from the EBT, the SNAP debit card at the farmers' markets. That has expanded in my district at a great rate, and it is like going to the county fair or state fair, if you will, if you go into Des Moines on farmers' market day.

So with that, I would like to say before you start, congratulations on being a grandfather and tell the grandmother as well.

Secretary VILSACK. Thank you. We had a major event in that regard this weekend when our grandson was baptized. Everything but the water on the head was fine. We had a little trouble with that.

The issue of catfish—we have a rule pending before OMB. We are in the process of refining and we expect sometime this spring to basically put it out for comment and discussion. You know, it is obviously a complex issue and we are trying to figure out precisely what the intent of Congress was relative to what catfish are covered.

Mr. BOSWELL. Let me just say this from my part, and I won't speak for the Chairman or anybody else, but I just think we want to have it defined and so it is safe, and having went and looked, and I won't again—I know some of your folks have too that it is a concern.

Secretary VILSACK. I don't disagree that that is certainly a major consideration. It also has to do with the fact that there are apparently a multitude of varieties of catfish. You know, raising my kids near the Mississippi River, I thought there was only one kind of catfish, but I find out there are 39 different varieties and so it makes it a little bit complex.

On the SURE issue, this is a complicated issue made a little bit more complicated because the Recovery Act made changes. We paid out $281 million under the regular program, $149 million has been paid out under the Recovery Act, so a total of $430 million has been paid out. Obviously in order to be able to determine the payouts, you have to have specific information about crops and pricing, which obviously results in you being essentially 12 months behind. You have to accumulate the information, you have to analyze it and then you can make payments. So we are making payments and we will continue to work hard to get those resources out. We have also, for whatever it is worth on the livestock indemnity program, we have paid out about $82 million and we have also paid out substantial resources on the livestock forage program.

On the issue of fit for military service, I mean, just frankly retired generals and admirals became concerned about this and put together a program called Mission Readiness, in which they put together a report that was issued yesterday suggesting that a significant number of our youngsters 17 to 24 are physically not fit for service. This shrinks the pool of available folks for military service, which is further complicated by a variety of other activities so that a substantial number of our youngsters today, for a variety of reasons, are not fit for military service and that ought to be a concern. So, part of our effort is to obviously improve the nutritional value of our school lunch and school breakfast program to make sure that snacks at schools are consistent with what we are trying to do with the school lunch and school breakfast program.

The First Lady's Let's Move Initiative recognizes, as you have suggested the PE for Life program recognizes, it is not just about nutrition, it is also about physical activity and the necessity of that. We have teamed up with the NFL and the Dairy Council to promote the Play 60 program in which they want you to fuel up with dairy products so you can play for 60 minutes a day in organized or unorganized physical activity. We have made an effort to try to promote gardening as a way at schools to not only get kids physically active, but to reconnect people with their food supply. It is a growing concern for me that we are multiple generations removed from those who do produce our food in terms of our own family histories in terms of agriculture. As a result too many Americans unfortunately believe that food comes from a grocery store. They do not understand the hard work that is involved in producing the food and putting it on the table, nor do they have a full understanding of the difficult economic circumstances of those who do produce our food, and if they did, they might have a more understanding attitude towards food production.

So by gardening, by encouraging a connection with local production and local consumption, we are trying to reconnect people with their food supply, and we think that this is important because as the Chairman indicated, we have 2.2 million farmers. When I was born in 1950, 15 percent of our population were farmers. Today it is less than one percent. And if we are going to continue to have support for these programs that are vital to production agriculture, we are going to have to expand our base of folks who understand why it is important beyond the 2.2 million farmers and their families. That is why I think it is important to reengage America in a discussion about the future of rural America.

Farmers' markets are expanding at a rapid rate. EBT makes it easier for folks to utilize their cards, and we are also working on a promotion for seniors and their capacity to use farmers' markets and the resources available to them under the Senior Farmer Market Promotion Program.

Mr. BOSWELL. Well, thank you, and just to close, would you take the opportunity—maybe you have—to talk to your colleague at the Cabinet, Secretary of Education, who was out and visited the PE for Life program and it does have those complications. Thank you very much.

The CHAIRMAN. I thank the gentleman.

The gentleman from Iowa, Mr. King.

Mr. KING. Thank you, Mr. Chairman.

Mr. Secretary, welcome. I appreciate you coming forward to testify here before the Agriculture Committee today, and I appreciate your service as the Secretary. I think back on some of the conversations we had the last time you were before the Committee, which has been some time now, but the number one thing that I want to ask you if you could speak to is that we are watching the biodiesel plants across the country be mothballed and shut down. I think I can count 14 of them in Iowa. I can count one that is being dismantled and shipped to India and they are waiting yet for a decision from this Congress on the blenders credit. I think there are some in Congress that don't understand that there are millions of dollars that have been invested to try to follow the direction of the government's lead on renewable fuels. Now they found their capital frozen or devalued and waiting for this Congress to follow through. If you could speak to that issue, I would appreciate it.

Secretary VILSACK. Congressman, I appreciate you raising this issue, and from my perspective it is long overdue that we address this issue and that we provide this industry, which is vital to our capacity to be more independent in terms of our fuel sources and creating the kind of economic opportunity I talked about earlier. That tax extension has to take place and it needed to take place yesterday. There has been some indication, hopefully, that it gets done before Memorial Day. That would certainly be my wish and my hope and my prayer.

Mr. KING. Thank you very much, Mr. Secretary, and I would just inquire, is there dialogue among the Cabinet? I know that the Administration seems to be supportive of this. Is there dialogue or is there anything where we can find a place where we can bring our argument to get this to move, or is it just, do you think, tied up because of the legislative process?

Secretary VILSACK. My sense, and I could be wrong about this Congressman, is that there is more of the Congressional process in play here. I don't think there is any question that the Administration is supportive of this. I have talked to the President specifically about this issue and I know where he is, and I have talked to White House officials about this issue. I know where they are. They see this as important. If it were by itself, it would be one thing but apparently it is tied up in a series of other issues. But my hope is that it gets done, and frankly, if I can take your question and just take it one step further, I really think all of us collectively need to do more work on how we can build the infrastructure that can support this industry, this biofuels industry. We have a lot of programs that you all put in the 2008 Farm Bill and we are beginning to get money out the door, but we have to go to the next step of what is the distribution system going to look like, how do we bring to bear, nationally, the capability of the biofuels industry so that it is not just the Congressman from Iowa that is asking these questions, but it is folks in all parts of the country that understand that they can play in this game and that they have an important opportunity in this.

Mr. KING. Well, I appreciate that and I hear from the strongest of voices that we stand together on that same issue and that we want to follow through on our commitment as part of the overall energy independence this country needs to move towards.

And so as we transition into a subject, I recall an exchange that we had the last time you testified before the Committee, and it had to do with the cap-and-trade piece of this thing. A lot has happened since that period of time with revelations of how the data was managed and how credible some of the scientists who have been the lead voices in global warming argument or let me say the climate change argument. Have you had an opportunity to go back and review that science, and are you of the same position today, or has anything changed within that position on the science component?

Secretary VILSACK. Well, I have reviewed the science and it doesn't fundamentally change my attitude about this, Congressman. I tell you, I deal with the consequences of this every day.

Probably the most prime example of this is the issue that we are dealing with out in the western part of the country with the bark beetle infestation. I mean, the reality is that because winters are not as severe as they once were, these beetles in part survive the winter when before they died. I have been told, and I don't know whether the statistic is accurate or not, but I think it may be. There are over 7 million acres that are now impacted by this bark beetle and we expect and anticipate 100,000 trees a day to fall because of it for the next decade.

Mr. KING. Thank you, and I recall I went up to Canada and heard their presentation also about 80 percent of the timber in British Columbia was going to perish because of the bark beetle. One of the things they told us up there was that there had to be a sustained temperature of 45° below in order to kill the bark beetle off in the wintertime, so that is a piece of data that I would inject into this processing. I don't want to have a debate on this. I was just interested in your perspective, and I very much appreciate your perspective on the renewable fuels component.

The blenders credit that is necessary at this point and the viability of this first generation of ethanol and biodiesel has to be there if we are ever going to get to the second generation of renewable fuels, and that is what I would close with, Mr. Chairman. I thank the Secretary and I yield back the balance of my time.

The CHAIRMAN. I thank the gentleman.

Subcommittee Chairman Baca from California.

Mr. BACA. Well, thank you very much, and thank you, Mr. Secretary, for being here this morning. I want to thank you for your leadership at USDA and your efforts to move the Department forward in a positive direction that helps the America rural communities and urban communities. We look forward to working together, preparing the process of reauthorization of the farm bill in 2012.

I would like to get into some of the areas—as you know, recently my Subcommittee held a hearing in Colton, California, this past January to explore SNAP participation rates and their links to obesity. We recently had a hearing here last week that dealt with obesity and healthy food which also included fresh fruits and vegetables and the farmers' market. As you know, the State of California has one of the lowest SNAP participation rates in the country at around 50 percent. One of the main reasons why it is low in California is undoubtedly the state finger-imaging requirement for SNAP participation. Can you clarify for the full Committee the Obama Administration's stand on the use of finger imaging?

Secretary VILSACK. Congressman, I think we are discouraging that type of activity. We are trying to figure out ways in which we can encourage participation. I know in California we are spending additional resources in an outreach effort to try to educate people on precisely what the program is and how they can qualify.

Mr. BACA. Thank you. The other question, I know it was addressed earlier, but is one of very much concern and you addressed it from a military perspective. As you know, obesity continues to be America's costliest medical condition and threatens many of the segments of a population including children and underserved populations and elderly. The Ranking Member of the Committee and I have both addressed this in our Subcommittee and nearly ⅓ of the children in America are now overweight or obese. Our nation spends nearly $150 billion a year to treat obesity-related disease. This accounts for nearly ten percent of all medical spending. The 2008 Farm Bill made major progress in trying to provide more nutritional foods to communities, particularly schoolchildren, but much work needs to be done. In general, can you explain how the Administration is responding to the growing obesity epidemic, and what is USDA's strategy for addressing this situation, and are you coordinating a government-wide response including coordination with state and local governments?

Secretary VILSACK. I think it is fair to say that we are taking an aggressive effort on obesity. There are several things we are doing. First, we are obviously fulfilling the responsibilities that you all created in the 2008 Farm Bill as you expanded the fresh fruit and vegetables program for snacks to all 50 states, trying to focus this on areas where we think it can do the most good with the highest enrollment levels of free and reduced lunch, and so we are in the process of doing that.

We are also working through the SNAP program on an initiative that was outlined in the farm bill in which we are trying to figure out ways in which we can create point-of-sale incentives for individuals using SNAP benefits to be able to purchase fruits and vegetables. There is the concern that fruits and vegetables are oftentimes potentially more expensive, and, therefore, you have to address that issue. We are in the process of completing the Request for Proposal for the evaluator of the program. We anticipate using about 7,500 individuals in this pilot to see if we can create a discount that works based on a limited number of fruits and vegetables, and see what kind of mechanical problems occur through the EBT.

We are suggesting and proposing after a study established that four percent of the American population, roughly 11 million people, live in urban centers and in rural areas more than a mile from a grocery store that would provide them fruits and vegetables and a wide array of quality and good foods. So, we are trying to address the issue of food deserts by creative use of resources between the Treasury Department, Health and Human Services and USDA. I could go into great length about this as I think you and I talked briefly about this. It is a very complicated issue because each area of the country, each rural area and each urban center, there may be different reasons why a full-scale grocery store is not located. You have to use the tools that are available to try to craft ways in which you can get a grocery store in that community and make it prosperous and allow it to survive economically. We are committed in that regard.

And finally, in the interest of time, we are fully engaged with the First Lady in her Let's Move Initiative, which is a combination of state, local, nonprofit, non-governmental entities trying to encourage better nutrition and a strong Child Nutrition Reauthorization Act that really focus on improving significantly the quality of the food that we feed our children at school as well as reintroducing physical activity into the daily activities of youngsters. They spend far too much time in front of a computer screen and a TV and the result is, you have ⅓ of the youngsters obese or at risk of being obese.

Mr. BACA. Good. I hope we can continue to coordinate our effort in this area.

Let me ask one final question, and can you update us on the status of the 14,000+ administrative claims that were filed against the Department claiming civil rights discrimination? I know that we dealt with the *Pigford* situation, but many of these claims have been carefully investigated. Do you have any estimation of the funding that will be needed to allocate the settlement process and when these settlements may occur?

Secretary VILSACK. Settlement of any litigation, Congressman, obviously requires two people, two groups to reach a consensus. The problem with the *Garcia*, the challenge, I guess, with the *Garcia* case is that it is not one single case as was the case with *Pigford*, which was certified as a class action. In essence, you had one case with multiple claimants. In the *Garcia* circumstance, because the court did not classify it as a class action because of differences between the claims, what you have is potentially tens of thousands of individual lawsuits. So it is a little bit more complicated to try to reach resolution, but the Department of Justice and the USDA have been engaged in ongoing conversations with both the *Garcia* plaintiffs, the *Love* plaintiffs in an effort to try to reach resolution, either on a structure that would lead us to answering your question of precisely what is the liability, or an amount which all the parties can agree represents the liability. We are not there yet, but we are continuing to work. I will tell you from a USDA perspective, we are committed to trying to get these issues resolved. The *Pigford* matter does require Congressional action and we are hoping to work with Congress to get this done as quickly as we possibly can. We want to close this chapter. It is an unfortunate chapter in our history. We want to close it.

Mr. BACA. Thank you very much. I know that my time has run out, but I have dealt with the civil rights issue that pertained to the black farmers and now the Hispanic farmers and Native American farmers also that are impacted, so I look forward to working with you on this.

Thank you. I yield back.

The CHAIRMAN. I thank the gentleman.

The gentleman from Texas, Mr. Neugebauer.

Mr. NEUGEBAUER. Thank you, Mr. Chairman.

Mr. Secretary, good to see you again. I guess the new thing here is to ask one big long question and then get——

Secretary VILSACK. Try not to do more than three. That is about all I can handle.

Mr. NEUGEBAUER. Well, this is really all one subject, and of course, currently it has been mentioned that your department is renegotiating an SRA, and I know some progress has been made in that. While this may not have any direct impact on the producers' premiums, it does have some impact on service. So the question I have is, number one, if producers have a loss or any of the pending cuts likely to impact the ability to bring the claim agents to the field, relatively quickly, so that if there is a second crop, the decision can be made and really made so that the producers can move forward.

The other impact, and it is from one of your charts, is that for agriculture, and particularly in this country to be profitable, there is productivity and that productivity has caused a lot of the farms to grow in size. In my district, as you and I have discussed, folks used to make a living on a half a section, a quarter section. Now it takes five to six sections to do that. We are looking at taking money out of crop insurance. We already see that the crop insurance program is not working for all producers, particularly in the shallow losses, and when you start multiplying shallow losses over thousands of acres, it is not a small number. The question that I have is, are we moving in the right direction of taking this money out of crop insurance, putting it somewhere else and shouldn't we actually be putting crop insurance back into the program? Some on this Committee have said that possibly in the future that crop insurance would become the safety net, but right now many of the producers that are in my district have to take very high deductibles because the cost of insuring a lower deductible is cost prohibitive for those crops. And so I guess the question today is, should we lose this baseline and should we be taking money out of crop insurance and moving it in other places when, in fact, the program is not working for many of the producers that are already participating?

Secretary VILSACK. Congressman, I would say to your first question that customer service is important, and we ought not to be compromising that in any way. So, if someone is faced with a loss, the last thing that they want to do is to be faced with a delay in having that loss calculated and getting satisfied for it. We ought to be doing whatever we can to make sure that service is not compromised. I don't believe it is but your question will prompt me to ask in great detail of the folks who are negotiating this to make sure that that is not compromised, and I appreciate you bringing it to my attention.

As it relates to the baseline, just simply let me say that our hope is that we can work with the Chairman and others on this Committee and conserve and preserve these savings, so that you all have the flexibility to do what you need to do as you begin to address the 2012 Farm Bill and rural development bill with as much flexibility as you possibly need, because I don't envy your work. I know how difficult this is, and so we are committed to working with you to convince OMB to basically not redirect these resources in a way that doesn't give you the flexibility you need. Now, whether it goes into the existing program or whether it goes into a new concept, an innovative concept that provides greater risk management opportunities and a substitute for, an addition to other parts of the safety net, I think that is a policy decision that you all will be making. We will be happy to provide our advice and technical experience and advice and assistance as you formulate that decision.

The CHAIRMAN. I thank the gentleman.

I recognize Subcommittee Chairman Scott from Georgia.

Mr. SCOTT. Thank you.

Welcome, Secretary Vilsack. How are you?

Secretary VILSACK. Good.

Mr. SCOTT. Let me ask you about the *Pigford* case. I would like to get your understanding of what the status is now. My understanding is that the President has submitted emergency funding. What is your understanding of the status of the process now?

Secretary VILSACK. My understanding, Congressman, is that the Congress is required under the settlement to appropriate the money to be able to satisfy the agreed-upon settled amount that under the current system that you all have engaged under PAYGO there is a responsibility to identify offsets or to designate that settlement as an emergency which would supersede the PAYGO responsibilities. The challenge with this is that when *Pigford* was essentially reopened by activity within the 2008 Farm Bill, you essentially made the determination not to make the judgment fund available for payment. If you were trying to reverse that and go back and say well, now that we think about it we would like to use the judgment fund, our understanding of your rules is that that legislative action triggers PAYGO. So we are working with leadership and those interested in this issue to try to identify precisely the course of action that will allow Congress to move forward to appropriate the money.

Mr. SCOTT. There was a press conference we held today where there was great concern about this. Many of these black farmers and the families have been waiting for over 10 years. Several of them have died. They have gotten older. It is justice denied. And I just take this opportunity to urge a greater sense of urgency for us to work this out.

Now, in the President's funding request, how much was that for?

Secretary VILSACK. I am going to give you a rough number. It is somewhere in the neighborhood of $1.1 billion in addition to the $100 million that was part of the 2008 Farm Bill. I think that is the correct amount.

Mr. SCOTT. Also, one of the reasons we are in this second round is because of the lack of information, improper information for individuals who are concerned about this and discriminatory practices. One of the unfortunate, as I understand in your statement in February when you announced this, which was very welcome and very well done, but unfortunately, there was no information in terms of what they were to do, what the farmers needed to do, where they were to go. We understand there was a hotline but there is no voice at the end of the hotline and it says somebody will get back to you. The farmers are saying no one gets back to us. So there needs to be better coordination even with where we are now, and what the impression is, is that out in the community and as we talk about the rural development, there is absolutely no group, no group that has tilled the soil with the energy as the black farmers have done with little return. Many of us are concerned about getting younger people back into farming and especially younger African Americans. So it is important that we seize this opportunity, correct this with the kind of energetic leadership that we have. Find a way to work our way through this wrinkle of the funding. It is overdue. It is there. I think we can really do a great thing in reenergizing the interest in farming with the African American community if we do right by settling this past discrimination that has been done to them.

Secretary VILSACK. Congressman, I don't disagree at all with anything you have said, and as it relates to the process, once the money is appropriated, we have worked with the plaintiffs' lawyers for a process. But, it is a bit premature to start the process because we don't have the resources, and the process will engage and involve farmers making a choice and a decision whether to accept a set amount and some debt relief, or whether they want to pursue a more formal evidentiary hearing in the hopes of being able to obtain more than the set amount which may be as much as $50,000.

Mr. SCOTT. And I commend your energy on this, Mr. Secretary. I have talked with you personally about it. I know your commitment to it. I just ask you to keep everybody's irons in the fire.

Now, one final question on the 1890s. We, in the farm bill, worked to increase that authorization these 1890 traditionally African American colleges, and again, most of these colleges based in agriculture are in the rural areas, but the President's budget request for these programs has been woefully inadequate, and as requests for these funds come in, could you give us a very quick status report on where we are with the 1890s and why has the Administration chosen to shortchange these programs in its budget given the dire need of funding for these African American institutions?

Secretary VILSACK. Well, this is what I can tell you, Congressman. In Fiscal Year 2010, $48.5 million was appropriated for the Evans-Allen ag research at the 1890 land-grant universities and colleges. The funds have been distributed to the eligible institutions under that program. There was also the 1890 capacity building grants program in which $18 million was appropriated. Proposals were due in February and we are in the process of having those peer reviewed, and we anticipate awards will be made this summer. Extension at 1890 universities, roughly $42.6 million was appropriated and the funds have been distributed to eligible institutions. Then there was an 1890 facilities grant, $19.7 million appropriated for the program. These funds are being awarded on a competitive basis. Proposals were done earlier this month and they will be peer reviewed, and we hope we get the resources out this summer.

We are also in the process of working through our newly created National Institute of Food and Agriculture and working on a series of competitive grants, and Roger Beachy, who is the director of that effort, recently met with the 1890 representatives. We just executed a new Memorandum of Understanding. I met with him recently and we are talking about how they might be able to participate in that competitive grant program. I think we are sensitive to the need to provide resources for these institutions and for the Hispanic colleges and universities as well and the Native American entities.

Mr. SCOTT. Thank you, Mr. Secretary, and again, I appreciate the sterling leadership you are providing on both of these issues. Thank you.

The CHAIRMAN. I thank the gentleman.

The gentleman from Texas, Mr. Conaway.

Mr. CONAWAY. Thank you, Mr. Chairman.

Mr. Secretary, thank you for being here. I appreciate it. Good to see you again. I want to continue to beat the SRA horse a little bit, but before I get to that one, I will ask at least 4 minutes' worth of questions and then take your 6 or 7 minutes to answer.

You used the phrase earlier in the conversation about nationalizing the biofuels industry, and I want you to clarify that, that you really didn't mean the Federal Government taking over all of that.

Secretary VILSACK. No. It needs to be in all areas of the country.

Mr. CONAWAY. Okay. Nationalizing an industry has a unique phraseology among our colleagues.

Secretary VILSACK. Good point.

Mr. CONAWAY. And so we want to make sure the folks in the back——

Secretary VILSACK. How would you suggest I do that in the future? I don't want to——

Mr. CONAWAY. Well, I suggest letting the market do it and the Federal Government get out——

Secretary VILSACK. Well, no——

Mr. CONAWAY. You mean just describe it?

Secretary VILSACK. Yes, how do you describe the hope that it is able to flourish in all parts of the country?

Mr. CONAWAY. Well, the hope has to be driven by the market and it is the classic example of the Federal Government getting ahead of a market, incenting folks to make investments and now they are stranded. Now they want the Federal Government to bail them out, those kind of things. So maybe we could try to keep the Federal Government out of the business a little bit, but I didn't think you meant for the Federal Government to take it over.

Asking the question about the reinsurance agreement. The $6.9 billion in cuts that are being proposed for A&O, I hope a part of that is you are able to have your team describe to the folks that are going to suffer those cuts that there are better ways to do what they are doing. In other words, that there are efficiencies involved, that we are in fact not going to have diminution in services, and that this isn't some sort of an arbitrary number that was picked out and said all right, squeeze your business into this number, that your rationale for why these cuts make sense to the taxpayer *versus* why it ought to make sense to the reinsurance folks as they try to comply with that.

And then a couple comments, if you would, on the Colombia Free Trade Agreement and your view that if whether or not that remains of importance to agriculture in this country, and the impact it would have if we could actually get that done.

And then a statement on the nutrition programs. During the conversation, the debate last year on the stimulus bill, Chairman Obey said, funding for nutrition programs goes up and funding for nutrition programs goes down. As we look at ways to try to deal with the fiscal responsibility of our country, are nutrition programs among those that were looked at for ways to trim the deficit?

Secretary VILSACK. In terms of the crop insurance, our view is that a fair deal can be reached without the necessity of reducing services, and let me start with the companies themselves. They obviously have to make a profit and we don't begrudge them that profit, and they obviously have the potential for a year in which they will lose money and they need to have the capacity to weather that difficulty. Well, in the 15+ years that we have been engaged in this, there have been 2 years where there have been small losses and 13 years of fairly significant profits, and recently those profits have been rather dramatic. They have dramatically increased to the point where we had a study done of the industry to determine what would be a fair return for the company to be able to maintain its stability and at the same time be reasonable to the taxpayers. The study came back from an entity that often is used by the industry itself in studying itself that roughly 12, 13 percent would be a reasonable return for stability, and what was actually happening in the marketplace was about a 17 percent return. So we suggested in the proposal that we, in a sense, split the difference and that we provide for about a 14 percent opportunity. In doing so we initially proposed increasing the exposure and the profit opportunities that the government would have under the circumstances, and that has been in the process of being discussed and negotiated.

As it relates to the agents, the issue here is how many policies are you selling and how difficult is it to sell. I realize that you have to go out in the field and you have to talk to farmers about the various options that are available, but it is slightly different than it was when we first introduced this concept because now banks, in particular, are requiring this as a condition of their loans, so it is a little bit easier, and there are actually fewer policies. There are about 200,000 fewer policies being sold today than there were in the year 2000 but what we have seen is dramatic increases in agents' compensation. So talking to the companies, how do we deal with this, we proposed in essence what would be about $1,000 a policy, as opposed to what was just a couple years ago $600 to $800 a policy. So it is actually over the course of, perhaps not last year, but over the course of time it would be an overall increase. So we think that they can live within that, but discussions are ongoing, and they will continue to be ongoing until we hopefully reach an understanding and agreement that we can live with and that everyone is satisfied with. And I will say again that the negotiations have been fruitful. I think they have been in good faith. People have listened to each other and we have tried to respond with our proposal, and we have come off quite a ways from the initial proposal and we have yet to continue to the negotiations.

On the Colombia Free Trade Agreement, obviously it would be a benefit to agriculture as would the Panamanian Free Trade Agreement, as would the Korean Free Trade Agreement. There are issues outside the purview of USDA involved with all of these trade agreements. We are certainly encouraging our counterparts who are dealing with environmental issues or labor issues or tax issues or auto issues to be able to deal with them so that we get to a point where hopefully these agreements can come before the Congress and they can be passed, and we are encouraged by the President's commitment to expand the exports. We certainly have been engaged and involved in that commitment and we are going to continue to aggressively travel, aggressively promote reduction in barriers that exist in the world today as recently with Russia and China on a variety of issues involving pork and we are in the process of still working with the Russians on poultry.

On the nutrition side, we are constantly looking for ways in which we can do a better job of using the resources we have. But, the economic reality is that in the SNAP program there are actually fundamentally more people who qualify for the program, which is why we have seen a rather significant increase in the participation. As the economy improves and people are getting back to work, you would think that there would be a corresponding decline in those programs.

On the school lunch and school breakfast program, I mean, the reality is that we have been criticized for the quality of the meals that are being served to youngsters in terms of too much sugar, too much sodium, too much fat, and not enough low-fat dairy and whole grains and fruits and vegetables. We need to do something about that. There is a cost associated with that. We are looking for ways in which we can economize. One idea that has been proposed, which I think is a valid one, is how we might be able to reform the SNAP-Education component of SNAP. We spend a significant amount of money with the states to try to expand outreach. It is a matching program. We are suggesting that maybe there is way in which we could cap the amount that we spend on education, take over the state share and over the course of time save money and utilize that money for lots of other purposes. I think we are looking at ways in which we can economize.

Mr. CONAWAY. Thank you, Mr. Chairman, and Mr. Secretary, thank you.

The CHAIRMAN. I thank the gentleman.

The gentleman from Wisconsin, Mr. Kagen.

Mr. KAGEN. Thank you, Mr. Chairman.

Thank you, Secretary Vilsack, for the hard work that you have put in. Never before has government been asked to do so much for so many with so little resources. My northeast Wisconsin corner of the world, we have had a 60 to 70 percent increase in the use of the Food Stamp Program, and if these children weren't eating breakfast and lunch at school, they quite frankly wouldn't be having the meals that they require to get the energy into their body to get the education that they need. We won't be able to solve all of the world's problems or the farm bill's issues in the 5 minutes I have allotted to me. I thought I would go over a few areas that are of particular concern to my constituents, and I provided you and your staff with some written questions that we could get responses to at a later time.

First off, I would like to align myself with Mr. King's remarks with regard to the tax credit for biofuels, and I would like to work with your department, and this whole Committee would work in a bipartisan way to guarantee that the plants that have already received the investment of local investors and investors around the country understanding that when these businesses are mothballed and if they go out of business, they don't come back. So we have these startups and we need to make sure that Congress does its job and the Administration works together to make sure that that tax credit becomes renewed as soon as possible.

The other thing that we worked so hard to do in a bipartisan way was to make sure that our agricultural producers could grow food locally, and then get it into our local school systems so that it is grown local, bought locally, and get it into our children. But there is a competitive disadvantage there because of other support programs that quite frankly have allowed these other food products, the carbohydrate-based foods and grains, to come in for breakfast cereals that quite frankly we can't compete with because of their subsidies. We just can't—sugar is cheaper than protein any way you look at it, but I think that is one of the obstacles you are going to be faced with in trying to work with what resources we have to make sure our children get a higher quality meal. So I would like answers at a later time, not here in this hearing, about what strategy your department is using to improve the nutritional content of the meals offered at both breakfast and lunch and other programs at school.

Isn't it strange that we have an obesity epidemic in our children and yet we are providing them with more and more food at schools? I am wondering if there is a correlation there.

Also, I would like to work with you on our forestry efforts. In northeast Wisconsin, we have some national forests, and like elsewhere in the country we have had difficulty in the fulfillment of contracts and bids that were successful and let out, difficulty in terms of litigation. We took it upon ourselves to have a field hearing in northeast Wisconsin on this issue, and we brought together the litigants from Chicago who were not really understanding what we are doing in forestry, and when they visited the forest and took down a few trees with our ag people, our forestry and our lumber industry people, some of those lawsuits just disappeared. They understand that there is a lumberyard, there is a forestry industry, that these people make a living out of the forest and that more importantly, these very mature trees don't suck out as much carbon dioxide as young saplings do as they grow more rapidly. So I would like to work with your department to make sure that we can eliminate, wherever possible, any spurious litigation that would prevent the implementation of programs that have been financed by this Congress.

Two other areas on food safety in particular: Irradiated foods have been proven to be safe and I am wondering if it isn't time to consider discussing the possible irradiation of all imported foods to eliminate five million cases of foodborne illness? I would like to take that up at a later time.

And with the remaining 1 minute of my 5 minutes, I want to turn to the primary focus of my attention. Wisconsin is still the dairy state, and we have a great number of dairy producers and farm families that have made a living for generations. I want to thank you on behalf of everybody in Wisconsin for helping our dairy farms to continue to exist with all the support that you have provided since you came into office. I want to thank you from the bottom of my heart.

And then I want to ask you a pretty straightforward question because they are asking me what is in this Trans-Pacific Partnership free trade deal for dairy? What are the benefits for dairy?

Secretary VILSACK. Well, Congressman, I don't know that that is a question that can be answered because the negotiations really have not started in earnest in terms of the Trans-Pacific Partnership. I think that we are aware of the fact that there is concern about how that agreement might impact either negatively or positively dairy, and I can tell you that that is an issue that will be discussed and negotiated as we participate. What we are interested in obviously is a broad-based, regional, rules-based, science-based trading system which is consistent with virtually every other aspect of our trade policy. So I can't say today that there is a pro or con. I know that there is concern, and because of that, it needs to be discussed, it needs to be negotiated, but the negotiations really generally have not really started on those issues.

Mr. KAGEN. Our dairy interest is very interested in having balanced trade deals to make sure that we can penetrate their market to the exact degree that they might able to penetrate ours.

The other, I would like to align myself with the Chairman with regard to transparency in price discovery. We found out in our financial system the horrors that can come upon our entire economy when a pricing system is opaque and nontransparent. I wouldn't think it would be that difficult to have in a straightforward immediate lifetime Internet-based system where we could discover prices to make sure that there is no advantage given to the processors *versus* the producers.

Secretary VILSACK. You know, in some areas of agriculture that is easier said than done in others because of the nature of contracts and the nature of the market, but certainly we agree with the Chairman. I think the Chairman is right about this, the more transparency there is, the better you can understand whether you are getting a good deal or not, and the better opportunities you may have to negotiate a good deal. But some of these markets by the nature of the market today are more closed. It is more difficult to get real-time information and accurate information, and that is part of the challenge, and the second challenge is of course the software issue which has costs associated with it.

If I might in just 30 seconds, I appreciate you bringing up the forest issue because all too frequently people don't realize that forestry is part of this Department's responsibility. We do have a restoration strategy which we think will not only be beneficial to the timber industry, but can create more recreational opportunities and certainly more energy opportunities, and we would certainly be willing to work with you on your forest issues.

Mr. KAGEN. I thank you very much for your cooperation and for your hard work, and I will just finish up on dairy by saying that not everyone in dairyland will be in strong support of a single Federal milk order and they have some other issues and some concerns about reducing the number of classes of milk. As everybody here understands and across the country, the quality of the milk being produced in Wisconsin is superior to anything else in the world.

Secretary VILSACK. I don't see anybody from California, New Mexico—well, I know you are from Pennsylvania——

Mr. KAGEN. With that comment, I will yield back my time.

The CHAIRMAN. I thank the gentleman.

The gentleman from Nebraska, Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman, and thank you, Mr. Secretary.

I was just wondering if perhaps you might be able to give us an update on the Foreign Agricultural Service, what they have been doing, where they are headed from here and resources necessary to carry out their mission of trade export promotion.

Secretary VILSACK. We have proposed and suggested three additional resources be provided to the Foreign Agricultural Service as it relates to the President's national export initiative. One area that has been relatively flatlined for a considerable period of time has been the resources that we provide through the Foreign Agricultural Service to our in-country collaborators and cooperators. These are commodity groups and organizations that are essentially in individual countries that are promoting the American brand of beef, the American brand of pork. Because they have been flatlined, they have not been able to expand research opportunities to try to break down some of the barriers that are now being constructed throughout the world in terms of phytosanitary issues that sometimes make it difficult for us to get products into a country.

The second, is in the specialty crop area, again, it is an opportunity for us to expand our exports. We think that there are additional resources that need to be put into that area.

And then finally, we have seen a rather dramatic increase in the number of teams that we have to put together, from a technical experience perspective, that need to travel to countries to negotiate for lengthy periods of time as these barriers are being constructed to remove them. The most recent example is the H1N1. Thirty-eight countries basically banned pork exports, and we had to go through the process of trying to break down those barriers and convince people that there wasn't a threat. So we think that there is a need for additional resources in that area to beef up our capacity to do that in more places simultaneously.

Mr. SMITH. How do we, I guess, gauge or weigh the priorities relating to agriculture development for other countries as well within the Foreign Agricultural Service?

Secretary VILSACK. Well, we have a very strong trade team and we are part of administration and countrywide effort to promote the global feeding initiative which has been announced by this Administration, and which is being supported by the G8 ag ministers and the G8 country leaders as well as the G20. I mean, the reality is that Americans are capable of producing high-value-added agricultural products, and in order for that market to expand, the income levels of people around the world need to expand. As they do, they become more interested in buying our protein, for example. So to the extent that we can help countries stabilize their economy— I will use Afghanistan as an example. We have roughly 55 people in Afghanistan right now working with Afghan farmers. Now, part of how we think you stabilize that country is by creating an agricultural economy that isn't necessary reliant on poppy. To be candid, the Afghan farmers are doing the rational thing with reference to poppy production. The way it works is, those who want poppy production front the cost of inputs. There is no risk, in other words, to the farmer because he is not financially at risk to put the seeds in the ground, and at the harvest time they come and say we will pick it up at the gate, the farm gate. There is no transportation expense, no hazard, no issue with transporting it to a market. So we have to create a structure with credit systems, with seed assistance, with technical assistance that minimizes the risks associated with traditional agriculture, and encourage them to utilize it. We have seen this work in a couple of areas where we have seen dramatic reductions in poppy production. That is part of what our Foreign Agricultural Service needs to be doing and is doing, and I am proud of the work that they are doing.

So it is a balance, but clearly the President has challenged all his Cabinet Secretaries to contribute to doubling exports and we want to be part of that. We are proud of the fact that within agriculture we have an ag surplus in terms of trade and that every billion dollars of trade generates somewhere between 8,000 and 9,000 jobs at home. So, it is not only good for producers, it is also good for employment.

Mr. SMITH. I appreciate that. And my time is about to expire, but I do want to share some of my constituents' frustration on these pending trade agreements that we were told, some time ago, were ready to go. Certainly a 40 percent tariff on red meat going to Korea, taking that 40 percent to zero is obviously good for American agriculture and producers, and do you think we can see that vote here in the next couple months?

Secretary VILSACK. I would certainly hope so, and if the issues were in the ag area, we would be working on them night and day. They aren't necessarily in the ag area. They are in other areas of the economy which I don't have jurisdiction over. We are encouraging the trade representative. We are encouraging the Commerce Secretary and others to engage forcefully on all three of these trade agreements that could potentially give rise to expanded agricultural opportunity in Colombia, Panama and Korea.

You know, we are at the same time working with other countries to try to reopen markets that have been closed for far too long, and, hopefully, we will be able to continue some progress in that area.

Mr. SMITH. Thank you.

The CHAIRMAN. I thank the gentleman.

The gentleman from Missouri, Mr. Luetkemeyer.

Mr. LUETKEMEYER. Thank you, Mr. Chairman.

Thank you, Mr. Secretary, for enduring a couple hours of all these questions here. It is getting long.

You and I come from the same part of the country and we each have Missouri River and the Mississippi River knowledge. My question is with regards to the program that the Army Corps of Engineers has initiated at the behest of the Fish and Wildlife folks with regards to the series of challenges or chutes or slews along the side of the river to allow the pallid sturgeon to habitat in those areas. In doing that we are dumping 548 million tons of soil into the river, and these are things that my farmers along those rivers, the Missouri River, anyway, they are being penalized for. Now we have an $80 million study to study the effects of the dumping down at the gulf of the Mississippi River. So can you tell me where you stand on this issue, what we are doing about it and where we can have hopefully some help from USDA to try and stop this nonsense?

Secretary VILSACK. I think a good place to start, although it is not on the Missouri, it is on the Mississippi, is the work that we are doing in the upper Mississippi River basin as a model for how we can approach other areas of the country where watershed issues are problematic. We are utilizing resources from our conservation programs as a way of incentivizing farmers to help us continue the enormous progress that has already been made nationwide in reducing the amount of soil erosion. It was not long ago that roughly 3 billion tons of soil was being lost. Today we have cut that down to about 1.7 billion tons. To give you a sense of that, it is about 150 million dump trucks of soil that go into those rivers and streams across the country. We need to continue to use our conservation programs to prevent that from happening because it not only preserves the soil, it also makes it easier to maintain the water quality. And I think that there are ways in which perhaps on the Missouri we can work with the farm community to better utilize or expand opportunities in terms of conservation programs patterned after what we are doing with the Mississippi River.

Mr. LUETKEMEYER. My question is not with regards to what we are doing with the farmers, which is fine. I don't have a problem with that. But we have the Army Corps of Engineers who have given themselves their own permit to go out and dump hundreds of times more soil into the river than what our farmers are allowed to do, and that is having a much more dramatic effect on the water quality of the Mississippi River and all the other that come up with that. I mean, this is asinine that we are pursuing this policy and we certainly could use some help.

Secretary VILSACK. Congressman, I am sorry. I didn't understand your question obviously, and you make a good point which is that we are spending resources to try to prevent it in other parts of my state, the State of Iowa, and we are contributing to it in your state. So that is something we need to look into.

Mr. LUETKEMEYER. Well, you have an $80 million study that determined the effects of what is going on.

Secretary VILSACK. Well, we kind of know what the effects are.

Mr. LUETKEMEYER. I am sure you and I do. We could certainly use some help. Can we get a commitment from you today to work on that issue?

Secretary VILSACK. I will certainly be happy to take a look at it and be able to communicate with the Army Corps and find out what the rationale is, and whether or not there is another way of doing what they need to do. I know this is a contentious issue, having been the governor of the state, and Congressman King remembers the discussions we had with Missouri and South Dakota and everybody else about river flows. It is very complicated.

Mr. LUETKEMEYER. One final question. As I talk to farmers, what is in the farm bill quite frankly is usually secondary to any questions that I get from them. The question I get almost all the time from those farmers now is the regulation that is impacting their lives that comes out of Washington, whether it is the Clean Water Act and talking about pesticides, whether it is EPA on greenhouse gases, we have spray drift stuff coming up. I mean, the list goes on and on and on of how the Federal Government is impacting their lives in a negative way, not in a positive way. And it has nothing to do with the farm bill. It has everything else to do with all the other agencies. Mr. Secretary, we need some help. What can you do? This has to be an issue, I am sure, for you as well to see how it is impacting our farmers and the cost of production, the cost of how they can live their lives on the farms and produce our product and our food. We are not going to be able to compete anymore on an international basis if we keep raising the cost of production and run people out of business.

Secretary VILSACK. Well, when I was at the commodity classic several months ago, I asked the heads of the major commodity groups how I could be of greatest help to them and to the folks that they represent and care about, and they suggested that we establish a much closer, more effective dialogue with the regulators and the folks who are making these regulations. And so what we have done, and what we are going to continue to do, is to create an opportunity for those commodity groups and livestock groups to be able to actually visit with and talk to the EPA Administrator specifically and directly about precisely what those concerns are. We had a breakfast at EPA where we talked about the drift issue, and there was clarification in terms of precisely what EPA was considering. A lot of times there is an assumption or a supposition that the regulation is going to do X, and once it is explained they realize well, maybe that is not precisely what it is going to do, it is going to do something different, and so we need to create a dialogue. We need to create a better understanding, and we also need to look for opportunities for EPA officials to visit the farm, to actually see what is happening on the farm. There has been a tremendous change in agriculture, as you know better than most, but not everybody knows that, and certainly not everybody in Washington knows that. We are encouraging visits, encouraging ways in which they can actually physically see the steps that farmers are taking. By improving dialogue, creating working groups, developing a relationship between representatives of commodity groups and livestock groups with the EPA Administrator personally that we may get a balance to this process which farmers and ranchers would love to see.

Mr. LUETKEMEYER. Well, my concern is that we are losing control of the farming entities that are out there as a result of all these other departments coming in and putting rules and regulations in place. If there could be some way that we would have to, some sort of a clearinghouse that anytime they have a rule that impacts agriculture to go through the Department of Agriculture, which should have jurisdiction over those issues, it would certainly be helpful. I mean, something along that line.

Secretary VILSACK. That is something that you all have to decide to do, but I would say that in the meantime what we are focused on at USDA is how can we use the tools that we have to more effectively provide incentives. The sage grouse, which I discussed earlier, is an example of that where we basically say look, if the farmers do X, can they essentially be deemed to have already satisfied a regulation that may be forthcoming. And those are kind of innovative and creative ways that we need to look at to allow farmers to do what they do best, which is not only to farm but also as stewards of the land and the water, and at the same time make sure that we have clean water that we can utilize and for a multitude of purposes. I mean, a balance can be struck here and we just need to work harder at doing it.

Mr. LUETKEMEYER. Thank you, Mr. Secretary. I appreciate your comments and look forward to working with you.

Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

The gentleman from Pennsylvania, Mr. Thompson.

Mr. THOMPSON. Thank you, Mr. Chairman.

Mr. Secretary, thanks so much for your leadership. My first question really comes back to what Mr. Smith raised back with trade, I mean, the market opportunities for our farmers, our ag production. The simple fact is, I think it was Secretary Redding from Pennsylvania yesterday that cleverly described it as there are 303 million stomachs in America and today seven billion around the world and growing to ten billion, so that is our market potential in terms of for our agriculture here. So, one of the things that was enlightening, for me, anyway, was the discussion yesterday that was fairly consistent where it looks like—and the hearing obviously was on dairy but where subsidies, agriculture subsidies strongly influence the end products that our agricultural products get made into. Many times that seems to fall in contrast to not just the national market needs but more the world market needs, those overall seven billion stomachs that are out there, potential markets of folks to be fed. And so it really seems to discourage innovation and flexibility in responding in innovative ways to the new emerging world markets of food needs. I was very pleased to hear the President's recent statement about doubling our exports. I wanted to know, are there ideas or thoughts on the table in terms of how to approach unleashing innovation in terms of agriculture to be able to meet that goal of doubling our exports within the next few years?

Secretary VILSACK. A couple of things. I think first and foremost a recognition of the uniqueness of each individual country and each individual market within the country. In the area of trade, one size clearly does not fit all and so what we have begun to do is we have begun to develop a process within USDA in which we sort of individualize our approach to countries based on their place in the continuum of markets. There are fragile markets like Afghanistan. There are closed markets, more restricted markets like in India and so your strategy in India is obviously different than it is in a fragile market. There are emerging markets that are small in comparison to a China, but still important like a South Africa, and so there are ways in which you need to approach introducing American products into that market. There are countries like China that are exploding, and what we see is oftentimes sanitary and phytosanitary barriers being constructed that we have to knock down consistently in order to be able to get into those countries. And then there is a place like Japan where you have a very mature market but there is an awful lot of competition, to your point, and what we need to be able to do is to continue to focus on the fact that we can provide high quality, quantity and cost-competitiveness to the rest of the world. We need to have a chance to compete, which is why we are spending a good deal of time talking to the Japanese about reopening the beef market that was so significant for us in Japan. Hopefully, over time we can—we are on divergent paths now but hopefully we can get on the same path.

It is complicated by the fact that we in the United States, and properly so, believe in a rules-based and science-based system, but oftentimes what we find is the science here is a little different than the science in other countries or either rightly or wrongly is different, and so it is about dialogue. So that is number one.

Number two, it is incumbent upon us to elicit more support and help in selling the American product. We see this particularly in biotechnology where there is a resistance on the part of the rest of the world because they see this, potentially, as a competitive advantage the United States has and so there is a pushback, there is a resistance to it. Well, if we can get farmers talking to farmers, our farmers talking to other farmers in other countries, if we can get our scientists talking to their scientists, if we can get our NGOs and our environmental folks talking to their environmental folks, maybe we can break down those barriers and make that market more accessible than it is today. So it is a complicated process. We have new strategies in place which we think will be more effective. We have a focus on collaborators and on market assistance which we talked about earlier. Then, we have to make sure that we do this in a way that doesn't get us crosswise with international trade agreements that end up creating problems for us in other areas.

Mr. THOMPSON. My second question really is on policy balance with ag. Organic agriculture really is a great niche industry. It takes all types obviously of production agriculture working together in concert to really feed the folks of this nation and the world where we can contribute to that. Organic is still more expensive than conventional agriculture, rightfully so, and it rightfully has really a prominent place in our industry today. My concern is that the Administration is trying to shove the movement down the throats of the entire production agriculture industry really to the detriment of the consumers who are relying on not only a safe source, but also an affordable food supply. We need to keep in mind that agriculture is only sustainable when it is profitable in the end. And so how do we ensure that we proceed with a balanced agriculture policy that doesn't favor any one segment of agriculture to the detriment of others?

Secretary VILSACK. Well, that is really a good question, and I am glad you asked it because it gives me an opportunity to talk a little bit about the need for unity. As I said earlier, there are only 2.2 million farmers. Whether they are organic or production agriculture, or whether they are very small farmers, or whether they are large farmers, there are only 2.2 million of them, and that number, at least on the production agriculture side, is shrinking. So the question is, how do we make sure that agriculture and agricultural production is always at the table and has enough political support to be able to do the things that have to be done to give people an opportunity to stay in the business.

When populations in rural communities decline, as you well know, this next Census will show that we probably will continue that chart of 56 percent of rural counties losing population. What happens is that there is a realignment of legislative representation and you get more urban-centered folks in Congress, and you get fewer rural folks in Congress and it becomes more difficult. So we have to figure out strategies to repopulate rural America so that it stays in the game. One way to do that is by making sure that USDA works to better connect people to their food supply, and one way we do that is with our program called Know Your Farmer, Know Your Food. Now, some folks think that that is only about organic. It actually is not. It is about all of agriculture production. We have teams of folks going out now across the country, in a number of states, where we are sitting with local school districts and we are asking the question, do you know what is produced in your area, do you know the food that is produced in your area, and have you thought about maybe making a deal with the local farmers to buy from them instead of processed food from some supplier 1,000 miles away. Well, we find that a lot of folks don't know what is being grown in their area or that there is not the infrastructure in place that allows them to purchase enough in bulk. So, let us use the rural development resources to create that local supply chain, let us figure out how we might be able to create new business opportunities to aggregate what is being produced and create a local market, better for local farmers, more competition for their crops. It isn't organic. It is all agricultural production. And it allows a better connection, okay?

And the same thing is true with job growth. If we create better-paying jobs and folks have the capacity to say to their youngsters there is real opportunity in rural America, then we are going to see a resurgence. I honestly believe people are looking for what rural America offers, but they feel that $28,000 per capita and they could make $40,000 per capita in a metro area, they are doing the rational thing. Well, let us figure out how do we close that gap. And there are so few of us that we really can't afford to be talking to each other or fighting with each other. We actually have to talk to the people in those urban centers about why rural America is important to their existence, why it is not just their food, it is their water. Eighty percent of the surface water and groundwater comes through the forests and working private lands of this country. That is the water supply. That is pretty important. Forty-five percent of the military folks in uniform come from rural America. That is important. The rest of the country needs to pay attention to rural America. And so part of my job is to make sure that I am speaking to enough audiences that people understand and appreciate the diversity and variety that is in rural America, and that they understand the connection between their life and rural life in the hopes that it makes your job a little easier with your colleagues in terms of the kind of support that you need to make sure folks stay on the farm.

So it is an expanded conversation I think that needs to take place, and it is a conversation where we have to not be talking and fighting with each, we have to be talking outside of our area and trying to increase our sphere of influence, if you will, and we can do that. We have a heck of a product to sell and that is what I am trying to do.

Mr. THOMPSON. Thank you, Mr. Secretary. I appreciate your perspective and your leadership for rural America.

Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

The gentleman from Louisiana, Mr. Cassidy.

Mr. CASSIDY. Thank you, Mr. Secretary. Now, as I try to integrate your testimony, on the one hand you speak about rural development and the other hand you speak about farm income and such like that. We know the two are related but they are indeed also distinct, fair statement. For example, you talk about biodiesel fuels or such like that. It is related to but distinct from a farm activity. Now, the cap-and-trade issue concerns me. If you just want to look at rice, for example, we have heard testimony from USDA economists, I believe, but also from others that because of the increased cost of input there will be a 25 percent decrease in rice production, or maybe acres under cultivation because of cap-and-trade within, like, 15 years or so, a fairly immediate impact. It almost seems like if you decrease the amount of acreage by 25 percent, inherently you depopulate that area, inherently you damp down the economy. You have spoken in your previous testimony how there are offsets for that but there was an article in *Harpers Weekly* recently and indeed the testimony before us is that to hold down the costs of those offsets, many of them will be shipped to agriculture production overseas. So it almost seems that we are on the one hand saying we want to develop rural economies, and on the other hand we are increasing their cost of input such that inevitably they shall suffer.

Secretary VILSACK. Well, there are a number of studies on this issue and the last study that I saw suggested that rice is about a break-even point, that other major commodities actually benefit from appropriately established and appropriately structured offset programs.

Mr. CASSIDY. Now, clearly the assumptions are key. None of the testimony that we heard in this Committee, that I recall, at least, regarding that suggested anything as optimistic as that.

Secretary VILSACK. I think it is the University of Tennessee study.

Mr. CASSIDY. Okay. We will look that up. So continue, please. I am sorry I cut you off.

Secretary VILSACK. Well, as we look at this, essentially if there are opportunities to set up a properly structured offset system, then you have by most of the studies that I have reviewed tens of billions of additional resources coming into rural communities, which create new opportunities.

Mr. CASSIDY. Now, the offsets that you are speaking of, and again properly structured must be key because the *Harpers Weekly* study showed how Brazil precisely endorsed the program because they have a lower cost way of creating offsets. Others indeed have come up with other ways of doing it including China, *et cetera*.

Secretary VILSACK. We are actually beginning to see in a very, very small way the emergence of these ecosystem markets in a variety of areas, not just carbon but also water and conservation. You know, there are areas in the country where farmers are being paid to do what is right with their land so that communities don't have to spend a substantial amount of money on wastewater treatment facilities, things of that nature. Again, I think this is a strategy. It is not by any means the silver bullet. But, what you need is a diversification opportunity so there are a wide variety—you mentioned the biodiesel as not being necessarily farm related. Well, the reality is, if you see the connection between off-farm income and people being able to keep the farm, if there is a refinery in the area——

Mr. CASSIDY. Yes, I actually see that connection. In fact, when I see that the rice production will go down by 25 percent, I think there is that much less stalk to make renewable energy with.

Secretary VILSACK. But I am not sure that that is—I mean, again, there are different studies so you and I can have the war of studies here, but it doesn't necessarily have to be—there are a number of studies where the assumptions were at best incorrect and in some cases pretty far off. So——

Mr. CASSIDY. By the way, it is also your USDA study that I am partly quoting, although I can't remember chapter and verse.

Secretary VILSACK. As you probably know, we are in the process of reviewing the basis of some of our studies, the FACET model, and we are in the process of reviewing. There were several assumptions within that FACET model relative to productivity that aren't necessarily lined up with what is happening in the real world.

Mr. CASSIDY. Let me ask you a different issue before I run out of time. I am struck that again we seem to be on the one hand saying that we have a problem with obesity, so many of our kids are unready for service, and on the other hand we are creating—we are supplementing and expanding greatly the amount of money going for food stamps and such like that. Yet, if you draw a correlation there will be a tight correlation between people receiving food stamps and obesity. I am a physician. I do this for a living when I am not here. And there is a fairly tight correlation between SNAP and the amount of obesity in a population. So have we looked at—are we just like—it almost seems like we have met the enemy and he is us.

Secretary VILSACK. Well, obviously, you know a lot more about medicine than I do, Doctor, but I will tell you this. The studies I have seen suggest it isn't so much access to food generally as it is access to certain types of food, and the reason why food deserts becomes an important issue is that a lot of——

Mr. CASSIDY. I accept all that. That is a great point and I agree you entirely. So why are we—you mentioned SNAP is under-funded. Why are we putting more money in a program which is correlated strongly with obesity and not more money into another program which may ameliorate the ill effects of the first?

Secretary VILSACK. Well, I don't know that I necessarily said that SNAP was under-funded, but SNAP is the program that has been created to provide nutritional assistance. We are in the process of trying to figure out ways in which we can encourage fruits and vegetables purchases and things of that nature, the healthy food initiative that I talked about earlier. That is part of it. Part of it is food deserts because of the fact that there is access to convenience and fast food as opposed to a grocery store. I mean, that is a significant aspect of this. And part of it is what we are doing with the Child Nutrition Act Reauthorization in terms of schools. So it is a combination of all that, plus physical activity. And candidly, we have to do a much better job in this country, as you know better than I do, about getting people moving.

Mr. CASSIDY. I accept that. One last question. Has anyone looked at the specific, if there is a specific role for the Food Stamp Program in contributing to obesity?

Secretary VILSACK. The studies I have seen have suggested that there is not necessarily a correlation between the SNAP program and obesity.

Mr. CASSIDY. Will your office forward that?

Secretary VILSACK. Sure.

Mr. CASSIDY. I appreciate that. Thank you very much. I am over time. I yield back.

The CHAIRMAN. I thank the gentleman.

The gentleman from North Dakota.

Mr. POMEROY. Hello, Mr. Secretary. I was here for just a brief portion of the meeting because I have had a conflict running with the other committee all morning, and I apologize for that. I met this week with North Dakota's FSA director regarding the administration of the SURE program, and we had disaster losses of a significant magnitude in 2008 and the checks are being teed out. Some of them have moved, more are moving in the weeks ahead. I understand, Mr. Secretary, that one of the reasons in 2010 we are sending payments for 2008 is even though this program was provided for in the farm bill enacted in the summer of 2008, not much had been done on this permanent disaster program by the time you assumed leadership of USDA. Is that correct?

Secretary VILSACK. I don't know that that is correct. I do know that we have put a focus on trying to get these disaster programs up and going, and that we were in the process of working on it. Then Recovery Act came in and we had to sort of read just some of our numbers, and part of this is a technology issue which we are trying to address over the long haul of improving our technology. So, it is a combination of a lot of things, and this is unusual because from one Administration to the next, it takes us a little time to get up to speed, so it may be a combination of a lot of things. That may be part of it. I don't know.

Mr. POMEROY. That is a very fair response. My view is that prior group that twice vetoed the farm bill wasn't all that eager about implementing the farm bill, and I think that the delay on the checks might be some refection of that.

The important factor, however, most importantly, this thing and combined with the crop insurance recovery seems to be a very meaningful program. It has taken care of the disaster dimension in our state, and I am not getting appeals for yet additional disaster *ad hoc* programs. We put this in place so the *ad hoc* program would not be required. It seems to meet that bill. Do you have an evaluation on that, Mr. Secretary?

Secretary VILSACK. Well, it is a combination of the fact that you in setting up the 2008 Farm Bill created a number of vehicles that provided outlets in the event of disaster from the Forage Program to the Livestock Indemnity Program to SURE. Obviously, those programs in concert provide a good part of the safety net, by no means all the safety net but a good part of the safety net. So we are trying to get these resources out. As I said, we have about $430 million in SURE that has been out, roughly $82 million on the LIP program and a substantial amount on the Forage Program. So it hopefully does take some of the pressure off although it is tough out there.

Mr. POMEROY. Senator Conrad from North Dakota took a lead in making sure there was some additional money added into the computer systems. I understand that people have waited up to 3 hours to get their SURE claims processed, and I haven't had complaint about it. I believe people understand this is the beginning of a permanent program and there are some start-up issues. How about your computer system capabilities in the county offices to deal with these programs, and most particularly the SURE program in addition to everything else?

Secretary VILSACK. Well, first of all, I want to thank Chairman Peterson for his advocacy for this and his understanding of the importance of supporting it. Part of the challenge has been that we couldn't just simply focus on modernization, we actually had to stabilize the current system for fear that it would collapse as it did in 2007. Now, we have completed the stabilization efforts, and now a good part of our efforts will be over the next 2 years continuation of the steps that have been taken to modernize. You know, frankly, Chris Smith is far more capable of responding to your question in terms of the details, but I can tell you that there is a systematic process. I check with him on a quarterly basis in terms of what is moving and what isn't and we are committing to getting this done. The people need better service and we are intent on trying to provide it, and with additional resources and support for a year or 2 you will see changes and improvements to the system.

Mr. POMEROY. The SURE system backstops crop insurance system and the SRA renegotiation which has been the subject of some back and forth with Committee Members and you this morning, I understand, is under review as the SRA is being negotiated.

Secretary VILSACK. Yes.

Mr. POMEROY. I would just underscore the critical role crop insurance plays in risk protection for farmers. I always think renegotiation is appropriate, make sure the program is working well, make sure we are getting fair treatment in the public, good value for taxpayer dollars in the public-private partnership representing crop insurance. I would be extremely concerned, however, if negotiations took a track where the ability to maintain present service delivery is adversely impacted, the competitive nature of the marketplace is adversely impacted, or a big chunk of baseline in support of the farm bill would go away without us getting any credit for it whatsoever relative to the future, but I understand you have addressed the baseline issue in the course of this hearing. But those would be concerns I would have. My time is up, Mr. Secretary. If you would respond and I will yield back.

Secretary VILSACK. I want to check with Mr. Murphy on one thing. I just wanted to make sure I was correct when I said this. There is a new company that has expressed an interest in entering this market during the course of the negotiations which is an indication that what we are proposing is not necessarily an end to crop insurance as we know it, but that they see an opportunity here. I think the negotiations have been conducted on a very good level, very substantive level. I think our folks have listened intently in an effort to try to work through the issues. We are certainly aware of the baseline issue, and we are working with the Chairman and others to make sure that the baseline is as protected as it could possibly be. At the same time, I think it was time, and the farm bill recognized it was time, to rethink and relook at whether this could be improved. To the extent that we can smooth out some of the rough edges of the crop insurance program where it may not be as readily available, to the extent that we can make sure that the deal if fair to taxpayers, we have a responsibility to do that and we are going to try the best we can to make sure we do that.

Mr. POMEROY. With the Chairman's leave, I would just observe that the last time the—I believe that every insurance primary writer and a reinsurer has periodic discussions in terms of renegotiating their reinsurance treaties. So it only made sense for us to have these renegotiations within the context of an SRA. The last time we did it, I actually was very active in getting that into earlier legislation, and the last time, to my dismay, that we understood this SRA renegotiation basically a savings number was cooked up in OMB and the USDA negotiators were just supposed to extract these savings from the system. That is not what I envisioned in terms of an SRA renegotiations, and I don't think that is how it is proceeding this time. I do think it is a very reasoned look at how this program is working with adjustments being made as required. I am pleased that this Committee listened as closely as it did to the Oversight Committee and to others within the Congress raising questions about crop insurance. I think the agreement advanced by Bill Murphy before he became head of our RMA to retain Milleman to basically have external consult evaluate what is appropriate profitability, what makes sense in the context of how insurance works in other lines that might have applicability to what we are delivering here in terms of profit to our private sector partners. I think all of this has really increased and made more sophisticated our understanding, and it is going to help us answer critics of the program and make the adjustments as appropriately directed. I thank you and your team for your leadership in this area. Thank you.

Secretary VILSACK. Thank you, sir.

The CHAIRMAN. I thank the gentleman, and I think that is the last of the Members that need to be recognized.

Mr. Secretary, 20 minutes better than you thought. We appreciate your patience and we appreciate you being with us and answering all the questions. I look forward to working with you as we move ahead sorting out all this stuff.

Secretary VILSACK. Thank you, Mr. Chairman.

The CHAIRMAN. With that, I recognize the Ranking Member for any closing statement.

Mr. LUCAS. Just simply to note, Mr. Chairman, that this is 2½ hours that begins 2½ years.

The CHAIRMAN. Thank you very much.

Under the rules of the Committee, the record of today's hearing will remain open for 10 calendar days to receive additional material and supplementary written responses from the witness to any question posed by a Member.

This hearing of the Committee on Agriculture is adjourned.

[Whereupon, at 1:45 p.m., the Committee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUPPLEMENTARY MATERIAL SUBMITTED BY USDA

During the April 21, 2010 hearing entitled, *Hearing To Review U.S. Agriculture Policy in Advance of the 2012 Farm Bill,* questions were asked of Secretary Vilsack. The questions are [*paraphrased*] from the hearing. The following are supplementary information submissions for the record.

Insert 1

The CHAIRMAN. [The percentage of the total farm income statistic that you've used bothers me. 2.2 million "farmers". If you *could* produce $1,000 of income you're a "farmer". If you boil this down to the 300,000 producing 80–90% of the product you'd get different numbers. Would you boil this down to the 300,000 who are actually farmers? Please present this to us—it would be useful.]

Secretary VILSACK. And it is 2.2 million farmers. That is correct.

The Census of Agriculture defines a farm as any place from which $1,000 or more of agricultural products were produced and sold, or normally would have been sold, during the Census year. The 2007 Census reports that of the 2.2 million farms, 688,833 reported sales of LESS than $1,000 in 2007. These farms accounted for less than 0.1 percent of total sales.

Approximately 357,000 farms had sales over $100,000. These farms accounted for 92% of total sales in 2007.

Insert 2

Mr. KAGEN. [Can you describe the efforts your department has taken to assist local farmers in getting their products into local schools? What more can Congress do to help our schools buy fresh local products from farmers in surrounding areas?]

Secretary Vilsack recently transmitted a report to Congress entitled "Procurement of Local Food for Schools" prepared by the Food and Nutrition Service (FNS). This report responds to a Congressional directive included in House Report 111–181, that accompanied the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2010 (Public Law 111–80) that directed the Department of Agriculture (USDA) to submit a report to Congress that provides information on: "(a) opportunities to streamline procurement rules for schools wishing to purchase food locally; (b) suggestions for making food procurement data more readily available to local jurisdictions, to the states, and for the food and nutrition service; and (c) suggestions for requirements of new legislative authority or programs that may be needed if schools and jurisdictions are unable to purchase food locally." This report has been sent to the Chairmen and the Ranking Members of both the House and Senate Appropriations Committees. In this report, USDA has provided Congress with suggestions for future Congressional actions that may assist USDA in encouraging and streamlining local food purchasing by schools.

One effort of note that we have recently taken up in this area is a new initiative to better connect children to their food and create opportunities for local farmers to provide their harvest to schools in their communities as part of USDA's "Know Your Farmer, Know Your Food" initiative. A key objective of the initiative is to support local and regional food systems by facilitating linkages between schools and local food producers. We believe that this effort will provide us with innovative approaches to encourage local agricultural purchases and Farm to School success.

Mr. KAGEN. [The farm bill provided funding for a Local and Regional Purchase Pilot program to analyze the effects of using local and regional purchase of commodities in food aid programs. How has the FY 2009 funding that went to local and regional purchase been used? What metrics will you use to report back to this Committee regarding the pilot's effectiveness and possible need for future program changes?]

In FY 2009, USDA awarded a total of $4.75 million to the UN World Food Program (WFP) for local procurement projects in Mali, Malawi and Tanzania. In March and April, WFP took delivery of 1,023 metric tons of commodities from small-holder farmers in Mali. In Malawi, due to recent drought conditions, WFP expects to begin purchasing commodities in June. Purchases in Tanzania will take place in July and August. The 2008 Farm Bill identifies required factors for evaluating the pilot's effectiveness. The 2008 Farm Bill required factors are built into data reporting requirements of each agreement with participants in the pilot. The 2008 Farm Bill also requires USDA to have a third party provide an independent evaluation of the pilot using data collected from each project. The report is to be delivered to Congress by November 2011. In determining the effectiveness of the pilot, the evaluation is to examine: impacts of the procurement of commodities on producer and consumer prices in the market; benefits to local agriculture; impact on low-income consumers; impact on food aid delivery time; quality and safety of procured commodities; and implementation costs.

Mr. KAGEN. [Can you talk about efforts to improve the nutritional value of food products our children receive at school? Are there any tools you require that you do not have currently to provide all of our kids with quality and healthy food options?]

Improving the nutrition and health of all Americans is a top priority for the Obama Administration. That's why we are committed to ensuring that all of America's children have access to safe, nutritious, and balanced meals and we have set a goal of ending childhood hunger by 2015. We have proposed an historic investment of funding over the next 10 years through the up-coming Child Nutrition Reauthorization to improve our country's Child Nutrition Programs. USDA believes that schools play a vital role in helping children develop healthy eating habits and active lifestyles. School meals can be a critical tool to help children eat a nutritious diet and achieve a healthy weight.

At this time, we are working with Congress to reauthorize the Child Nutrition Programs and to make a significant investment in improving the quality of the National School Lunch and Breakfast programs, increasing the number of kids participating in those programs, and ensuring that our schools have the resources they need to make program changes. We are in the process of working with Congress to ensure that the Administration's goals are part of the child nutrition reauthorization. Some of the specific issues that we expect Congress to address in the reauthorization include: harnessing opportunities the Child Nutrition Programs offer to promote healthier eating among our nation's children by implementing higher nutrition standards for both school meal programs and the range of other foods sold in schools.

A recent USDA report showed that 16.7 million children lived in households that experienced hunger multiple times throughout the year in 2008. At the same time, obesity is growing faster than any other public health issue in the United States. Roughly ⅓ of American children are overweight or obese. School meals can be a critical tool to help children eat a nutritious diet and achieve a healthy weight. As required by the Richard B. Russell National School Lunch Act, school meals must reflect the latest *Dietary Guidelines for Americans* (Dietary Guidelines). The 2005 Dietary Guidelines call for significant changes in the eating habits of individuals to promote health and reduce the risk for major chronic diseases. To update the school program meal patterns in compliance with the Dietary Guidelines, USDA enlisted the assistance of the Institute of Medicine (IOM) of the National Academies. According to the Institute of Medicine Report (released October 2009), school age children eat:

- Less than half of the recommended level of vegetables and less than 20% of the recommended levels of dark green and orange vegetables and legumes that are of particular importance.[1]
- Less than ¼ of the recommended level of whole grains.[2]
- Far too many calories from solid fats and sugars, which contribute food energy without the nutrition that growing bodies need.[3]

The IOM report provided recommendations for new meal patterns for the National School Lunch and Breakfast programs to bring them into conformance with the 2005 Dietary Guidelines. At this time, USDA is carefully reviewing IOM's recommendations and is developing a proposed regulation updating the meal patterns for public comment. In the meantime, we are providing technical assistance to schools and encouraging them to increase the fruits and vegetables, whole grains and fat-free and low-fat dairy products served in the National School Lunch and Breakfast programs.

Mr. KAGEN. [Please share your Department's strategy on providing high quality product to our school children.]

USDA continues to make improvements in all of its USDA Foods (commodities for donation) to align them with the *Dietary Guidelines for Americans.* These improve-

[1] Institute of Medicine of the National Academics. "School Meals: Building Blocks for Healthy Children." October 20, 2009.
[2] Institute of Medicine of the National Academics. "School Meals: Building Blocks for Healthy Children." October 20, 2009.
[3] Institute of Medicine of the National Academics. "School Meals: Building Blocks for Healthy Children." October 20, 2009.

ments also fit in well with recent 10M recommendations for new meal patterns. For the past 20 years we have required all canned fruit we purchase to be packed in light syrup, water, or natural juices. USDA recently worked with the industry to produce low sodium (140 milligrams or less per ½ cup serving) canned vegetables for schools and other outlets. We continue to purchase other lower salt items such as reduced sodium turkey ham and chicken fajitas, and we have reduced the salt limit for mozzarella cheese.

We have also increased whole grain offerings. In addition to whole-grain foods such as brown rice, rolled oats, whole-wheat flour, whole-grain dry kernel corn, and parboiled brown rice, we are now purchasing whole-grain rotini, spaghetti, macaroni, pancakes, and tortillas for schools. For many years, USDA has offered schools low-fat and reduced-fat ordering options for beef, poultry, and cheese. For example, USDA offers a 95 percent lean beef patty, lower-fat turkey taco filling, 97 percent lean ham, 95 percent lean turkey ham, 96 percent lean diced chicken, and several types of reduced-fat and lite cheeses. Additionally, trans fats have been eliminated from frozen potato products, and a fat free potato wedge is offered to schools.

Through the Department of Defense Fresh Fruit and Vegetable Program, USDA has been able to offer schools a wider variety of fresh produce than would normally be available through USDA purchases. In School Year 2009, this Program provided $54 million in fresh produce to schools. Over the years, states have been pleased with the quality, condition, and appearance of the fresh produce and the extensive selection offered.

We plan to continue to pursue healthful options for USDA Foods, such as fresh fruits and vegetables, lower fat, fat-free, salt-free, and sugar-free products that are palatable to school children and suit the needs of the school food service community.

In addition we have been working to provide training and resources to schools to help them prepare more healthful and nutritious meals. We recently released a Menu Planner for Healthy School Meals, which will help schools improve their menu plans: serving more whole-grains, fruits, and vegetables, and lower amounts of sugar, sodium, and saturated and trans fats in school menus. And we are preparing to release an online toolkit for assisting schools in meeting the HealthierUS School Challenge to assist schools in assessing and improving their food offerings, including an online calculator to determine the nutritional content of meals sold outside of the meal programs. We also provide support and assistance for school wellness policies, through which communities can work together to support a healthful food and physical activity environment for their children at school.

Team Nutrition is an initiative of the USDA Food and Nutrition Service to support the Child Nutrition Programs through training and technical assistance for food service professionals, nutrition education for children and their caregivers, and school and community support for healthy eating and physical activity.

Team Nutrition's goal is to improve children's lifelong eating and physical activity habits by using the principles of the *Dietary Guidelines for Americans* and *MyPyramid.*

> Mr. KAGEN. [Dairy farm families in northeast Wisconsin are struggling. Last year, at my urging, the USDA acted to assist the sinking U.S. dairy industry. What program do you believe helped dairy producers the most?]

Since April 2009, USDA has spent or committed more than $1.5 billion in support of dairy producers in the United States. Every program delivered by USDA plays an important role in helping dairy producers weather tough times.

MILC, under which USDA has made more than $920 million in payments, benefits smaller producers (especially those who don't meet the production limit) the most. At the same time, purchase prices were increased under the Dairy Product Price Support Program (DPPSP) last August–October, which increased price levels and benefits all producers. USDA also expedited the Dairy Economic Loss Assistance Program, which provided $290 million in direct payments to dairy producers to help offset losses, and provided an additional $60 million for the purchase of dairy products by USDA. In addition to the temporary increase in purchase prices for cheddar blocks, cheddar barrels, and nonfat dry milk under the Dairy Product Price Support Program during August–October 2009, the Dairy Export Incentive Program (DEIP) remains available and USDA stands ready to award DEIP bonuses as provided by statute. USDA has also used full administrative flexibility to make alternative loan servicing options available to dairy producers under Farm Service Agency loan programs.

Insert 3

> Mr. HOLDEN. [Hearing that our Pennsylvania food banks need more money. Can you clarify?]

In Fiscal Year (FY) 2009, the Department provided almost $710 million of food to the nation's emergency feeding organizations through the Emergency Food Assistance Program (TEFAP). This was a record level of TEFAP food assistance which included $100 million through American Recovery and Reinvestment Act of 2009 (ARRA) and $373.7 million in bonus foods. We also provided $49.5 million in regularly appropriated administrative support for state and local agencies and $25 million in ARRA TEFAP administrative support.

In FY 2010, Congress appropriated $248 million for food purchases in TEFAP, based on the statutory formula established in the 2008 Farm Bill, and $49.5 million in administrative support to states and local agencies. An additional $25 million in administrative support was provided through ARRA. In addition to ARRA and the regularly appropriated food and administrative funds, Congress also appropriated $60 million for cheese and other dairy products for TEFAP in FY 2010. We will continue to direct bonus foods to TEFAP to the extent that resources permit. Currently, we estimate that we will provide about $348 million in bonus foods to the emergency feeding network in FY 2010. By statute, TEFAP food and administrative resources are provided to states based on their poverty and unemployment levels.

In addition, the 2008 Farm Bill authorized an Emergency Food Program Infrastructure Grant to support and expand the activities of the Emergency Food Network. In FY 2010 Congress appropriated $6 million for this grant. The Department released the Request for Application on April 1, 2010. The application period has closed and the Department expects to make awards later this summer.

In this current economic climate, the Department continues to hear of growing numbers of American turning to food pantries and soup kitchens to feed their families. We have heard this increase in demand is placing an increased burden on the food bank community, both in terms of need for additional food and funds. The food bank community continues to absorb all resources that the Department has made available.

FNS is deeply committed to to supporting the efforts of local feeding organizations, though TEFAP provides a relatively small amount of food for the emergency food assistance system as a whole; the remainder comes from corporate and private donations and food bank purchases. In addition, many food bank clients may be eligible for SNAP. Helping eligible clients to enroll in SNAP can help stretch food bank resources even farther.

Insert 4

> Mr. CASSIDY. [Please provide the study that discussed that SNAP participation and obesity were not directly linked.]

There are two reports that look across multiple studies to assess relationship between SNAP participation and obesity—the links are provided below:

http://www.fns.usda.gov/ora/menu/Published/NutritionEducation/Files/ObesityPoverty.pdf

http://www.ers.usda.gov/AmberWaves/June08/Features/FoodStampsObesity.htm

Here are the key points of what they say with respect to a relationship between SNAP participation and obesity:

- The available evidence does not demonstrate that SNAP participation causes obesity.
- There is, however, a positive association between participation and obesity for adult females. That is, program participation increases the probability of being obese for adult females—but not for children or adult males.
- Research about the causes underlying these results is not conclusive. To determine the relationship between obesity and food assistance program participation, it is necessary to consider the difficulties and complexity of separating the effects of poverty from the potential effects of food assistance on any health or social outcome including obesity.
- The consistent relationship between SNAP participation and body weight found for women only make it difficult to identify appropriate changes to the program to address obesity. Most SNAP benefits go to households that contain a child, elderly adult, or non-elderly disabled adult. Program changes that are appropriately targeted to household members, who may be at risk of gaining weight, without harming those who are not, would be difficult.

SUBMITTED QUESTIONS

Response from Hon. Thomas J. Vilsack, Secretary, U.S. Department of Agriculture

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

Title I—Commodities (Including Dairy, Peanuts and Sugar)

Question 1. **Actively engaged rules—**Explain the process by which USDA reviewed the rules for being "actively engaged" in farming. What should Congress consider with regard to modifying these changes in the future?

Answer. The 2008 Farm Bill made minor changes to existing "actively engaged in farming" provisions. The most significant change to these provisions made it easier for the spouse of an individual who is "actively engaged" to be also be considered "actively engaged." An interim rule with request for comments was published in the *Federal Register* at 7 CFR Part 1400 on December 29, 2008. Included in the interim rule was a new requirement that each partner, stockholder, or member in a limited partnership, limited liability partnership, limited liability company, corporation or other similar entity must contribute active personal labor or active personal management on a regular basis and that the contributions must be identifiable, documentable, and separate and distinct from the contributions of any other partner, stockholder or member in the farming operation. The Department received over 5,000 comments on the interim rule and 73% of those comments stated the need for the payment eligibility rules to be more restrictive, particularly in the area of active personal management, a component of "actively engaged."

A final rule was published on January 7, 2010. The final rule addressed comments received on the interim rule. The final rule retained the requirement for each partner, stockholder or member to make labor or management contributions, but provided an exception for smaller operations whose payments do not exceed the payment limit for one person.

Congress may want to consider defining what constitutes an acceptable contribution of active personal management if it believes the current definition of "actively engaged in farming" is insufficient.

Question 2. **ACRE—**Sign-up for the ACRE program was considerably lower than anticipated (just eight percent of eligible farms representing 13 percent of the base acres). To what do you attribute that response? You have indicated there are regional disparities in the sign-up, but we have also heard of some counties being particularly well represented with ACRE participants due to active county FSA offices generating interest in the program. Do you see many counties in that situation? How can you use this experience to improve consistency across county offices?

Answer. There were several reasons farmers may not have signed up for ACRE in 2009:

- Producers were concerned about making an irrevocable decision to give up a "known" payment for the possibility of receiving an "unknown" payment. The cost of participating in ACRE for a farm is a 20 percent reduction in the direct payment amount, a 30 percent reduction of the loan rate for all covered commodities and peanuts on the farm, and no countercyclical payments in return for possibly receiving an ACRE payment.
- Producers who traditionally receive countercyclical payments on cotton, rice, and peanuts would not elect to eliminate the countercyclical payment in exchange for a participation in ACRE and possibly receiving an ACRE payment.
- Producers who grow crops that take advantage of the marketing loan program such as cotton, rice, and peanuts will not elect to reduce the loan rate in exchange for participation in ACRE and possibly receiving an ACRE payment.
- The commitment to enroll for the life of the 2008 Farm Bill. The statute requires that farms enrolled in ACRE are irrevocably enrolled in ACRE for the life of the 2008 Farm Bill. Because of this 4 year commitment, many landowners shied away from participating in ACRE.
- To receive a payment under ACRE, two triggers must be met. The first trigger is at the state level and the second trigger is at the farm level. In comparison, only one trigger must be met at the national level under countercyclical payment program and there are no triggers under the direct payment program. The dual triggers make the ACRE program more difficult for producers to evaluate and understand than the traditional direct and countercyclical payment programs.

We have not conducted any studies that would provide an analysis of the varying ACRE participation levels. USDA published information on ACRE as did several agriculture industry publications.

The decision to participate in ACRE required owners and producers to evaluate their farming operation in a way typically not required for a commodity program. Many tools were provided by USDA and other agricultural organizations to assist the owners and operators in making the ACRE decision.

USDA's objective is to administer programs consistently and equitably across the nation and works diligently to ensure that County Offices do so.

Question 3. **Delivery—**As this Committee considers new approaches to protecting the income safety net for most agricultural producers, one concern is how USDA can evolve as well to accommodate whatever new programs are developed and enacted. What considerations should Congress make with regard to USDA's fundamental structure and how that structure could impact program design?

Answer. USDA is working to evolve through efforts to modernize business processes, IT and delivery abilities. Moreover, USDA is working to better coordinate administrative work across Agencies and create synergies where possible to ensure a "team" mentality in implementing programs. We look forward to working with the Committee to discuss how these efforts will facilitate the next generation of programs that are developed and enacted.

Question 4. **Delivery—**What is the status of updating the FSA computer system?

Answer. FSA is incrementally deploying new capabilities and major upgrades across the Agency. Major upgrades will occur primarily in FY 2011 through FY 2014. In 2009, Congress provided funding for the multi-year information technology stabilization and modernization initiative. The FY 2011 budget proposal includes the resources to move ahead on schedule with IT modernization for FSA. It will support the continuation of the Modernize and Innovate the Delivery of Agricultural Systems ("MIDAS") project as planned along with necessary conversion of software for supporting activities to facilitate transition of FSA IT from the obsolete legacy system.

In addition, USDA's 2011 budget provides for a needed refreshment and upgrade of the Common Computing Environment to support the continued modernization process for FSA and the other service center agencies.

Question 5. **Delivery—**Are there new programs first enacted in the 2008 Farm Bill that posed particular challenges for USDA's operations? What aspects make those programs harder to implement?

Answer. SURE is the most complex and difficult program FSA has had to administer.

Two issues that added most to the complexity of SURE include:

- The requirement that all of a participant's farms and crops be considered as one farm. Many participants have multiple farms across several state and county lines.
- An insurance requirement for eligibility—Due to the many different types of crop insurance policies and coverage levels, including the Non-insured Crop Disaster Assistance Program (NAP), that may be in place on one farm, the administrative burden of tracking both the guarantees and indemnities is very challenging.

Similarly, the ACRE program is a very complex new program that required producers to do a significant amount of "homework" to understand how it would work for their farms. This was further complicated by explaining ACRE to landlords and those involved with financing farming operations.

Question 6. **Direct payments—**One issue with the current program structure is that the one element that is considered the least trade-distorting (fixed, direct payments) is also the same element for which the American public has the most trouble understanding the rationale, given that the payments are distributed without regard to the need of the producer and the price of a commodity. The Doha trade negotiations only continue the United States down the path of decoupled payments. How can the United States step off this path that is becoming more and more untenable to the American taxpayer?

Answer. I look forward to working with the Congress on this topic as Members begin work on the next farm bill. Various types of direct payments have been an integral part of the U.S. Government's farm commodity programs for almost a decade. They provide support to farmers compatible with WTO rules for non-trade distorting support and have become an important component of the farm safety net that farmers have come to rely on during periods of low prices and low returns. I look forward to working with Congress as we address how programs can best meet the needs of farmers, ranchers, and rural communities.

Question 7. **Appointment of FSA State Committees/SEDs—**A problem many Congressional offices heard about this past year was the considerable delay experienced in getting both state executive directors and state committees in place. In fact, many were only announced this February, over a year after the transition to the new Administration. To what do you attribute this delay? Is it similar to Administrations past? What kind of backlog at state offices is there as a result?

Answer. USDA was committed to finding the right people for these jobs, out of a record number of applicants. USDA appointments for State Executive Directors and State Committee Members underwent a stringent vetting process and staff was appointed as quickly as we confirmed they were the candidates who would best serve the Agency.

In state offices, as in county offices, field staff is working hard every day to deliver a wide array of farm assistance, conservation and credit programs. There are backlogs at many offices due to the high volume of customer traffic we've seen participating in new 2008 Farm Bill programs. This high backlog is not attributable to the transition process.

Question 8. **Sugar/Feedstock Flex Program—**The Feedstock Flex program in the farm bill provides for an emergency outlet for sugar to ensure a continued no-cost sugar program for taxpayers. This program has not yet been implemented due to lower sugar stocks than what would be required to establish the program. However, given the design of this program as a "safety valve," how quickly could USDA ramp up such a program if necessary?

Answer. By statute, this new program is to be used to avoid forfeitures of sugar to the CCC by diverting surplus supplies to bioenergy production. Due to the relatively high level of sugar prices (and low likelihood of forfeitures), use of this program is not foreseen in the near term. As a result, issuing the regulation associated with it has been a lower priority than for numerous other 2008 Farm Bill regulations. The proposed rule and the cost-benefit analysis have been drafted and are in the FSA clearance process. Publication is expected in the summer of 2010. If market conditions change, this regulation will move to a higher priority status.

Question 9. **Section 1619/Privacy of data—**Are you hearing from groups that would like to make changes to the data privacy provisions that were included in Section 1619 of the 2008 Bill? Are FSA and the other agencies involved looking at any situations where Congress may want to reconsider or provide more direction, such as the use by state and local governments?

Answer. Section 1619 prohibits disclosure of information regarding an agricultural operation, farming or conservation practices or land itself that is provided by an agricultural producer or landowner, or GIS information maintained about such operations or lands, except to Federal, state, tribal, and local agencies, and persons, working with the Secretary in any Department program (i) "providing technical or financial assistance with respect to the agricultural operation, agricultural land, or farming or conservation practices;" or (2) when necessary to assist the Secretary to in responding to a disease or pest threat to agricultural operations.

The lack of additional exceptions providing for disclosure to other Federal, state, tribal, or local agencies, or persons, in circumstances not related to USDA farm or pest and disease programs, has created serious difficulties for USDA to share information that previously it could share under routine uses promulgated under the Privacy Act. In the pest and disease area, it also has impacted the ability to share information with foreign nations causing potential for adverse trade impacts.

For example, Section 1619 has prevented or made it difficult for USDA to provide information barred from disclosure by that statute to states to carry out important state environmental and historic preservation analyses, in which USDA has no role. Section 1619 has prevented USDA from providing state and local prosecutors with information that could have aided the prosecutors with their cases, such as investigations of water rustling. Also, 1619 has almost shut down the ability to provide 1619 information to other Federal agencies. For example, USDA was unable to provide 1619 information to the Department of Justice regarding a legal issue associated with the building of the border fence between Mexico and Texas; USDA has been unable to share information with the Department of Justice, the Internal Revenue Service, and the Drug Enforcement Agency for investigations or prosecutions of tax fraud and other criminal matters that are unrelated to farm programs; USDA was unable to share 1619 information with another agency when information was needed to plan the course of an cross-border oil pipeline. USDA could not share 1619 information related to a National Environmental Policy Act matter with the Council on Environmental Quality.

Further, even with respect to authorized disclosures provided for the purposes of certain USDA farm and pest and disease programs, such disclosures are authorized only if the cooperator does not disclose this information further.

In this respect, Section 1619 has impacted a number of cooperative programs between USDA's Animal and Plant Health Inspection Service (APHIS) and state counterparts that require the routine sharing of information. For example, Section 1619 permits USDA and its cooperators to share producer and landowner information provided in USDA programs with other Federal, state, tribal, or local agency cooperators, or individual cooperators, only if the cooperator does not disclose this information further. In the case of states, this has made more difficult the routine sharing of pest detection and identification information for pests that are not currently under regulation and for the management of endemic pests when their populations grow to destructive levels. In those states that cannot provide assurances to the Secretary that Section 1619 information will not subsequently be disclosed, certain APHIS plant pest and disease detection programs—such as those funded under Section 10201 of the farm bill and the pest detection appropriation—may have to cease.

Additionally, the Farm Service Agency (FSA) regularly fields complaints regarding Section 1619; largely from realtors, real estate appraisers and other entities whose day-to-day operations and activities have been hampered by restricted access to USDA information, and parties interested in FSA GIS information for a variety of data manipulation purposes.

Question 10. **Impact of bioenergy on commodity prices—**USDA has come out with figures in the past that show the impact of biofuels production on commodity prices. Has the Office of the Chief Economist done anything recently to give you an idea of the impact on crop prices and in return the impact on money being spent on under Title I programs?

Answer. At a June 12, 2008 U.S. Senate Energy and Natural Resources Committee hearing, U.S. Department of Agriculture's Chief Economist, Joseph Glauber, testified on the effects of the expansion in biofuels production in the United States on commodity markets and food prices. In that testimony, the effects of increased ethanol and biodiesel production on corn and soybean prices are presented for marketing years 2006/07 and 2007/08. Assuming the amount of corn used for ethanol production and soybean oil used for biodiesel production in 2006/07 and 2007/08 remained unchanged from the amounts used in the 2005/06 marketing year, corn prices would have averaged $0.24 per bushel lower in 2006//07 and $0.65 per bushel lower in 2007/08. Soybean prices would have averaged $0.18 per bushel lower in 2006/07 and $1.75 per bushel lower in 2007/08. Despite the drop in corn and soybean prices, commodity program spending would have remained essentially unchanged, since corn and soybean prices would have continued to exceed levels that would have triggered either countercyclical payments or marketing loan benefits. The scenario presented above was selected to depict the effects of increased ethanol and biodiesel production on corn and soybean prices and does not represent a specific policy scenario.

In May 2007, USDA's Office of the Chief Economist and the Economic Research Service analyzed two alternative scenarios of biofuel production at the request of Senator Saxby Chambliss. Under scenario 1, annual domestic ethanol production increases to 15 billion gallons by 2016 and annual domestic biodiesel production increases to 1 billion gallons. Under scenario 2, ethanol production increases to 20 billion gallons by 2016 and annual biodiesel production increases to 1 billion gallons. These scenarios compare with about 12 billion gallons of ethanol and 700 million gallons of biodiesel production in 2016 in USDA's long-term baseline agricultural projections released in February 2007. Under scenario 1, the price of corn increases by $0.31 per bushel and the price of soybeans increases by $0.45 per bushel above the baseline in 2016. Under scenario 2, the price of corn increases by $0.65 per bushel and the price of soybeans increases by $1.20 per bushel above the baseline in 2016. These price increases would not have reduced commodity program payments, since prices for both corn and soybeans were above levels that would have triggered countercyclical payments and marketing loan benefits for corn and soybeans.

Question 11. **Dairy—**USDA did a lot last year to help the struggling dairy industry. What government program do you believe helped the dairy industry and dairy producers the most last year? What tools, if any, should be continued in order to ensure we protect the dairy industry in the U.S.?

Answer. USDA has been working to help the dairy industry for many months. Since the beginning of the dairy crisis, USDA has paid dairy producers more than $900 million under the Milk Income Loss Contract (MILC) Program. The Fiscal

Year 2010 Agriculture Appropriations Act authorized $290 million in additional direct payments to dairy producers, as well as $60 million for the purchase of cheese and other products. In addition, USDA temporarily increased the purchase prices for cheddar cheese and nonfat dry milk under the Dairy Product Price Support Program during August–October 2009 and reactivated the Dairy Export Incentive Program (DEIP). USDA has also used full administrative flexibility to make alternative loan servicing options available to dairy producers under Farm Service Agency loan programs.

Not all dairy farmers are the same, so it is difficult to say which program helped the most. The largest expenditures were made under the MILC program. Since production eligible for payment under the MILC program is capped at 2.985 million pounds per fiscal year, MILC payments may have been more beneficial to smaller producers than larger producers. In addition, all producers benefited from the reactivation of DEIP and the assistance provided under the 2010 Agriculture Appropriations Act. Farm Loan Program policies to forebear foreclosure proceedings and extend additional credit also were very beneficial to struggling dairy producers.

The Secretary has appointed the Dairy Industry Advisory Committee (DIAC) to examine what dairy policy would be best for aiding the dairy industry. The Committee had its first meeting in April and second meeting in June 2010. Committee recommendations will be important in guiding decisions on what dairy policy tools to continue using and what new tools are needed to better assist dairy producers.

Question 12. **Dairy—**Current policies focus mainly on the final price that a dairy farmer receive, but pays little attention to overall profitability. As we consider new farm policies, should we emphasize profit over price?

Answer. Milk and dairy product prices are an important focus of current policies. In addition, the 2008 Farm Bill incorporated costs—an important component in determining profitability—into the MILC program. The 2008 Farm Bill did so by adjusting the trigger price used to calculate the MILC payment rate for changes in feed costs. This feature increased MILC payment rates for Fiscal Year 2009 program payments. Production costs such as feed often are quite variable regionally and also by producer size. I look forward to receiving recommendations from the Dairy Industry Advisory Committee regarding the issue of profitability *versus* price and improving the safety net for dairy producers.

Question 13. **Restoration of base acres on Federal lands—**The implementation update mentions that you have reversed the policy of the previous Administration and are restoring base acres on Federal lands. Can you tell us whether this decision had a cost under Administrative PAYGO? And what that cost was if there was a score?

Answer. This decision had no cost under administrative PAYGO, nor was USDA credited with any administrative PAYGO savings when the decision to remove base acres from Federal land was implemented. USDA estimates that removing base acres from Federal land would save about $15 million.

Title II—Conservation

Question 14. **CRP general sign-up—**You announced during your appearance at Pheasant Fest that there would be a general CRP sign-up this year, and you also released additional SAFE acres. You're probably aware those SAFE acres have been used up already and people are still coming into local FSA offices asking about enrolling more. Is there any more definitive news you can give us on timing of a new sign-up? The demand for more SAFE acres seems to be a direct result of having no general sign-up for the last several years.

Answer. Budgetary savings from the draft Standard Reinsurance Agreement are to be used for CRP proposals that require PAYGO offsets. The proposals, including new and amended CREPs, initiatives, and an increased FY 2010 general sign-up (to reach 32 million acres) The CRP general sign-up is expected to begin in August after the completion of a mandatory 30 day no-action period, issuance of a Record of Decision (ROD) on the CRP Supplemental Environmental Impact Statement (SEIS), which ended July 19, and the publication of Farm Service Agency's rule implementing changes to CRP mandated by 2008 Farm Bill that is currently under review by the White House Office of Management and Budget.

Question 15. **CRP general sign-up—**Can you tell us what level of acreage in the CRP you are considering as you move forward with a general sign-up? Are you aiming to stay as close to the current 32 million acre cap as you can? Are you leaving some room for continuous practices or new CREPs?

Answer. We are planning to conduct a general sign-up this summer. By incorporating funds realized through the Standard Reinsurance Agreement (SRA) savings, the budget baseline has been updated to include a general sign-up in FY 2010 (up from 2.9 million acres in the President's Budget), and to reach 32 million acres in FY 2011 and remain there throughout the baseline period. We cannot provide a number on the amount of acreage we plan to enroll because that depends on the level of interest and the characteristics of the land that is offered. We will evaluate the offers once they are all in and make a decision based on the environmental benefits of the land offered. We do know that contracts on 4.3 million acres of land enrolled under general sign-up are set to expire this year, and that we expect many of the contract holders to submit offers, as may many of the holders of 2.7 million acres under contracts that expired last year. This large expected interest is supported by the responses to contract extension offers we made over the past several years. Contracts on over 80 percent of eligible lands were extended during these opportunities.

What we do not know is the amount of "new" lands that will be offered. It's been a number of years since a general sign-up has been held, so it is difficult to judge the level of interest there will be. But we know that there are always new lands offered—lands that owners have decided they want to devote to wildlife, protect from erosion, or for a variety of other reasons.

When accepting general CRP sign-up acres, we will keep in mind that room must be left for CREP and continuous sign-up enrollment. Because the enrollment of environmentally-valuable conservation buffers, wetlands, and other practices is very important, we will continue to allow producers to enroll acreage in continuous sign-up practices. Because the enrollment of environmentally-valuable conservation buffers, wetlands, and other practices targeted by continuous and CREP practices is very important, we will continue to allow producers to enroll acreage in continuous sign-up practices and plan to expand the number of CREPs and increase acreages in existing CREPs using SRA savings.

Question 16. **Open Fields—**What is the status of implementing the Open Fields provision in the 2008 Farm Bill? It's my understanding we've lost two hunting seasons, and potentially a third, because the rules haven't been written and the money hasn't make it out to the field. What's been the hold-up?

Answer. We are pleased to report that an interim rule for the Voluntary Public Access and Habitat Incentive Program was published on July 8, 2010. FSA also issued requests for application on July 8, 2010 and applications are due by August 23, 2010.

Implementation of the Voluntary public Access Program is important to the Department and it has been elevated in USDA's 2008 Farm Bill priority list as other critical programs have been rolled out.

Because this program provides grants to states and tribal governments on an individual basis, we wanted to be sure that our rule does not make any state program ineligible for its share of these funds.

Additionally, our USDA Office of Tribal Relations is working closely with us to ensure equitable participation in this program by tribal governments.

Question 17. **Outdoor Initiative—**Some of us didn't get to attend the President's Great Outdoors Initiative. Can you update us on what happened last week and provide some details on this is?

Answer. During the White House Conference on America's Great Outdoors held April 16, the President talked about our treasured landscapes and the tremendous value of our nation's vast and varied natural resources. He also recognized that Americans increasingly are losing touch with the outdoors. The President referenced Theodore Roosevelt's tremendous conservation accomplishments and stated that his goal is to enrich that legacy by developing a 21st century strategy for America's Great Outdoors. To that end, the President signed a memorandum to the Secretary of the Interior, the Secretary of Agriculture, the Administrator of the Environmental Protection Agency and the Chair of the Council on Environmental Quality establishing the America's Great Outdoors Initiative. The goal of the initiative is to (1) reconnect Americans, and children in particular, to America's working landscapes, including ranches, farms and forests, to landscapes of national significance, to rivers and waterways, and to great parks and coastal areas; (2) build on state, local, private and tribal conservation priorities and determine how the Federal Government can best advance those priorities; and (3) use science-based management practices to restore and protect our lands and waters for future generations. Regional listening and learning sessions—public conversations about America's Great Outdoors—will be held across the country. By November 15, 2010, the initiative will provide a report on America's Great Outdoors that includes a review of successful and promising non-Federal conservation approaches; an analysis of existing Federal resources and programs that could be used to complement those approaches; proposed strategies and activities to achieve the goals of the Initiative; and an action plan to meet the goals of the Initiative.

After the President signed the Memorandum, attendees heard from two panels. The first panel was on conserving working lands. Panelists included a historian, a farmer, a rancher, a member of the Nez Perce Tribe, and the Mayor of Newark, NJ. The second panel was on connecting lands and people, and panelists included a historian, a State Governor, a retired state wildlife official, a youth program director at a National Park, and the CEO of REI, Inc.

Break-out sessions held Friday afternoon served as the first in a series of conversations about America's Great Outdoors. After the conference ended, a website was launched on America's Great Outdoors at *http://www.doi.gov/americasgreatoutdoors/*. Members of the public may post stories about experiences in the great outdoors, as well as ideas for conserving America's great places, to the website.

Question 18. **WHIP—**In the 2008 Farm Bill, we changed the eligibility requirements on Wildlife Habitat Incentives Program (WHIP) to ensure that money was going to producers. What impact has that had on the program delivery? Have any states complained about this change?

Answer. The 2008 Farm Bill focused participation in the Wildlife Habitat Incentive Program (WHIP) to private and Tribal agricultural lands. The change has had consequences for private landowners interested in the program and has impacted some wildlife habitat development efforts, particularly the provision pertaining to public land eligibility.

State agencies and interest groups have expressed concern that the WHIP program is no longer eligible for projects that they have been planning to implement for some time on public land. During the comment period for the WHIP interim final rule many agencies and groups such as the Association of Fish and Wildlife Agencies, the Wildlife Society, The Nature Conservancy, Trout Unlimited, and others expressed this concern.

Some regions of the nation have been impacted more than others because of the change. Although public land projects represented only six percent of the WHIP contracts between 2005 and 2008, NRCS and public partners developed wildlife habitat projects with significant public and private benefits. For instance, the implementation of 57 fish passage projects benefited hundreds of miles of streams by opening channels to aquatic wildlife that benefit all landowners along the water courses.

Because of the limit on landowner participation, potential private landowners are excluded from the program because the stream or river that goes through their properties is considered public land. Federally listed threatened and endangered fish and wildlife species that could benefit from these public land projects are placed at risk. To date, a total of 28 states have the potential of being unable to participate in WHIP because of their public ownership of stream or riverbeds.

In the State of Rhode Island, the state agency has expressed concern that projects involving dam removal or fish ladder installations are ineligible due to non-agricultural producers owning dams. Fish species that are of state concern are not able to benefit from the WHIP program in such projects.

Question 19. **Farmland Protection Program—**We rewrote the Farmland Protection Program in the 2008 Farm Bill. How many states have asked USDA for certification?

Answer. Under provisions of the Farm and Ranch Lands Protection Program Interim Final Rule, entities were not required to request certification. When a state or non-governmental organization (NGO) submits an application for funding, the entity may request certification by USDA. States or NGO's were certified when they demonstrated they met or exceeded certification standards as proposed in the Interim Final Rule. NRCS received 64 comments regarding this issue and these comments are being reviewed.

FRPP certification standards include demonstrated ability to complete acquisition of easements in a timely manner, ability to monitor easements on a regular basis, ability to enforce provision of the easement deed, experience in enrolling parcels in the Farmland Protection Program, and the existence of dedicated fund for the purposes of easement management, monitoring and easement stewardship.

Since enactment of the 2008 Farm Bill, the following seven entities have been certified:

- Kentucky Purchase of Agricultural Conservation Easement Corporation,
- Fayette County Kentucky Division of Purchase Development Rights,
- Ohio Department of Agriculture,
- Delaware Agricultural Lands Preservation Foundation,

- Pennsylvania Department of Agriculture,
- Massachusetts Department of Agricultural Resources, and
- Vermont Housing and Conservation Board.

Question 20. **CSP—**When will the final CSP rule be published? And what advice do you have for producers who are hesitant to sign their CSP contracts without knowing whether several issues that have been brought to USDA's attention may be fixed? Such as the treatment of entities and the additional payment limitation that was imposed administratively.

Answer. The final CSP rule was published in the *Federal Register* June 3, 2010. The final rule was effective on release, will be used for future ranking periods, and is not retroactive to the initial CSP ranking period. NRCS implemented the initial CSP ranking period under the interim final rule, published July 29, 2009. Participation in CSP is voluntary and producers approved for contract had the option to sign pending contracts or reapply under final rule provisions. With the final CSP rule in place, NRCS has announced a ranking period cut-off of June 25 to accommodate the enrollment of an additional 12,769,000 authorized for Fiscal Year 2010.

Key changes in the Final Rule:

Payment Limitations: NRCS raised the contract limitations for formal joint operations from $200,000 to $400,000 for the contract period and from $40,000 to $80,000 per year. Each person or legal entity will still be limited to $40,000 per year. This change follows the logic used for EQIP that enables spouses, farming as joint operations, to each earn the $40,000 annual limitation.

Minimum Payment: NRCS will make a minimum payment of $1,000 to historically underserved participants with small-scale operations in any fiscal year that a contract's payment amount total is less than $1,000.

Pastured Cropland: NRCS established a "pastured cropland" program designation for land maintained in a grass-based livestock production system that is suitable for cropping. Pastured cropland will be provided higher program compensation than pastureland due to the higher forgone income costs associated with keeping that land in grass.

Definition of Resource-Conserving Crop: Based on public input, the definition of resource-conserving crop was revised to require the use of grass and/or legumes in the system in order to provide a sufficient level of environmental benefit above the prior definition and qualify for the supplemental payment.

Enhancement Bundles: NRCS evaluated the enhancements available to participants in the first sign-up and added enhancements requested by the public. Additionally, NRCS is offering participants the option to select enhancement bundles whose application as a group addresses resource concerns in a more comprehensive manner. Producers" ranking scores and payments are positively influenced when they choose enhancement bundles.

Question 21. **CSP—**Has interest in CSP been regional or has interest been nationwide? How are people reacting to the payment rate per acre?

Answer. NRCS received over 21,000 applications from across the nation including Caribbean and Pacific Island areas on an estimated 33 million acres.

Applicants appear to be satisfied with the CSP payment for performance payment rates as indicated by the 10,522 participants that have signed contracts totaling over 12.2 million acres at a cost of nearly $142.4 million.

There have been no landowner complaints and there have not been complaints' regarding the payment rate as indicated by the number of contracts/enrolled acres across all four of the land uses (cropland, pastureland, rangeland, and non-industrial private forest (NIPF).

In CSP, participant's annual payments are not determined using the traditional compensation model where they receive a percentage of the estimated practice installation cost or a per acre rental rate. Instead participants' annual payment level will be unique for their operation and land-uses based on the combined total of environmental benefits from existing and new activities. Participants are paid for conservation performance—the higher the operational performance, the higher their payment.

Question 22. **CSP—**Are you hearing that a lot of producers actually came in and gave CSP a try in 2009? And are you hearing of producers who wanted to and could have done more on their operations if not for the $200,000 cap on payments?

Answer. Yes, NRCS received numerous comments and feedback from joint operations who would have offered more conservation had there not been a $200,000 contract payment limitation. In the Final Rule, NRCS raised the contract limitations for formal joint operations from $200,000 to $400,000 for the contract period and from $40,000 to $80,000 per year. Each person or legal entity will still be limited to $40,000 per year. This change follows the logic used for EQIP that enables spouses, farming as joint operations, to each earn the $40,000 per person annual limitation.

Question 23. **EQIP—**We all know that EQIP is a very popular program, but I'm wondering if you can tell us exactly how popular it is and what the current backlog is of requests that are eligible but can't be funded?

Answer. EQIP is a very popular program that provides flexibility to farmers, ranchers, livestock producers and forest landowners to receive financial and technical assistance to address natural resource concerns on their operations.

- In Fiscal Year 2009, USDA obligated $1.054 billion in financial and technical assistance through EQIP entering into approximately 32,000 contracts.
- In Fiscal Year 2009, the number of contracts that were not funded totaled 54,329 contracts valued at $1.36 billion.

Question 24. **EQIP Organic Initiative—**What has been the interest level in the EQIP organic provisions?

Answer. The EQIP Organic Initiative authorizes payments to be made for conservation practices on operations related to organic production or transition to organic production. It is in the second year of administration. In FY 2009, NRCS provided $36 million to organic producers through the EQIP program to develop and carry out an Organic System Plan (OSP), or to install conservation practices related to organic production.

NRCS has continually worked with the organic stakeholder and will continue to work with the stakeholders to improve organic administration. Fiscal Year 2009 was a pilot year for the Organic Initiative (OI); although we obligated over 36 million dollars NRCS felt a need for improvement. NRCS worked closely with several organizations to make improvements on program delivery.

In Fiscal Year 2010, NRCS provided guidance to the states to increase outreach within the states as well as providing updated information on the national NRCS program website. NRCS provided guidance to states and field offices that compared National Organic Program regulations and requirements to NRCS resource concerns and practices.

The Fiscal Year (FY) 2010 EQIP Organic Initiative is currently in a reallocation period; moving money from states with unobligated Organic Initiative funds to states with need for additional Organic Initiative funds. All states are still updating ProTracts with contract obligations.

- July 2, 2010 is the deadline for states to have the reallocated funds obligated.
- Current estimates show that there are about 1,600 applications nationwide worth a total of $24.4 million as estimated future obligations.
- In FY 2010, NRCS is still enrolling organic operations into EQIP under this initiative. To date, we have received about 1,600 applications that request a total of $24.4 million, and we expect to ultimately enroll the large majority of these applicants. As of mid-May, 980 contracts have already signed contracts for approximately $16.3 million.

For FY 2011, we plan to look at expanding our partnerships and working with state agencies to increase our marketing and promotion of the EQIP Organic Initiative. NRCS is already working on additional guidance to NRCS state offices to help them improve their ability to service Organic producers' needs.

Question 25. **Waiver report—**The Committee is still waiting for the report that was required by the farm bill on any waivers that are granted for payment limitations as well as the easement terms under the Wetland Reserve Program. Do you know when we can expect this report? In the meantime, do you know how often the waiver authority has been used, and for what?

Answer. The report has been completed and was signed on May 10, 2010. The number of waivers granted under section 1001D(b)(2) of the Food Security Act of 1985, as added by the Food, Conservation, and Energy Act of 2008 in order to protect environmentally sensitive land of special significance in FY 2009 is four: two in New Hampshire (FRPP and WRP), one in California (WRP) and one in New Jersey (WHIP).

Question 26. **Wetland Reserve Program 7 year ownership requirement—**Your implementation update paper mentions responding to public comments on the 7 year ownership requirement. Can you share any more with us on what those comments were? And what you may be contemplating in this regard since the statutory language is fairly specific?

Answer. NRCS received 52 public comments regarding the 7 year ownership requirement during the WRP interim final rule public comment periods. The respondents expressed concern that the 7 year ownership requirement discriminates against many private landowners and defeats the purpose of the program. More particularly, the respondents felt the term of ownership requirements should not be more restrictive than other USDA conservation programs. Other respondents recommended incorporating a waiver for landowners who have existing WRP lands and subsequently purchase eligible adjacent lands. Many comments recommended returning to the 1 year requirement, and some recommended that a 2 year requirement might have merit.

The WRP statute requires that the land be owned during the preceding 7 years unless the landowner received the land by will or succession, underwent foreclosure and exercised a right of redemption, or provided adequate assurances the land was acquired for reasons other than enrollment in WRP. NRCS does not have authority to change this statutory requirement, and agrees that the statutory language is specific on the land ownership requirement.

If an applicant has not owned the land for the requisite time period, NRCS notifies the applicant that the application will be determined ineligible unless the applicant submits a written waiver request and documentation that one of the three criteria for waiver applies to their circumstances. The local NRCS office forwards any documentation to the national office for action.

NRCS Chief, Dave White, reviews all waiver requests based upon the adequate assurances criteria and is the only NRCS official with authority to waive the 7 year ownership requirement on this basis. In particular, upon review of the particular circumstances, the Chief determines whether adequate assurances support a finding that the landowner did not purchase the land for purposes of enrolling in WRP and whether a waiver request should be granted. The Chief provides the determination to the State Conservationist, and the State Conservationist will notify the landowner of the determination and the landowner's rights to appeal, if applicable.

Question 27. **Wetland Reserve Enhancement Program—**How many and what states have expressed an interest in the WREP authority given in the 2008 Bill?

Answer. On March 2, 2010, NRCS published a request for proposals for implementation of the partnership component of WREP under the Mississippi River Basin Initiative (MRBI). NRCS also published on April 9, 2010, a request for proposals for partnership WREP implementation nationwide. The deadline for MRBI–WREP proposals was May 3, 2010, and the deadline for all other WREP proposals was May 24, 2010. NRCS received 21 MRBI–WREP proposals, and received nine WREP proposals from the following states: North Carolina, Indiana, Nebraska, Iowa, Minnesota, Missouri, and Illinois.

The following projects in five states were approved for financial assistance in Fiscal Year 2010 for a total of $9,847,500 covering 2,440 acres of wetlands:

Indiana/Illinois

Wabash River Floodplain Corridor Project.
Sponsoring Entity: The Nature Conservancy.
Fiscal Year 2010 Financial Assistance: $3,255,000.
Acreage: 1,000.

Iowa

Wetland Restoration and Enhancement for Water Quality and Habitat Benefits—Des Moines Lobe.
Sponsoring Entity: Iowa Department of Agriculture and Land Stewardship.
Fiscal Year 2010 Financial Assistance: $3,842,500.
Acreage: 600.

Des Moines Metro Forest Initiative.
Sponsoring Entity: Iowa Natural Heritage Foundation.
Fiscal Year 2010 Financial Assistance: $2,000,000.
Acreage: 600.

Minnesota

Sand Creek & Prior Lake/Spring Lake Watershed.
Sponsoring Entity: Scott Soil and Water Conservation District.
Project to begin in FY 2011.

Nebraska

Rainwater Basin Water Complex.
Sponsoring Entity: Pheasants Forever.
Fiscal Year 2010 Financial Assistance: $750,000.

Acreage: 240.

Question 28. **Partnership authorities—**As you mentioned, you have held a number of meetings out in the countryside. During these meetings have you heard from producer or non-governmental entities that work with landowners about their ability to use the partnership authorities that were included in the farm bill? And what they might like to see changed? Such as the ability for them to receive technical assistance dollars.

Answer. The Cooperative Conservation Partnership Initiative (CCPI), authorized in the 2008 Farm Bill, provides NRCS with unique authority to help focus conservation program benefits along with our partners contributed resources to address important natural resource issues throughout the nation. NRCS reviews and evaluates proposals submitted by eligible partners based on criteria set forth in a Request for Proposals as published in the *Federal Register*. There has been good response by many partners, non-governmental entities, to the recent requests for proposals for CCPI in the Mississippi River Basin Initiative announced in March, but also the Chesapeake Bay and the National announcements that were issued in April.

In July, USDA announced the selection of 26 approved CCPI projects in 15 states that will help farmers and ranchers implement conservation practices on agricultural and nonindustrial private forest lands.

Below is the list of approved CCPI projects and Fiscal Year 2010 program funding by state:

State	Number of Projects	Fiscal Year 2010 Funding
California	7	$2,495,017
Idaho	2	$250,000
Illinois	1	$100,000
Indiana	1	$43,000
Louisiana	1	$246,150
Missouri	3	$559,200
Nebraska	2	$287,478
New Mexico [a]	1	$800,000
New York	1	$160,000
North Dakota	1	$100,000
Oklahoma	1	$99,943
Oregon	1	$624,594
South Dakota [b]	2	$817,140
Washington	1	$10,000
West Virginia	1	$50,000
Total	27	$6,642,522

[a] Multi-state project between New Mexico and Arizona.

[b] Includes one multi-state project among South Dakota, North Dakota, Kansas, and Nebraska.

As authorized by Congress, this is not a grant program to partners. This is a program whereby partners with approved projects will enter into multi-year agreements with NRCS to help enhance conservation outcomes on agricultural lands and private nonindustrial private forest lands. One purpose of CCPI is to leverage resources of certain Federal Government programs along with services and resources of non-Federal partners to implement natural resource conservation practices. No technical assistance funding may be provided to a partner through the CCPI partner agreement.

NRCS has heard from some partners that they would like the ability to receive technical assistance funds directly under the CCPI authorities. However, partners can work with State Conservationists to develop separate contribution agreements to provide funding for the delivery of technical services to producers participating in an approved CCPI project.

Congress also provided USDA the ability to continue to work with Technical Service or Third Party Providers. The 2008 Farm Bill required the development of a certification process, a 1 to 3 year agreement period and fair and reasonable payment rates. The Interim Final rule for TSP was published on January 16, 2009 and the Final Rule was published on February 12, 2010.

Title III—Trade

Question 29. **WTO case—**The 2008 Farm Bill made considerable changes to export credit guarantee programs at the request of the previous Administration. These changes eliminated some of these programs and brought the remaining GSM–102 program in line with the conclusions in the Brazil WTO cotton case. Yet it was determined that this action was not in compliance with the panel's findings in the case. How can we avoid similar circumstances whereby the Administration advocates for changes from Congress to meet trade commitments and then we discover that such changes were insufficient?

Answer. The previous Administration's farm bill proposal requested that the particular provisions for two programs subject to the dispute, be repealed in the 2008 Farm Bill; the GSM–103 program and the Supplier Credit Guarantee Program, the latter of which was no longer in operation in any event. The farm bill also removed the previously applicable fee cap for guarantees under the GSM–102 program and required the program to cover its long-term operating costs and losses. In addition, changes to the GSM–102 program were made administratively. Brazil requested a WTO compliance panel to assess these actions by the United States with respect to the adverse determinations of the original panel. The modifications to the guarantee program for the period examined were viewed as inadequate by the WTO. Following the compliance proceedings, Brazil requested WTO authorization to impose countermeasures on U.S. trade. The United States objected, and so an arbitrator determined the amount of authorized countermeasures as a result of the previously determined non-compliance. The arbitrator did not examine the current operation of the program, but the arbitration award nevertheless implies the need for further changes to the program.

Question 30. **Food aid local purchase pilot—**The farm bill provided funding for a Local and Regional Purchase Pilot program to analyze the effects of using local and regional purchase of commodities in food aid programs. How has the FY2009 funding that went to local and regional purchase been used? What metrics will you use to report back to this Committee regarding the pilot's effectiveness and possible need for future program changes?

Answer. In FY 2009, USDA awarded a total of $4.75 million to the UN World Food Program (WFP) for local procurement projects in Mali, Malawi and Tanzania. In March and April, WFP took delivery of 1,023 metric tons of commodities from small-holder farmers in Mali. In Malawi, due to recent drought conditions, WFP expects to begin purchasing local commodities in June. Purchases in Tanzania will take place in July and August. The 2008 Farm Bill identifies required factors for evaluating the pilot's effectiveness. These factors are built into data reporting requirements of each agreement with a participant in the pilot. The 2008 Farm Bill also requires USDA, not later than November 1, 2011, to have a third party conduct an independent evaluation of the pilot using data collected from each project. USDA will submit a report to Congress that contains the analysis and findings of this independent evaluation. In determining the effectiveness of the pilot, the evaluation is to examine factors such as the impacts of the procurement of commodities on producer and consumer prices in the market; benefits to local agriculture; impact on low-income consumers; impact on food aid delivery time; quality and safety of procured commodities; and implementation costs.

Question 31. **Global Food Security Initiative—**The Administration has placed a priority on alleviating global hunger and is soon expected to announce its Global Food Security Initiative which will call for a substantial increase in development assistance, with USDA playing a significant role in its implementation. While it has yet to be announced, can you give us an idea of how USDA has contributed to this effort so far, and how you think existing food aid programs authorized by the farm bill can meet the ambitious goals of the Administration? Does FAS need to be given additional authority or resources to meet these goals?

Answer. USDA is an integral part of the process to develop the U.S. Government's Feed the Future Initiative. USDA, together with our colleagues at the State Department, the Treasury Department, the U.S. Agency for International Development and the Millennium Challenge Corporation, are at the core of developing the long-term, sustainable, "whole-of-government" approach to addressing global food insecurity. Our contributions to date have primarily been working with these agencies in developing the overall strategy and implementation plans for the U.S. Government, specifically in designing the results framework, the policy and economic indicators, and the global research strategy. USDA's role is to leverage the wealth of knowledge and expertise that we possess in agricultural research, markets, trade, nutrition, natural resource management, and animal, plant and food safety to support the U.S. Government initiative. Our USDA food aid programs are also a critical part of the solution to this longstanding problem, as a long-term development tool that supports education, agriculture and health, and mitigates or reduces risks to the most vulnerable poor. USDA food aid programs can be targeted to Feed the Future Initiative priority countries to help create synergies with other development assistance efforts in each country. It is important to note that, although much of our food aid programming may be closely aligned to Feed the Future Initiative priority countries, we will still be mindful of the needs of other food deficit countries that may not be a part of this initiative.

Question 32. **MAP—**The Administration proposed cutting funding for the Market Access Program and increasing funding for the Foreign Market Development Program? Can you explain the rationale for that move and how it fits with the Administration's goal of doubling exports?

Answer. The President established the National Export Initiative to enhance the U.S. Government's efforts to facilitate the creation of jobs through the promotion of exports. As part of this effort, the President has established an Export Promotion Cabinet to develop and implement the Initiative. USDA will participate in the work of the Cabinet.

As part of the National Export Initiative, USDA's 2011 budget requests increased discretionary spending of $54 million to enhance USDA's export promotion activities. The budget proposes a series of adjustments in the funding levels among the various market development programs to provide a better balance among them and to reflect the changing nature of agricultural trade competition.

This includes $34.5 million to supplement funding for the Foreign Market Development (Cooperator) Program. This funding would be in addition to that provided by the Commodity Credit Corporation under the farm bill and would double overall funding for the program to $69 million in 2011. The additional funds would provide new opportunities for participation and innovative activities, such as providing broader international acceptance of the products of biotechnology.

Also, $9 million is proposed for the Technical Assistance for Specialty Crops (TASC) Program, which would supplement CCC funding and double overall funding available for TASC to $18 million. The TASC program, which was first authorized in 2002, is specifically directed at addressing barriers to exports of specialty crops. The requested increase in funding reflects the growing importance of specialty crops for U.S. agricultural trade growth and the contribution the program has made in resolving numerous trade barriers.

Although annual MAP funding would be reduced, the program would still provide assistance for overseas market promotion of $160 million per year. Annual MAP funding has grown substantially since 2001, when the program level was $90 million. Although the 2011 funding level is reduced from 2010, it still provides a program level that is nearly 80 percent above 2001.

Title IV—Nutrition

Question 33. **SNAP—**In October 2009, Indiana cancelled its $1.3B contract with IBM. Since then, we have tracked the development of its so-called "Hybrid System." However, there seems to be no assurance that this hybrid model will be any more effective than the failed IBM plan. Meanwhile, ½ of the cost of both the IBM plan and this untried hybrid continues to be the responsibility of the U.S. taxpayer.

Add to this the three lawsuits that have been found in favor of the plaintiffs, SNAP recipients, and against the state for a lack of timeliness in processing applications, the need for face to face appeals, and a "failure to cooperate" in recertification decisions.

Finally, in a letter sent to states from Under Secretary Concannon earlier this year, it was made clear that these sorts of plans would not receive a waiver under the Obama Administration.

Certainly, USDA has the authority to revoke the waiver that permitted the Indiana pilot in the first place. There is a mountain of evidence that this didn't work and none that it will work. What more do you need to take drastic corrective action that will ensure fair and compliant SNAP participation for all citizens of Indiana?

Answer. Since Indiana terminated the contract with IBM, the state agency took over management of ten separate contracts that once made up the modernization project coalition. The state also developed a corrective action plan to address deficiencies in its modernized service delivery model. Indiana began piloting a hybrid solution in the ten county Vanderburgh Region in Southeastern Indiana in January 2010.

The hybrid solution features regional/local office-based service delivery with more face-to-face contact with SNAP customers. The hybrid also utilizes technology that allows the state to direct tasks and telephone calls within the region, as opposed to the centralized call/change center, for better accountability and improved service.

The state also implemented a new State Management and Resource Tracking (SMART) tool throughout the modernized areas of the state to support the move to a case-based *versus* task-based processing of work and to provide better management and oversight of the work.

The Food and Nutrition Service (FNS) is continuously monitoring the implementation of the hybrid through on-site visits, management reports, and conference calls.

FNS is monitoring several measures to determine the success of the hybrid pilot. These are improved customer experience, elimination of the backlog of tasks, improved application processing timeliness, improved payment accuracy, successful handling of phone calls within the region, and infrastructure readiness. This last measure includes staffing moves from service center to local offices to support the hybrid solution, training, facilities, integrated voice response changes, and telephone system changes.

Although the timeliness and error rate data available to FNS lags, we have seen timeliness trending up and the error rate trending down. FNS has also seen a decrease in the number of complaints received. FNS on-site observations also indicate that the hybrid is an improvement to the modernized model.

After running the pilot successfully for several months, the state agency has indicated that they will seek FNS approval to expand the hybrid pilot to the Vigo Region. The Vigo Region contains 11 counties and approximately 6.5 percent of the state's caseload. FNS expects to receive the formal request for expansion this month.

Question 34. **SNAP Education and Training Programs—**Since 2005, the state of Washington has worked with FNS/Western Region to develop an E and T pilot program in conjunction with 12 community colleges in 39 counties. The model for this pilot used a third-party match to receive the 50% Federal reimbursement, with the full support of FNS/Western Region. However, a reinterpretation of OMB Circular A–87 in March, 2010 indicates that this pilot will no longer qualify for matching funds effective June 30, 2010. Please provide an explanation of this inconsistency in Washington and other programs in Wisconsin, New York, Connecticut, California and Colorado that may be affected by the OMB review.

Answer. Office of Management and Budget Circulars require that costs charged to a Federal grant be accorded consistent treatment. This is long standing Federal financial policy. This requirement is re-enforced and applied to the Supplemental Nutrition Assistance Program (SNAP) through regulation.

Community colleges, community-based organizations, and other SNAP Employment and Training (E&T) partners cannot charge the Federal Government for services that are provided at no cost to participants and are not charged to other Federal, state and local grants.

The Food and Nutrition Service (FNS) realizes and regrets that this policy will affect E&T programs in many states; however, as stewards of Federal funds we must enforce this policy.

To enable Washington and the other affected states to sustain their SNAP E&T programs in a manner consistent with Federal policy, FNS is working closely with them to identify appropriate and allowable funding streams.

During this difficult economic environment, FNS continues to support states initiatives to provide SNAP E&T participants with skills, training, work or experience that will increase their chances of self-sufficiency. FNS spent more than $300 million in Fiscal Year 2009 to assist nearly 1.6 million SNAP recipients gain skills and experience that improved their ability to obtain regular employment.

Title V—Credit

Question 35. **Term limits—**Can you tell us how many borrowers in each state are facing being ineligible to borrow from FSA next year?

Answer. Currently there are 12,623 direct FSA borrowers who will be ineligible for additional direct operating loans in 2011. Additionally there are 5,577 guaranteed operating loan borrowers who will become ineligible to receive additional guaranteed operating loan funds in 2011 if the current suspension of the guaranteed operating term limits is allowed to expire on December 31, 2010. The table at the end of this document, *see Attached Tables* on p. 140, provides a state by state breakdown of those currently ineligible and those who will become ineligible at the end of 2010 upon receipt of an operating loan this year.

Question 36. **Credit availability—**The credit crisis is still being felt by many ag sectors. What is USDA doing to make certain the FSA loan program is there for producers? Have you seen an increase in applications? Which states and which programs?

Answer. FSA management is closely monitoring consumption of loan funds. The agency will use all administrative tools, such as pooling and reallocation of unused loan funds, to assure that all available funds are utilized in efforts to satisfy the demand for credit. There has been a dramatic increase in demand for FSA direct and guaranteed loan assistance in FY 2010. As of April 30, direct and guaranteed loan funds provided to family farmers has increased by 30 percent compared to the same period a year ago. This increased demand for FSA assistance is being experienced in all direct and guaranteed loan programs. The increases are not confined to particular areas; almost every state is experiencing increases in loan applications and loan volume.

Question 37. **Credit availability—**During your travels in the field, what are you hearing about the availability of credit for ag producers?

Answer. Turmoil in the financial markets, increased regulatory scrutiny, and concerns about institutional safety and soundness has caused commercial lenders to become much more sensitive to credit risk and as a result, to impose more rigorous credit standards. One effect of this change is that lenders now request FSA guarantees for loans to customers who previously met lending standards without a guarantee. Thus, the demand for FSA guaranteed loan assistance has increased significantly. Compared to FY 2009 for the same time period, obligations of unsubsidized guaranteed farm operating loans has increased by 24 percent, guaranteed farm operating loans with interest assistance by 28 percent, and guaranteed farm ownership loans by 23 percent. Assistance provided to beginning farmers (those who have farmed less than 10 years) has increased by 16 percent compared to a year ago. Many lenders consider beginners to be higher credit risks and as a result this group is more dependent on FSA for financing.

Question 38. **Conservation Loan Program—**What is the reason for the delay on the conservation loan program? It would seem these dollars could be leveraged given the current economic situation.

Answer. The 2008 Farm Bill included several new programs that FSA was required to implement. Because agency resources are limited, priority was given to implementation of direct and disaster payment programs which impact the largest number of farmers, and those programs with mandated implementation timeframes. With the completion of the highest priority implementations, FSA has moved the conservation loan program to the top of its priority list and anticipates publishing program regulations before the end of this fiscal year. Upon issuance of these regulations, the FY 2010 appropriated direct and guaranteed conservation loan funds will be available to qualified farmers.

Question 39. **Livestock and credit—**This has been a difficult time for many sectors of animal agriculture. Producers have struggled with low prices and high costs of production. What is USDA doing to ensure that credit remains available to livestock and dairy producers?

Answer. FSA has instructed field staff to use all available authorities to assist producers in this period of short term unprofitability. The agency has issued policy directives to field staff emphasizing the importance of using all available loan making and servicing authorities to assist financially stressed producers. Through extension of repayment terms when making new loans, release of commodity sales proceeds, and modifying repayment terms of existing loans, FSA is working to help farmers maintain their businesses.

Question 40. **Outreach and demand for mediation—**Do you think producers are aware of the USDA loan programs? What is the Department doing to reach out and counsel producers? Have you seen an increase in interest for state mediation program services or states looking to start or expand their programs?

Answer. In 2008, FSA Farm Loan Program (FLP) launched a comprehensive program marketing initiative. This ongoing effort requires every state to have a FLP marketing coordinator and a state marketing plan; and every service center with a credit presence to have a local FLP marketing plan.

This Farm Loan Program Marketing initiative compliments the already existent Outreach and program education efforts of the Farm Service Agency. Each state and territory is required by FSA to designate a State Outreach Coordinator and County Outreach Coordinators. National Office of External Affairs staff work with the state and county Outreach Coordinators to craft state-specific outreach plans that outline how best to strategically leverage FSA resources to ensure that constituents are well-informed about and able to access FSA farm and loan programs. These outreach plans detail general outreach efforts as well as targeted outreach efforts, which are devoted to increasing participation in FSA programs by populations deemed by congressional statute to be "socially disadvantaged."

As a result of the coordinated efforts of Farm Loan Program staff and state and county outreach coordinators, FY 2009 saw over 40 percent of direct Farm Operating Loans go to new applicants—farmers who did not have an FSA loan the previous year. In FY 2010, the amount of new applicants increased to over 45 percent. In FY 2010, total loan demand has also risen 30 percent, and many requests are from new borrowers. These trends are not only indicative of the current credit challenges facing American producers, but are also indicative of an increasing public awareness of FSA loan programs, as well as facility with accessing these programs.

It is also important to note that once producers accesses FSA Farm Loan programs, that producer will benefit from on-going technical assistance from FSA Farm Loan Staff (if she or he accesses credit through the direct loan program—producers who receive a guaranteed loan will work directly with the lending establishment in question). FSA works with each direct loan borrower to develop an assessment of their farm business, and conducts annual updates to help borrowers identify areas where improvement is needed. Some borrowers are required, as a loan condition, to complete a financial management training program. FSA staff also meets with new and financially stressed borrowers to review and analyze the past year's business and develop a business plan for the coming production cycle. FSA's goal is to help borrowers progress and move to commercial credit.

The State Mediation program demand varies by state, agricultural sectors and economic trends. Although we do not have 2010 data reported to date, we would fully expect demand to rise in certain states due to economic conditions in certain sectors such as dairy, hogs, and poultry. The request for mediation services has been consistently strong in the 35 states that have established USDA Certified Mediation Programs. Two additional states (Pennsylvania & Idaho) have been certified as new states for mediation in 2010.

Title VI—Rural Development

Question 41. **Microentrepreneurship Assistance Program—**When can we expect to see the regulations published for the Rural Microentrepreneurship Assistance Program? What did your Department take from the public comment period to construct regulations to meet the unique needs of small business startups in rural areas?

Answer. Rural Microentrepreneur Assistance Program—The Interim Final Rule was published in the *Federal Register* on May 28, 2010 and the NOFA on June 3, 2010.

All changes to the rule resulting from public comments are explained in detail in the preamble of the Interim Final Rule.

Question 42. **Definition of "rural"—**The 2008 Farm Bill directs the Department to report on the various definitions of "rural" it uses by next month and to assess the impacts these definitions have on program delivery. Can you give us an idea of what you have found so far, particularly if you think the varying definitions of the term is causing problems with targeting loans and grants where they are most needed?

Answer. Any targeted program is apt to create difficult boundary issues, and the various 2008 Farm Bill definitions of "rural" are no exception. The difficulties typically arise with regard to communities that "look and feel" rural but that fall on the wrong side of an arbitrary line drawn on the basis of geographic location, income, or population size. These issues are of course not unique to rurality; any means tested program, for example, will face similar issues related to the appropriate definition of income.

The challenge is therefore not to identify problems with the current definition. That is easy. The real challenge is to devise some other definitional scheme that reduces or at least simplifies these issues, given the reality that the boundary issues are unavoidable. We are continuing to study these issues.

Question 43. **Section 502 Housing funding—**Mr. Secretary, although Rural Development's housing programs are not authorized in the farm bill, many constituents in my district are concerned about the funds for the Section 502 Single Family Housing guaranteed loans running out before the end of the month. This is one of the few programs out there able to help people finance home buying since the private lenders aren't lending in rural America. Why have the funds run out so soon and what ideas does the Department have to keep this program going?

Answer. The reason why funding for the Section 502 Single Family Housing Guaranteed Loan Program (SFHGLP) will run out so soon is due to the unprecedented increased demand for mortgage financing resulting from the housing crisis. In the current economic climate, private sector lenders are reluctant to make home loans in rural American without government backing and the SFHGLP has filled a void in the availability of mortgage credit. The SFHGLP has been very successful with delinquency and foreclosure rates lower than other mortgage industry participants. The USDA supports legislation in which the SFHGLP guarantee fee structure would make it subsidy neutral, meaning the program would collect enough in fees to fully offset estimated losses resulting from new guarantees and not require further appropriation of budget authority to continue serving rural America. In addition, ample funding is available under the Section 502 Single Family Housing Direct Loan Program (SFHDLP) to provide homeownership opportunities to low and very low income households.

Question 44. **Regional Innovation Initiative—**Mr. Secretary, can you please talk about how you envision a proposed Regional Innovation Initiative working with existing rural development programs? Do you expect this approach to be locally-driven, state driven, or from the top-down here in Washington? What is lacking in current RD programs that you think would be solved by moving to a regional approach?

Answer. We fully expect and encourage the regional innovations to be driven at the community and regional level. For example, in one of our current funding announcements, the program is encouraging regional innovation strategies around regions and projects self-defined by the applicant. USDA only provides broad areas of interest, such as access to capital or renewable energy. What has been lacking in current RD programs is that they are mostly project-based and individual in nature. By implementing our rural development programs in a more regional approach based on locally developed, comprehensive strategic plans, Rural Development can first work with a region on identifying its needs or issues, establish priorities, and determine what program linkages and sequences that need to take place to address those needs. It can also encourage broader community involvement and "buy-in" critical to long-term, sustainable development.

Question 45. **Regional Innovation Initiative—**What's different between your regional approach and the Empowerment Zone/Enterprise Community Initiative, first authorized in the 1990s, or the Rural Economic Area Partnership Zones, which began in the same time frame and was reauthorized in the 2008 Farm Bill? Does your regional approach propose to utilize these programs or replace them?

Answer. The regional approach uses many elements of the Empowerment Zone/ Enterprise Community Initiative (EZ/EC), such as the emphasis on creating partnerships and community-led strategies. The Rural Economic Area Partnership Zones (REAP) were somewhat of a precursor to our Regional Innovation Initiative. The REAPs are mostly multi-county in scope, and encourage participants to develop a common strategic plan around a locally defined set of priorities. What is different is that the EZ/EC program targeted specific census tracts based on a poverty or out-migration criteria. EZ/EC had both urban and rural components, and while census tract-based designations worked for urban areas, at times they proved to be more problematic for rural areas in that they led to disjointed, or "un-natural" looking area boundaries. For example, some designations included of 3–6 counties, with some only having one Census tract in the designation. Our regional strategies will focus on the county level, the most consistent governmental unit for rural areas. We are currently reviewing policies for our programs that will place a more targeted emphasis on specific areas of need like the EZ/EC Initiative did, but will do so at the county level. Broad community participation at the grassroots level and locally-driven priorities, a cornerstone of the EZ/EC Initiative, is being considered as an element of our regional approaches.

Question 46. **Regional Innovation Initiative—**How would population thresholds that currently apply to rural development programs work under a regional approach? Would a regional area be ineligible for programs it contained one or more cities above the population limit for a given program, even if the surrounding rural areas qualified?

Answer. The Regional Innovation Initiative does not propose to change the population limits of the current programs. While a regional plan may include larger communities, the recipient of any recipient of dollars from a Rural Development program will need to meet current eligibility requirements. As long as the program dollars and projects do not occur in jurisdictions above the population limit, the rest of the region under the population limit is eligible.

The United States Department of Agriculture (USDA) through Rural Development identified strategies that offer promise to maximize on the benefit of the strong local market while at the same time taking a systems approach to capture the supply chain activity linking regional clusters. By focusing on the Secretary's Five Pillars of prosperity for Rural America, USDA is positioning Rural America to become more innovative and competitive in regional and global markets.

Now more than ever, metropolitan economic activity stands to gain market share by tapping into the natural and human capital resources of Rural America and advance industry cluster activity by transforming from cost-based strategies to quality-innovation strategies that are more productive and can support higher wages.

There is a beneficial interest between metropolitan centers and rural communities in the active support of regional industry cluster activity. An example of this is the recent impacts on the automobile industry which raised the awareness of the linkage between automobile production to marketing, sales, and land use and supply chain activity.

USDA through its initial work recognizes the rural-urban linkages in a global economy and recognizes that a greater policy focus and more attention should given to local variations which cannot be done in isolation of the wider dynamics of national and international economic activity.

Question 47. **Regional Innovation—**Some rural development specialists believe regionally-based rural development is long overdue. What are your views on regionally based rural development?

Answer. From my experience as Governor, I have seen firsthand the value of a place based regional approach to community and economic development. Of course we are not taking a Department wide position that regionalism is the answer to all problems. We do however recognize that in some communities we only have to support a project while in other communities they are struggling with developing an economic strategy that requires a regional approach in order to connect to the regional economic activity in their area. The current research points to the value of regional planning, collaboration, partnership and leverage of resources.

Many rural communities have already coalesced to take a more regional approach to common problems and issues. Education and the consolidation of schools into Intermediate School Districts, regional transportation authorities, and regional hospital centers are a result of market forces and increasingly scarce resources. Communities are learning they need to leverage resources, and the approach to rural development needs to be more regionally-oriented to assist rural communities in collectively addressing these market forces. In terms of market-based economies, they have long been regional in scope. Many Rural Development programs have long been tethered to either a community or a county as the geographic basis for funding and projects. The move to regionally-based development will promote growth in many rural areas.

Question 47a. Is there value in viewing regional food systems as a viable, long-term opportunity for rural development?

Answer. Regional food systems are just one of many viable economic strategies for rural development. More importantly, they are grounded in keeping the dollars involved in food production, marketing, and consumption more local in scope to direct the benefits of these activities to the communities involved. While most Rural Development programs do not directly fund agricultural production they can fund many of the key components of a regional food system, such as the processing and delivery of the food products, and even the markets or stores that sell them.

A clear trend in all parts of the food system is greater concentration of ownership, which means that decisions affecting communities are increasingly made by absentee business owners. Mergers of chain supermarkets often result in the closure of stores, thereby lowering the tax base and employment. Another trend, vertical integration, leads to increased consolidation of different activities such as food production, processing, and distribution under the control of single entities. While there is little doubt that this "industrial" food system will remain dominant and play a vital role in rural economies, more communities and regions are acting to resolve some of these issues by developing alternative, local, and sustainable food systems. Significant activity is already occurring around the country on regional food systems. There are many area-wide economic development plans that incorporate food production, processing, wholesale, retail, and waste management activities as well as consideration of the impacts these activities have on the local and regional economy in terms of jobs, tax and sales revenues, and multiplier effects. Also important is that regional food systems are a means or mechanism for establishing urban-rural linkages critical to a vibrant regional economy by collectively considering the needs and impacts of the rural sources of food and the more urban areas where it may be consumed.

Question 48. **Population limits—**Are the limits for population in current law adequate for administering Rural Development programs? If not, how do you think they should be changed?

Answer. For many Rural Development programs, the population limits have not presented a challenge. However, for some programs, as demographics have shifted in the U.S. and the scope of needs may have changed, the current population limits may no longer be valid. This may inhibit USDA's ability to serve areas that still consider themselves "rural," and are not connected to the more urban-based programs. In promoting regional initiatives, these population limits may also inhibit the development of the urban-rural linkages that may be critical to that region's success. The population limits should be reviewed not on a program by program basis, but rather in a comprehensive review of both USDA and other Federal programs with population limits to address gaps and impediments in program delivery.

Question 49. **Status of Loan Portfolio—**What is the status of Rural Development's loan portfolio given the economic downturn? Are payment delinquencies and default rates rising? Are some programs performing better than others in this regard?

Answer. As a lending agency with a portfolio of more than $130 billion, we have of course seen some impact from the recent recession. With regard to the housing crisis, however, it is important to note that much of rural America did not experience the housing bubble that affected many urban and particularly coastal markets; rural America did not ride the roller coaster up, and it has been less affected by the downturn. In addition, due to our prudent underwriting standards and prompt intervention with and servicing assistance to troubled borrowers, our portfolio has performed adequately.

Question 50. **Broadband—**What is the status of the regulations for the broadband loan program? How has this program integrated with the sizable amount of Recovery Act funds provided for broadband deployment?

Answer. The regulations for the 2008 Farm Bill broadband program are in their final stages of redevelopment. Through our experience with the Recovery Act broadband program, we have had the opportunity to publish two Notices of Funding Availability and have learned a tremendous amount regarding delivery of broadband service to unserved and underserved rural communities. The lessons learned through the Recovery Act program can be used to enhance our 2008 Farm Bill regulations. For example, we have been able to process an unprecedented number of applications within a short timeframe. We hope to incorporate some of the streamlined processes used in the Recovery Act program to reduce application burden and shorten the timeframe between loan application and approval in our 2008 Farm Bill program. We are also looking for ways to ensure a bridge between Recovery Act and farm bill funding. Our goal is to publish the 2008 Farm Bill broadband regulations as soon as possible.

Question 51. **Broadband—**How do you envision the landscape for broadband deployment in rural areas after the Recovery Act financing is expended at the end of this fiscal year? How will you provide loan servicing for so many projects with your existing resources?

Answer. The Recovery Act has provided both USDA and the Commerce Department with the ability to bring broadband service to many rural areas that were unserved or underserved. Even with this large infusion of funds, there will still remain many areas that will not have broadband service. These areas will be easier to identify when the Commerce Department publishes a National Broadband map early next year. Our goal is to assess the results of the Recovery Act broadband programs, participate in discussions of the FCC's National Broadband Plan, and determine steps that are needed to realign our programs with the needs of unserved and underserved areas. The Rural Utilities Service and Rural Development have extensive experience in managing large loan and grant portfolios. We are confident that we will be able to continue to service our portfolio with our 60 years of experience. We are also developing contingency plans to ensure that we protect the taxpayer's investments in all of our Recovery Act programs.

Question 52. **Business Loans—**Are you seeing more Rural Business loan and grant applicants interested in developing local food marketing and supply chains? If so, how are you responding to meet the need? Do you feel additional authority in this area would be beneficial?

Answer. Rural Business and Cooperative Programs (RBCP) have seen an increased interest in local food, regional food systems, and supply chains. Although RBCP have always been available for these purposes, Rural Development (RD) has experienced an increase in the number of projects self-identifying as local food/food systems and inquiries from customers. There is a direct correlation with the 2008 Farm Bill, the launching of the Know Your Farmer, Know Your Food initiative, an increase in marketing Rural Business programs for these types of activities at the state level, and the increased interest from local food marketing and supply chain applicants in RBCP programs.

To meet the increased interest, RD has been actively participating in outreach efforts to assist prospective applicants become familiar with RD programs. In addition to developing program materials, RD staff members have participated in numerous meetings, workshops, and webinars with groups and individuals interested in local food systems. RD staff members have also participated on the Know Your Farmer, Know Your Food team. Through publications, meetings, and other media, the Agency has worked to make the availability of program funds known to the public, as well with working with the public to overcome any obstacles to accessibility.

The current authority is adequate for this initiative.

Question 53. **Business Loans—**Are rural lenders still willing to participate in the Business and Industry Loan Guarantee Program given current credit conditions?

Answer. Yes. We have made commitments for 426 B&I ARRA loan guarantees for $1.25 billion. In addition to that, we have made commitments for 285 regular B&I loan guarantees totaling $748 million as of July 20, 2010. This combined volume represents a new obligation record for the B&I program with 4½ months remaining in the fiscal year. We currently have loan applications and preapplications on hand totaling over $1 billion; though we expect not all of these loans will be eligible or be awarded.

Question 54. **Water and Waste—**How much are you able to use the authority for loan guarantees on water and waste disposal programs? What changes could be made to increase the use of the loan guarantee programs?

Answer. The program has been authorized to issue up to $75 million in guarantees annually. Usage of this authority has varied.

Water and Waste Guaranteed Loan History

Fiscal Year	Number of Guarantees	Total Dollars Obligated
2009	3	$1,996,100
2008	17	$18,402,000
2007	7	$26,003,318
2006	3	$2,5000,000

One factor impacting the use of the guarantee program is that, under current Federal tax law, a federally guaranteed bond is not tax exempt. The Farm Security and Rural Investment Act of 2001, Section 6007 (Farm Bill), provided limited authority to guarantee types of tax-exempt financing for specific types of projects. However, this law did not give the customer the ability to accept such tax-exempt financing without giving up its tax-exempt status.

As an example, if a loan guarantee is made to an entity providing tax-exempt security, then that entity could potentially lose its tax-exempt authority for that bond issue. As a result, there is less interest in the guarantee program than we would like from the majority of applicants for Rural Development water and waste financing as they are public or municipal bodies with tax-exempt status.

Question 55. **Community Facilities—**What types of facilities are getting the most funding under the Rural Community Facilities Program account? Are the loans going to rural health care facilities, another type of facility, or does it vary?

Answer. A summary table for FY 2009 is attached at the end of this document, *see Attached Tables* on p. 140, and provides a representative sampling of the Community Facilities Program project distribution.

Title VII—Research

Question 56. **Roadmap—**USDA recently released a roadmap for ag research. Can you briefly outline that roadmap and how you envision leading into the 21st Century?

Answer. The roadmap lays out a very aggressive plan to change the way USDA science is conducted. In the future USDA scientific research will be focused, leveraging other resources and concentrating on select priorities at a large scale to produce valued results. What our country produces, how we produce it, and with what productivity outcome, determine the availability and, to some degree, cost of food, fiber, and fuel. This analysis relies on science to provide answers. Solutions to the most intractable problems demand a strong, physical, biomedical, and curiosity-driven fundamental science renaissance. This roadmap lays out such a plan to change the way USDA conducts science.

Question 57. **Roadmap and Tribal Extension Program—**Have you had a dialogue with the tribes, interested institutions and outside groups about the future of the Extension Services on tribal lands? The farm bill called for an analysis of the FRTEP and whether it was meeting the needs for Extension services on Indian reservations. Has this analysis been done?

Answer. NIFA is working with the USDA Office of Tribal Relations (OTR) on an approach that, when implemented, will address the report language, satisfy the need for proper consultation and provide NIFA with a fair and accurate analysis of extension program needs in tribal lands. To date, a dialogue with the tribes, interested institutions and outside groups about the future of the Extension Services on tribal lands has not been completed.

NIFA envisions and is working on a four phase approach:

- Gather information from other Federal partners with an interest in Indian Country Extension.
- Convene a design team in conjunction with representatives from tribal lands to develop plans and budget for an assessment of the current state of federally supported extension services in tribal lands and the extent to which there is unmet need and to delineate that need.
- To implement the needs assessment.
- To draft a report back to Congress with the results of the assessment.

NIFA and OTR conducted the first phase on May 4, 2009—a Federal partner meeting. The design team meeting is being scheduled and will include representatives from the tribes, tribal lands agriculture and Extension. The design team meeting requires considerable planning since it involves the needs of 500 tribes.

Question 58. **FRTEP—**It is our understanding that not all of the programs that had been receiving funding under FRTEP before passage of the farm bill submitted successful applications for the competition that was held after the farm bill passage. Can you tell us the results of that competition?

Answer. FRTEP (formerly known as the Extension Indian Reservation Program) was authorized in the 1990 Farm Bill and has been funded since 1991. This program supports Extension agents on large American Indian Reservations and Tribal jurisdictions to address the unique needs and problems of American Indian Tribal Nations. The program is administered through the USDA National Institute of Food and Agriculture (NIFA). Currently, there are 28 funded projects serving federally-recognized tribes on 37 Reservations or tribal communities.

Section 7403 of the Food, Conservation and Energy Act of 2008 designated all programs funded under Smith-Lever 3(d), including FRTEP, as competitive. Eligibility is designated for 1862 and 1890 land-grant institutions. A requirement for competition was not included in the original FRTEP legislation.

In response to the 2008 Act, NIFA implemented a competitive selection process in FY09 to make new awards for 4 year continuation grants. Based on the applications received, three existing projects—University of Arizona, Navajo Nation, Window Rock; New Mexico State University, Zuni; and New Mexico State University, Jicarilla Apache—were not recommended for funding by a peer panel. The USDA REE Under Secretary directed that $120,000 be made available in FY09 to support the three existing projects not funded through the competitive process. As a result, all applicants were funded.

Question 59. **Under Secretary for REE—**Can you tell us how soon a new Under Secretary for Research, Economics and Extension will be named?

Answer. Dr. Catherine Woteki, USDA's nominee for Under Secretary for Research, Economics, and Extension, is a distinguished nutritional epidemiologist who has held senior positions in academia, the United States government, and in business. We are delighted to have her join the USDA team to enhance our success in improving the lives of farmers, ranchers and those living in rural areas of our country.

From 1997–2001, Woteki served as the first Under Secretary for Food Safety at USDA, overseeing the Food Safety and Inspection Service and the U.S. Government's Office for the Codex Alimentarius Commission, and coordinated U.S. Government food safety policy development and USDA's continuity of operations planning. She worked for 2 years in the White House Office of Science and Technology Policy where she co-authored the Clinton Administration's policy statement, "Science in the National Interest," and served as the Deputy Under Secretary for Research, Education and Economics in the USDA. From 2002–2005, she was Dean of Agriculture and Professor of Human Nutrition at Iowa State University, where she also was the head of the Agriculture Experiment Station.

Since 2005, Woteki has served as Global Director of Scientific Affairs for Mars, Inc., a multinational food, confectionery, and pet care company. In this role she has managed the company's scientific policy and research on matters of health, nutrition, and food safety.

Dr. Woteki appeared before the Senate Agriculture Committee at her confirmation hearing on May 27th. She awaits Senate action.

Question 60. **REEO—**How has the new REEO organization been received? Is it still in place?

Answer. The Research, Education, and Extension Office (REEO) board was established by the previous Administration in 2008 following passage of the farm bill.

They conducted many stakeholder meetings and contributed to the production of the roadmap for USDA Science that was recently presented to Congress.

USDA takes very seriously the coordination of science and technology in the department. The Department began as a science mission agency and since 1862 science continues to be an important component of nearly every enterprise at Agriculture. Ensuring science informs policy and program decisions across the Department demands close coordination and cooperation. In the Food, Conservation, and Energy Act of 2008 Congress provided an excellent framework for this coordination, directing the establishment of the REEO.

In the same legislation, Congress reaffirmed the need to coordinate agricultural research through establishment of the position of Chief Scientist at USDA, whose responsibility also includes oversight of the overall science enterprise in the Department. To best ensure that the Chief Scientist has access to the expertise envisioned in creation of REEO, I took the action of having the REEO staff assigned to coordinate science portfolios that will continue to carry out those duties as senior advisors reporting to the Chief Scientist. Establishing the office does not incur additional costs to the Department yet continues to meet the intent of the establishment of the REEO board.

Question 61. **AFRI and competitive funds *versus* earmarks—**One of the biggest challenges we face in research is that agriculture has often not spoken with one voice and groups have sought individual earmarks instead of pushing for more general ag research dollars. Do you think this has changed given the new limitations on earmarks? Do you think the new AFRI program has helped unify ag groups on ag research?

Answer. NIFA is shaping AFRI programs to meet important societal challenges for the nation by bringing together interdisciplinary groups of researchers, as well as formal and extension educators, to solve problems. In this way, AFRI is helping disciplinary interest groups to see how working together on issues of common interest will support disciplinary-based work while creating value for the public. For example, effectively addressing food safety issues requires microbiologists, animal scientists, economists, engineers and a range of others to work together. The 2010 AFRI requests for applications are offering large grants for this kind of interdisciplinary work and the applicant community is responding favorably. This is direct evidence that the new AFRI program is bringing together different disciplinary interest groups. In addition, AFRI is also offering smaller grants for more traditional, disciplinary-based research to continue building a foundation of knowledge to address current and future problems. We believe that this approach has had a positive effect on many agriculture groups and in fact has reduced the number of earmark requests.

It should be noted, however, that in creating programs with focus, scale and impact we have not been able to meet all recognized needs. In the case of food safety, this year we support research, education, and extension focused on *E. coli* in beef and foodborne viruses. We also support research on *Salmonella* and other pathogens through the AFRI foundational programs. Climate change programs in 2010 have been limited to specific agricultural systems of cereal grains, southern conifers, and swine or poultry.

In summary, agricultural organizations and disciplinary-based groups have realized that their interests are addressed, to the extent possible given limited resources, through AFRI programs focused on supporting basic research, and especially through those focused on solving societal challenges. This new type of collaboration has already begun to change the research, extension, and educational working relationships and capacity building within and between institutions and external organizations. This should result in a greater degree of support for the AFRI program and the continued reduction in earmarks.

Question 62. **AFRI—**How has AFRI been received? Has there been a lot of interest in the new authority?

Answer. The AFRI program has undergone substantial change in FY 2010. While many potential applicants have embraced this change, others have expressed frustration at the magnitude of the changes. However, most applicants are finding that opportunities still exist in their interest areas. The change in AFRI has been to create programs of focus and scale to achieve impact and solve problems. This typically calls for interdisciplinary groups of researchers as well as formal and extension educators. Many are recognizing this opportunity and seeking out information and showing interest in participating in interdisciplinary teams applying for grants. As direct evidence of interest, our Requests for Applications have been downloaded thousands of times and the online webinars about the AFRI programs were viewed more than two thousand times since being posted on March 23, 2010. Many AFRI programs require a letter of intent and we have received 1,523 letters as of July 20, 2010. This puts AFRI on a pace to receive slightly more applications this year than last. This would, however, represent a dramatic increase in the number of scientists and educators involved since many more of our programs will support multidisciplinary and multi-state teams of scientists. New support for direct extension and educational projects is creating new interest of professionals working in these areas, who previous had not felt that there were specific opportunities for them.

Question 63. **Ag research—**We often hear ag groups want ag research to similar to NIH. How do you think we can make that happen?

Answer. Congress has taken an important first step in creating the National Institute of Food and Agriculture (NIFA). This name clearly communicates to the scientific community, industry and the public the mission of the agency and its scope of responsibility and begins to bring greater visibility and recognition for what is being accomplished. NIFA is changing in many ways to follow the successful NIH model. We have a new emphasis on pre- and postdoctoral fellowships in AFRI which now are offered in a NIFA Fellows program. This is similar to the NIH Fellows program. We have moved to support larger grants, as NIH does, to reduce the repeated application process for productive scientists. We are also currently evaluating the advantages of creating sub-institutes within NIFA, similar to the NIH model, to bring focus and facilitate better coordination of our programs.

Question 64. **Extension Service—**Have you and your staff had any discussions about the impact of state and local government cuts to Extension Service funding across the country? Any ideas on how to ensure the wealth of knowledge isn't lost?

Answer. Individual staff members have been in discussions with land-grant university extension personnel. In addition, some Cooperative Extension Service (CES) personnel have presented seminars at NIFA, which allowed for direct question and answer interactions.

States across the U.S. are finding it necessary to reduce or eliminate Extension programs at the state or local level in response to shrinking budgets. These cuts are also diminishing the capacity for CES to deliver knowledge-based solutions to current problems in rural, agricultural, and urbanizing communities. Minnesota's answer to this dilemma, for example, is to drastically reduce staff and move into focused multi-disciplinary teams with specific industries like dairy and horticulture. In essence, state extension personnel now do a few things well while letting others fall by the wayside.

Fee-for-service is a common practice and increasing the number of these services could generate some income. eXtension is another tool being used to ensure that the wealth of knowledge is not lost. By providing free and open availability of information to the public, eXtension is one way to ensure that information is more widely disseminated and used. However, because eXtension distributes information freely on the Internet, there is no easy way to capture any revenue or even attribute credit to the Land-Grant University that developed the content.

The opportunity exists to re-examine program priorities within CES and focus on a smaller number of critical issues. A major challenge, however, is achieving alignment between Federal research, education, and extension priorities and needs at the state or local level as viewed by CES. Where that alignment occurs, new or expanded Federal competitive grant opportunities that provide funding for extension and outreach programs can supplement state or local budgets. On the other side, where alignment does not exist, shrinking state and local budgets will result in loss of critical programs. Furthermore, when Federal priorities are created that don't align with those of CES, it's possible that those Federal programs will not achieve the intended level of impact since they will not have access to the land-grant universities' unique knowledge-delivery system.

Availability of competitive funding that supports extension or an integration of extension and research activities may be one solution to the growing problem. Moving forward, Federal and CES planning and visioning efforts need to focus on achieving critical alignment of goals and expectations that facilitate effective problem solving in rural, agricultural, and urbanizing communities.

4–H National Headquarters of the Families, 4–H, and Nutrition (F4HN) unit has monthly calls with the state 4–H program leader regional representatives. The Directors Working Group, composed of six Extension Directors has also had this as a topic. At regional 4–H program development meetings and the national state 4–H program leaders' meeting this past March, this topic has been discussed. Points that have been shared include how institutions are re-structuring programming and personnel to meet the programmatic demands. Leveraging of resources both of personnel and dollars are being explored. Surveys of program development fees are being initiated between land-grant institutions via a state 4–H program leader list serve. On a Federal level, program staff is encouraged to solicit and develop relationships with other Federal agencies to leverage resources for the land-grant extension system. From a 4–H Youth Development perspective, a concentrated effort to be engaged with eXtension is occurring.

Question 65. **Specialty Crop Research—**The Specialty Crop Research Initiative (SCRI), initiated in the 2008 Farm Bill is seen by many specialty crop producers as very successful, bringing a multidisciplinary teamwork approach to problem identification; research planning and execution; and extension/outreach activities to help ensure that growers truly are the ultimate beneficiaries of the available funding. Will the department have any recommendations regarding the SCRI in the 2012 Farm Bill?

Answer. USDA will conduct an external review of SCRI later this year. Following that review and based on its results, the Department may formulate some recommendations for the program for the next farm bill.

Question 66. **Specialty Crop Research—**During a recent NIFA stakeholder meeting, some stakeholders expressed concern that the current Agriculture and Food Research Initiative (AFRI) discourages the involvement of the plant science community in identifying priorities and facilitating recognition of the best science while also failing to maintain the broad base of research necessary support the agricultural diversity of the United States. The SCRI provides an excellent model for collaborative involvement of the plant science research and grower communities, not only as a way to identify appropriate "priorities and the best science" but also to ensure that the work, even in its most basic form, will yield positive benefits for U.S. agriculture and dividends for the world. Has the department considered applying the SCRI planning, research and outcome delivery model more broadly to other NIFA programs in the coming farm bill?

Answer. Rather than wait for the next farm bill, NIFA is actively working to systematically engage scientific, producer and public interest groups to inform the structure of our programs. For example, in April of 2010, NIFA participated in a multi-day workshop focused on needs and concerns related to agricultural animal health and disease. Later that same month, NIFA engaged stakeholders interested in plant biology, plant diseases and pests with a workshop in Washington, D.C. In each of these workshops participants had the opportunity to submit written comments and make oral presentations about needs they have identified. NIFA staff led discussions of these issues to clarify needs and in the case of the plant and pest biology workshop, reported out about how input received in a previous workshop had been used to shape agency programs. Such general sessions are used to inform all NIFA programs.

We also hold targeted workshops and listening sessions for specific programs. For example, we recently published a *Federal Register* notice announcing a listening session in Washington, D.C. to gather input for the FY 2011 AFRI program. Since not everyone can travel to Washington, we will also be accepting written comments and hosting a series of webinars to gather additional input. It is our experience that the range of identified needs will be large and it is the responsibility of NIFA to determine the best uses for the limited agency resources available. While spreading resources thinly over a large number of issue areas may make all interested parties feel they have been heard it could also have the opposite effect, and, it is not proven effective in resolving problems. NIFA will carefully analyze all stakeholder input to identify areas that provide the best scientific opportunity for producing impact and solving problems. Concomitantly, to minimize duplication and identify areas for collaboration, NIFA will continue to evaluate the activities of other Federal agencies. We will also weigh information from the National Research Council and other authoritative sources in determining the most advantageous use of limited resources.

Title VIII—Forestry

Question 68. **FS Coordinating Committee—**One of the small but important things we accomplished in the farm bill was setting national priorities for forestland, and creating the structure to carry out those priorities in a cooperative way between Federal and state entities, forestland owners, and the forestry community. This seems simple enough but I'm puzzled by why it is taking the Forest Service so long to select members of the Coordinating Committee mandated in Section 8005? The committee is a fundamental piece to evaluating the state assessments to carry out the national priorities, so it seems that we have a bottleneck until those positions are filled. Your appendix says the charter was signed well over a year ago, and you have 45 applicants to fill about a dozen slots. What is the hold up?

Answer. The naming of the members of the Forest Resource Coordinating Committee is moving forward. The original charter called for a maximum of 20 members, but with the wide range of diverse interests who wish to advise the Secretary of Agriculture on private forestry matters, the Department has decided to consider additional potential applicants. This entails amending the original charter and allowing time for additional applications to be submitted and subjected to background checks. The charter should be amended by July, the committee members appointed, vetted and notified by September, and a first meeting held by December.

Question 69. **Managing Stands of Dead Trees—**It is my understanding that the state of western forests due to bark beetle kill has moved into a new phase. With few means to save trees, the focus is now on managing the vast areas of dead trees and the risks they create for fire, watersheds, and public safety. Please provide an explanation of how you plan to meet these challenges in the national forests and the affected areas that surround them.

Answer. Regions 1, 2 and 4 are all experiencing various phases of infestation and collectively have made significant investment over the last several years to address the bark beetle infestation. In 2010 across these three Regions, an additional $67 million has been invested for management efforts to mitigate the bark beetle infestation in the high priority and high use areas (*Table 1*). These investments will enable the regions to better provide access to most recreation sites, priority roads, and reduce hazardous fuels around communities. Health and Safety is a major focus of these investments.

The *Rocky Mountain Region* is spending $35 million on the most heavily impacted forests (Medicine Bow-Routt, White River and Arapaho Roosevelt National Forests). An additional $5 million is allocated for accomplishing insect and disease mitigation on the western slope and southern Colorado, the Shoshone National Forest in Wyoming and the Black Hills National Forest in South Dakota.

The *Northern Region* is also spending $17.5 million on the most heavily impacted forests (Helena, Beaverhead-Deerlodge, Lewis and Clark, Bitterroot, Lolo Nez Perce and Clearwater National Forests). Infestation affects the states of Idaho and Montana.

The *Intermountain Region* is spending over $9.3 million on the Forests in Southern Idaho (Boise, Caribou-Targhee, Salmon-Challis, Sawtooth, and Payette National Forests). The Region is also in the beginning planning phases of performing some much needed right-of-way corridor/facility hazard tree removal efforts across the Bridger-Teton National Forest in Southwestern Wyoming. High priority Wildland Urban Interface areas, across the entire Region, will be targeted for hazardous fuels reduction work.

The following tables display how funds are being allocated and spent in 2010 within current capacity.

Table 1. FY 2010 Additional Funding Allocation to Western Bark Beetles

Branch/Activity	Funding Amount ($000)		
	Region 1	Region 2	Region 4
Hazardous Fuels Reduction	$1,367	$23,104	$763
Recreation (trails, rec sites, *etc.*)	$0	$6,988	$641
Roads	$11,768	$9,002	$1,445
Noxious Weeds	$0	$906	$0
Vegetation and Watershed Mgt. (Weeds, Watershed restoration, thinning, Forest Management)	$4,296	$0	$6,465
Forest Health Protection (targeted on special sites)	$25	$0	$0
Total	$17,500	$40,000	$9,314

Table 2. FY 2010 Projected Accomplishments for *Table 1* Investment Within Current Capacity

Accomplishment/Activity	Estimated (Acres, Miles, *Etc.*)		
	Region 1	Region 2	Region 4
Wildland Urban Interface Fuels Reduction	13,900 Acres	11,400 Acres	2,777 Acres
Road Hazard Mitigation	280 Miles	266 Miles	107 Miles
Trails	210 Miles	79 Miles	198 Miles
Recreation Site Hazard Mitigation	205 Sites	185 Sites	1 Site
Vegetation and Watershed Management	20,000 Acres		21,324 Acres

More specifically, the regions are implementing the following:

Recreation:

Rocky Mountain Region—The vast majority of recreation sites within the bark beetle area will remain open. Of the 223 recreation sites (campgrounds and day use sites) eight will be fully closed, nine will be partially closed and 21 will have a delayed opening. The Region is coordinating with ski areas on timber settlement sales and ski area vegetation plans in light of beetle mortality. We are working closely with the ski areas to aggressively address the hazard trees within their permitted boundary. The Region is prioritizing motorized trail work throughout the beetle impacted area—over 90% of the hazard tree removal work will be done on motorized trails.

Northern Region—All of the 828 recreation sites (campgrounds and day use sites) within the bark beetle area will remain open unless increased infestation and advancing stages in decay in currently dead trees require temporary closure until the hazards can be mitigated. Priority is being given to pre-season hazard tree removal and public education. While some dead trees remain, the "Look Up" program is designed to educate users in identifying potential risks. In 2010, 205 sites have already been treated with pre-season hazard tree removal. The Region is coordinating with two of the eight ski areas to develop ski area vegetation plans in light of beetle mortality. We are working closely with the ski areas to aggressively' address the hazard trees within their permitted boundary. The Region is prioritizing trail work throughout the beetle impacted area. Trails with higher use are the priority. Nearly 4,225 miles of trails are impacted; however, 210 miles are being treated to remove hazard trees directly adjacent to the trail. Trail heads are being signed to inform users of potential hazards.

Intermoutain Region—Of the 350+ recreation sites (campgrounds, day use sites, and trailheads) estimated to be affected by bark beetle infestations in the Region, only a small portion will have to be closed (permanently or temporary) until hazard removal is competed for the summer field season. The Region continues to work with its permitted ski areas to perform necessary treatments within the permitted boundaries. Like the Rocky Mountain Region, the Intermountain Region is prioritizing trail work that is needed to be done throughout beetle impacted areas—we expect to accomplish a significant amount of this work on the highest use trails across the Region.

Fuels:

Rocky Mountain Region—Over 11,000 acres of hazardous fuels are being removed mechanically with service contracts which will establish up to a 1.5 mile buffer around communities and mitigate the threat of catastrophic wildfire and protect watersheds at risk. Mechanical treatment, while a more expensive method to treat fuels than stewardship contracts, is necessary because of the lack of markets in Colorado for dead trees. The Region will also be completing a watershed/fuel assessment to identify priority watersheds for future strategy development regarding watershed restoration needs.

Northern Region—Over 13,000 acres of hazardous fuels are being treated with a mix of stewardship contracts, service contracts for mechanical treatments (utilizing both machine and hand tools) and burning to mitigate the threat of catastrophic wildfire and protect watersheds at risk. The Region has completed an Integrated Restoration and Protection Strategy to identify priorities needs for watershed restoration.

Intermountain Region—The Region plans on accomplishing over 2,700 acres Wildland Urban Interface (WUI) hazardous fuels reduction in high priority areas across Southern Idaho. The Region is also working with its state partners on performing high priority treatments, as defined by the various state working groups, and through the implementation of community wildfire protection plans.

Infrastructure:

Rocky Mountain Region—The Region is finalizing the Environmental Assessment for powerline hazard tree removal with 14 companies in Colorado and working with Carbon Power & Light in Wyoming to implement the powerline hazard tree project decision. In addition, we are doing 49 miles of landline location in support of WUI fuels treatments. We are working closely with the Federal, state and county highway departments to coordinate over 260 miles of hazard tree removal treatment along the primary travel routes (level 2 roads) on the forests.

Northern Region—The Helena National Forest has begun an EA for powerline hazard tree removal forestwide. It is an adaptation of the Rocky Mountain Region's approach and will provide a test case for a regional approach that addresses points from recent Northern Region appeals. In addition, we are working closely with the Federal, state and county highway departments to coordinate over 280 miles of hazard tree removal treatment along the primary travel routes (level 3–5 roads) on the forests.

Intermountain Region—The Region plans on performing over 100 miles of hazard treatments along road corridors, as well as almost 200 miles of hazard tree treatments along trails. We are working with all of our various special uses permit holders to implement hazard tree removal projects along all powerline and other utility line corridors. Like Region 2, we are working closely with the Federal, state and county highway departments to coordinate hazard tree removal treatment along the primary travel routes on the affected Forests.

Noxious Weeds:

Rocky Mountain Region—The Region is spraying 1,745 acres of noxious weed treatments of new infestations along roads where roadside hazard tree removal was conducted in 2009. Additionally, we are spraying 740 acres of high value recreation sites with insecticide to prevent mortality of trees from bark beetle.

Northern Region—The Region is spraying over 1,500 acres of noxious weeds treatments which are planned to occur along roads and at administrative and recreational facilities.

Intermountain Region—The Region is continuing to spray for noxious weeds in hazard tree removal areas wherever the need is identified. We are also continuing to identify and treat high value recreation sites to prevent mortality of trees from bark beetle.

Public Outreach:

Increasing public and employee awareness of the health and safety hazards is a critical element of the three Regions strategy and our individual actions. We are working very closely with the local communities and stakeholders to ensure appropriate signing of roads and trails. Education signs are being posted to remind visitors they need to be aware of the possibility of falling trees. Forest Service employees, concessionaires, contract sawyers and crews are properly outfitted and trained when working in hazardous areas.

In addition, there are some unique outreach efforts taking place. For example: the Northern Region has completed a Mountain Pine Beetle public information toolkit (including website and hard copy materials) in cooperation with Montana Department of Natural Resources, Montana Fish and Game and the University of Montana to inform private owners of the risks and potential treatments. The Region is working to expand the public awareness program, similar to that currently used to address risks after a wildfire to educate and inform forest visitors about the need to "Look Up—J" as they camp, hike or otherwise recreate in infested areas. Additionally, work is underway with local stakeholders to ensure appropriate signing of roads and trails.

The Rocky Mountain Region has been working with the Colorado Bark Beetle Cooperative (a collection of eleven local county representatives, industry, environmental groups and other stakeholders to develop and disseminate bark beetle educational materials including posters, brochures, website, and table tents for use in hotels and restaurants. The Region created a video designed to educate employees, contractors and volunteers about working in this hazardous environment. Additionally, we have developed a series of interpretive panels that will be used throughout the impacted area to help visitors understand what is happening to the forest and wildlife. The Region has also worked very closely with the Bark Beetle Cooperative on emergency procedures in the event of a wildfire. Local public information officers from local county, state and Federal agencies routinely work together on emergency planning efforts including joint media training and holding public discussions about current situations and where and how people can recreate safely.

All three regions are implementing an aggressive program of work for 2010 in addition to doing the necessary planning and layout for 2011 and beyond.

Title IX—Energy

Question 70. **Biodiesel—**Do you think that our domestic biodiesel industry will be able to survive if the tax credit isn't extended by Memorial Day? Are you concerned that a number of plants won't resume production, even if something is done soon?

Answer. The President's FY 2011 Budget proposes to extend the biodiesel tax incentives for the period from January 1, 2010, through December 31, 2011. Both the House and Senate have passed bills that provide a 1 year retroactive extension of the biodiesel tax incentives. The Administration strongly supports the prompt enactment of this extension.

Question 71. **Biodiesel—**Have you spoken to the industry about any assistance that USDA might be able to provide under its programs to help keep plants operating?

Answer. USDA has several Rural Development Programs that provide funding for the development and commercialization of renewable energy sources, including wind, solar, geothermal, hydrogen, ocean waves, hydroelectric, biomass, and biofuel (ethanol, biodiesel, *etc.*). We have spoken to the biodiesel industry about USDA programs that could provide some limited relief during these very difficult times. However, it is very difficult for firms to move forward in their business planning without knowing if Congress is going to pass legislation to extend the biodiesel tax credit.

Question 72. **Bioenergy Program/Advanced Biofuel Payment Program—** USDA published a proposed rule on April 16th that asks for comment on the eligibility requirement you had for the FY09 funding that did not allow companies with 51% non-U.S. ownership to utilize the program, despite the fact that they're purchasing U.S. commodities to make and sell biofuels in the U.S. I am wondering why USDA feels the need to make energy title programs operate just like our rural development programs when there are may be some different goals.

Answer. The Agency implemented the program consistent with other RBS programs. The currently published proposed rule solicits comments concerning this issue. The Agency will use the comments to develop the Final Rule.

Question 73. **Biofuels tax credits—**This isn't our jurisdiction, but we are all aware of the expired and expiring tax credits for biofuels. If these lapse, what can USDA do to help the growers and industry?

Answer. USDA has several Rural Development Programs that could assist biofuel producers to make the transition to other industries. In addition, USDA operates several programs that provide price and income support to growers.

Question 74. **REAP—**The current REAP rules have not allowed ag producers in non-rural areas to participate in REAP. Will this be fixed for the FY10 funding that we hope will be going out shortly? This is directly contrary to what the statute says. And is there a reason why it has taken longer each year for the REAP funding to be made available?

Answer. For FY 2010, the REAP program requires both agricultural producers and rural small businesses be located in rural areas. We are planning to address this issue in a Proposed Rule and make the Proposed Rule available for public comment.

The timing of REAP funding has been impacted by other 2008 Farm Bill program implementation priorities.

Question 75. **Biorefinery Assistance Program—**What has been the interest level for the Biorefinery Program? Has there been more interest from one segment of the industry over another?

Answer. In anticipation of the Section 9003 Extension Notice of Funding Availability for remaining funds from FY 2009 and the FY 2010 Section 9003 Notice of Funding Availability, Rural Development has responded to a number of inquiries involving a broad array of advanced biofuel technologies including—the retrofitting of existing facilities to accommodate pretreatment and processing of cellulosic feedstocks (mostly, corn residue and woody biomass) to make fuel ethanol; the construction of new facilities for either the biochemical or thermochemical conversion of: perennial grasses—switchgrass, reed canary grass, and Miscanthus; energy cane, sorghum, and/or woody biomass—poplar, hybrid poplar, willow, and silver maple. Rural Development has also responded to a number of inquiries that involve biorefineries to process oilcrops—oilseeds (camelina) and algae into third generation biofuels (so-called, "drop-in" or "pipeline ready" replacement fuels for existing fossil fuels such as gasoline, diesel, and aviation fuel).

Question 76. **Biorefinery Assistance Program—**Have you discussed with your staff what changes you might suggest to the Biorefinery Assistance Program to make it more useful given current credit conditions?

Answer. Rural Development recognizes the magnitude of the financial exposure and risk borne by guaranteed lenders that participate in Section 9003. The use of alternative financial instruments to help distribute the risk among a number of participants is being considered. We will also consider changes to the program as a result of comments received from the public during the public comment period for the proposed rule.

Question 77. **Biorefinery Assistance Program—**USDA has just issued the proposed rulemaking for the Biorefinery Assistance loan guarantee program, Sec. 9003, to assist in the development, construction or retrofitting of commercial biorefineries. This program was established in 2008, but has only made two loan guarantees. And, as we all know, DOE has not issued a single loan guarantee to a biorefinery. Are requirements for loan guarantee programs to evaluate risk of projects too stringent for new biofuel technologies? How will administration of the USDA program be different than administration of the DOE program? And what will you do to ensure that we start getting loan guarantees out to these vital projects?

Answer. Of the 17 applications to the Section 9003 Biorefinery Assistance Program received in FY 2009, ten were returned to the applicant as "Incomplete" (as required by the Section 9003 Notice of Funding Availability) due to the fact that there was no lender of record in the application. Rural Development (RD) believes these events were unfortunately reflective of the very difficult financial environment that all of America was enduring at the time. There was concern in the lending community for risk in general, and particularly more so for biofuels projects that involved significant technology risk. Based on comments we receive from the lending community through comments made on the proposed rule, we will consider suggestions for improving the delivery of this program in the final rule.

USDA has met with the Department of Energy (DOE) and has a general understanding of the DOE program. To adequately respond, we would need to complete a thorough analysis of the DOE program.

USDA meets with numerous bioenergy companies and various lenders to discuss our programs. We are currently training our Energy Coordinators on all of our programs including marketing and outreach.

Question 78. **Biobased products and Biorefinery Assistance Program—**As you know, non-fuel biobased products, such as bioplastics, also made from renewable biomass, provide similar benefits to biofuels—such as boosted rural economies, substantial job growth, greenhouse gas reductions and reduced use of petroleum. The modern biorefinery will need to mimic the petroleum refinery platform in that it will produce multiple products and materials from one feedstock. USDA has provided some support for biobased materials through programs such as the Biobased Markets Program but how can USDA further incentivize these products? Should these products qualify for the grants and loan guarantees under the Biorefinery Assistance Program?

Answer. The Biorefinery Assistance Program is intended to assist in the development and construction of commercial-scale biorefineries and the retrofitting of existing facilities using eligible technology for the development of advanced biofuels. Projects where the primary product is an advanced biofuels can produce biobased products as a secondary product. Consistent with Congressional intent, preference is given to projects where first-of-a-kind technology will be deployed at the commercial scale. Providing support under the Biorefinery Assistance Program to companies that produce biobased materials but do not produce biofuels would be inconsistent with the current statutory authority for this program. Furthermore, extending the program to include companies that produce biobased products but do not produce biofuels with no increase in program funding would reduce the funding available for the development of advanced biofuels.

Question 79. **Repowering Assistance Program—**In light of the change in credit markets since passage of the 2008 Farm Bill, do you believe that not providing applicants for the Repowering Program with any funding until after their project is completed to be the best use of the funds provided and the best incentive to get plants to undertake repowering projects? Did you consider utilizing the program to assist plants in undertaking the repowering, in other words, helping them finance the projects since they may not be able to get the financing from third parties?

Answer. In implementing this program, USDA took into consideration the managers' language in the farm bill conference report that encouraged the Secretary to consider providing payments over a period of time to assure that the repowering projects are operating as intended and that the goals of a reduction in fossil fuel usage are being met. We considered many options with the goal of assisting successful projects.

Question 80. **BCAP—**We have heard a lot of concerns regarding the implementation of BCAP. Can you explain why the program implemented the way it was? With just the delivery payment portion being implemented and not the establish payments.

Answer. On May 5, 2009, a Presidential directive was issued to the Secretary of Agriculture to accelerate the investment in and production of biofuels. In response to that directive, I announced that we would help lead an unprecedented interagency effort to increase America's energy independence and spur rural economic development. One of the targets of the Presidential directive was the expedited delivery of the matching payment portion of BCAP as a way to support the nation's biofuel and alternative energy goals.

In June 2009, USDA published a Notice of Funds Availability (NOFA) for the matching payment portion of the BCAP.

USDA published a proposed rule for the entire program on February 8, 2010, with a public comment period that was open until April 9, 2010. We received over 24,000 comments and are working to develop a final rule as quickly as possible.

Question 81. **BCAP—**Can you please describe who got payments under BCAP? What do you see moving forward for this program?

Answer. BCAP payments so far have gone to eligible material owners which include farmers, loggers, landowners, and aggregators of biomass that delivered eligible material to biomass conversion facilities. USDA entered into about 4,600 contracts with participants who were to deliver biomass to over 450 facilities in 31 states. The biomass delivered was utilized by a mix of established and emerging industries including manufacturers, utilities, fuel pellet makers, and school districts.

Question 82. **BCAP—**Creating sustainable feedstocks for a growing advanced biofuels industry is vital to meeting the Renewable Fuels Standard enacted by Congress. The Biomass Crop Assistance Program (BCAP) in the 2008 Farm Bill is a promising program that could help a lot of farmers get started growing dedicated energy crops, but I have heard from farmers that USDA has been slow to implement the establishment payment portion of the program, and that the restrictions and requirements that USDA has proposed could really hamper its impact. What can USDA do to get the establishment part of BCAP up and running quickly?

Answer. USDA is well on the way to delivering the establishment part of BCAP. Moreover, a proposed rule covering matching payments for collection, harvest, storage, and transportation of eligible material and farm level establishment and annual payments for eligible crops was published on February 8, 2010. Over 24,000 public comments were received and we are moving to issue a final rule as soon as possible consistent with completion of a Programmatic Environmental Impact Statement.

Question 83. **Renewable biomass definition—**The debate seems to be continuing over what the best definition is for renewable biomass definition. Do you want to wade into this discussion?

Answer. USDA is responsible for implementing the 2008 Farm Bill in accordance of the statutory requirements and definitions. All programs created or modified under the 2008 Farm Bill reflect the statutory definition of renewable biomass.

Question 84. **E15—**Has USDA been working with EPA on E15?

Answer. Approval of the E15 waiver request would allow for a 15 percent ethanol blend level in gasoline and is primarily a technical issue. USDA has been discussing with EPA at the policy level the various ramifications of E15. EPA is keeping us apprised of the status of the research and the decision making process.

Question 85. **ILUC and EPA—**We heard a lot of concern about the relationship between USDA and EPA during the ILUC debate and that EPA did not consult enough with USDA. Do you think this is the case?

Answer. USDA worked with the EPA as the EPA conducted its analyses and preparation of the Notice of Proposed Rule Making (NPRM) for the RFS2 implementation, including work on ILUC. After the NPRM was published, the USDA continued working and collaborating with the EPA prior to the final rule being published.

Question 86. **Role of USDA—**What do you see as USDA's role in the renewable energy debate? We keep hearing that USDA has the lead for developing energy crops, but then we see that DOE is the one that seems to have most of the money to give out in this area.

Answer. USDA plays a prominent role in the effort to address the nation's bioenergy goals. Renewable energy presents tremendous opportunities for our farmers, foresters, and rural America to enhance rural growth and development, create green jobs, reduce our dependence on fossil fuels, and improve our environment. USDA's role ranges from the research and support for the production of biomass to the deployment and commercialization of technologies that produce biofuels and renewable energy.

Approaching the nation's bioenergy goals from an agricultural perspective, USDA focuses on research to develop and produce bioenergy crops, as well as efforts to build biorefineries and retrofit existing biorefineries. For decades, USDA research has focused on plant variety development, taking advantage of its scientific and research infrastructure and broad understanding of agricultural production, and is uniquely prepared to continue to take the lead in developing energy crops.

For instance, the Agricultural Research Service (ARS) has a national program in biofuels research based on three legs: feedstock development (taking advantage of USDA-held crop germplasm resources and a long success in crop breeding); sustainable feedstock production (emphasizing research on biomass production on a large scale while managing pests as well as soil, water, and air resources); and conversion science and technology (especially development of co-products from agricultural feedstocks, adding value to the production of the biofuels themselves). For years, ARS has been doing research to enable development of forage grasses, turf, and other perennial grasses; sorghum; energy cane; oilseed crops; and other crops that are now being applied to bioenergy feedstock development. Additionally, ARS has a strong understanding of issues surrounding environmental sustainability—including soil and water conservation—and the use of marginal farmland. ARS, along with the National Institute of Food and Agriculture (NIFA) and the Forest Service (FS), continues to focus on germplasm breeding and evaluation, and increased genomic understanding of cell wall content and synthesis, with a goal of creating, deploying, and processing feedstock varieties yielding a range of renewable fuels and other valuable products.

Historically, the National Institute of Food and Agriculture (NIFA) has supported biomass feedstock genetic development through the Small Business Innovation Research (SBIR) Program (about $1 million per annum). NIFA has partnered with DOE's Office of Biomass Programs (OBP) on the two joint programs outlined above. The NIFA contribution to the BRDI Program increases to $30 million in 2011 and $40 million in 2012. In addition the NIFA competitive grants program, AFRI will award grants totaling $40 million in 2010 and $73 million in 2011 for research in sustainable production of biomass feedstock; capacity/formula funding from NIFA supports an additional $17 million in bioenergy crop production.

The Rural Development mission area is committed to fostering productive investments which enhance and support the development of renewable energy. Since 2003, Rural Development has assisted in making over $200 million in grants to improve the energy efficiency and aid in development of renewable energy technology for agricultural producers, investing in grain harvesting and drying efficiencies, irrigation technologies and in the infrastructure of rural communities which produce food, fiber, and support mechanisms for rural communities, rural small businesses, farmers and ranchers. Factoring in loans, loan guarantees, and loan grant combinations, Rural Development has assisted in approximately $1.2 billion of development, including renewable energy technologies which lower our dependence on fossil fuels.

New initiatives such as the Biorefinery Assistance program, the Advanced Biofuel Payment program and the Repowering Assistance program are directly related to investing in renewable energy projects which will use oil seeds, crop residues, biomass and reduce our dependence on fossil fuels.

Rural Development Energy Investments, 2003–2009

Fiscal Year	Projects	Loans	Combinations	Grants
2003	187	$83,793,961	—	$31,898,480
2004	190	$44,045,844	—	$31,324,278
2005	185	$33,327,230	—	$29,279,064
2006	487	$82,898,882	—	$35,212,697
2007	489	$201,271,570	$18,114,430	$14,508,907
2008	840	$82,987,820	$30,172,387	$33,171,678
2009	1,610	$352,674,413	$76,782,101	$35,337,827
Total	**3,988**	**$880,999,720**	**$125,068,918**	**$210,732,931**

Title X—Horticulture and Organic Agriculture

Question 87. The 2008 Farm Bill was a landmark in U.S. agricultural policy for many reasons, namely the recognition of specialty crops including fruit, vegetables, tree nuts, floriculture, and nursery crops, and organic agriculture. The 2008 Farm Bill dedicates almost $3 billion in funding over 5 years to areas of critical importance to these sectors including nutrition, research, pest and disease management, trade, conservation and expansion of market opportunities. For the first time, the 2008 Farm Bill established a separate title to deal, specifically, with issues related to specialty crops and organic agriculture. It is within Title X that these sectors of American agriculture find their home and proper place in the living history of U.S. agriculture policy.

Mr. Secretary, would you describe your views on the importance of Title X and its long-overdue recognition of specialty crops and organic agriculture?

Answer. USDA commends Congress for including, for the first time, a specialty crop and organic agriculture title in a farm bill. This Administration is committed to the importance of fresh, nutritious food and raising the profile of locally grown food, including specialty crops and organic agriculture. President Obama has made a safe, sustainable, and nutritious food supply a central goal for USDA.

I assure the Committee that USDA is committed to the integrity of the organic label and recognizes organic farmers as leaders in environmental stewardship. Organic farmers deserve a high-quality program that penalizes farmers and operators who violate the law and jeopardize consumer confidence in organic products.

Question 88. **Plant Pest and Disease—**In Section 10203 of the 2008 Farm Bill, Congress amended the Plant Protection Act so that the Secretary has final say over the funding necessary for plant pest emergencies. The Plant Protection Act gives USDA the authority to tap other funds of the USDA as needed to address these emergencies. Yet, for many years, USDA's experts at fighting pest infestations have seen the Office of Management and Budget refuse to release funds identified as crucial to the effort.

Please tell us how the process of obtaining emergency funding has changed in light of Section 10203 and please provide this Committee with all instances in which USDA sought such emergency funding under the Plant Protection Act and if OMB's response to those requests.

Answer. USDA appreciates the flexibility that the Plant Protection Act provides in enabling the Department to effectively respond to new and emerging pest and disease threats. USDA continues to work through OMB in order to consult with the President on fiscal matters. OMB consultation on emergency funding requirements provides an important mechanism to ensure that sound funding decisions are made. Since becoming Secretary of Agriculture, I have sent only two emergency funding requests under the Plant Protection Act. OMB fully supported the request for $41.5 million in Commodity Credit Corporation funding to address the Asian longhorned beetle in Massachusetts, as well as the request for approximately $11 million for grasshopper outbreaks expected in some western states.

Question 89. **Plant Pest and Disease—**Section 10201 of the farm bill identified the plant pest safety net as badly in need of repair. It dedicates $50 million a year to improve operations at the Federal and state levels. While early indications are this program is a success, it is not enough. Producers continue to face new invasive pests that close markets at home and abroad and that attack the natural environment.

As we begin consideration of the next farm bill, please provide this Committee with the Department's recommendations on how we may improve the detection of pests to avoid infestations and the response to those infestations when they occur?

Answer. Early returns of the Plant Pest and Disease Management and Disaster Prevention programs of the 2008 Farm Bill indicate the success of this program. In Fiscal Year (FY) 2010, the Animal and Plant Health Inspection Service (APHIS) provides $45 million in Section 10201 funding to over 50 cooperators, including state departments of agriculture, universities, nonprofit organizations and USDA agencies. These cooperators are conducting over 200 projects to enhance and protect American agriculture and natural resources. This is on top of the $12 million released during the FY 2009. APHIS is also seeking funding proposals through June 18, 2010, for $50 million in funding in FY 2011.

I would like to share two examples of how this program has helped APHIS protect American agriculture from invasive pests. Funding from Section 10201 was provided to the California Department of Food and Agriculture to implement the California Agriculture Detector Canine Teams program for enhanced inspection and surveillance of plant products entering the state via parcel delivery facilities and airfreight terminals. These dog and officer teams are trained at APHIS' state-of-the-art National Detector Dog Training Center in Newnan, GA, through use of innovative methods to detect agricultural contraband. A prime example of the great work the canines are doing was when the Fresno County Dog Team picked up on a canvas gym bag at the Fresno Airport, finding ten Asian citrus psyllids in leaf material, which later tested positive for citrus greening disease. The gym bag was on its way to a residence in Fresno, California, a major citrus-producing area where this devastating disease has not yet been detected. By apprehending such contraband, these teams safeguard agriculture by preventing plant pests and diseases from entering California.

In addition to new initiatives funded under Section 10201, the funding has also helped provide the final push needed to address plant diseases such as plum pox. It took 10 years to eradicate plum pox virus in Pennsylvania, with the first detection made in a peach orchard in September 1999 and eradication declared on October 29, 2009. Section 10201 funding enabled us to complete the last stage of intense monitoring in order to declare plum pox eradication in the Commonwealth of Pennsylvania.

As we look towards the next farm bill, I believe that it is important that we take stock of the successes we have had with our existing plant pest and disease programs and examine whether there are areas that can be improved upon to better meet our shared goal of preventing and effectively responding to invasive pest incursions. Our agricultural safeguarding system in the United States consists of a comprehensive, interlocking set of programs that together work to protect U.S. livestock and crops from foreign pest and disease risks. Our goal is to address plant pests and diseases as early as possible through activities such as aggressive domestic surveillance, offshore pest risk analysis and reduction, and inspections at inspection stations, combined with robust emergency response and anti-smuggling activities. This layered system goes hand-in-hand with activities carried out by U.S. Customs and Border Protection, states, and our other partners.

As we examine the successes under Section 10201, we will also determine whether additional actions can be taken to strengthen our overall agricultural safeguarding system. USDA is committed to this effort, and looks forward to working with this Committee as we identify any additional needs.

Question 90. **Biotech regs—**You reference new biotechnology regulations in the appendix to your testimony as mandated per the farm bill. It has been reported that USDA is considering requiring full Environmental Impact Statements for all new biotech trait approvals. How would a proposed mandated EIS work within APHIS given the agency's resources and the lengthy delays in approval for many biotech traits already in the pipeline?

Answer. USDA is not considering requiring full Environmental Impact Statements (EIS) for all new biotech trait approvals. APHIS will continue to evaluate on a case-by-case basis the appropriate environmental document to prepare to inform regulatory decisions on petitions for nonregulated status. When APHIS is asked to review a petition to deregulate a biotechnology product, the decision on whether to complete a full EIS or an environmental assessment is based on the Council for Environmental Quality (CEQ) National Environmental Policy Act (NEPA) implementing regulations and Agency NEPA implementing procedures. In all cases, APHIS carefully considers the possible environmental impacts of each regulatory action to ensure the appropriate level of science-based analysis required for a decision is adequate and sufficient.

If APHIS were to complete an EIS for every trait approval, it would add significant time and expense to approve each new product. We estimate that an EIS, on average, costs $1 million—$1.5 million and takes approximately 3 years to complete. By contrast, an environmental assessment costs less than $100,000 to prepare and takes less than a year. We currently have 19 requests to deregulate, or approve, genetically modified products before the Agency.

We have limited resources to carry out our biotechnology regulatory activities. However, recognizing that the time it takes to complete these petitions is increasing, I have taken a number of steps to address the backlog, such as establishing a new NEPA team in APHIS devoted to preparing high quality and defensible environmental documents that inform regulatory decisions. Additionally, I have requested $5.8 million in additional funding in the FY 2011 budget request, which would allow APHIS to hire additional staff to keep up with the increased workload.

Question 91. **Know Your Food, Know Your Farmer—Local Food—**The Committee supports local agriculture and local food systems. Often the Department's statements about local food tie it to economic development but shouldn't this message be tied to a message to eat more agricultural products like fruits and vegetables? Otherwise, any economic gain made locally is an economic loss somewhere else. Western states, particularly California, supplies fruits and vegetables for the country and for the world.

Is USDA telling East Coast consumers that they should not purchase products grown in the West and Northwest?

Answer. No, encouraging consumers to learn more about where their food comes from and how it is grown helps them to better understand and appreciate the challenges farmers face, which benefits all agriculture. In addition, educating consumers on the source of their food enables a greater appreciation for the energy involved in transporting food from field to market.

USDA's priorities, initiatives, and budget must be targeted to innovative approaches that drive economic opportunity in rural communities. Place-based economic development strategies and marketing strategies are one approach to helping support rural economies grow jobs and increase farm income. Local and regional food systems are a small but fast-growing market. We are working to help producers and rural communities take advantage of these market opportunities.

We are also working to increase access to nutritious food and to promote healthy diets including increased consumption of fruits and vegetables, low fat dairy products and lean proteins. One of the benefits of linking these efforts together in the Know Your Farmer, Know Your Food initiative (KYF2) is that they can be mutually reinforcing, for example by linking education about farming, nutrition, and the importance of rural America.

Question 91a. We have noted more inclusive messaging from the Department in the last few weeks regarding Know Your Food, Know Your Farmer, but I have a question, as consumer preferences continue to shift and change, how does the Department ensure that its messaging does not seemingly pit producers against each other with regards to size, production practices or location?

Answer. USDA programs aimed at supporting producers are size neutral. Our emphasis is on identifying emerging economic opportunities in the direct and local marketing sector that producers of any scale could conceivably pursue if they were interested. At no point do we make claims that any type or scale of production is superior to any other. The revitalization of the rural economy through more concentrated efforts to build local and regional food systems must target all sizes of agricultural.

Question 92. **Pesticides—Endangered Species Act—**As a result of a recent court decisions ranging from intersection of pesticide application and the Clean Water Act to inter-agency consultation required under the Endangered Species Act, EPA seems to be forced into developing restrictions on critical crop protection products that will likely result in the prohibition or significant restriction of their use. No one wants to harm the environment, however, recent court actions have growers increasing worried about their ability to access tools essential to their operations.

Would you describe for the Committee the interaction of the Department with EPA on pesticide related issues in general and the ESA in particular?

Answer. NRCS has been in communication with EPA on a continued basis working with the Pesticide Program Dialogue Committee on pesticides applications. To address concerns of agro-ecosystems that may affect various endangered species habitats, NRCS has recommended that the conservation planning process be used to develop a conservation plan. The purpose of the conservation plan will be to allow the producer to use the practice standards that are best suited for the treated site or tract of the farm "Best Management Practices" that does not degrade natural resources (soil, water, plants, animals, air, and human).

Question 93. **Organic—**Mr. Secretary, the National Organic Program is the Department's most visible programmatic component in its efforts to recognize the growing demand for organic agricultural products. In the past it has been a lightning rod for criticism. I commend you and Deputy Secretary Merrigan for the program's new leadership and direction, particularly its new focus on enforcement.

How do you see the role of the NOP in ensuring that consumers are getting what they pay for when they buy USDA certified organic?

Answer. Organic farmers deserve a high-quality program that penalizes farmers and operators who violate the law, thereby jeopardizing consumer confidence. USDA has developed a comprehensive plan for evaluating and improving the NOP for producers and consumers alike.

USDA's Office of Inspector General (OIG) recently announced the findings of their audit of the NOP. The review provided valuable information and highlighted the necessity for the reforms USDA is in the process of implementing. All of these activities will enhance compliance with program regulations and ensure the integrity of the organic label.

One of the many improvements that the NOP is implementing is the development of the NOP Handbook. The handbook will provide clarity and consistency to certification agencies, organic producers and handlers concerning the NOP regulations and address many of the OIG findings.

In February 2010 the Access to Pasture final rule was published. This rule is intended to build consumer confidence that organic milk and meat comes from organically raised animals that are actively grazing on pasture during the grazing season. The final rule allows the NOP to efficiently administer and enforce the integrity of the organic seal with regards to livestock feed and living conditions.

A $3.1 million increase has been proposed in the NOP budget for 2011. These funds will be used to: conduct more surveillance of foreign accredited certifying agents; increase the program's capacity to investigate complaints and violations (both domestic and foreign); and educate certifying agents worldwide to ensure the organic regulations are consistently implemented.

In response to a National Organic Standards Board (NOSB) recommendation for a third party review, the NOP is undergoing an audit and peer review process with the National Institute of Standards and Technology (NIST). This process along with the development of a quality management system will improve the quality of the program and enhance the program's ability to protect organic integrity. We expect to receive the findings of the NIST audit by the end of the 2010 Fiscal Year.

In September 2009, USDA announced that the NOP would become an independent program area within AMS because of the increased visibility and emphasis on organic agriculture throughout the farming community, evolving consumer preferences, and the enhanced need for governmental oversight of this widely expanded program.

The NOP will be implementing a program for periodic residue testing as outlined in the Organic Foods Production Act of 1990. Residue testing will be used to identify problems and enhance organic integrity.

Question 93a. We have heard a lot about organic agriculture being integrated into all departments at USDA. Can you describe what exactly the Department is doing to ensure that organic agriculture is recognized within all USDA program areas?

Answer. In addition to the National Organic Program, there are a number of programs and policies implemented by USDA to support organic production. Many of these programs were included in the 2008 Farm Bill as organic agriculture, and horticulture had its own title for the first time. The 2008 Farm Bill included a fivefold increase in mandatory funding for organic programs over funds mandated in the 2002 Farm Bill, and authorized additional funding for many of these programs. Most of the mandatory funds are for two existing organic programs—the organic research program and cost-share assistance program to help growers and handlers with organic certification costs. The legislation also included new organic provisions on credit, trade, crop insurance and conservation.

USDA implemented a new organic conservation initiative in 2009 under the Environmental Quality Incentive Program (EQIP) aimed at assisting organic and transitional farmers. This new initiative makes conservation practices related to organic production and transition to organic production eligible for payments under the EQIP conservation program. The EQIP Organic Initiative obligated over $36 million last year in financial assistance under nearly 1,500 contracts with certified and transitioning organic farmers in 49 states. Over 300,000 acres of farmland are enrolled under these contracts.

Question 94. **Farm Structure—**As we head into deliberations on the 2012 Farm Bill some have questioned whether we are developing a bifurcated agricultural system in the U.S. with a disappearance of the traditional mid-sized family farm.

Can you tell us how some of your new efforts including Know Your Farmer, Know Your Food can help producers too big to sell directly in farmers markets find markets in which they can earn fair value for their product?

Answer. Know Your Farmer, Know Your Food (KYF2) is working to enhance opportunities for the so-called "disappearing middle" in several ways. For example, one challenge we have heard from farmers who are too big for farmers markets is a lack of infrastructure, both physical and logistical, for aggregating, processing, and distributing to local and regional markets. We are working to support and enhance the needed infrastructure by coordinating our work under existing authorities and programs to identify and address the needs, such as for slaughter capacity for livestock for local and regional markets, and for "food hubs" that aggregate and distribute produce and other agricultural products. Our farm-to-school tactical teams are working to understand the bottlenecks and opportunities in supplying more local products to schools, making it easier for farmers to serve this rapidly-growing market.

Question 95. **Farm Structure—**With the success and popularity of programs like farm to school in which producers sell directly to their local school district, I have a question, do you see other opportunities to maximize nutritional benefit for participants and stimulate local ag economies by linking nutrition programs directly with regional agriculture?

Answer. USDA's *Know Your Farmer, Know Your Food* (KYF2) initiative is a USDA-wide effort to create new economic opportunities for farmers and ranchers by better connecting consumers with local producers. This initiative is one of many efforts by the Obama Administration to revitalize rural American communities.

One key component of KYF2 is the creation of an interagency Farm to School Team. During this fiscal year, the Farm to School Team is visiting 15 school districts in nine areas across the country of varied demographics and implementation stages of a school's farm to school efforts. During these visits, the Team will work with local farmers, local and state authorities, school districts, and community partners to analyze and assess variables that support or deter farm-to-school activities, both from the school and farmer perspectives, as well as the effects the district's farm to school activities have had on the school and community. The information gathered during these site visits will be used to develop and update appropriate resource materials, guidance, and technical assistance for both schools and farmers. We also expect the visits will provide valuable information on proven and practical ways to link nutrition programs with regional agriculture that can be adopted in other areas across the country to help increase the consumption of fresh fruits and vegetables and other local agricultural products, including organic products.

The Supplemental Nutrition Assistance Program (SNAP) also offers a linkage with local and regional agriculture. It is a Food and Nutrition Service (FNS) priority to increase the number of farmers' markets that accept SNAP benefits to ensure that participating SNAP households can access the healthy and nutritious food offered at markets.

In the past 3 years, the number of SNAP authorized direct marketing farmers and or farmers markets has increased by at least 200 each year. Currently, more than 1,100 farmers' markets are authorized as SNAP retailers. The President's Fiscal Year 2011 budget offers an opportunity to expand SNAP participation to non-participating farmers' markets by proposing $4 million to equip farmers' markets with the wireless Electronic Benefit Transfer (EBT) equipment that is usually needed in the environment in which farmers' markets operate.

In the past year, FNS has also simplified the authorization processes for farmers' markets to become SNAP retailers and the approval process to offer incentive bonuses to SNAP customers. The incentive bonuses are funded by private foundations, nonprofit organizations and local governments. SNAP customers may also access the local and regional agriculture through authorized community supported agriculture and roadside stands.

Title XI—Livestock

Question 96. **Animal ID/Traceability—**Millions of taxpayer dollars have been spent to support the implementation of a Federal animal identification and traceability system, whether voluntary or mandatory, with very disappointing results. Without a functioning and efficient traceability system in place, a foreign animal disease incursion such as food and mouth disease would have absolutely devastating effects on animal agriculture in this country. USDA's current traceability initiative puts the responsibility on the states to develop animal identification and traceability systems. Does USDA believe that state control will increase participation? If so, why? How will USDA coordinate these various state systems to control and oversee interstate movement? Are USDA's current statutory authorities adequate? In the face of an animal disease outbreak, what confidence do you have that this approach to traceability will be effective?

Answer. USDA believes state control is crucial to increasing participation in animal disease traceability. USDA will establish new regulations that will require that animals moving interstate be traceable and that the animals be officially identified. The regulations will be outcome based in the form of traceability performance standards. Each state and Tribe will develop a traceability plan with input from their producers that meets the performance standards. Working with producers on the local level, states will be able to enhance traceability in areas that need the most improvement. The use of official animal identification will increase in animals that move interstate. During last year's listening sessions, producers indicated their desire that identification data be managed at the state level.

USDA is working with the states and Tribes to ensure that traceability approaches are coordinated and integrated. For example, USDA will continue to be responsible, in collaboration with states and Tribes, for determining nationally which forms of identification can be considered official. We will also work with the states and Tribes to ensure that their databases and other information technology are compatible and can communicate with one another. The new framework calls for USDA to establish, through regulation, specific traceability performance standards that states and Tribes must meet in order to establish effective traceability programs to allow interstate movement of livestock.

Our new approach builds off USDA's existing disease programs, such as the bovine tuberculosis and brucellosis programs. Many cattle producers are used to tagging their cattle as part of these successful control and eradication programs. The sheep scrapie program also relies on this kind of tag-based system—it's cost effective and producers are very pleased with the approach. USDA has held data for these programs for many years without FOIA concerns. As diseases are eliminated in states, producers no longer need to participate; this is why gaps in animal disease traceability exist today. Our new approach to animal disease traceability would close these gaps while building off of systems that are successful and trusted by producers.

USDA's current statutory authorities are adequate to carry out its traceability responsibilities. The Animal Health Protection Act of 2002 (7 U.S.C. 8301–8317) gives the Secretary of Agriculture broad authority to detect, control, or eradicate pests or diseases of livestock or poultry. Under this law and current regulations, USDA has the authority to enact proper response measures in the event of an animal disease event.

Implementing the new framework, with focus on interstate livestock movements, supports our efforts to increase the timeliness of a response by implementing a performance based traceability system. As the new framework is put in place, we will evaluate our capabilities in accordance with the traceability performance standards and will work with states needing improvement. This approach ensures gaps in traceability are resolved before an outbreak.

Question 97. **Competition—**There continues to be concern about competition and market manipulation. Are you seeing areas of concern with regard to market manipulation? If so, what are they? The 2008 Farm Bill directed USDA to promulgate regulations within 2 years on this matter under the Packers and Stockyards Act. What is the status of these regulations? When can we expect them to be published?

Answer. In some areas such as the Texas, Oklahoma, New Mexico marketing region for cattle, committed procurement has increased from an average of 55 percent in 2009 to above 70 percent at the end of 2009. In late 2008, the volume of cattle traded through contracts exceeded the volume of cattle traded through the negotiated market.

Today's cattle and hog market is highly concentrated and coordinated. Negotiated markets are thin, with fewer and fewer negotiated transactions. In these market conditions, the negotiated price may not accurately reflect actual supply and demand, and a single packer could possibly manipulate prices and the timing of purchases to distort prices. Thin markets also have the potential to affect contract prices. In hogs, the spot market is now eight percent. GIPSA is actively monitoring the market and will take action when justified to prevent unfair or anti-competitive practices.

Competition in the livestock marketplace will be a source of review at the Colorado competition workshop on August 27, 2010 in Fort Collins. Livestock markets are very complex, and that is why having an open and transparent dialogue with farmers and experts on these issues are important. Over the next several months we will be having a series of public workshops jointly with the Department of Justice to discuss agricultural competition. With these workshops, we do not prejudge outcomes at this time, but they will help inform our decisions.

GIPSA is in final clearance on a proposed rule to carry out regulations as required by the 2008 Farm Bill's livestock title, with the intention to publish this rule by late spring.

Question 98. **COOL—**The final rule on the implementation of COOL was published in March 2009. How is the implementation going? What is the level of compliance? Is compliance increasing? What is USDA doing to ensure compliance?

Answer. On March 16, 2009, the newly implemented COOL final rule took effect requiring retailers to label covered commodities with the country of origin for beef, pork, lamb, chicken, goat meat, wild and farm-raised fish and shellfish, perishable agricultural commodities, peanuts, pecans, ginseng, and macadamia nuts. Approximately 37,000 retail establishments are covered by COOL. The USDA entered into cooperative agreements with all 50 states to carry out the reviews. The state inspectors recently received additional training to ensure review procedures and COOL requirements are consistently and accurately applied. The in-store reviews for all covered commodities began in June 2009.

- USDA plans to review 12,741 covered retailers by the end of the first full year of enforcement, which ends September 30, 2010. As of April 30, 2010, approximately 8,300 of the 12,741 scheduled retail reviews have been conducted.
- In calendar year 2009, COOL reviews were performed in 3,871 retail stores where approximately 1.16 million item types (*e.g.,* U.S. Choice Strip Steak, pork chops, bin of tomatoes, packaged carrots, Tilapia fillet, *etc.*) were evaluated. The reviews were conducted during the final 6 months of the year.
- Out of the 1.16 million item types reviewed at retail from June 2009 through December 2009, greater than 96% were properly labeled for country of origin.

Question 99. **Food Safety—**America has the safest food supply in the world, yet there have been a number of recalls of adulterated or potentially adulterated product in recent years. What is USDA doing to not only ensure a safe food supply but also to reassure the public that their food is safe?

Answer. I agree that recalls and foodborne illnesses indicate a breakdown in the food safety chain, and would like to reiterate that reforming our food safety system is a priority of President Obama's Administration. This is why the President created the Food Safety Working Group, co-chaired by me and Health and Human Services

Secretary Kathleen Sebelius. The Food Safety Working Group's top priority is preventing foodborne illness.

The Food Safety Working Group made recommendations last year to improve our food safety system, and we have already implemented a number of those recommendations to protect consumers. For example, USDA has expanded sampling for *E. coli O157:H7* in raw ground beef.

Another priority for the Working Group was to redesign and update *www.foodsafety.gov,* the government gateway through which consumers can access food safety information. The new website was launched in the fall of last year, and is one way that USDA is reminding the public about what we do every day to maintain a safe food supply and prevent foodborne illness, as well as what consumers can do to handle food safely.

USDA is also improving its efforts to combat foodborne pathogens. The Department has had a zero tolerance policy for *E. coli O157:H7* in ground beef for more than 15 years, and USDA continues to develop new policies, to further protect public health, on emerging pathogens, such as six strains of non-*O157* Shiga toxin-producing *E. coli* (STEC) that are found in food and cause serious foodborne illness. In order to effectively regulate these pathogens, USDA has been working to develop a validated laboratory method to test for each of the strains of non-*O157* STEC that are of public health concern. To date, a screening test has been developed to detect four of the six strains, and a confirmatory test is under development.

In addition, we are intensifying our efforts to combat *Salmonella* and *Campylobacter* in poultry products by tightening existing performance standards for *Salmonella* and instituting performance standards for *Campylobacter* for the first time. By revising current performance standards and setting new ones, FSIS is encouraging establishments to make continued improvement in the occurrence and level of pathogens in the products that they produce.

Finally, we are continuing to develop the Public Health Information System to help the Agency more rapidly and accurately identify trends, patterns, and anomalies in data and thus allow us to more efficiently, effectively, and rapidly protect public health.

Question 100. **Market price volatility—**Many of the problems in recent years can be traced to price volatility. How can price volatility be addressed in the next farm bill without getting government further involved in management of the markets?

Answer. Price changes that reflect shifts in underlying supply and demand conditions help markets adjust production and consumption patterns. Market transparency is one critical factor that facilitates price discovery and helps foster fair, efficient, and competitive markets. Many agricultural commodity markets have shifted away from open spot market trading toward privately negotiated trading and a wide variety of marketing agreements, formula pricing arrangements, forward contracts, and other vertical coordination mechanisms. A consequence of the shift away from open market trading has been a reduction in the quantity of publicly availability information on marketplace prices, volumes, and related characteristics, which can put producers at a disadvantage. While programs such as Livestock Mandatory Reporting impose reporting requirements on segments of the agricultural and food production system, such requirements do not involve government being involved in the management of markets. The increased market transparency can assist price discovery and allow markets to more accurately reflect supply and demand conditions, however as the open spot markets become thin as they have in recent years they also become increasingly volatile due to a loss in liquidity. They also become increasingly susceptible to price distortions, intentional or unintentional, regardless of the increased information, which again can put producers at a disadvantage and may require governmental interventions in certain situations.

Title XII—Crop Insurance and Disaster Assistance Programs

Question 101. **SURE/disaster—**One of the complaints of the SURE program is that a major factor in the calculation is the level of crop insurance coverage purchased, when this type of disaster assistance is often most needed in areas where crop insurance has not typically worked well and therefore where there are not high levels of buy-up coverage. SURE payments have been distributed for 2008. Have you been able to compare the geographic distribution of these payments with where disasters certainly caused crop loss to determine how well targeted this program is to need?

Answer. First, it is important to remember that SURE is but one component of the safety net, along with Direct and Counter-Cyclical Payments, the Average Crop Revenue Election, Federal Crop Insurance, Non-Insured Crop Disaster Assistance, and Loan Deficiency Payments and Marketing Assistance Loans.

SURE is a revenue based crop-loss assistance program which requires that all of a producer's farms or land in the United States be considered as one farm. By calculating disaster payments on a crop-by-crop basis rather than by considering all crops on all farms, more crop losses would probably qualify for disaster payments. Therefore a normal, or better than normal, crop on one or more farms would very likely offset losses due to natural disaster of one or more crops on another farm.

I look forward to working with you regarding the disaster programs during upcoming work on the next farm bill.

Question 102. **Sodsaver and Breaking Lands Working Group—**What is the status of the working group's discussions? Couldn't RMA help address the concerns that new land is still being broken out for production by changing its policy on APH transferability?

Answer. An APH database from land with existing actual yields (*i.e.,* APH transferability) is generally not used to provide a guarantee on newly broken acreage. The Common Crop Insurance Policy—Basic Provisions provides that acreage which has not been planted and harvested or insured in at least one of the three previous crop years is generally uninsurable, unless the acreage was planted to comply with another USDA program (*e.g.,* Conservation Reserve Program (CRP)); or such acreage constitutes five percent or less of the insured planted acreage in the unit; otherwise, such acreage must be insured by written agreement. The written agreement is an individually reviewed offer of insurance to a producer made by RMA's Regional Offices. Insurance coverage by written agreement requires the date the land was broken out and agricultural experts' agreement that sufficient time existed for the organic matter to break down and allow the soil moisture to regenerate; soil surveys supporting production of the commodity, including the appropriate soil types of the newly broken acreage and consideration of any additional risks such as salinity, drainage, moisture problems, etc. The majority of requests for these types of written agreements are due to long crop rotations and land that has set idle for too many years after coming out of CRP. These written agreements require that the crop planted on the newly broken acreage, prior to insurance attaching, must appraise at a yield equal to or greater than 90 percent of the approved yield used to determine the production guarantee. Approximately 70 percent of all written agreements nationwide for newly broken acreage offered a production guarantee per acre equal to, or less than, the county T-yield, not the existing actual yield of an existing APH database.

RMA is near completion of an evaluation of its procedures for newly broken acreage and plans to make its findings available.

Question 103. **Organic—**The Department has recently completed its study on crop insurance for organic production.

What course of action the Department is heading in moving forward on this issue and how does it fit in the broader framework of plans to reform the crop insurance program.

Answer. RMA continues to move forward in improving crop insurance coverage for organic producers so they will have viable and effective risk management options like many of the conventional crop programs. This includes establishing dedicated price elections for organic crops when supported by data and sound economic pricing principles. RMA will continue to capitalize on improved data collection and sharing of organic production and price data occurring throughout USDA, an initiative to better leverage the resources of all of our agencies to address this important segment of agriculture.

RMA will also continue to evaluate the loss experience of both organic and conventional practices to ensure that premium rating is commensurate with the level of risk for each. This includes revising surcharges for those areas or situations that merit such consideration. Finally, RMA will review its program materials to ensure that existing procedures specific to organic production is accessible and more readily understood by producers.

While challenges remain, we believe important steps are occurring that will lead to establishment of effective risk management protection for the various organic growers and crop industry that will position them to better utilize this important program in their management and financing practices. A viable and prudent risk management program for organic growers is consistent with our efforts of making the Federal crop insurance program available to a broader spectrum of producers in all areas of the country, and doing so in a fiscally responsible manner.

Last, as RMA has negotiated with the crop insurance industry for a new Standard Reinsurance Agreement, several initiatives have been included to better balance the needs of states that previously have been underserved, or less served, to enhance the service and risk management options that may be available similar to that experienced in many of the traditional row crop states.

Title XIV—Miscellaneous (Includes Minority Farmer Outreach and Ag Security)

Question 104. **Office of Advocacy and Outreach—**I am pleased to see that you have made creation of the Office of Advocacy and Outreach (OAO) a priority, through your commitment of both personnel and resources. Housing programs that support beginning, small, disadvantaged, and minority farmers and ranchers in one place is not only sensible from an economic and administrative standpoint, but it clearly elevates the importance of these groups, which is long overdue. One of the most important things that OAO can do is to collect and track the data that informs us about the effectiveness of targeted programs. I notice that, in your appendix, Section 10708 is not yet up and running. When do you expect to begin department-wide data collection?

Answer. Thank you for your support for the Office of Advocacy and Outreach (OAO). We are moving forward with implementation of Section 10708. The USDA agencies have agreed on a uniform format and process to collect the data. The Farm Service Agency (FSA) and the Natural Resources Conservation Service (NRCS) will collect customer declared data from farmers and ranchers using a new Data Collection Form. Rural Development (RD) will continue to collect the data from applicant and participants as they have in the past, and will modify their system to collect whether an applicant or participant is a farmer or rancher. OAO, FSA, NRCS, RD and the National Agricultural Statistic Service (NASS) have consensus on requirements and process for data to be sent to NASS for publication. Data from a pilot effort this fiscal year will be published in 2011.

Question 105. **Assistant Secretary for Civil Rights—**My understanding is that the Office of the Assistant Secretary for Civil Rights was originally created in the 2002 Farm Bill to follow all civil rights issues, both administrative and programmatic. However, it seems that ASCR is currently focusing just on old administrative claims. Can you clarify the role of the ASCR in the larger revamped organization, under an Assistant Secretary for Administration?

Answer. USDA leadership has established civil rights as one of its top priorities. To be successful, all employees must be committed to making the Department a model in the Federal Government for respecting the civil rights of its employees and constituents. USDA is in the process of changing the direction of its equal employment opportunity and civil rights programs. This new approach will ensure fair and equitable treatment of all employees and applicants. It also will improve program delivery to every person entitled to services. This effort will assist the Department to address past errors, learn from its mistakes, and move forward to a new era of equitable services and access for all.

USDA's plans include:

- Increasing Alternative Dispute Resolution (ADR) usage in program civil rights and equal employment opportunity complaints;
- Reducing the inventory of program civil rights complaints;
- Aggressively providing civil rights training for USDA employees and political appointees, with specific concentration on those persons in the field offices of the Farm Service Agency and Rural Development where increased filings of discrimination complaints have occurred;
- Revamping the Civil Rights Enterprise System (the database for management of the employment and program complaints); and
- Providing greater focus and attention on civil rights issues and accountability for implementation of civil rights policies through Agency Head Assessments.

The mission of OASCR remains the administrative and programmatic processing of all complaints of discrimination. Certain administrative functions have been strengthened with the placement of OASCR in Departmental Management which will enhance the efficiency of overall operations.

Question 106. **Data Mining—**Data mining has been used successfully under RMA to combat fraud and abuse. Are you considering any expansion of that the use of data mining to other programs, like SNAP for example?

Answer. The Food and Nutrition Service (FNS) currently uses data mining technology to combat fraud in SNAP. Since 1997, SNAP has used a fraud detection system, called ALERT (Anti-Fraud Locator for Electronic Benefits Transfer (EBT) Transactions), to monitor electronic transaction activity and identify suspicious retail grocers for analysis and investigation.

ALERT provides monitoring of fraudulent activity by retailers and support to the individual states' integrity efforts. The system receives daily transaction records from EBT processors and conducts analysis of patterns in the data, which indicate potential fraudulent activity by stores. FNS investigators and compliance offices use system reports and queries to identify and document cases. Other users include USDA Office of the Inspector General (OIG) investigators and FNS staff members of regional and field offices. The system enables investigators to focus their efforts more efficiently and provides them with the necessary audit trail to support legal action in cases where fraudulent or unauthorized activity is confirmed. Illegal activity can thereby be quickly thwarted, and program costs reduced.

ALERT has proven to be a critical tool in the Agency's fight against SNAP benefit trafficking, which is the exchange of SNAP benefits for cash. The FNS Office of Research and Analysis conducts periodic assessments of trafficking rates. The first assessment evaluated SNAP redemptions in 1993 and determined that $811 million in program benefits were trafficked annually. The most recent estimate analyzed the period of 2002–2005 and determined that trafficking diverted $241 million in program benefits annually, or 1¢ of each dollar. The introduction of EBT and ALERT contributed in important ways to this decline in trafficking, resulting in a trafficking total that is less than 20 percent of the value diverted in 1993.

FNS is continuing to look for ways to improve the ALERT system. The Agency is currently updating the ALERT system to a web-based application that will take full advantage of enhanced fraud detection technologies not available in the existing system in an effort to increase the volume of fraud detection on an ongoing basis. Following a national procurement, FNS awarded a new contract to SRA International in August 2009 to conduct additional data mining and incorporate the use of Geographic Information System (GIS) tools to interpret complex relationships among billions of SNAP electronic transaction records that might otherwise be difficult to detect.

In coordination with SRA International, FNS is already developing the following data mining techniques to improve SNAP fraud detection capabilities:

- Network and Link Analysis: identifies network or linkage patterns between retailers that may indicate fraudulent behavior using a variety of approaches;
- Advanced Geospatial Analysis;
- Trafficking Predictive Models: identifies retailers most and least likely to be engaging in trafficking of SNAP benefits to better target Agency resources; and
- Retailer and Client Behavior: profiles the normal behavior for retailers and clients across multiple dimensions, such as geographical location or transaction amount. The intent is to derive multidimensional profiles that can be used for analysis, anomaly detection and additional input into predictive models.

Implementation Process and Next Farm Bill

Question 107. **Drafting regs—**How long does it take the Department to get a regulation written for a program? In other words, how much lead time do we need to give USDA in the next farm bill to have programs up and running for Fiscal Year 2013 so we don't face the situation we've got now where a number of programs still don't have final rules?

Answer. Since enactment of the 2008 Farm Bill, USDA has worked diligently to draft and publish final farm bill regulations. I am proud of the overall speed and thorough implementation record of our Department on the farm bill. There are a number of factors that make the time it takes to write and issue a final regulation highly variable, including the volume of regulations, complexity of programmatic changes, Executive Branch review, the extent of public notice and comment, and analytical requirements. Prior to publication in the *Federal Register*, agencies must draft the rule and conduct required analyses. This can vary considerably based on the complexity of the rule and the need to develop software and other administrative tools necessary to implement program changes. Furthermore, under Executive Order 12866, the Office of Management and Budget is provided up to 90 days review for each stage of a significant or economically significant rulemaking (although OMB has worked closely with us to clear several regulations under significantly tighter time-frames). In addition, a regulation requiring an environmental impact analysis can take anywhere from 18 to 24 months to complete. Notice and comment rulemaking for a proposed rule can include a public comment period ranging from 30 to 120 days plus additional time to analyze public comments prior to issuing a final rule. For other titles, agencies have utilized direct final or interim rulemaking authority as appropriate to facilitate the rapid implementation of mandatory program changes or non-significant updates to existing programs. However, given the sheer number of regulations needed to implement the farm bill, the limited number of staff available for drafting regulations, and the breadth and depth of the 2008 Farm Bill, it still takes considerable time to address and fully implement every provision of the 2008 Farm Bill. Given the massive volume of work, we have been careful to give the highest priority to writing the regulations that have the greatest impact on farmers, ranchers, and other constituents.

Question 108. **Drafting regs—**We have heard anecdotal stories that some agencies have to contract out the regulation writing process. Is this the case? If so, how much time does this add to the process?

Answer. Yes, some agencies within USDA utilize contractors to facilitate the development of regulations. Because the regulatory work load needed to implement a farm bill is significantly higher than other times, some agencies rely on contractors to provide regulatory drafting and analytical services. Utilizing outside sources augments the work of existing dedicated staff and increases the ability of an agency to implement regulations in a more timely fashion.

Questions Submitted by Hon. Stephanie Herseth Sandlin, a Representative in Congress from South Dakota

Question 1. **Sun Grant Initiative—**Mr. Secretary, as you know, the Sun Grant Initiative has been operating since the 2002 Farm Bill, was reauthorized in the 2008 Farm Bill, and received programmatic funding through the Fiscal Year 2010 Agriculture Appropriations Bill. South Dakota State University helps to lead the initiative, which is a national effort of regionally based competitive biomass research programs.

The Growing America's Fuel document released by the Administration mentions that five regional centers will be developed to lead the nation in terms of bioenergy feedstock research and development.

The Fiscal Year 2011 budget request proposes $33 million, out of an overall increase of $163 million for USDA's Agriculture and Food Research Initiative, to be targeted to bioenergy research, including funding for university-based biomass research centers. Another $10 million in proposed increases in FY11 for the Agricultural Research Service would be designated to support five new, regionally diverse bioenergy feedstock research centers.

I believe the SGI centers have the requisite expertise, experience, regional diversity, and working partnerships with private industry, to both carry out its authorization and accommodate the regional biomass research program proposed by the Administration.

If the five centers mentioned in the Growing America's Fuel document aren't the five Sun Grant Initiative regional centers, how would the department explain the need for additional centers and that five new centers would not be duplicative?

Answer. The USDA Centers are being created by coordinating current research conducted by the USDA Agricultural Research Service (ARS) and Forest Service, thus building on existing USDA research strength to support Congress' goal to provide 36 billion gallons of renewable fuels by 2022. The USDA centers, organized from ongoing ARS and Forest Service research on alternative energy sources, will not duplicate but complement SGI efforts by taking full advantage of current Federal capabilities and resources. Without taking action, the nation may not be able to produce the large amounts of feedstocks required to achieve this goal.

The five USDA Regional Biomass Research Centers will fully leverage relevant research capacities at university, for-profit, and other governmental research partners. Thus, the Centers are fully *complementary* to the Sun Grant Initiative's regional projects, and their partnership with the USDA Centers will enhance the impact of both Sun Grant and USDA Centers' research. As stated in the President's budget proposal, each Regional Center will "[c]oordinate efforts with research conducted by the DOE Biomass Program's Regional Feedstock Partnership [Sun Grant Initiative (SGI) efforts], the Integrated Biorefinery project, and the Office of Science's Bioenergy Research Centers." Further, the "Growing America's Fuels" document states that "The existing multibillion-dollar national USDA science and research infrastructure will be used to support the establishment of USDA Regional Feedstock Research Centers *along with robust partnerships with land grant and other universities, industry, and other Federal and state agencies* [emphasis added]." USDA is committed to ensuring that work at the Regional Biomass Research Centers will be closely coordinated with complementary efforts through SGI and elsewhere in order to maximize the returns from public investments in the USDA Centers.

ARS has coordinated its biofuels research with SGI and other relevant research programs and institutions. USDA scientists continue to help coordinate activities for research performed under the SGI–DOE Regional Feedstock Partnership and to support review of SGI research proposals. ARS welcomes programmatic involvement by SGI and other federally-funded programs in the USDA Regional Research Centers.

Question 2. **Agriculture and Food Research Initiative Competitive Grants Program (AFRI)—**I understand that the Agriculture and Food Research Initiative Competitive Grants Program has yet to make its first awards for its feedstocks and climate change programs. My office recently has been told that the current Request for Applications will be committing funds for 5 years out at levels greater than the current budget. Is that information accurate? And we've also been told that USDA plans to increase the AFRI to levels that are greater than the program's current budget. If that information is also accurate, how does USDA plan to accomplish that funding increase for the AFRI?

Answer. NIFA is moving to manage competitive grants funding in a different way. However, this change will not commit funds greater than the current appropriation. NIFA will be funding the larger AFRI grants on a year-by-year basis, making what are known as "continuation" grants. This allows for a much higher level of post-award oversight and quality control since funds are allocated in the out-years only after NIFA makes an evaluation of progress based on site visits and documentation provided by the grantees. Future years of funding are dependent on awardees reaching the milestones identified in the funding agreement. This funding mechanism is routinely used by NIH and NSF and brings AFRI into alignment with the best practices of other competitive science agencies. The flexibility in the management of AFRI funds will allow NIFA to adjust to any appropriation level determined by Congress.

Question 3. **Rural Energy for America Program—**One of my priorities in the 2008 Farm Bill was the Rural Energy for America Program. I'd like to thank the department for issuing proposed rules last week for the Biorefinery Assistance Guaranteed Loan program, Repowering Assistance Payments to Eligible Biorefineries, and the Advanced Biofuel Payment Program. I believe that streamlining delivery of REAP to farmers and rural businesses is critical. My understanding is that the department hasn't released the REAP funding notice for Fiscal Year 2010. The sooner we get REAP funds going out the door going the more jobs will be created and clean energy and energy efficiency technology deployed. Is there anything Congress can do to with respect to the rebates, pre-approved technologies, or something else, to speed delivery and make funding decisions faster and more efficient, and less staff and applicant time-intensive?

Answer. The REAP funding notice was published on April 26, 2010. The Agency is currently drafting a Proposed Rule which will streamline the application process, potentially reducing the paperwork burden and cost to applicants. In addition, the streamlined process will require fewer staff hours to review applications.

Question 4. **Possible Native American Farm Bill Title—**Mr. Secretary, as you know, there are very high poverty and unemployment rates among Native Americans who live on reservations in the Northern Great Plains, including in South Dakota. To a large extent, the private sector economy for these Tribes is dependent on agriculture, unlike many other tribes in other parts of the country. I believe USDA can do a great deal to help these Tribes and their enrolled Tribal members.

I am considering proposing an Indian Title to the next farm bill where we can adapt all USDA programs to the special needs of the Tribes, from commodity programs to rural development and broadband to nutrition programs. What are your thoughts on such a proposal?

Answer. USDA has numerous programs that were designed to address the creation of farm safety nets, improved rural economic development, broadband, and nutrition, among others. There is a long and sustained history of poverty and unemployment in Tribal areas, and often programs designed to address general needs do not reach the unique circumstances in Tribal communities. While we agree with Congresswoman Herseth Sandlin that these circumstances are acute in the Northern Great Plains, many Tribes throughout the rest of the country could benefit greatly by programs tailored more specifically to meet their unique needs. The unique land status of reservation Tribes; the high rates of diabetes and obesity in some Native communities; the housing and jobs creation needs of these citizens living in sometimes the most remote areas of our country, call for unique and focused ways to address long-term unemployment and the need for rural economic development.

Within USDA's Action Plan in Response to the Presidential Memorandum on Tribal Consultation and Collaboration, USDA committed to Tribal consultation regarding the farm bill. USDA also reaffirmed its commitment to take steps to improve Tribal consultation generally and address the needs of Tribes through improved collaboration and cooperation with Tribal governments. Should the Congresswoman choose to move forward with an Indian Title to the next farm bill, USDA will work with Congress and the Administration to craft such a Title and would incorporate drafts of such Title in pre-farm bill consultation efforts.

Question 5. **Prevented Planting—**I have recently held eight meeting in northeastern South Dakota to address the ongoing complications with flooding that occur in the Northern Great Plains. It's clear that agricultural producers have been some of the hardest hit by flooding. Many suffered losses a year ago and are again watching as their fields are covered by water. As part of the Federal Crop Insurance Program updated in the 2008 Farm Bill, prevented planting payments play an integral part in the farm safety net. Crop insurance agents have been telling producers that, although they have insured the land for the last several years and the land would be planted in a non-flood year, they may not see prevented planting payments this year.

Some of my producers are concerned about being able to obtain prevented planting. Can you explain the interpretation changes of the policies regarding prevented planting payments the Risk Management Agency (RMA) intends to enforce?

Answer. There have been no changes in RMA's prevented planting policy provisions for many years, including the 2010 crop year.

RMA issued Claims Advisories on May 29, 2007, (IS–07–007) and May 10, 2010, (IS–10–002.1) and a Final Agency Determination (FAD–110) on February 25, 2010. Approved Insurance Providers (AIPs) were advised to remind their agents and inform their policyholders of the following FCIC-issued procedure contained in the 2007 Prevented Planting Loss Adjustment Standards Handbook, which addresses acreage that is generally "unavailable for planting" and not eligible for prevented planting coverage:

> Acreage that in *normal weather patterns is normally wet* throughout the final and late planting period and that would only be available to plant in abnormally dry conditions. Because of the normally wet conditions from year to year on such acreage, this acreage is likely to have well established cattails, perennial weeds, and perennial grasses that increase the likelihood of the acreage being unavailable for planting even in the driest year. Unavailability of such land increases in this situation because of the time, expense, and labor needed to remove the well established cattails, weeds, and grasses in time to plant the insured crop.

Prevented planting payments can only be approved when there is an insured cause of loss that occurs during the insurance period that prevents producers from planting an insured crop on eligible acres, and that acreage not available for planting or that does not otherwise comply with policy provisions, is not considered acreage eligible for prevented planting coverage. Claims Advisory IS–10–002.1 advised that increased moisture levels in the Prairie Pothole Region have left some acreage that was once planted in a perpetual state of inundation (Class V Permanent Ponds and Lakes), and other land in a cyclic state of inundation (Class IV Semi-Permanent Wetland). These wetlands are usually, but not necessarily, evident by the presence of cattails and perennial wetland grasses and weeds. Such acreage is not considered to be "available for planting" because it generally cannot be planted even when there are no adverse weather conditions.

FAD–110 provided an interpretation of the provision contained in section 17(f)(8) of the Common Crop Insurance Policy Basic Provisions (Basic Provisions), which states prevented planting coverage will not be provided for any acreage that exceeds the number of eligible acres physically available for planting. FAD–110 confirmed that an insured cause of loss is required to occur within the insurance period to be eligible for prevented planting, and is consistent with section 508(a)(1) the Federal Crop Insurance Act (Act), which states in part, "To qualify for coverage under a plan of insurance, the losses of the insured commodity must be due to drought, flood, or other natural disaster (as determined by the Secretary)," because normal weather conditions are not a covered cause of loss.

Acreage that a producer is prevented from planting due to an insured cause of loss that occurs during the insurance period will continue to be insured provided all policy provisions have been met for such acreage.

Questions Submitted by Hon. Bobby Bright, a Representative in Congress from Alabama

Question 1. Mr. Secretary, as you may know, my district is one of the largest peanut producing districts in the country. As I travel around southeast Alabama, one of the most frequent complaints I hear from my peanut producers is a lack of transparency in determining weekly peanut prices. From my vantage point, peanut producers should have the same pricing predictability as my cotton farmers—who are able to more easily plan for the future because of a simple, transparent pricing scheme. Are you aware of this issue? What are your thoughts on how we could fix this problem in the next farm bill?

Answer. USDA has devoted significant time, expertise, and resources over the past several years to improving peanut price transparency and intends to continue this effort. The National Agricultural Statistics Service (NASS) developed a weekly by-type peanut price survey in 2006 as a first step to addressing this issue. Prior to then, farmer stock peanut prices had only been reported on a monthly basis to NASS.

NASS has made periodic survey improvements since then, including the addition of questions that specifically: (1) ask buyers to report peanut option prices, and (2) attempt to differentiate between cash and contract transactions. Although the quality of reported peanut prices has continually improved, the voluntary nature of the survey, in addition to incentives on the part of buyers to underreport peanut prices, has thus far prevented USDA from obtaining full and accurate peanut prices.

USDA's Office of the Inspector General (OIG) completed an audit of farmer stock peanut prices reported to NASS and used by the Farm Service Agency (FSA) to determine program benefits. In its March 2009 Semiannual Report to Congress, OIG concluded that peanut prices are not based on reliable market data and recommended that FSA seek authority to establish mandatory price reporting of peanut purchases by buyers, as well as the authority to verify buyers' reported data to NASS. FSA agreed to seek mandatory reporting authority no later than September 30, 2010.

Grower interest in Congressionally-mandated reporting of farmer stock peanut prices appears to be expanding in response to recent efforts to establish a revenue insurance program for peanuts. Expected farmer benefits of mandatory reporting include reduced risk for insurance providers considering a peanut revenue insurance option, as well as maximum coverage levels under such a program; increased coverage levels under RMA's existing peanut crop insurance program; and additional price information to strengthen the negotiating position of peanut farmers.

USDA suggests that Congress include mandatory price reporting language for farmer stock peanuts in the next farm bill. USDA expects that the new requirement would bolster survey response levels and lead to more timely and accurate price information published by NASS. It might also allow for greater precision in program payments and reduced exposure for CCC and taxpayers.

The enumerated benefits to mandatory price reporting notwithstanding, USDA would not expect peanuts to gain the level of price transparency available for cotton without significant changes to the way peanuts are marketed and an increase in the volume of peanuts traded. The Adjusted World Price (AWP) mechanism mandated for upland cotton is possible because cotton is traded in high volumes on the world market, and USDA has access to unbiased and reliable world market price data. Comparable data for international peanut prices does not exist. Also, there is little information available on the quality standards for foreign quotes in the international peanut market—unlike for upland cotton, which can be described by up to seven internationally-accepted quality standards.

Peanuts in the U.S. are typically contracted prior to planting and/or harvest, so that transactions often reflect prices negotiated months in advance rather than current market-clearing prices. As a result, USDA often must draw from varying sources to obtain valid price information for its weekly National Posted Price (NPP), which precludes a more transparent process, even under the auspices of mandatory reporting.

Question 2. Mr. Secretary, crop insurance is also a big issue to producers in my district. My producers often feel like there aren't affordable options, considering historical losses in the southeast are more frequent and more severe than in other parts of the country. Compounding this problem is the fact that the new SURE program established in the 2008 Farm Bill favors producers who have higher levels of buy-up coverage. As we move forward, it is vitally important that we figure out a way to make crop insurance more economical for producers in the Southeast. How would you suggest solving this problem? Is there a way to make crop insurance work better without spending more Federal dollars?

Answer. In general, RMA reviews crop insurance premium rates every 3 to 5 years. Premium rate changes are driven by the historical loss experience. RMA recently had an external panel of experts conduct a comprehensive review of its APH-based premium rating methodology. This study was opened up for public comments in order to give concerned parties a chance to review and provide feedback for the recommendations made. This also served to make the rating process as transparent as possible. Both the final study and responses to comments received were posted on RMA's website on April 23, 2010. The study concluded that RMA's general approach to developing premium rates is actuarially appropriate, but also identified several recommendations for potential improvements which are being considered.

RMA completed a comprehensive crop insurance study in Arkansas and Mississippi in 2008. One of the recommendations of the study was to differentiate rates for irrigated and non-irrigated practices. Currently, irrigated and non-irrigated rates are, in many cases, the same. RMA is reviewing the irrigated and non-irrigated practices for crops in the Southeast and will make changes as necessary. Such changes may result in lower rates for some practices, which would make higher levels of coverage more affordable.

Questions Submitted by Hon. Travis W. Childers, a Representative in Congress from Mississippi

Question 1. Secretary Vilsack, I want to first thank you for joining us today to begin discussion of the 2012 Farm Bill. Over the course of my 2 years in Congress, I have met with hundreds of producers throughout the state of Mississippi. As you may know, the entirety of Mississippi agriculture suffered devastating crop losses in 2009 after excessive amounts of rain fell during the months of September and October.

Crop Insurance—Recently, many of my producers have expressed concerns over their ability to obtain affordable crop insurance. Mississippi currently has 42,300 farms employing approximately ⅓ of the state's residents. However, only 19,865 crop insurance policies were sold so far in 2010.

The overwhelming consensus among producers and the Mississippi Farm Bureau is that producers would prefer to be able purchase affordable crop insurance and participate in permanent disaster assistance programs. Mississippians understand that *ad hoc* disaster assistance is not the way forward. However, Mississippi and other Southern states rely on unique farming practices. Unlike the Midwest, crop rotation and crop diversity on a farm is standard. Specialty crops, including sweet potatoes, are produced in large quantities and, as you know, are unable to find crop insurance outside of NAP. Agriculture is the number one industry in my state and we need to make sure that the 29% of the families in Mississippi that make their living in the agriculture industry can continue to do so with adequate support from the USDA.

How can we begin to ensure that programs in the 2012 Farm Bill better address the unique farming environment in Mississippi and other southern states? What possible solutions can the USDA provide to this Committee to further our discussions surrounding 2012 farm legislation?

Answer. In 2008, RMA completed a contracted comprehensive review of the Federal crop insurance portfolio in Arkansas and Mississippi. The review found that the prevalence of irrigation was a major non-insurance mechanism to mitigate risk. Cotton, rice and soybeans are the predominant crops planted. Currently, RMA does not distinguish between irrigated and non-irrigated practices for corn and soybeans in Mississippi. While rates reflect historical experience, premiums are perceived as high by producers for irrigated crops. RMA is in the process of reviewing the rating methodology and may adjust by practice, irrigated and non-irrigated crops which may reduce rates for irrigated crops. The study also found that rates for cotton and rice, which account for much of the planted acreage, are similar to those in other states that grow these crops.

In addition, RMA has engaged with several grower organizations, including rice growers, to evaluate and discuss potential alternative risk management strategies including that of lodged or "downed" rice resulting in increased input costs at time of harvest.

Question 2. **SURE**—In light of the 2009 crop disaster, my producers have become intimately familiar with the SURE program and a majority of them have concerns regarding the programs ability to adequately protect their farming operations. In addition, it has come to my attention that in 2008 the State of Iowa received $135,292,768 (only $39,497,100 was due to the Recovery Act plus up) in SURE payments while Mississippi received only $1,092,756 with half of this amount coming from the Recovery Act SURE plus up. (And Mississippi suffered extreme losses due to Hurricane Gustav).

How do you suggest we address the inequalities in the SURE program, particularly in the State of Mississippi and the Southeast?

Answer. It is difficult to make state-to-state comparisons regarding SURE. Although the dollars currently paid under SURE in Mississippi and Iowa are significantly different, SURE sign up and assistance provided under SURE for 2008 crops is by no means is close to being complete. State comparisons are also made difficult as the agricultural commodities and number of acres farmed in different states varies significantly, and individual states are impacted to varying degrees by natural disasters in any particular year.

SURE is the first permanent disaster program that has compensated producers for losses of production, quality, and revenue on all crops for which they have an interest. Also, it is the first program that bases its assistance on the risk tools and levels of insurance coverage a producer elects to protect their crop investment. Producers have historically been compensated for crop losses by crop rather than looking at the overall loss for the farm. Producers who have larger farming operations spanning multiple counties, grow more diversified crops, or are in an area that has a longer growing season may find that it may be more difficult to qualify for SURE due to the fact that a crop not suffering a loss can offset the loss of other crops suffering a loss. Finally, there are areas of the country where producers do take greater advantage of the insurance tools available to them and this may impact how much producers in any area receive in SURE payments. However, USDA has not done any analysis to determine whether this is a factor that explains the variability in SURE payments across states.

As work begins on the next farm bill, I look forward to working with you regarding USDA's permanent disaster programs.

Questions Submitted by Hon. Jerry Moran, a Representative in Congress from Kansas

Question 1. **Research Priorities—**It has come to my attention that USDA recently suggested it will no longer fund research projects through the National Institute of Food and Agriculture (NIFA) if the research is related to either grain-based or cellulosic ethanol. This suggestion is linked to language contained in the March 30, 2010, "Agriculture and Food Research Initiative Competitive Grants Program, Sustainable Bioenergy, FY 2010 Request for Applications." The specific statement of concern is on page four, where the document states: "Bioenergy grants will support the start up and growth of a network of Regional Bioenergy CAPs focusing on five dedicated energy crops . . . These crops will serve as feedstocks for the production of advanced non-ethanol, infrastructure-compatible fuels and biobased products . . . ."

Is USDA discontinuing or considering discontinuing the funding of research related to grain-based or cellulosic ethanol, and if so why?

Answer. The focus of USDA NIFA research is on cellulosic feedstock development and sustainable production. However, USDA NIFA continues to provides support for first and second generation biofuels (grain-based and cellulosic ethanol) through competitive and non-competitive programs, with additional strong focus on accelerating third generation (drop-in) biofuels development—gasoline, biodiesel diesel, aviation fuels, and other alcohols such as biobutanol through the Agriculture Food Research Initiative.

The USDA NIFA Agriculture and Food Research Initiative (AFRI) Sustainable Bioenergy Program portfolio supports the development of regional systems-based approaches for the sustainable production of biofuels, biopower, and biobased products. This regional systems approach is in concert with the USDA Agricultural Research Service (ARS) and the Department of Energy (DOE)-sponsored regional feedstock partnerships, and includes these elements:

- Deployment of superior genotypes of regionally-appropriate dedicated energy crops.
- Refinement and implementation of sustainable regional feedstock production practices.
- Seamless feedstock logistics.
- Scalable, sustainable conversion technologies that can accept a diverse range of feedstocks.
- Regional marketing and distribution systems.
- Regional sustainability analyses, data collection and management, and tools to support decision-making.
- A well trained workforce with the capacity to fill the cross-disciplinary needs of the biofuels industry.

Question 2. USDA currently funds research in many areas where technology or management practices have been in existence for numerous years. For instance, USDA funds research related to crop systems like wheat, corn, and soybeans and livestock systems like cattle, hogs, and poultry. If USDA continues funding research in these areas, why would it consider discontinuing funding of either grain-based or cellulosic ethanol?

Answer. DOE has primary responsibility for conversion technology research. During the last decade DOE and the private sector, as well as USDA, have made large research investments in support of grain-based ethanol and cellulosic ethanol. Commercial-scale facilities are operating for grain-based ethanol and are coming on line for cellulosic ethanol. The USDA Rural Development Agency has made large investments toward the commercial production of ethanol.

Historically, USDA Cooperative State Research, Education, and Extension Service (CSREES) supported the development of ethanol conversion technologies ($3–$4 million per annum) as part of the National Research Initiative. Although several technologies with commercial potential were developed in part with support from NRI, the investment was small compared with similar investments by DOE and the private sector.

The formation of NIFA and the restructuring of AFRI have allowed NIFA to take a portfolio approach to support research for bioenergy and biobased products. Research support for ethanol may be found across several programs. The AFRI Sustainable Bioenergy Program referenced above is focusing funds on bringing together regional systems approaches with emphasis on non-food dedicated feedstock and sustainable feedstock development. Since DOE has the lead in conversion, only a small proportion of the available AFRI funding will target conversion.

Question 3. If USDA is not discontinuing or considering discontinuing the funding of research related to grain-based or cellulosic ethanol, please explain the purpose of the above language in the Sustainable Bioenergy, 2010 Request for Applications, and what USDA is doing to further research on feedstocks, co-products, and production processes of grain-based and cellulosic ethanol?

Answer. AFRI is looking to maximize/leverage its program funds to address complete supply chains, and accelerate the commercialization of advanced biofuel production. The AFRI Sustainable Bioenergy Program integrates research, education, and extension toward these goals with the majority of funding targeting feedstock genetic development and feedstock production, as well as environmental, economic, and social sustainability.

As stated above, AFRI is one of a suite of programs in NIFA targeting bioenergy and biobased products. In 2010, NIFA will provide $28 million in the joint Biomass Research and Development Initiative (BRDI) with DOE providing $5 million for a total of $33 million available to support research, development, and demonstration projects that may include cellulosic ethanol.

NIFA also supports grain-based and cellulosic ethanol through the Small Business Innovation Research (SBIR) program, including feedstock logistics, and conversion technologies for biofuels and biobased products. Additional NIFA support for research, education, and extension related to grain-based and cellulosic ethanol comes through leveraging state investments from programs like the Hatch or McIntire-Stennis Formula Grants, and other programs.

Question 4. **Conservation Reserve Program—**It is my understanding the Farm Service Agency (FSA) has issued an exemption related to eligibility for the continuous sign-up Conservation Reserve Program (CRP) on expired general CRP acres. The exemption applies to the general rule that requires eligible cropland to have been planted to an agricultural commodity 4 of the previous 6 crop years from 1996 to 2001. For those CRP acres that expired Sept. 30, 2009, I understand the exemption expires June 1, 2010. It is also my understanding that after June 1, 2010, at least portions of the remainder of the field would have to be broken out of grass before these buffers would qualify for enrollment in continuous CRP.

Some of my agricultural producers in Kansas, who had general CRP acres expire on September 29, 2010, would like the opportunity to participate in any potential general sign-up FSA might conduct this year. At the same time, these producers do not want to lose the opportunity to enroll part of their land in continuous CRP without destroying the current grass should they be unsuccessful during the general sign-up period. Since it is unlikely the next general sign-up will be completed prior to June 1, 2010, would the USDA consider extending the previously mentioned continuous CRP exemption until after completion of the next general CRP sign-up for those general CRP acres that expired on September 30, 2009?

Answer. Producers with suitable CRP contracts that expired on September 30, 2009, were offer the land for re-enrollment into CRP continuous sign-up if the offer was submitted by June 1, 2010. Land with contacts expiring at the end of September of 2009 will generally be eligible, in addition, except for land in trees, to be offered for enrollment under the general sign-up that is anticipated this summer. The contract effective date of the continuous sign-up offer may be deferred until after the announcement of the results of the general sign-up. This provides producers the opportunity to offer the land for both general and continuous sign-up.

Questions Submitted by Hon. Steve Kagen, a Representative in Congress from Wisconsin

Question 1. **School Nutrition/Farm to School—**Can you describe the efforts your department has taken to assist local farmers in getting their products into local schools? What more can Congress do to help our schools buy fresh local products from farmers in surrounding areas?

Answer. As part of the *Know Your Farmer, Know Your Food* initiative (KYF2), USDA has established an interagency Farm to School Team. During this fiscal year, the Team is visiting fifteen school districts in nine areas across the country of varied demographics and implementation stages of a school's farm to school efforts. During these visits, the Team will work with local farmers, local and state authorities, school districts, and community partners to analyze and assess variables that support or deter farm-to-school activities, both from the school and farmer perspectives, as well as the effects the district's farm to school activities have had on the school and community. The information gathered during these site visits will be used to develop and update appropriate resource materials, guidance, and technical assistance for both schools and farmers to help expand farm to school initiatives across the country.

In addition, USDA recently transmitted a report to Congress entitled "Procurement of Local Food for Schools," prepared by the Food and Nutrition Service. This report responds to a Congressional directive included in House Report 111–181, that accompanied the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act 2010 (Public Law 111–80). In this report, USDA provided Congress with suggestions for future Congressional actions that may assist USDA in encouraging and streamlining local food purchasing by schools. These suggestions were gathered from on-going discussions with various program stakeholders and represent some of their ideas for providing incentives and eliminating barriers to the purchase of local food products.

Question 2. The farm bill provided funding for a Local and Regional Purchase Pilot program to analyze the effects of using local and regional purchase of commodities in food aid programs. How has the FY2009 funding that went to local and regional purchase been used? What metrics will you use to report back to this Committee regarding the pilot's effectiveness and possible need for future program changes?

Answer. Please see response to *Question 30.* under *Questions Submitted by Hon. Collin C. Peterson,* p. 90.

Question 3. Can you talk about efforts to improve the nutritional value of food products our children receive at school? Are there any tools you require that you do not have currently to provide all of our kids with quality and healthy food options?

Answer. To update the school program meal patterns in compliance with the latest *Dietary Guidelines,* USDA enlisted the assistance of the Institute of Medicine (IOM) of the National Academies. IOM released a report in October 2009 with recommendations for new meal patterns for the School Meal Programs to bring them into conformance with the *2005 Dietary Guidelines.* At this time, USDA is carefully reviewing IOM's recommendations and is developing a proposed regulation updating the meal patterns for public comment. In the meantime, we are providing technical assistance to schools and encouraging them to increase their fruits and vegetables, whole grains and fat-free and low-fat dairy products.

We recently released a Menu Planner for Healthy School Meals, which will help schools improve their menu plans: serving more whole grains, fruits, and vegetables, and lower amounts of sugar, sodium, and saturated and *trans* fats in school menus. We also have an online toolkit available to assist schools in assessing and improving their food offerings, including an online calculator to determine the nutritional content of meals sold outside of the meal programs.

In addition, USDA has been working to reduce or eliminate the levels of fat, sodium, and sugar in foods it makes available to schools and other outlets. Improvements in USDA-purchased food offerings include: more fresh fruits and vegetables; canned fruits packed in natural juice or light syrup; low sodium vegetables; 95% lean turkey ham; 97% fat free water-added hams; 85% lean ground beef; 95% lean ground beef patties; tuna packed in water; low fat bakery mix; whole wheat flour; whole grain rice, oats, pastas, tortillas, and pancakes; meatless spaghetti sauce; reduced fat and reduced sodium cheeses; fat free potato wedges; *etc.*

Improving the nutrition and health of all Americans is a top priority for the Obama Administration. That's why we are committed to ensuring that all of America's children have access to safe, nutritious, and balanced meals and we have set a goal of ending childhood hunger by 2015. We have proposed an historic investment of funding over the next 10 years through the upcoming Child Nutrition Reauthorization to improve our country's Child Nutrition Programs. USDA believes that schools play a vital role in helping children develop healthy eating habits and active lifestyles. Improving the quality of school meals and the health of the school environment is critically important to the overall health of our kids, in addition to their academic achievement. At the same time, we must improve access to these vital programs and take steps to reduce hunger. For this reason, we have urged Congress to pass a robust reauthorization bill that supports the President's request of $10 billion in additional funding over 10 years.

This piece of legislation will make it possible for us to set standards for food served in the school environment, reduce gap periods when children lack access to critical nutrition, improve the meal pattern standards for School Lunch and Breakfast for the first time since 1995, expand direct certification to allow more children to be automatically qualified for the program, establish training requirements for cafeteria workers, upgrade cafeteria equipment, promote breastfeeding in a meaningful way, and establish school meal report cards for parents.

Question 4. **Dairy—**Dairy farm families in northeast Wisconsin are struggling. Last year, at my urging, the USDA acted to assist the sinking U.S. dairy industry. What program do you believe helped dairy producers the most?

Answer. USDA has been working to help the dairy industry for many months. Since the beginning of the dairy crisis, USDA has paid dairy producers more than $900 million under the Milk Income Loss Contract (MILC) Program. The Fiscal Year 2010 Agriculture Appropriations Act authorized $290 million in additional direct payments to dairy producers, as well as $60 million for the purchase of cheese and other products. In addition, USDA temporarily increased the purchase prices for cheddar cheese and nonfat dry milk under the Dairy Product Price Support Program (DPPSP) during August–October 2009 and re-activated the Dairy Export Incentive Program (DEIP) USDA has also used full administrative flexibility to make alternative loan servicing options available to dairy producers under Farm Service Agency loan programs.

Not all dairy farmers are the same, so it is difficult to say which program helped the most. The largest expenditures were made under the MILC program. Since production eligible for payment under the MILC program is capped at 2.985 million pounds per fiscal year, MILC payments may have been more beneficial to smaller producers than larger producers. In addition, all producers benefited from the increase in purchase prices under the DPPSP, re-activating DEIP DPPSP, and the assistance provided under the 2010 Agriculture Appropriations Act. Farm Loan Program policies to forebear foreclosure proceedings and extend additional credit also were very beneficial to struggling dairy producers.

The Secretary has appointed the Dairy Industry Advisory Committee (DIAC) to examine what dairy policy would be best for aiding the dairy industry. The Committee had its first meeting in April and its second meeting in June 2010. Committee recommendations will be important in guiding decisions on what dairy policy tools to continue using and what new tools are needed to better assist dairy producers.

Question 5. **Biofuels Tax Credits—**I have heard from biodiesel producers in my district that they're concerned about tax credits that expired as of December 31st. They are concerned the industry can't survive without these credits. Do you think that our domestic biodiesel industry will be able to survive if the tax credit isn't extended by Memorial Day? Are you concerned that a number of plants won't resume production, even if something is done soon?

Answer. Both the House and Senate have passed bills that provide a 1 year retroactive extension of the biodiesel tax incentives. The Administration strongly supports the prompt enactment of this extension.

Question 6. **Constituent Concerns and Questions on Dairy Proposals—**Mr. Secretary, I would also like to share with you some questions and comments from farmers in my district regarding proposed changes in dairy policies:

Suggested Proposals—

> *Question 6.* (Proposal 1.) Moving away from the product price formula to a competitive pay price.

I believe the product price formula is necessary because producers are paid on the quality of the fluid milk and the cheese yield, which enhances our bottom line pay price.

Answer. Currently USDA utilizes product price formulas to establish minimum prices under the Federal milk marketing order program. Producers often receive more for their milk than the minimum prices established under Federal orders.

These premiums reflect a variety of factors, including the quality of a producer's milk. Since the pricing of a very large percentage of producer milk is regulated by Federal and state orders, a new competitive pay price series would most likely require that a significant portion of milk be unregulated or sold not subject to minimum pricing regulations. This could put some producers at a competitive disadvantage relative to the firms that purchase their milk and the producers that continue to have the firms they sell to fully regulated under Federal orders. Thus, it is unclear whether a competitive pay price would lead to higher or lower prices paid for milk than the current product price formulas. Nevertheless, many producers are concerned that "thinly" traded spot market transactions influence the prices used in the current product price formulas to establish minimum prices under Federal orders and these "thinly" traded spot market transactions may not adequately reflect supply and demand conditions and the true price of milk.

Various options are being explored by the dairy industry to use an alternative price discovery process, including competitive pay prices. Objectives are to have an accurate price signal that reflects the current supply-demand balance yet tempers price volatility that has occurred over the past 10 years. Any changes to the minimum pricing provisions of the orders would require formal rulemaking.

Question 6. (Proposal 2.) Reduces the number of classes of milk from four to two.

Again changing the classes of dairy products will reduce premiums that we now are awarded for value added dairy products such as yogurt, protein drinks, *etc.*

Answer. Currently the Federal milk marketing order program utilizes four classes of milk for establishing minimum prices. In most months, the minimum prices established for fluid and soft dairy products are priced higher than the minimum prices established for milk used in cheese and butter/nonfat dry milk production. Depending on how the minimum prices are established, minimum prices for some classes of milk could be higher or lower than minimum prices currently established under Federal orders. Furthermore, producers often receive more for their milk than the minimum prices established under Federal orders. Therefore, it is impossible to say whether reducing the number of classes of milk from four to two would lead to higher or lower prices paid to dairy producers.

Some industry participants have expressed an interest in having two classes of milk but have been unable to agree to specific proposals to determine how the two classes of milk would be priced. Any changes to the number of classes established under the orders would require formal rulemaking.

Question 6. (Proposal 3.) Eliminating the price support program.

Should milk always be below the cost of production? Our assurance of payments when the CME is far below our cost of production thus insuring us for any payment for our cost of milk.

Answer. The Dairy Product Price Support Program has strengths and weaknesses. It is a voluntary program and only works effectively when milk processors are willing to sell products to the government at the announced purchase price. However, it can be very effective in relieving pressure on prices when supply temporarily exceeds the demand for milk. Economic theory suggests that in the short run the benefit to producers is much larger than government expenditures for product purchases, but also that price declines realized by consumers are also limited by the program actions and by purchasing product the Federal Government incurs storage costs and product disposal may lead to displacement of commercial sales. Processors argue that the program limits innovation and product development by keeping selected commodity products higher priced than they would be in a the absence of the program and by ensuring a minimum return. A new payment program that insured that producers receive the cost of production would have to be authorized by Congress and could lead to lower prices to producers if the additional payments cause producers to expand production.

The Dairy Industry Advisory Committee is examining the Dairy Product Price Support Program to determine if it will recommend the program's continuation, modification, or elimination. The Committee is also examining alternative safety net programs for dairy producers.

Question 6. (Proposal 4.) Making changes to Federal orders including going to a single order.

A single order means milk will be moved to any region including states with shortages like the northeast and southeast. A producer will be burdened fully for the cost of transportation if the milk supply is short in that region.

Answer. To meet the objectives of the Agricultural Marketing Agreement Act of 1937, the geographic borders of milk marketing areas should reflect the common area where fluid milk processors compete for milk sales. There are differing opinions regarding the appropriate number of orders necessary to reflect competitive marketing conditions.

Question 6. (Proposal 5.) Implementing a target price deficiency payment program.

Would producers fund this program? This would again add to our cost of producing milk like the cwt and advertising costs?

Answer. The Milk Income Loss Contract program is similar to a target price deficiency payment program and is paid from government funds. Thus, it does not add to milk production costs. Newly proposed programs could be designed with payments from government funds or from producer assessments. The advantage of producer-funded programs is that producers can choose target price and payment levels; however, they also have to fund the program. As you mention, this adds to the cost of producing milk through assessments paid on milk marketed.

Question 6a. Today's price saw the $1.34 Block price which equates to 10.2 cheese yield to $13.668 minus the $2.04 make allowance for the processor brings us to $11.62 milk price. The operation cost of production according to the Farm Service Agency is $16.00.

Why is the make allowance to reflect only the cost of the processor. A cost of production index for the producer is not implemented to allow a return to the dairy farmer. This is driving rural America to the brink of extinction.

The suggested proposals above will create complete deregulation of the dairy industry. This will lead to vertical integration which will increase consumers cost in the grocery store and eliminate independent dairy producers the backbone of rural Wisconsin.

Answer. The make allowance is an estimate of the cost of converting milk into a particular dairy product, in this instance cheese. It is used under Federal orders to determine the minimum price that a milk processor must pay for milk. Producers often receive more for their milk than the minimum prices established under Federal orders. In the absence of Federal orders, the bargaining position of milk processors could be enhanced leading to lower prices to dairy producers.

Questions Submitted by Hon. Blaine Luetkemeyer, a Representative in Congress from Missouri

Question 1. Along the Missouri River, which traverses my Congressional district, the U.S. Army Corps of Engineers is digging a series of side channel chutes to provide shallow water habitat for the pallid sturgeon. Some calculations indicate that they will dump 548 million tons of soil into the river in order to meet the Fish and Wildlife Service's requirement for increased habitat. They are doing this under a Clean Water Act permit that they granted themselves, while many of our constituents have been fined for dumping what is, comparatively speaking, a miniscule amount of sediment into the river. Simultaneously, your conservation programs seek to educate river communities on the danger of sediment dumping and nutrient loading in rivers. Please share USDA's position on nutrient loading and sediment dumping into rivers.

Answer. Prior to human intervention, the Missouri River was an uncontrolled, active river meandering from bluff to bluff and constantly cutting new channels resulting in tremendous quantities of river-borne sediment from the channel and bank erosion. However, alteration of the main stem of the Missouri River has caused a chain effect of impacts including the Federal listing of three species onto the Endangered Species List (Pallid Sturgeon, Piping Plover and Least Tern).

The U.S. Fish and Wildlife Service's 2003 Amendment to the "2000 Biological Opinion of the Operation of the Missouri River Main Stem Reservoir System, Operation and Maintenance of the Missouri River Bank Stabilization and Navigation Project, and Operation of the Kansas River Reservoir System" requires the USACE to construct 20 to 30 acres of shallow water habitat per river mile in the lower reaches of the Missouri River as part of the recovery efforts for endangered species. The primary means of accomplishing this habitat restoration is through the construction of chutes and backwater habitat, which results in discharge of the dredged sediment directly into the river.

The proportion of discharged sediment to sediment already in the stream is an important consideration. The 10 year daily average suspended sediment load at Nebraska City in June is approximately 200,000 cubic yards per day, so the discharged sediment was equivalent to only 1.5 days of sediment discharge. Therefore, sediment discharged into the river from chute restoration projects is a small fraction of the total yearly sediment carried by the river. Moreover, sediment discharges from restoration activities are a one-time event

The primary purpose of USDA's investment for upland on-farm soil and water conservation practices is to ensure sustained productivity of agricultural lands as well as to minimize the impacts of nonpoint source pollution in our upstream reservoirs, streams and groundwater supplies. On-farm conservation practices ensure sustainability of these lands, while allowing for agricultural production.

Sediment reduction from the upland on-farm soil and water conservation practices is generally a separate issue from the concerns regarding sediment loading in the Missouri River. Historically, very little sediment from the uplands of the Missouri Basin reached the main stem of the river because the land was protected by a blanket of native prairie grasses. Today's on-farm soil and water conservation practices on working lands approximate the effectiveness of the former prairie by establishing agricultural sustainability within farming and ranching operations. The majority of river-borne sediment is historically derived from bank erosion of the river and its main tributaries. Dams and channelization have greatly reduced sediment levels in the river, but the majority of the remaining sediment flow in the river still comes from river bank and bottom erosion.

Question 2. Are you aware of any collaboration between the Army Corps of Engineers, the Fish and Wildlife Service and USDA on this issue? In your opinion, how can USDA work with the Fish and Wildlife Service, EPA, and the Corps to better educate them on the harmful effects of nutrient loading in the Mississippi River and its tributaries?

Answer. There are many ongoing collaborative efforts between USDA, EPA, USFWS and the USACE that allow for discussion of nutrient loading concerns in the Missouri River and its tributaries.

The Missouri River Recovery Implementation Committee (MRRIC) is a stakeholder group, which includes all of the Federal agencies. This group is required by law to provide input to the Missouri River Ecosystem and Restoration Planning process led by the USACE. Technical teams from that Committee will be providing input to MRRIC, including issues related to water quality concerns in the Missouri River and its tributaries.

The Cooperating Agencies Team (CAT) is the group of Federal agencies required by law to work with the USACE in the actual development of the Missouri River Ecosystem and Restoration Plan. Water quality within the river will be a critical component of the planning process.

The Missouri River Authorized Purposes Study (MRAPS) is a congressionally mandated study to reevaluate the original purposes of the Missouri River Flood Control Act of 1944. MRAPS is the first-ever review of the legislation that created the system of dams and reservoirs on the Missouri River and major tributaries. The study will analyze the current eight authorized purposes in view of current basin values and priorities to determine if changes to these purposes and existing Federal water resource infrastructure may be warranted. The study began in October 2009, and is targeted for completion in 5 years. The eight authorized purposes are: Irrigation, Water Quality, Flood Control, Recreation, Navigation, Hydropower, Water Supply, and Fish and Wildlife. The study team will work collaboratively with Tribes, Federal and state agencies, stakeholders, and the general public to seek input to the study through a wide variety of communications tools.

The Missouri River Sediment Action Committee (MSAC) is a citizen action group from the Upper Missouri River Basin who is very concerned about the loss of recreation and degradation of water quality within the reservoirs on the main stem of the Missouri River. They engage all of the Federal agencies in their studies and action plans related to sedimentation of the reservoirs.

The USDA Natural Resources Conservation Service's (NRCS) State Technical Committees solicit input from a wide range of Federal, state and local agencies, farm organizations, conservation groups, individual landowners and others to improve implementation of the USDA conservation programs. These Committee Meetings provide another forum for discussion of water quality issues related to the Missouri River and its tributaries.

These are examples of the many ongoing opportunities for dialogue between USDA, EPA, USFWS, USACE and others regarding nutrient loading within the Missouri River and its tributaries.

NRCS also is involved with a number of partners including the U. S. Army Corps of Engineers, the U. S. Fish and Wildlife Service and EPA to help address Missouri River Basin environmental issues.

NRCS has established a full-time Missouri River Basin Coordinator to work directly with the Cooperating Agencies Team, and the Missouri River Recovery Implementation Committee, to ensure that private lands conservation is adequately addressed in the Missouri River Ecosystem and Restoration Plan. NRCS's commitment to a full-time coordinator also allows for direct engagement in other Missouri River issues such as the Missouri River Authorized Purposes Study and the Missouri River Sediment Action Committee.

NRCS in Nebraska is working with several partners to restore nearly 19,000 acres of wetland and associated upland habitat in a corridor along the Missouri River through the nation's first Wetlands Reserve Enhancement Program (WREP) project. In Fiscal Year 2010, Nebraska will use nearly 75 percent of the state's $23 million Wetlands Reserve Program (WRP) funding in this WREP area to restore wetlands and associated upland habitat. NRCS has cooperated with the USACE to incorporate some chute and backwater habitat restoration within WRP easements along the Missouri River where such aquatic habitat improvement is compatible with the purpose and management of the individual easement.

The agency also is working in partnership with other agencies and landowners in Nebraska and South Dakota, through the Missouri River Futures, to provide assistance to meet the unique natural resources needs of the unchannelized portion of the Missouri River corridor. The Missouri River Futures has engaged over 40 organizations in identifying potential improvement projects along the river and then seeks funding sources to accomplish many of those projects.

USDA is fully committed to working with Missouri River Basin partners and private landowners to continue to find ways to more effectively utilize our conservation programs to address the unique natural resources needs.

Questions Submitted by Hon. Scott Murphy, a Representative in Congress from New York

Question 1. Several communities in New York's 20th District (Village of Red Hook and the Town of Moreau) have unsuccessfully applied for Rural Development loans and grants to fund Water and Waste Disposal systems. Although these communities meet the general definition of rural community, they have been declared ineligible due to USDA's interpretation of population criteria.

Recently, USDA Rural Development submitted a guidance memo stating that when determining if an area is eligible for a Water & Waste Disposal loan, loan guarantee or grant, Rural Development employees should define "rural" or "rural areas" as a city, town or unincorporated area that has a population of no more than 10,000 inhabitants. The guidance makes no mention of the project's service area, which can be significantly less than the 10,000 person threshold.

For example, the Village of Red Hook with a population of 1,805—well within limits for the Rural Development program—recently received an indication from the USDA that because of its inclusion of a small portion of the Township of Red Hook in the service area, the project may be ineligible due to population restrictions. Using USDA's criteria, the Village of Red Hook's population must be added to both the populations of the Town of Red Hook and the incorporated Village of Tivoli—some 6 miles distant and served by its own sewer system. As a result, the project has been determined ineligible because the population is calculated to be 10,408—this despite the fact that the water system will serve 2,500 people.

Incorporated Village of Red Hook	1,805
Town of Red Hook	7,440
Incorporated Village of Tivoli	1,163
Total	10,408

Why has USDA decided to use city, town, or unincorporated population as eligibility criteria for Water & Waste Disposal grants and loans when many of these water projects service rural areas that fall well below the city, town, or township population limits?

Answer. The Agency is complying with statutory requirements with regard to eligibility. Section 306 of the Consolidated Farm and Rural Development Act (CONACT) authorizes the Secretary to issue water and waste disposal-related loans and grants to entities serving rural areas. The 2008 Farm Bill defines "rural" and "rural area" as "a city, town, or unincorporated area that has a population of no more than 10,000" for the purpose of water and waste disposal loan and grants and guarantees.

Question 2. What efforts has USDA made to ensure that rural communities, like the Village of Red Hook, can take advantage of Rural Development Programs, even if these locations fall within larger jurisdictions?

Answer. USDA, through its Rural Development field offices, works with communities to determine all possible sources of funding, including programs across Rural Development and other Federal, state and local funding partners.

Question 3. The 2008 Farm Bill directs the USDA to report on the various definitions of "rural" it uses by next month and to assess the impacts these definitions have on program delivery. Can you give us an idea of what you have found so far, particularly if you think the varying definitions of the term are causing problems with targeting loans and grants where they are most needed?

Answer. **We will be reporting to the Congress later this summer and it would be premature to speculate about our conclusions at this time.**

Any targeted program is apt to create difficult boundary issues, and the various 2008 Farm Bill definitions of rural are no exception. The difficulties typically arise with regard to communities that "look and feel" rural but that fall on the wrong side of an essentially arbitrary line drawn on the basis of geographic location, income, or population size. These issues are of course not unique to rurality; any means tested program, for example, will face similar issues related to the appropriate definition of income.

The challenge is therefore not the identification of problems with the current definition. The real challenge is to devise some other definitional scheme that reduces or at least simplifies these issues, given the reality that the boundary issues are unavoidable. We are studying these issues and will offer a recommendation to Congress later this year.

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Questions Submitted by Hon. Timothy V. Johnson, a Representative in Congress from Illinois

Question 1. Mr. Secretary, could you please provide an update on the Department's outreach and educational efforts when it comes to the Average Crop Revenue Election Program (ACRE)? What are you doing to ensure that Farm Service Agency County Staff are adequately trained in providing consistent and quality information to producers?

Answer. FSA remains committed to ensuring FSA's field staff is knowledgeable and helpful to producers regarding the Average Crop Revenue Election (ACRE) and its relationship with the Direct and Counter-Cyclical Payments Program (DCP).

First, FSA has provided several tools to field staff for educating producers on this program. These include informational materials for State and County offices, ongoing Public Service Announcements and other media outreach from the national office, and targeted outreach at the local level (including translation services) to Socially Disadvantaged producers. FSA has conducted informational meetings regarding ACRE at the local level, and is working closely with state extension officials and the private sector to provide as many public venues as possible for producers to bring questions to FSA staff.

At the same time, we understand the particularly complex nature of this program for both producers and FSA staff, and we have taken extra steps to educate staff regarding the ACRE program. FSA conducted standard "face-to-face" program training regarding ACRE before the program's first sign-up in 2009; for the first time, staff members were also trained directly by national program staff during a live webinar training session. As sign-up went on, FSA national program staff conducted numerous conference calls and online meetings to continue answering staff questions regarding the program.

During the 2010 sign-up, FSA provided all State Offices with ACRE enrollment data to enable additional follow-up by state officials to County Offices whose DCP and ACRE enrollment rates lag behind the national average. FSA is closely monitoring these enrollment figures, and national program staff is working closely with State and County staff to ensure quality responses to producer questions regarding ACRE.

Question 2. As you know the ACRE program (created in the 2008 Farm Bill) provides a revenue based option for producers. The economic safety net is of paramount importance as we continue to work through the implementation of the current farm bill and begin earnest discussions on the next farm bill. Many producers in the 15th District of Illinois have suggested that ACRE could be more effective if it used county level triggers as opposed to state triggers. How do you view such a proposal?

Answer. As you know, the state trigger is considered to be met if the actual state yield times the higher of the national average market price or 70 percent of the national average loan rate is less than 90 percent of the state 5 year yield times the 2 year national average market price.

If future legislation substituted county yields rather than state yields, as indicated above, the impact of a change in yields at the county level rather than the state level may be more reflective of an individual producer's yields in some situations. Presently, state yield information is provided through data obtained from NASS. This would increase the difficulty of administering an ACRE program with county triggers. In addition, ACRE payments under a county ACRE program could vary widely from county to county even though farm yields near county boundaries may be quite similar. Furthermore, such a program would have to be considered relative to programs currently being offered through USDA's Risk Management Agency, and would have to fall within the farm bill's budget constraint.

Question 3. As you know, pollinators play a crucial role in helping produce the foods that we eat. According to scientists at universities and USDA, it is estimated that pollinators are involved in one out of every three bites of food that we eat. A CRS Report by Renee Johnson places the commercial value of honey bees between $15 and $20 billion annually. The 2008 Farm Bill included a yearly $10 million authorization through FY 2012 aimed at research and extension grants for pollinator protection. Could you please provide me with an update as to how much and how this money has been spent as well as some remarks on the cause of and progress against Colony Collapse Disorder?

Answer. Colony collapse disorder (CCD) has caused beekeepers to experience total colony losses in the 30 percent range each year since 2006. Although a long-term prognosis is not yet possible, the situation is not considered sustainable. The Agricultural Research Service (ARS) and the National Institute of Food and Agriculture (NIFA) continue to co-chair the Federal CCD Steering Committee, which addressed the crisis through the CCD Action Plan. The Natural Resources Conservation Service (NRCS) chairs the Interagency USDA Pollinator Protection Committee which addresses pollinators more broadly.

Of the $10 million authorized by the 2008 Farm Bill for CCD, the new funding has been appropriated as follows:

- ARS has brought its total budget for pollinator research from $9.3 million (FY 2007) before the 2008 Farm Bill to $11.7 million (FY 2010), with an additional $500,000 in the President's FY 2011 request. Temporary ARS funding also includes a $5 million ($1 million per year) area wide project to test best management practices for honey bees.
- NIFA's total spending on CCD and pollinator protection went from $1 million in 2007 to $4 million in 2010. Of this $4 million, $3 million has been appropriated to its Agriculture and Food Research Initiative (AFRI). NIFA's funding includes a Coordinated Agricultural Project (CAP) which was initiated in 2008 and is expected to be continued through 2012. The CAP focuses on research and extension aimed at producing healthier bees and to provide outreach to beekeepers and the public on topics relevant to bee health including CCD.
- Since the $2.25 million authorized by the 2008 Farm Bill for the bee health survey for each year from 2008 to 2012 has not been appropriated, the Animal and Plant Health Inspection Service (APHIS) has provided $150,000 in 2009 and $550,000 in 2010 from existing Section 10201 funding.

Overall, USDA research has focused on data collection, analysis, research, and mitigation, in accordance with the CCD Action Plan. It now seems clear that CCD starts with multiple stressors on colony health: long distance transportation, loss of bee forage, the increasing use of systemic pesticides, the varroa mite and need to apply miticides, toxins building up in bee feed, and a variety of viruses and other pathogens. In essence, when numbers drop below 10,000 bees per colony over winter, the colony can no longer produce the next generation of bees and collapses. Several studies have documented extremely high pathogen and pesticide loads in diseased bee colonies, particularly viruses such as the Israeli acute paralysis virus and deformed wing virus, as well as the parasite nosema. Moreover, one recent study indicates that these stressors may synergize with one another; pesticides in particular can stress bee immune systems and make them more susceptible to viruses, pests such as the highly detrimental varroa mite, and parasites. Collectively, these findings indicate that colony collapse is likely the result of stress overload. New funding is being used to address these important leads, particularly pesticide, pathogen, pest interactions, environmental stressors, and providing more robust bees for pollination by breeding better bees and providing nutritional supplements for bee build up.

Questions Submitted by Hon. Deborah L. Halvorson, a Representative in Congress from Illinois

Question 1. Are there adjustments you will be suggesting to the farm bill that addresses the safety net provisions for program crop farmers and if so, what are they?

Answer. USDA is looking forward to working very closely with Members of Congress and Agriculture Committee Members to provide payment, crop and other statistical data that would indicate the scope and assistance provided by current safety net provisions. FSA expects to offer suggestions that would potentially administrative burdens and add to the effectiveness and timeliness of Federal farm program delivery.

Question 2. Will the Department of Agriculture be making specific recommendations for farm program provisions and if so when?

Answer. USDA is looking forward to working very closely with Members of Congress and Agriculture Committee Members to provide payment, crop and other statistical data that would indicate the scope and assistance provided by current safety net provisions. USDA would like to work with the House and Senate Agriculture Committees to develop a bipartisan 2012 Farm Bill that reduces administrative burdens on our farmers and ranchers and improves the effectiveness of the farm safety net.

Question 3. Will revenue based safety nets be able to be considered down to at least the county level?

Answer. Current farm legislation provides that state level and farm level data will be used to determine when a farm is eligible for an ACRE payment. A change in the Food, Conservation and Energy Act of 2008 would be required to move the state level trigger down to the county level trigger. Data for county level triggers may be significantly harder to obtain because NASS does not, in all cases, provide yield information at the county level.

Question 3a. Many farmers in my state are interested in the revenue based safety net program and an appealing provision would be county level coverage for the ACRE program.

Answer. A county-based ACRE program would create substantial data challenges for FSA. NASS data is considered the first choice as the most reliable yield data available. However, there are many counties that NASS does not report production and acreage data, particularly for the “other oilseeds,” pulse crops, and other commodities grown in non-major producing areas. Collecting reliable yield data should be a priority, if the move is made to a county level trigger.

Establishing state-level guarantee and actual yields for the ACRE program has presented challenges. For example, there are 33 states that state-level guarantee and actual yields are needed for sunflower seed that NASS does not report a yield. In addition, ACRE payments under a county ACRE program could vary widely from county to county even though farm yields near county boundaries may be quite similar. Furthermore, such a program would have to be considered relative to programs currently being offered through USDA’s Risk Management Agency, and would have to meet the farm bill’s budget constraint.

Question 4. What is USDA doing to improve agriculture exports, especially in the dairy and meat sectors?

Answer. We are putting a renewed emphasis on trade at USDA as we work with nations across the world to achieve a level playing field. USDA is committed to working to ensure that U.S. farmers have fair market access, a strong understanding of key market trends, and support in overcoming constraints such as tight credit in international markets.

The Fiscal Year 2011 export forecast for livestock, poultry, and dairy products is raised by almost $200 million to $20.3 billion. The forecast for broiler meat is revised upward by nearly $300 million to $3 billion, as prices have been resilient despite the implementation of sanitary requirements by Russia and market access issues in several other countries. The dairy export forecast is raised slightly to $2.9 billion due to strong global dairy prices and expected recovery in milk powder sales. Pork exports are reduced by over $100 million to $4.1 billion on lower quantities as tight domestic supplies and limit U.S. shipments. For the same reason, beef and pork variety meats are dropped to just over $1 billion. Beef exports are unchanged at $3 billion.

For U.S. beef, Under Secretary for Farm and Foreign Agricultural Services James Miller has traveled to Japan and China where restrictions still exist due to perceived risks associated with BSE, to revitalize ongoing efforts to further expand access for U.S. beef and beef products. The Secretary also recently returned from Japan where he pressed for the two sides to develop a mutually agreeable framework for negotiating expanded beef access. In the coming months, we will seek additional opportunities to further engage Japan, China, Mexico, and Hong Kong. Recent efforts with China and Russia opened markets for pork, with respect to pork headed to China, we are striving to assure that Chinese import requirements are consistent with international standards.

To date for FY 2010, USDA has guaranteed approximately $75 million of beef and pork exports under the GSM–102 Export Credit Guarantee Program. During times of slow global economic growth and tight credit the GSM–102 Program encourages the extension of credit by U.S. banks for sales of U.S. agricultural exports, thus encouraging exports to buyers primarily in developing countries. In 2010, the U.S. Meat Export Federation received $15.7 million in funds under the Market Access Program and $1.7 million under the Foreign Market Development program.

For dairy products, we are engaged in several areas. The Dairy Export Incentive Program (DEIP). DEIP helps U.S. dairy exporters meet prevailing world prices and encourages the development of international export markets in countries or regions where U.S. dairy products are disadvantaged due to subsidized dairy products from other countries. On May 22, 2009, facing poor domestic market conditions and the reintroduction of dairy export subsidies by the European Union, USDA announced DEIP allocations for the July 2008 through June 2009 year, as allowed under the rules of the World Trade Organization. On July 6, 2009, the initial tranche of allocations for the July 2009 through June 2010 year was announced. Since July 2009, USDA has awarded bonuses for the export of 37,228 metric tons of nonfat dry milk 17,470 metric tons of butterfat and 1,843 metric tons of cheese. The program has facilitated sales of U.S. dairy products to Africa, the Middle East, Asia/Eurasia, Central and South America, and the Caribbean.

The Department of Agriculture was able to delay China's implementation of any new dairy certification requirements and we are advocating science-based requirements that are consistent with international guidelines in our continuing engagement with Chinese officials.

In 2010, the U.S. Dairy Export Council received $4.3 million in funds under the Market Access Program and $700,000 under the Foreign Market Development program.

Questions Submitted by Hon. Kurt Schrader, a Representative in Congress from Oregon

Question 1. Title X of the 2008 Farm Bill is particularly important to my state which is primarily specialty crops. I would like to hear your views on the importance of Title X in the next farm bill.

Answer. USDA commends Congress for including, for the first time, a specialty crop and organic agriculture title in a farm bill. This Administration is committed to the importance of fresh, nutritious food and organic agriculture. President Obama has made a safe, sustainable, and nutritious food supply a central goal for USDA.

As Congress begins discussions for the 2012 Farm Bill, USDA encourages members to recognize, as they did in drafting the 2008 Farm Bill, the importance of these valuable segments of U.S. agriculture.

Question 2. The Forest Service is a shadow of what it used to be. It appears the FS can no longer help our forests and no longer promotes jobs. In my opinion we should either do away with or make enough of investment to keep forests healthy, create jobs and make vibrant rural communities. With that said, the farm bill asked for national priorities for forest land to be established. With this being the case, how come it's taken the Forest Service so long to select members of the State Forest Stewardship Coordinating Committee?

Answer. Each state forestry agency is responsible for selecting and convening its State Forest Stewardship Coordinating Committee (SFSCC). These committees were first established in 1990, and have been functioning since then. The 2008 Farm Bill added a member of the State Technical Committee (chaired by the Natural Resources Conservation Service) to the SFSCC. If there is a question regarding the SFSCC in a particular state we can follow up.

If the question is more focused on the Forest Resource Coordinating Committee established to advise the Secretary of Agriculture, please see the following:

The naming of the members of the Forest Resource Coordinating Committee is moving forward. The original charter called for a maximum of 20 members, but with the wide range of diverse interests who wish to advise the Secretary of Agriculture on private forestry matters, the Department has decided to consider additional potential applicants. This entails amending the original charter and allowing time for additional applications to be submitted and subjected to background checks. The charter should be amended by July, the committee members appointed, vetted and notified by September, and a first meeting held by December.

Question 3. I appreciate the emphasis on renewable biomass in the last farm bill and as part of ACES, the House Climate Change bill. It's critical to some semblance healthy forests and rural communities. This broad definition of renewable biomass is critical to effective implementation of those bills. There is some concern the USDA may be backing away from that definition when developing BCAP rules. In my opinion that would be catastrophic. I would like to hear your comments on that. Also, I would appreciate your commitment to support the 2008 Farm Bill definition.

Answer. The statutory definition of renewable biomass in the 2008 Farm Bill is the definition that the Department of Agriculture will use when developing the final regulations the Biomass Crop Assistance Program (BCAP). In addition to furthering the development of crops of renewable biomass for energy, BCAP is designed to improve forest health by removing uneconomical forest thinnings, and reducing the risk of disease, invasive species, and forest fires. Furthermore, forests provide an important sink for carbon dioxide, the most common global warming pollutant.

Question 4. Sec. 502 Rural Housing program has been unqualified success and has an exceptional track record. This program is being used more than ever before but it's funding has nearly run dry. What is the USDA doing to keep program going for the remainder of the year? Are there plans to adjust the program going forward to account for the increased demand for loans under Sec. 502?

Answer. The reason why funding for the Section 502 Single Family Housing Guaranteed Loan Program (SFHGLP) will run out so soon is due to the unprecedented increased demand for mortgage financing resulting from the housing crisis. The USDA supports legislation in which the SFHGLP guarantee fee structure would make it subsidy neutral, meaning the program would collect enough in fees to fully offset estimated losses resulting from new guarantees. The guarantee fee structure does not require further appropriation of budget authority to continue serving rural America. In addition, ample funding is available under the Section 502 Single Family Housing Direct Loan Program (SFHDLP) to provide homeownership opportunities to low and very low income households.

Question 5. What recommendations is the USDA making to the Administration and USTR Kirk on reducing barriers other nations have raised as a result of old, outdated trade agreements that no longer reflect the increased competitiveness of what were developing nations?

Answer. Concluding the WTO Doha Round of agricultural negotiations is an essential tool in preserving and expanding access to foreign markets for U.S. food and agricultural products through the promotion of an open, rules-based global trading system. We need to conclude a Doha trade agreement that creates real access to key global markets including from large, emerging markets such as China, India, and Brazil. USDA continues to strongly support and enunciate the Administration's clear position that advanced developing economies must assume their corresponding leadership responsibilities in trade agreements both bilaterally and multilaterally and be willing to provide significant, new access to their markets. At the same time, the USDA continues to seek the best conditions possible domestically for our farmers and ranchers so they can maintain and grow our competitive global position in agricultural production, processing, and distribution. We also seek new market access opportunities through bilateral and regional trade agreements. The Trans-Pacific Partnership FTA negotiation brings together a mix of developed and developing nations that will effectively help address the competitiveness challenges the United States will face in the 21st century. We support the Office of the U.S. Trade Representative's efforts to deliver economic and strategic trade benefits by resolving outstanding issues on the pending FTAs with Panama, Colombia and Korea. When these FTAs are implemented, they will significantly expand opportunities for U.S. agricultural exports.

Question Submitted by Hon. Earl Pomeroy, a Representative in Congress from North Dakota

Question. At a January 10, 2007 Senate Agriculture, Nutrition and Forestry Committee hearing, U.S. Department of Agriculture's Chief Economist, Keith Collins, noted that high crop prices, due in part to the strong domestic market for ethanol, led to a $6 billion savings for the Federal Government from reduced farm program payments in 2006. Thus, with increased tax revenue and reduced farm program costs, the taxpayer realized a $4 return for every $1 invested in domestic renewable energy last year. Has the Department looked more recently at the impact of biofuels policy and the use on commodity prices as well as the impact on commodity program spending?

Answer. At a June 12, 2008 U.S. Senate Energy and Natural Resources Committee hearing, U.S. Department of Agriculture's Chief Economist, Joseph Glauber, testified on the effects of the expansion in biofuels production in the United States on commodity markets and food prices. In that testimony, the effects of increased ethanol and biodiesel production on corn and soybean prices are presented for marketing years 2006/07 and 2007/08. Assuming the amount of corn used for ethanol production and soybean oil used for biodiesel production in 2006/07 and 2007/08 remained unchanged from the amounts used in the 2005/06 marketing year, corn prices would have averaged $0.24 per bushel lower in 2006//07 and $0.65 per bushel lower in 2007/08. Soybean prices would have averaged $0.18 per bushel lower in 2006/07 and $1.75 per bushel lower in 2007/08. Despite the drop in corn and soybean prices, commodity program spending would have remained essentially unchanged, since corn and soybean prices would have continued to exceed levels that would have triggered either countercyclical payments or marketing loan benefits. The scenario presented above was selected to depict the effects of increased ethanol and biodiesel production on corn and soybean prices and does not represent a specific policy scenario.

In May 2007, USDA's Office of the Chief Economist and the Economic Research Service analyzed two alternative scenarios of biofuel production at the request of Senator Saxby Chambliss. Under scenario 1, annual domestic ethanol production increases to 15 billion gallons by 2016 and annual domestic biodiesel production increases to 1 billion gallons. Under scenario 2, ethanol production increases to 20 billion gallons by 2016 and annual biodiesel production increases to 1 billion gallons. These scenarios compare with about 12 billion gallons of ethanol and 700 million gallons of biodiesel production in 2016 in USDA's long-term baseline agricultural projections released in February 2007. Under scenario 1, the price of corn increases by $0.31 per bushel and the price of soybeans increases by $0.45 per bushel above the baseline in 2016. Under scenario 2, the price of corn increases by $0.65 per bushel and the price of soybeans increases by $1.20 per bushel above the baseline in 2016. These price increases would not have reduced commodity program payments, since prices for both corn and soybeans were above levels that would have triggered countercyclical payments and marketing loan benefits for corn and soybeans.

Question Submitted by Hon. Bill Cassidy, a Representative in Congress from Louisiana

Question 1. Under Cap-and-Trade, farmers would face higher energy costs and input costs due to the higher cost of carbon-based products. Proponents of Cap-and-Trade have argued that farmers could mitigate these added expenses by decreasing carbon emissions and selling the resulting "credits" as offsets. Yet the Congressional Budget Office estimates that ⅔ of the offset credits would be supplied by international sources. Furthermore, USDA Chief Economist Jonathan Glauber has said that the primary source of carbon offsets would be afforestation of farm land, from which agriculture products may no longer be produced. Therefore, is it realistic to expect that these carbon offsets will benefit American agriculture and our farmers? If so, on what assumptions is this expectation based?

Answer. The analysis prepared by USDA Chief Economist, Dr. Joseph Glauber in December 2009 addresses many of the issues outlined in your question. Our findings suggest that under the energy price scenario estimated by the Environmental Protection Agency (EPA) for the bill entitled the "American Clean Energy and Security Act of 2009" (H.R. 2454), the price and income effects due to higher production costs for agriculture will be relatively small, particularly over the short run (2012–2018). Impacts on production costs are also mitigated by provisions in H.R. 2454 that would provide allowance rebates to "trade-vulnerable" industries, including fertilizers. When production cost impacts are considered in conjunction with likely commodity price increases and possible revenues from offsets and increased bioenergy production, the impact on net farm income may be positive.

As you note, providing offsets through afforestation will take land out of agricultural production. It is important to note that afforestation is only one potential source of carbon offsets for agriculture. Since such activities would be voluntary, they would not be undertaken by farmers unless they could generate returns on that farmland in excess of returns from crop production. Similarly, existing cropland could be farmed in a less intensive manner and farmers will have incentives to improve fertilizer and manure management. H.R. 2454 and the recently announced proposal by Senators Kerry and Lieberman entitled "the American Power Act" provide a long list of potential offset activities in the agriculture and forestry sectors. In addition to providing offsets to regulated firms, the renewable energy provisions in many recent cap-and-trade proposals will promote the use of biomass-based energy in generating electricity. Such proposals will further provide U.S. farmers with opportunities to participate in the nation's efforts to reduce overall emissions of greenhouse gas emissions.

We anticipate that domestic and international offsets will play an important role in meeting the emission targets under proposed climate change legislation. The American Clean Energy and Security Act (H.R. 2454), constrains international and domestic offset supply to no more than 2 billion metric tons of greenhouse gas emissions in any given year. More recent proposals such as the bill entitled "Clean Energy Jobs and American Power Act" (S. 1733) places tighter restrictions on international offset supply and thereby encourage the supply of domestic offsets relative to provisions in H.R. 2454. Similarly, the proposal by the Senators Kerry and Lieberman would also place further restrictions on international offset supply in any given year, thereby encouraging domestic offsets.

Question 1a. In addition, if carbon offsets are supplied internationally, what enforcement mechanism does the Administration support to ensure the long-term integrity of the offsets supplied in other countries?

Answer. Transparency and verification are critical to any international climate agreement and to a robust international carbon offsets market. For this reason, the U.S. has consistently supported establishing strong measurement, reporting, and verification systems to provide for full and accountable reporting. Market instruments will require a high level of stringency in order to maintain confidence and ensure results are real, additional, and verifiable. An effective international system will:

- Include requirements that countries develop plans that present detailed descriptions of steps envisaged, including policies and measures, estimates for the expected effect of those actions on emissions and removals, and their relationship to longer-term mitigation scenarios;
- Include complete greenhouse gas inventories using the most recent IPCC guidelines;
- Ensure that reductions in emissions or increases in removals are new and additional; and
- Establish clear incentives for countries to continuously improve their national monitoring and reporting systems.

Question Submitted by Hon. Tim Holden, a Representative in Congress from Pennsylvania

Question. **TEFAP—**The farm bill provided large increases to The Emergency Food Assistance Program (TEFAP), from $140 million to $250 million per year, and indexed it for inflation. This additional funding has been of vital importance to many American families in the current economy. In spite of this increase, however, food banks are reporting a growing need for more food and additional administrative funding, even beyond what was provided in the stimulus bill. In contrast, early in 2009, we were told that TEFAP was unable to spend all of the farm bill increase. Can you please tell us about the status of TEFAP purchases, administrative costs, and what you are hearing at the Department about any outstanding need for more emergency food assistance?

Answer. In Fiscal Year (FY) 2009, the Department provided almost $710 million in food for the emergency feeding network, including $100 million through the American Recovery and Reinvestment Act of 2009 (ARRA) and $373.7 million in bonus foods. We also provided $49.5 million in regularly appropriated administrative support for state and local agencies and $25 million in ARRA TEFAP administrative support.

In FY 2010, Congress appropriated $248 million for food purchases under TEFAP, based on the statutory formula established in the 2008 Farm Bill, and $49.5 million in administrative support to states and local agencies. An additional $25 million in administrative support was provided through ARRA. In addition to ARRA and the regularly appropriated food and administrative funds, Congress also appropriated $60 million for cheese and other dairy products for TEFAP in FY 2010. We will continue to direct bonus foods to TEFAP to the extent that resources permit. Currently, we estimate that we will provide about $348 million in bonus foods to the emergency feeding network in FY 2010.

In addition, the 2008 Farm Bill authorized an Emergency Food Program Infrastructure Grant to support and expand the activities of the Emergency Food Network. In FY 2010 Congress appropriated $6 million for this grant. The Department released the Request for Application on April 1, 2010.

In this current economic climate, the Department continues to hear of growing numbers of American turning to food pantries and soup kitchens to feed their families. We have heard this increase in demand is placing an increased burden on the food bank community, both in terms of need for additional food and funds. The food bank community continues to absorb all resources that the Department has made available.

ATTACHED TABLES

Borrowers of FSA Loans Ineligible Under Term Limits

	Guaranteed		Direct	
State	Currently Ineligible*	Become Ineligible 2010**	Currently Ineligible	Become Ineligible 2010
AL	20	4	57	70
AZ	1	2	2	9
AR	156	37	126	264
CA	29	5	104	192
CO	37	15	51	102
CT	10	2	5	11
DE	0	0	0	2
FL	13	3	12	39
GA	130	30	105	117
ID	77	20	102	163
IL	235	67	170	179
IN	148	47	68	122
IA	232	98	367	388
KS	191	59	160	236
KY	103	39	328	392
LA	391	104	39	213
ME	32	18	36	112
MD	2	0	0	18
MA	7	2	3	34
MI	94	49	94	139
MN	360	112	241	430
MS	97	42	60	182
MO	132	44	190	256
MT	48	19	51	125
NE	209	73	420	299
NV	7	2	5	11
NH	3	0	10	19
NJ	2	3	5	7
NM	18	7	10	29
NY	38	13	95	175
NC	87	28	105	160
ND	141	89	228	369
OH	64	16	20	58
OK	112	36	95	254
OR	17	6	56	169
PA	27	17	272	372
RI	0	0	2	4
SC	57	23	29	66
SD	138	54	223	272
TN	83	27	41	142
TX	447	154	474	923
UT	2	0	31	53
VT	7	2	31	55
VA	27	7	37	64
WA	59	19	53	91
WV	10	8	39	100
WI	36	20	148	254
WY	13	4	2	36
AK	0	0	7	6
HI	0	2	10	15
Guam	0	0	0	4
PR	0	0	0	2
VI	0	0		
National	4,149	1,428	4,819	7,804

*These borrowers can obtain guaranteed operating loans due to statutory suspension of guaranteed limit.

**Assuming suspension ends 12/31/2010.

The following summary for FY 2009 provides a representative sampling of the Community Facilities Program project distribution:

Project Description	Number Facilities	Amount
Pharmacies & Drug Stores		

Project Description	Number Facilities	Amount
Physicians Clinic	13	$6,851,400
Dental Clinic and Offices	5	$5,627,020
Nursing Home (Sr. Citizen Retirement Home)	17	$47,263,845
Boarding Home for Elderly—Ambulatory Care		
Assisted Living Facility	13	$25,198,292
Hospital (General & Surgical)	8	$43,886,003
Hospital (Critical Access)	30	$201,704,600
Hospital Equipment	16	$1,561,971
Hospital Equipment (Critical Access)	19	$2,712,509
Telemedicine		
Psychiatric Hospital	1	$183,124
Outpatient Care	5	$7,120,000
Vocational Rehabilitation Center	3	$299,500
Medical Rehabilitation Center or Group Home for Retarded	4	$3,528,235
Home Health Care		
Office Building (Health Care)	14	$13,736,226
Mental Health Physicians Office (Centers, clinics)	2	$1,761,000
Migrant Health Centers		
Other Health Care	44	$26,536,331
Health Care	**194**	**$387,970,056**
Rescue and Ambulance Service	90	$7,722,430
Rescue and Ambulance Service—Equipment Building	14	$2,981,592
Communications Center	7	$2,812,770
Mobil Communications Center	3	$19,295
Civil Defense Building		
Early Storm Warning System	61	$793,993
Police Station	9	$8,726,500
Police Car	268	$11,139,299
Jail	9	$19,025,185
Fire Department Building	65	$31,079,562
Fire Trucks	175	$27,583,659
Fire Protection Equipment	72	$2,045,730
Multi Service Bldg—FRPS	8	$4,219,655
Other Fire, Rescue & Public Safety	170	$14,242,511
Fire, Rescue, & Public Safety	**951**	**$132,392,181**
School Maintenance and Equipment Service Center		
Computers or Other Equipment for Facility	36	$3,495,834
Public School	16	$11,810,727
Distance Learning	1	$19,250
College	12	$2,640,000
Charter School	12	$29,515,941
College Dorm	4	$9,440,000
Library	25	$6,496,900
Vocational School	3	$2,914,900
Educational Institution for Disabled	7	$4,292,000
Open Air Theater	1	$861,200
All Purpose Campus Building	8	$24,519,500
Museum	16	$3,873,643
Transitional Housing for non-tribal residents		
Child Care & Education Center	73	$13,188,267
Other Cultural & Educational	45	$46,766,141
Cultural & Educational	**259**	**$159,834,303**
Rodeo Grounds		
Football Stadium		
Camp Grounds w/cabin		
Ball Park		
Basketball Court		
Curling Rink		
Ski Lodge		
Clubhouse for Recreational Facility		
Community Multiple Recreation Center	3	$2,250,000
Community Park		
Park & Beach Area		
Lake		
Golf Course		
Ski Area		
Tennis Courts		
Shooting Club		
Camp Grounds		

Project Description	Number Facilities	Amount
Swimming Pool		
Recreational activities	**3**	**$2,250,000**
Electrical Service	2	$67,500
Electrical Equipment Maint. Bldg.	1	$10,500
Hydro Electric	1	$5,000,000
Natural Gas Distribution	1	$2,530,000
Energy Transmission and Distribution	**5**	**$7,608,000**
Public Maintenance Building	4	$990,795
County Health Department Office	3	$1,174,600
Community Center	31	$10,173,040
Adult Day Care Center	5	$884,529
Food Preparation Distribution Center	8	$528,912
Home for Delinquents	1	$9,350
Youth Center	7	$2,284,000
Social Services Building	6	$15,950,845
Homeless Shelter		
Other Individual & Family Services—Domestic Violence *etc.*)	10	$2,514,042
Fraternal Hall		
Data Processing Center		
Heating Plant for Public Buildings		
City Hall	24	$13,402,887
Office Building (General)	15	$7,418,820
Courthouse Annex		
County Court House	9	$25,167,130
Street Improvement	13	$16,785,500
Street Maintenance Equipment	47	$3,031,856
Railroad		
Railroad Engine House		
City Bus Service		
Special Transportation	8	$1,149,820
Sidewalks	1	$80,000
School Buses	2	$91,250
Municipal and County Garage	6	$5,290,500
Offstreet Parking	8	$1,012,766
Bridge		
Marina		
Municipal Dock (Water or Terminal operation)		
Airport Hangar	3	$3,692,600
City Airport	2	$347,830
Other Public Buildings & Improve	55	$24,947,915
Public Buildings and Improvements	**268**	**$136,928,987**
Water Improvements		
Sewer Improvements		
Drainage & Levee Districts	1	$75,000
Industrial Parks—CF Only	3	$2,555,200
Industrial Development	**4**	**$2,630,200**
Agriculture Land for Research Center		
Agricultural fairgrounds	3	$3,135,000
Farmers Market		
Animal Shelter	8	$5,185,440
Grandstands, County Fairgrounds	2	$10,732,000
Dam	1	$1,100,000
Cable TV		
Business Incubator		
Sprinkler System	2	$284,500
Cemetary	3	$58,799
Scout Camp		
Oceanfront Protection		
Dike		
Other	125	$20,138,602
	144	**$40,634,341**
Total Summary	**1,828**	**$870,248,068**

HEARING TO REVIEW U.S. AGRICULTURE POLICY IN ADVANCE OF THE 2012 FARM BILL

THURSDAY, MAY 13, 2010

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

The Committee met, pursuant to call, at 9:05 a.m., in Room 1300 of the Longworth House Office Building, Hon. Collin C. Peterson [Chairman of the Committee] presiding.

Members present: Representatives Peterson, Holden, McIntyre, Boswell, Baca, Cardoza, Scott, Herseth Sandlin, Cuellar, Costa, Kagen, Schrader, Dahlkemper, Markey, Schauer, Kissell, Boccieri, Murphy, Owens, Minnick, Lucas, Goodlatte, Moran, Neugebauer, Fortenberry, Smith, Luetkemeyer, Thompson, Lummis, and Cassidy.

Staff present: Aleta Botts, Claiborn Crain, Nona Darrell, Dean Goeldner, Craig Jagger, Keith Jones, Mary Knigge, John Konya, Scott Kuschmider, Robert L. Larew, Clark Ogilvie, James Ryder, Lisa Shelton, Anne Simmons, April Slayton, Debbie Smith, Faye Smith, Tamara Hinton, Josh Maxwell, Nicole Scott, Pelham Straughn, and Pete Thomson.

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

The CHAIRMAN. The hearing of the Committee on Agriculture to review U.S. policy in advance of the 2012 Farm Bill will come to order, and we welcome everybody to the hearing today. Before we get started, I want to recognize the newest Member of the House Agriculture Committee, Mr. Bill Owens who is from New York. Bill, we are glad to have you with us. He represents the 23rd District in upstate New York and he has already been busy working on agriculture issues including dairy, which is an important industry in that part of the world. So, we welcome him to the Committee and look forward to working with him on the farm bill and other important issues for agriculture producers.

Mr. OWENS. Thank you, Mr. Chairman. I appreciate it and I have received a lot of welcoming remarks from not only colleagues on the Committee, but many of my constituents. This is a very happy thing to have happen, and I am going to enjoy working on this Committee. Thank you very much.

The CHAIRMAN. Well, thank you and we are glad to have you.

Over the past months, we have started laying the groundwork for the next farm bill, and so far we have had a positive experience. After our first hearing with Secretary Vilsack, the Committee went on the road holding hearings in Iowa, Idaho, California and Wyoming, and tomorrow we will travel to Georgia, Alabama, Texas and South Dakota to hear from more farmers, ranchers and others who use farm bill programs.

While some people have expressed concern about the policy of changing farm programs, almost everybody agrees that there are some things that they would like to change in the current farm bill. If we can provide a better safety net within the budget that we have, everybody, it seems, would at least like to consider alternatives to the programs that we have in place right now. That is why we are starting early, to give people enough time to look at new ideas and consider different options, and see what is working and what isn't, and what might work better.

Today we are hearing from some distinguished academics and economists who study agriculture policy and can provide insight about the trends and emerging issues facing agriculture in rural America. These perspectives will help us craft policies that will meet the evolving situations facing producers and others who use farm bill programs.

Just as agriculture production has evolved, I believe that our farm programs must also evolve to ensure that the safety net provides adequate support for our farmers and ranchers. In considering the reality of today's economy, we need to decide if the existing farm programs are adequate, and we need to be sure that we are making the best possible use of the resources that we have. When writing a bill as large and comprehensive as the farm bill, it is important that we hear as many perspectives as possible. That is why I am committed, again, to a process that is open, transparent and bipartisan. We are collecting feedback on the website, *www.agriculture.house.gov*, so I ask everybody to be involved.

And again I want to thank the panelists for being us today. I look forward to the dialogue.

[The prepared statement of Mr. Peterson follows:]

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

Good morning and welcome to today's hearing of the House Agriculture Committee.

Before we get started, I want to recognize the newest Member of the House Agriculture Committee, Bill Owens of New York. Bill represents the 23rd district in upstate New York, and he has already been busy working on agriculture issues, including dairy, which is an important industry in that part of the world. We welcome him to the Committee and look forward to working with him on the farm bill and other important issues for agriculture producers.

Over the past month, we have really started laying the groundwork for the next farm bill, and so far, I am generally happy with what we have heard. After our first hearing with Secretary Vilsack, the Committee went on the road, holding field hearings in Iowa, Idaho, California and Wyoming. Later this week, we will travel to Georgia, Alabama, Texas and South Dakota to hear from more farmers, ranchers and others who use farm bill programs.

While some people have expressed concern about the possibility of changing farm programs, almost everyone agrees that there are some things that they would like to change in the current farm bill. If we can provide a better safety net within the budget we have, everyone seems willing to at least consider alternatives to the programs we have in place right now. That is why we are starting early—to give people enough time to look at new ideas and consider different options that could work better.

Today, we are going to hear from some distinguished academics and economists who study agriculture policy and can provide insight about the trends and emerging issues facing agriculture and rural America. These perspectives will help us craft policies that will meet the evolving situation facing producers and others who use farm bill programs.

Just as agriculture production has evolved, I believe that our farm programs must also evolve, to ensure that the safety net provides adequate support for our farmers and ranchers. Considering the reality of today's economy, we need to decide if the existing farm programs are adequate, and we need to be sure that we are making the best possible use of the resources we have.

When writing a bill as large and comprehensive as the farm bill, it is important to hear as many perspectives as possible. That is why I am committed to a process that is open, transparent, and bipartisan. We are collecting feedback on the Agriculture Committee website from those who are not able to testify at one of our hearings, and I hope that everyone with an interest in the outcome of this farm bill will take the time to share their thoughts with us online.

Again, I want to thank the panelists for joining us today, and I look forward to the dialogue we're going to have.

The CHAIRMAN. I recognize Mr. Lucas, the Ranking Member from Oklahoma.

OPENING STATEMENT OF HON. FRANK D. LUCAS, A REPRESENTATIVE IN CONGRESS FROM OKLAHOMA

Mr. LUCAS. Thank you, Mr. Chairman, and I appreciate your continued dedication to the farm bill process. You, many Members of this Committee, and I, set out 2 weekends ago and traveled across the nation to hear from actual producers about the current farm bill, and how they would like to see their future farm bills formed. I appreciate your diligence on hearing from so many parts of the agricultural community. I welcome the witnesses today and await their perspective on how we can better form farm policy for the 2012 Farm Bill, and look forward to hearing their testimony.

I am especially interested in hearing about the credit situation that our producers are operating under. I worry that the continued excessive spending here in Washington will turn interest rates up, and make the prospect of farming more expensive for producers. I also want to hear the witnesses perspective on current programs, especially some of the newer programs such as ACRE and SURE. After hearing from many witnesses in Iowa, Idaho, California and Wyoming, I have some concerns about the current ACRE Program, especially since such a large percentage of our producers signed up for the program. I want to hear if, under the current budget climate, we have the ability to change this program for the good of our producers, or if the program just needs to be scrapped. Again, I thank the witnesses for the testimony and look forward to hearing and observing and listening to what they have to say.

[The prepared statement of Mr. Lucas follows:]

PREPARED STATEMENT OF HON. FRANK D. LUCAS, A REPRESENTATIVE IN CONGRESS FROM OKLAHOMA

Mr. Chairman, I appreciate your continued dedication to this farm bill process. You, many Members of this Committee, and I, set out 2 weekends ago and traveled across the nation to hear from actual producers about the current farm bill and how they would like to see future farm bills developed. I appreciate your diligence on hearing from so many parts of the agriculture community.

I welcome the witnesses today and await their perspective on how we can better develop farm policy for the 2012 Farm Bill and look forward to hearing their testimony.

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I also want to hear the perspective of our witnesses on current programs, especially some of the newer ones like ACRE and SURE. After hearing from many witnesses in Iowa, Idaho, California and Wyoming, I have some concerns about the current ACRE program, especially since such a large percentage of my producers signed up for the program. I want to hear if, under the current budget climate, we have the ability to change this program for the good of our producers, or if the program just needs to be scrapped altogether.

Again, I thank the witnesses for their participation and I look forward to hearing their testimony

The CHAIRMAN. I thank the gentleman and other Members can make their statements part of the record if they have them.

I would like to have the witnesses come up to the table. Dr. Bruce Babcock from Iowa State University, Professor Neil Hamilton from Drake University in Des Moines, Iowa, Dr. Jean Kinsey from the University of Minnesota, and Dr. Rob Paarlberg from Wellesley College in Massachusetts, so welcome to the Committee. Your full statements will be made part of the record and we will recognize Dr. Babcock. Welcome to the Committee and we look forward to what you have to say.

STATEMENT OF BRUCE A. BABCOCK, PH.D., DIRECTOR, CENTER FOR AGRICULTURAL AND RURAL DEVELOPMENT; PROFESSOR, DEPARTMENT OF ECONOMICS, IOWA STATE UNIVERSITY, AMES, IA

Dr. BABCOCK. Thank you, Mr. Chairman, for the opportunity to participate in today's hearing. I want to discuss what can be done to the next farm bill to improve the cost-effectiveness of delivering financial support to farmers.

Taxpayer costs of farm support for crops over the last 2 years are about $13 billion for crop insurance, $10 billion for our direct payment, and $2.6 billion for marketing loan payments. It is not yet determined what ACRE and SURE will cost this year. Of the $13 billion in support for crop insurance, more than $7 billion went to the companies. Farmers received $6 billion in net indemnities. Crop insurance failed the cost-effectiveness test because it simply makes no sense for taxpayers to spend $13 billion to deliver $6 billion in net payments to farmers.

In contrast to crop insurance, direct payments incur minimal delivery costs, but they are increasingly difficult to defend. They provide green box payments not subject to WTO limits and were originally supposed to transition farmers to lower support levels, but we are no longer in danger of exceeding WTO support limits. Any transition period is long past and farm profitability has been high since 2003.

There has been a widespread distaste for government bailouts of big banks, GM, Chrysler and AIG, but there are arguments that can be made to justify those interventions: they forestall a more severe economic downturn. In contrast, farmers receive $5 billion a year for nothing more than owning or renting farm land that happens to have base acres.

Cotton programs must change in the next farm bill if the U.S. is to come into compliance with the WTO ruling that Brazilian cotton farmers were harmed by U.S. cotton payments. Perhaps the cotton producers should follow the example of milk producers who seem poised to propose replacing their longstanding price support program with a new margin insurance program.

ACRE and SURE were created in response to dissatisfaction with crop insurance, but ACRE has two problems. First, ACRE duplicates coverage that is available for crop insurance. Why should taxpayers be asked to fund both programs? Second, farmers have little faith that state-level yield coverage provides adequate farm level protection.

SURE is a complicated program to ensure that farmers are not overpaid for crop losses. It is ironic to see such an effort expended to make sure that a farmer suffers a whole farm loss before a SURE payment is received when direct payments will flow to the same farmer even in the most profitable years.

ACRE and SURE demonstrate that crop insurance-type programs can be administered by FSA, *albeit* with help from RMA. FSA does not pay agent commissions and there is no risk burden taken on by private companies, so the delivery cost of FSA can be much lower than RMA, but not all programs can be effectively delivered through FSA. The private sector is more efficient at adjusting on-farm losses, calculating premiums and being consumer-friendly. Just as the government is ill-suited to run a car insurance program, it is also ill-suited to provide individually tailored crop insurance. A recalibration of farm programs is needed that gives FSA easy-to-administer programs that allows the private sector to provide services that the government should not.

An example of such a new calibration would be to move ACRE to the county level, and to eliminate the farm level loss trigger. This program would provide a large degree of protection against farm level income declines, and it would not try to duplicate the kind of services that the private sector is better at providing.

To get an idea of what a county ACRE program would cost, I calculated that all planted acres for corn, soybeans, wheat, cotton, rice, barley and sorghum at the 95 percent coverage level would cost about as much as the direct payment program does, and if you move to a 90 percent coverage level for these crops, it would cost about $3.8 billion. That is per year. Savings from the crop insurance program could cover this latter figure because many farmers would find that their farm level risk would be adequately covered by a county ACRE program. Other farmers would find they need supplemental insurance such as crop hail insurance or supplemental multi-peril insurance. Both of these type of customized insurance are exactly the type of insurance that should be provided by the private sector without government involved.

A county ACRE program would also eliminate the need for SURE because the ACRE deductible would be so much lower than the traditional crop insurance deductible. Farmers who want supplemental insurance could look to crop insurance companies to provide it. Though such a change in Federal farm policy would be a commonsense approach to providing predictable cost effective financial support when farmers need it, large and/or wealthy farmers may try to block such a move because crop insurance premium subsidies and payments are not subject to payment or AGI limits, where FSA-administered programs to date are.

To summarize, adoption of ACRE and SURE in the 2008 Farm Bill shows that Congress recognizes that the crop insurance program is not cost-effective. The next farm bill represents an opportunity to push harder for reform so that the private sector provides the individualized insurance and the public sector backs up major losses directly. Such a move could be accomplished by moving ACRE to the county level and reducing or eliminating the Federal control or involvement of the private crop insurance companies.

[The prepared statement of Dr. Babcock follows:]

PREPARED STATEMENT OF BRUCE A. BABCOCK, PH.D., DIRECTOR, CENTER FOR AGRICULTURAL AND RURAL DEVELOPMENT; PROFESSOR, DEPARTMENT OF ECONOMICS, IOWA STATE UNIVERSITY, AMES, IA

Thank you, Mr. Chairman, for the opportunity to participate in today's hearing.

I want to focus my testimony today on the commodity title of the farm bill. Much has been written about the pros and cons of government support for agriculture, and whether agriculture and society are helped or hurt by this support. I think that this discussion is intellectually useful and interesting, but Congress has shown that this discussion is largely irrelevant. Support for agriculture is not going away. So what needs to be done in the next farm bill is to design support mechanisms that accomplish what they are designed to accomplish, do so in a cost effective way, and do so without unintended consequences on the agricultural sector, the environment, or on our trading partners.

Overview of Existing Programs

The cost of support mechanisms over the first 2 years of the current farm bill include crop insurance at $13 billion, direct payments at $5 billion, and cotton countercyclical and marketing loan payments at $2.6 billion. ACRE and SURE are the other two programs that could generate substantial costs in the future. A closer look at each of these programs shows that there is a lot of room for improvement in the design of support mechanisms.

The crop insurance program has cost taxpayers $37 billion since 2000. Of the $13 billion in support over the last 2 years, more than $7 billion flowed to companies. Farmers received indemnity payments (net of premium) totaling $4.5 billion in 2008 and $1.5 billion in 2009. A large proportion of the 2008 net payments came about because the price guarantees were so high that even the modest price drops that we saw in 2008 generated lots of indemnity payments. Nobody should begrudge farmers these indemnity payments because they were made as a result of an insurance contract, but should the government really be in the business of running a program that makes payments to farmers even when farm income is at an all-time record high? If the price drop in 2008 had not occurred, then the crop insurance industry would have been paid an additional $2 billion in 2008 to run the program. It just does not make sense to see such a large portion of farm program costs flowing to a middleman.

The crop insurance program also causes environmental problems. The ability of farmers to transfer yield histories on productive ground to high-risk grassland that is prone to crop loss can dramatically increase the profitability of planting on susceptible ground. Studies by USDA and GAO document how subsidizing risk on susceptible land leads to loss of native grassland.

In contrast to crop insurance payments, which incur delivery costs of a dollar for each dollar delivered to farmers, direct payments incur minimal delivery costs because they are deposited directly from the Treasury into farmers' bank accounts. But direct payments fail the accomplishment test.

The two original justifications for direct payments were that they provided "Green Box" income support payments not subject to World Trade Organization limits on trade-distorting support, and that they there were transition payments that allowed farmers time to transition to lower support levels. But we are no longer in danger of exceeding WTO limits on trade-distorting support, and we are long past any transition period. Furthermore, farm profits have been high since 2003.

Direct payments no longer have a public justification, particularly in these times of exploding Federal debt. The public and Members of Congress have shown widespread distaste for the bailouts of big banks, GM, Chrysler, and AIG. But at least these interventions were justified in that the economy was threatened with a far more severe downturn if these companies were allowed to fail. Farmers receive $5 billion a year for nothing more than owning or renting farmland that happens to have base acres. Despite mighty efforts by some of the world's best agricultural economists to find some market impact of direct payments, the evidence suggests that they represent "money for nothing." They arrive like clockwork even when high crop prices and high yields combine to generate record income levels, leaving nothing in their wake. Surely we can accomplish more with $5 billion then simply depositing it in the bank accounts of landowners and renters with base acres.

The third program that has generated large payments since 2008 is the cotton program. Regardless of what one thinks about marketing loan and countercyclical payments for cotton farmers, these two programs must change in the next farm bill if the U.S. is to come into compliance with the WTO ruling that Brazilian cotton farmers were harmed by U.S. cotton payments. We do not know what will replace the current program, or if cotton producers will devise a replacement program in case Brazil's plans for retaliation finally induce USDA and Congress to put the cotton program into compliance. I do know of one farm organization that has invested significant resources in designing new programs for the new farm bill. The milk producers seem poised to propose replacing their long-standing price support program with a new margin insurance program that would protect producers against large increases in feed costs or large decreases in milk prices. It remains to be seen if cotton producers will follow suit.

Two new programs, ACRE and SURE, were passed in the 2008 Farm Bill. ACRE is a state revenue insurance program that generates payments if state revenue falls below revenue trigger levels. There are two problems with ACRE. The first is that ACRE duplicates coverage that is available from the crop insurance program. The major source of crop loss at the farm level is excess heat and/or lack of moisture. Because growing conditions may not vary substantially across a state, it is often the case that state yields are low when farm-level yields are low. Thus ACRE payments triggered by low state yields can duplicate crop insurance payments. In recent years however, the major source of crop insurance payments has not been crop loss but rather price declines. And when prices drop, ACRE is likely to trigger payments. In either case, farmers are provided duplicate coverage through crop insurance and ACRE. Why should taxpayers be asked to fund both programs? The second problem with ACRE is that farmers have little faith that state-level coverage against yield declines provides them with adequate coverage against farm-level yield losses. I will return to this topic later.

The purpose of SURE is to provide supplemental whole-farm coverage to provide payments when crop insurance deductibles are not exceeded. The problem with SURE is that it is so complicated that almost nobody knows when a payment will be triggered. To calculate SURE guarantees and payments requires knowledge of what crop insurance a farmer buys, a farmer's crop insurance yield, a farmer's countercyclical base yield, direct payment levels, crop insurance indemnity payments, countercyclical payments, marketing loan payments, and ACRE payments. The complexity of the program is caused by the need to make sure that farmers are not overpaid for crop losses. It is ironic that such an effort is expended to ensure that a farmer suffers a whole-farm loss before a SURE payment is received when direct payments will flow to the same farmer even in the most profitable years.

To summarize, our current set of programs consists of crop insurance, which costs too much; direct payments, which are no longer justified; cotton payments, which need to be brought into compliance; ACRE, which duplicates crop insurance but provides inadequate coverage against farm yield losses; and SURE, which tries to make up for crop insurance deficiencies. This broad look at current programs leads to two conclusions. First, providing financial help to farmers when there is financial difficulty would seem to be a necessary condition for the design of an efficient program. Second, there simply is no reason why billions of tax dollars should be spent delivering financial help to farmers if much less expensive alternatives are available. Before examining one such alternative, the question of whether the public sector has the capability of delivering efficient financial help needs to be addressed.

FSA or RMA?

The two new programs passed in 2008, ACRE and SURE, demonstrated that crop insurance-type programs do not have to be administered by the Risk Management Agency (RMA). The Farm Service Agency (FSA) administers both programs. RMA has assisted FSA with verification of farm yields, but FSA has implemented both programs. Delivering programs through FSA can cost much less than through RMA because FSA does not pay agent commissions and private companies do not have to be paid to take on a portion of the underlying risk.

However, not all programs can be effectively delivered through FSA. The private sector does a much better job adjusting on-farm losses, calculating premiums for the wide array of available programs, and being consumer-friendly in handling applications and paperwork. That is, just as the government is ill-suited to run an automobile insurance program, it is ill-suited to provide individually tailored crop insurance.

But it does not take the efficiency of the private sector to administer a simple program. And a large portion of the risk in agriculture can be covered by a simple program. When the price of a commodity falls, it is easy to measure the price drop if the commodity price is tracked by NASS (USDA's National Agricultural Statistics Service). When a widespread crop loss occurs, an easy measure of the crop loss is given by the county average yield, if it is measured by NASS. Thus for NASS-covered crops, a large proportion of farm-level risk can be measured and insured by a program that integrates current acreage reporting requirements of FSA with NASS measures of price and yield.

It is common sense to look to the private sector to provide most goods and services. But it makes no sense for taxpayers to pay a large fee to the private sector to provide a service that the public sector can provide at a fraction of the cost. And, as I will discuss next, it is straightforward to design a program that covers a large proportion of farm-level risk that can be easily administered by FSA, that is readily affordable, and that allows the private sector to provide the kind of insurance coverage that only the private sector can provide.

County ACRE Program

ACRE was developed in the 2008 Farm Bill at the behest of those who believe that farm program payments should be targeted at revenue rather than price. After all, it is revenue that pays production costs, not price or yield. But the usefulness and acceptance by farmers of ACRE has been limited because of program design problems caused by budget and political considerations. Budget considerations resulted in ACRE covering only 83.3 percent of planted acres rather than 100 percent. This makes it less suitable as a substitute for crop insurance. In addition, farmers who choose ACRE give up 20 percent of direct payments, making the participation decision more difficult. Political considerations primarily involved justified concerns by the crop insurance industry that a strong ACRE program would reduce their compensation from taxpayers. Thus there was no integration of ACRE with crop insurance, and ACRE insured state revenue rather than county revenue. In addition, the requirement that a farmer must demonstrate a farm-level loss before receiving an ACRE payment made the program much more difficult to administer.

It would be much simpler and more useful to change the ACRE program to a county-level program, increase the coverage to 100 percent of planted acres, and do away with any program feature that requires farm-level yield reporting. In addition, instead of using the full season-average price in ACRE, use of the average price over the first 5 months of the marketing year would allow payments to be made as soon as NASS releases county yields, which usually occurs in late winter and early spring. The many advantages to these changes include that it could be easily administered by FSA, it would provide a large degree of protection against farm-level revenue declines, and it would avoid providing the kind of services that the private sector is better suited to deliver.

To get an idea of what a county ACRE program would cost, I calculated what such a program would have paid out had the program been in place from 1980 to 2008. Because the ACRE yield is based on yields in the previous 5 years, and the ACRE price is based on prices in the previous 2 years, yields from 1975 to 1979 were used to calculate 1980 ACRE yields, and 1978 and 1979 prices were used to calculate 1980 ACRE prices. The full NASS season-average price was used as is currently done with ACRE because of the difficulty in compiling monthly prices in the historical period. To account for how yields and prices have varied over time, historical payments were expressed as a percentage of the ACRE guarantee in each year. The average percent payment across all years from 1980 to 2008 payment was then calculated for each crop and county. *Figures A1* to *A7* (see the appendix) map the results for each county and crop when the ACRE guarantee was set at 90 percent of the product of the ACRE price and the county ACRE yield. As shown, for corn and soybeans, most of the lowest-risk counties reside in the Corn Belt as one would expect.

To estimate average per-acre payments, average percent losses by county were multiplied by what 2009 per-acre guarantees would have been for three different coverage levels to estimate what the program would be expected to cost had it been available in 2009. The results are shown in *Table 1* by crop. At the 90 percent coverage level, projected payments range from around $10 per acre for barley to $36 per acre for rice. These average payments reflect both the average percent losses shown in the appendix maps as well as the average per-acre value of the crop.

Table 1. Average Annual Per-Acre County ACRE Payments by Crop

	ACRE Coverage Level		
	90%	85%	95%
	$/planted acre		
Corn	22.61	16.05	31.10
Soybeans	15.87	10.82	22.48
Wheat	13.63	9.70	18.51
Cotton	23.55	17.17	31.40
Rice	36.01	24.30	50.48
Barley	10.13	6.82	14.49
Grain Sorghum	12.18	8.66	16.59

Table 2 multiplies the *Table 1* per-acre projected payments by 2008 planted acres for each crop and county to project total cost for each crop and for the entire program. As shown, the projected total cost of a 90 percent program for these crops is $3.78 billion. Increasing the coverage level to 95 percent would increase projected annual costs to $5.4 billion. Decreasing the coverage level to 85 percent would lower costs to about $2.5 billion.

Table 2. Average Annual County ACRE Payments Per Year by Crop and Total

	ACRE Coverage Level		
	90%	85%	95%
	$ million		
Corn	1,620	1,065	2,374
Soybeans	1,079	709	1,573
Wheat	658	475	884
Cotton	201	149	265
Rice	110	74	154
Barley	40	28	55
Grain Sorghum	72	52	97
Total	3,780	2,552	5,401

To put these costs into perspective, the annual cost of the direct payments program is $5.2 billion. This implies that direct payments could just about pay for a county ACRE program that covered 95 percent of the product of the county ACRE yield and the ACRE price. Alternatively, cost savings from the crop insurance program would pay for a substantial portion of the costs of a county ACRE program.

This program would have no farm-level loss trigger and no payment limits, both of which would reduce costs. Many farmers would find that their farm-level risks would be covered adequately by a county ACRE program, so they would drop out of the crop insurance program. Other farmers would find that they need supplemental insurance, such as crop hail insurance, or supplemental multi-peril insurance. Both of these types of customized insurance are exactly the type of insurance that should be provided by the private sector without government involvement. The amount of cost savings from the crop insurance program would depend on whether the crop insurance companies could be set free from Federal control or whether there would still be a need for Federal involvement. At a minimum, it would make sense for existing crop insurance policies to be modified to account for county ACRE payments. Such a move could easily result in costs savings in excess of $4 billion per year.

Payment Limits

A redesign of Federal commodity supports away from direct payments and crop insurance and toward an easy-to-administer program based on county revenue would make more efficient use of Federal tax dollars. But such a move would require some decisions about payment limits. Currently, crop insurance subsidies and payments are not subject to payment limits or limits on adjusted gross income (AGI) whereas FSA-administered programs are subject to both.. Thus, moving a significant portion of agricultural risk that is currently borne by the Federal Government from RMA-administered programs to an FSA-administered program with no change in payment limits would not be favored by large farms.

One alternative is to simply do away with payment limits and recognize that a large share of the nation's food supply is being produced by a decreasing number of large, efficient producers, so if Congress's goal is to support agriculture, then it makes sense to support those individuals who are making the investments and bearing the risk of supplying our food.

Another alternative is to keep payment and AGI limits in place and apply them consistently across all Federal farm programs, including crop insurance. After all, the crop insurance industry would not exist without Federal support, and the magnitude of taxpayer subsidies flowing through the crop insurance program to large farmers is often much greater than in other programs. Why does it make sense to apply payment limits to direct payments and ACRE payments when there are no limits to subsidies from crop insurance?

Concluding Remarks

Calls for reform of farm commodity programs have a history as long as farm programs themselves. Today's combination of growing and unsustainable Federal debt and widespread dissatisfaction with Federal control of private business increases the importance of making sure that Federal farm programs represent efficient use of taxpayer dollars to support agriculture. Current programs fail the efficiency test. The crop insurance program supports the crop insurance industry as much as or more than it supports production agriculture. And it is difficult to figure out why tax dollars should flow to farmers during highly profitable years through the direct payment program.

The new programs passed in the 2008 Farm Bill, ACRE, and SURE, show that Congress recognizes the need for a new approach. Adoption of both programs revealed dissatisfaction with crop insurance despite the billions in tax dollars being spent on the program. The next farm bill represents an opportunity to push reform further and more completely. If the ACRE program were moved to the county level, then there would be less need for SURE and less need for Federal subsidies for crop insurance because a greater share of agricultural risk would be borne direct by taxpayers rather than indirectly through existing risk-sharing agreements. Such a move could be completely funded by savings from the crop insurance program or by reductions in direct payments. Either way, taxpayers and farmers would be better served.

APPENDIX

Average County ACRE Payments Expressed as a Percentage of the Guarantee

Figure A1. Projected Corn Payments for a 90 Percent County ACRE Guarantee

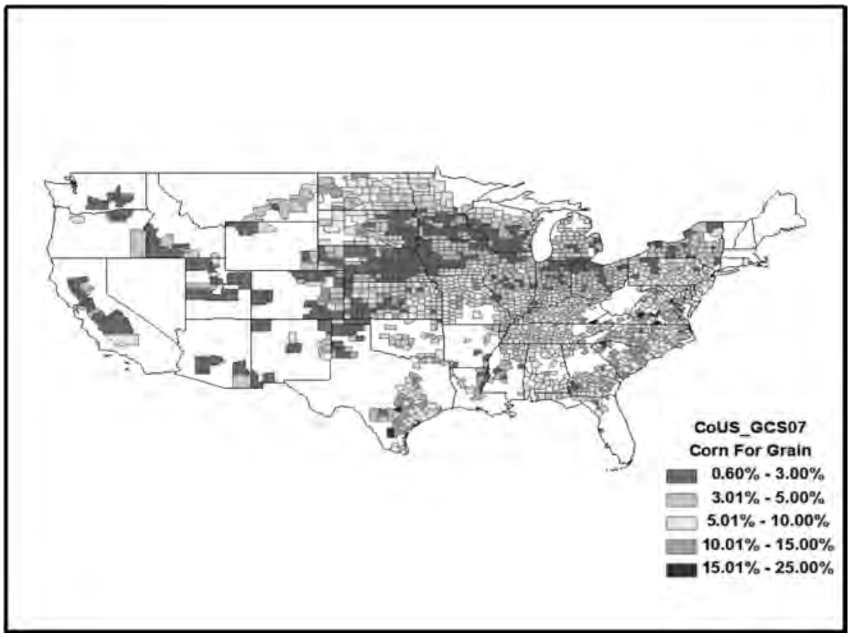

Figure A2. Projected Soybean Payments for a 90 Percent County ACRE Guarantee

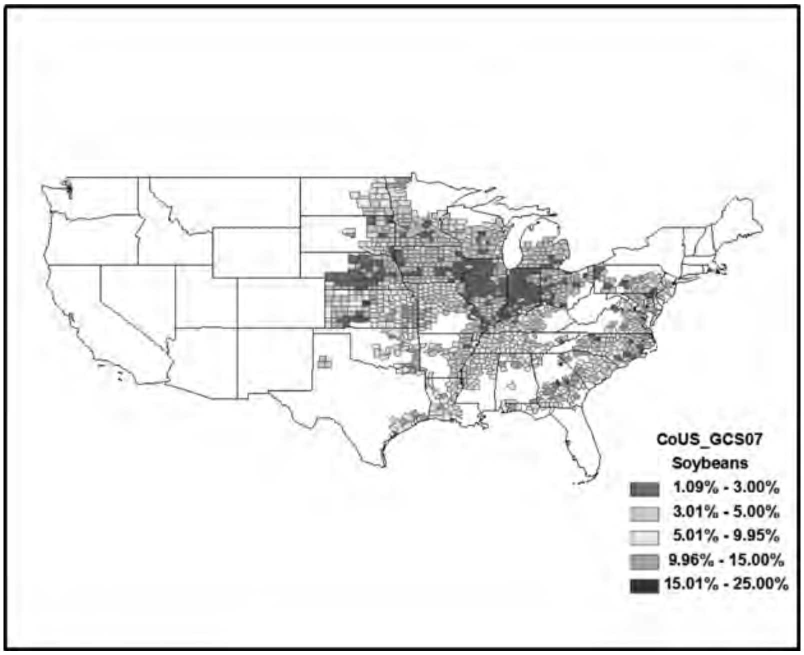

Figure A3. Projected Wheat Payments for a 90 Percent County ACRE Guarantee

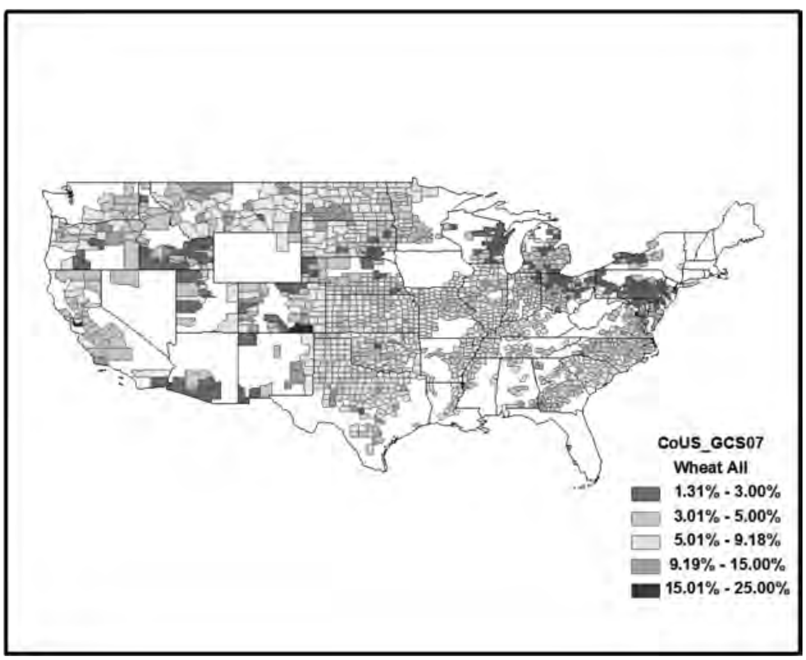

Figure A4. Projected Cotton Payments for a 90 Percent County ACRE Guarantee

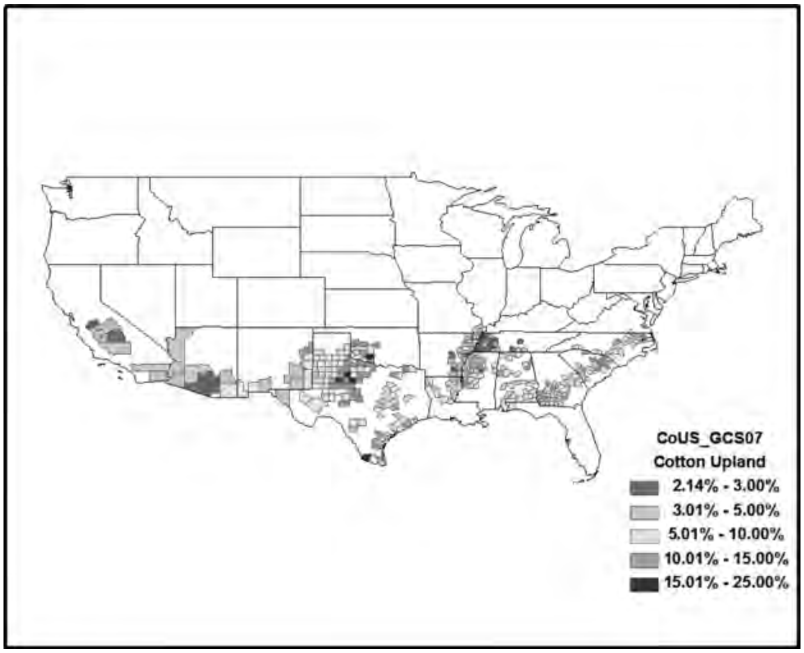

Figure A5. Projected Barley Payments for a 90 Percent County ACRE Guarantee

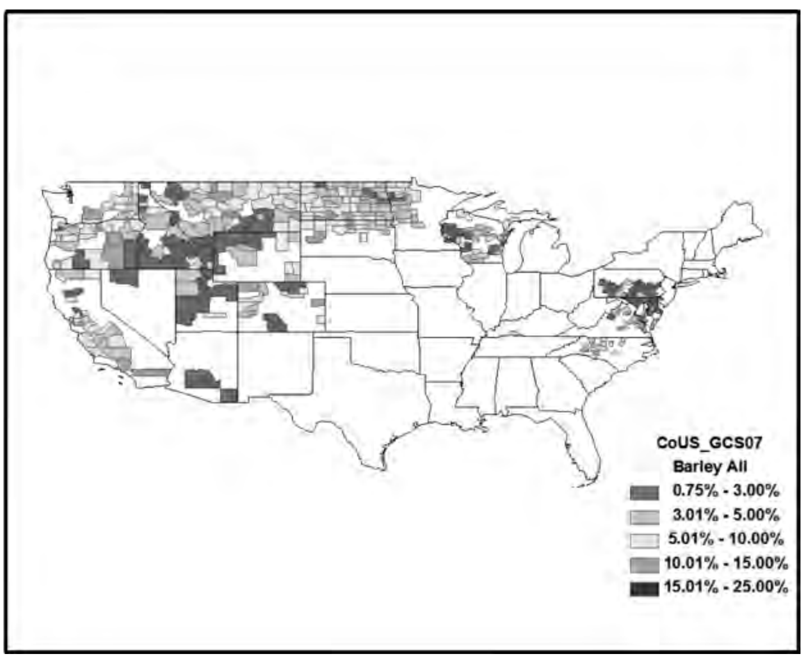

Figure A6. Projected Grain Sorghum Payments for a 90 Percents County ACRE Guarantee

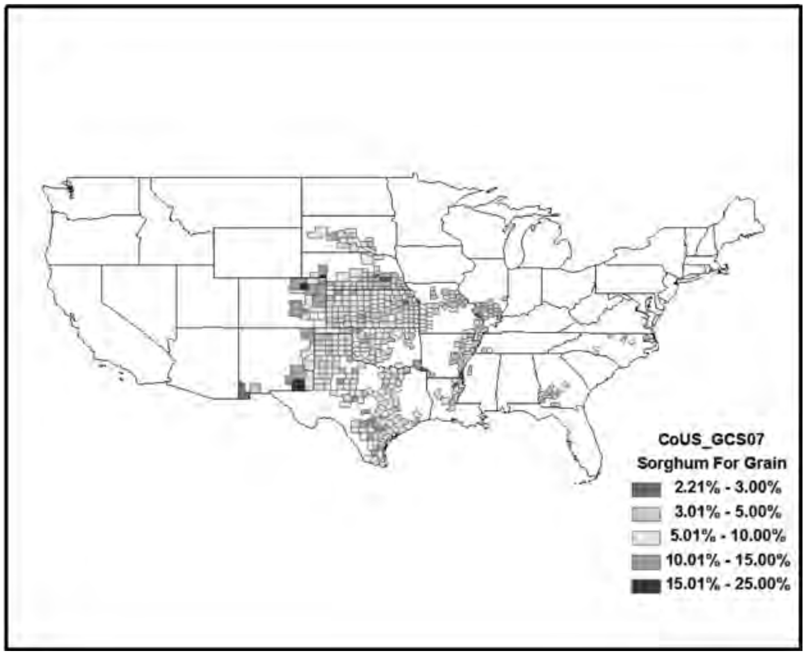

Figure A7. Projected Rice Payments for a 90 Percent County ACRE Guarantee

The CHAIRMAN. Thank you very much, Dr. Babcock. We appreciate your testimony.

Professor Hamilton, welcome to the Committee.

STATEMENT OF NEIL D. HAMILTON, J.D., DWIGHT D. OPPERMAN DISTINGUISHED PROFESSOR OF LAW AND DIRECTOR, AGRICULTURAL LAW CENTER, DRAKE UNIVERSITY LAW SCHOOL, WAUKEE, IA

Mr. HAMILTON. Thank you, Mr. Chairman. Thank you, Members of the Committee, and let me begin by acknowledging my friend and colleague and fellow Iowan, Congressman Boswell. This is a special opportunity and honor for an Iowa farm boy to speak before you; 35 years ago this summer, I was a Congressional college intern for a young first-term Congressman from Iowa, Tom Harkin.

I spent my professional career working on agricultural law issues, and I want to begin by commending the Committee on your work in creating the 2008 Farm Bill. This is, especially, for a number of the programs dealing with issues of new and beginning farmers, organic production, export promotion, rural development and renewable energy and the working lands approach of the Conservation Stewardship Program. In that regard, my first recommendation is that while you have to turn your attention to the 2012 Farm Bill, there is still a great deal of work that needs to be done in terms of implementing the good things that you enacted in 2008, such as the Individual Development Account Pilot Program for beginning farmers.

That brings me to my second topic, which is that there is no more important challenge facing the future of America's food and agricultural system than helping identify who the next generation of farmers will be. That is why Drake University, Farm Credit, USDA, Risk Management and dozens of other partners sponsored a 2 day forum here in D.C., in March, on the whole issue of policy innovations and opportunities that are important to farmers.

I think the good news is that there is a great deal of interest in that issue. There are some exciting things going on in the states. I think the even better news is there is a real surge in interest among young people, farms kids and others alike to become involved in agriculture. But, our challenge is that we really haven't developed a comprehensive or national commitment to helping the next generation of farmers, and time is of the essence. You know what is happening in terms of the age of farm population and the concentration of land. The 2008 Farm Bill began a number of important steps and there are additional things that we can do to help create opportunities in rural America.

In that regard, I would like to speak for a moment about the whole issue of expanding local and regional marketing. This is a subject I have been involved with for many years. A number of years ago I wrote this book, *The Legal Guide for Direct Farm Marketing,* for the USDA, and my wife and I have been farmers market vendors and today deal directly with restaurants. This is a growing and important part of our agricultural system. Just last week, the Iowa Department of Agricultural Land Stewardship issued a study concerning the $60 million worth of activity that Iowa's farmers markets create alone.

You know, in recent months a number of people have criticized local markets as being detached from the realities of production agriculture, and have that they are aimed at hobbyists and organic growers whose customers are affluent local growers. I think that Congressman Boswell will agree with me that few of the 30,000+ central Iowans who went to opening day of the Des Moines Farmers Market on May 1, either would recognize or deserve the label affluent local growers. These were people who were looking for fresh food. They were looking for an opportunity to see their friends and an opportunity to spend some money with farmers and reconnect after the long winter. In that regard, the same is true whether you go to a farmers market in Wilmer or Enid or Garden City that, if you only look at the market, you are only looking at one part of the equation. I encourage you to follow the pickups and the vans back to Lacona and Mingo, and see the money being counted on the kitchen table. Think about the markets as a real way of taking urban money back out into rural America onto farms and small towns where it is reinvested. That is why I encourage the Committee to continue supporting expansion of local and regional markets.

You know, in that regard, there are a number of programs and things that you have done in the farm bill that may be relatively minor programs and with small budgets, but it is important that you realize how important these are to a large number of people in rural America. Programs like the Farmers Market Promotion Program that received over 500 applications for the last grant round and other programs like the Farmers Market Nutrition Coupons.

You know, there is more to say but my time is running out, and I guess I would end by saying that I encourage you to recognize that all farmers, regardless of their size, and all consumers, regardless of their needs, are constituents of the Committee. You know, the words of Saint Paul that are etched above the door at the USDA says, "The husbandman that laboreth must be the first partaker of the fruits," and rural and local markets help make that possible for your constituents. I would encourage you to take a broad and a big tent approach as we think about who it is that is served by the 2012 Farm Bill. Thank you very much.

[The prepared statement of Mr. Hamilton follows:]

PREPARED STATEMENT OF NEIL D., HAMILTON, J.D., DWIGHT D. OPPERMAN DISTINGUISHED PROFESSOR OF LAW AND DIRECTOR, AGRICULTURAL LAW CENTER, DRAKE UNIVERSITY LAW SCHOOL, WAUKEE, IA

Mr. Chairman, thank you for the invitation to testify this morning, I appreciate having the opportunity to share thoughts on some aspects of the next farm bill. Let me began by acknowledging my fellow Iowans, Congressmen Boswell and King. Mr. Chairman this opportunity is very special as I have been involved with agriculture since the moment I was conceived on a 200 acre farm in Mercer Township, Adams County, Iowa, land that has been in my family since the 1870's. Thirty-five years ago this summer I was a college intern for a young first-term Congressman from southwest Iowa on this Committee, Tom Harkin. My professional career of over thirty years has been spent as a lawyer and law professor focusing on legal issues affecting farmers, agriculture, food, land and rural development. I have taught classes on many aspects of agriculture and food law, written numerous books and articles for farmers, and lawyers and lectured widely on a variety of topics, in particular those relating to sustainable agriculture, direct marketing, and policies to create opportunities in our food and farming system. In recent years many of my talks are about the 2008 Farm Bill and important programs it created.

I want to begin by commending the Committee on your work creating the 2008 Farm Bill, especially your attention to issues like support for new and beginning farmers, organic production, innovative marketing, export promotion, rural development and renewable energy, local and regional food systems, and the working lands approach of the Conservation Stewardship Program. In that regard my first recommendation is while your attention must turn to the next farm bill, there is much work yet to do implementing programs authorized by the 2008 bill, such as encouraging appropriators to fund the Individual Development Account pilot program, urging USDA to implement the land contract guarantee loans to encourage sales to beginning farmers, and promoting the Conservation Reserve Program Transition Option, to be announced by USDA this week.

Mr. Chairman, like you I have worked on many farm bills over the last 30 years and one challenge is making sure the promising ideas, often new programs used to attract support, are in fact implemented. New developments and budget concerns have sometimes prevented us from realizing the promise and hard work that goes into writing a farm bill. Some of you have been here long enough to remember the unrealized goals of the 1996 Farm Bill's Fund for Rural America. We need stability and predictability for agriculture and rural policy so we can plan for the future and develop capacity and understanding.

This brings us to our second topic—new and beginning farmers. To my mind there is no more important challenge facing our nation's food and farming sector than who will be the next generation of America's farmers. This is why the Agricultural Law Center teamed with USDA Risk Management, Farm Credit and dozens of other partners to hold a 2 day Forum on America's New Farmers: Policy Innovations and Opportunities, here in Washington, D.C. in March. The good news is there is wide interest in the topic and recognition of its importance. Over 200 people from 40 states attended and shared promising examples of actions being taken at the local and state level to support new farmers. We discussed the challenges of financing new farmers and of working with landowners to make land available for new operations. More good news is there is a strong and growing interest by many young people—farm kids and others alike—to be involved in food production. Our nation and rural communities need the energy of new families to help steward the land, produce our food, and build the rural economy. But we have yet to develop a comprehensive approach or national commitment to helping the next generation of farmers—and time is of the essence. The aging farm population; concentration of land with older owners; transfers to off-farm, often out of state heirs; and increasing farm tenancy all create significant challenges to the sustainability of agriculture, the health of rural communities, and even the design of farm programs.

The 2008 Farm Bill took several important steps: funding the Beginning Farmer and Rancher Development Grants, targeting FSA loans, and directing USDA's Office of Advocacy and Outreach to coordinate beginning farmer efforts. There are other opportunities, such as building on the land matching programs in many states like California Farm Link, and the growth in new farmer training and incubator efforts, such as the Land Stewardship Project Farm Beginnings work in Minnesota and Illinois. I believe there is even an opportunity to create a national New Farmer Corps to create public service opportunities in the food and agriculture sector. Next week a group will meet in Detroit to craft a Food Corps pilot within AmeriCorps, designed to help people work with school gardens, educating kids about nutrition, food and farming. These efforts build on the farm-to-school marketing program authored by the Committee.

Third, I want to talk with you about expanding local and regional markets and the role sound policy can play in creating opportunities for farmers, improving food access, and strengthening local economies. My wife Khanh and I have been involved with local marketing for years, selling at farmers markets and now directly to restaurants. Ten years ago I wrote *The Legal Guide to Direct Farm Marketing* for USDA's Sustainable Agriculture Research and Education program, to help educate a growing segment of U.S. agriculture. Last week the Iowa Department of Agriculture and Land Stewardship released a survey showing in 2009 Iowa's 223 farmers markets contributed close to $60 million in direct sales and an additional $12 million in personal income to Iowa's economy. Secretary of Agriculture Bill Northey said, "Farmers markets are a great opportunity to access fresh, nutritious, locally grown foods," noting the markets let consumers get to know and interact with farmers who produce their food.

In recent months some have criticized local markets as "completely detached from the realities of production agriculture" and "aimed at small, hobbyist and organic producers whose customers" are affluent urban locavores. I believe these characterizations of the markets, farmers and shoppers are inaccurate and unhelpful. I think Congressman Boswell will agree few of the 30,000 central Iowans who attended opening day at the Des Moines farmers market May 1st would either recognize or deserve the label "affluent locavore." They are hard working Iowans looking for fresh local food, an opportunity to socialize with friends after a long winter, and the chance to spend some money and reconnect with the 200 farmers and vendors who make up the market. No one went because Iowa's grocery stores were out of food or because our food supply is unsafe. They and the millions of Americans who buy local, have many motivations for spending money with local farmers. They aren't necessarily looking for cheaper food—they are looking for better food, whatever that means to them.

The same is true if we go to the farmers markets in Wilmar, Enid, or Garden City. If you look at a farmers market and see only the shoppers you are looking at just one end of the equation. I encourage you to follow the pickups and vans back home to Mingo and Lacona—and hundreds of small towns to see the day's sales being counted on the kitchen tables. Then you will see urban money flowing back to farms and rural towns where it is spent and invested by thousands of farms and businesses. No, these farms will not feed the world, but no one said they would. But they do help feed millions of citizens and support thousand of farm families—and they create opportunities for new farmers to get a foothold in agriculture. This is why I encourage the Committee to continue supporting expansion of local and regional markets. It is why USDA's Know Your Farmer, Know Your Food effort is important. By taking an integrated approach to a range of different programs you authorized—USDA is helping make USDA and the Committee an important ally for farmers of all sizes.

My parents farmed for over fifty years and my wife and I have sold food locally now for over fifteen. There are two things we experience every season my parents never did. They never set the price for what they sold—corn was worth what was on the chalkboard and cattle brought what the order buyer offered. But when we deliver 100 pounds of fresh-picked, ripe tomatoes to a customer's back door we set the price. The second difference—perhaps even more important to the idea of being a farmer—is my parents never had the satisfaction of anyone thanking them for raising their food. No one came to the farm and said "Ham and Zella those were the best soybeans we ever ate." It didn't make my folks worth less as farmers but it did make it possible for them to feel disconnected from, even in conflict with consumers.

When we go out to eat and see our farm listed on the menu and see diners enjoying food we grew it brings a sense of satisfaction. When someone tells my wife "those baby beets were the best ever" it is like another paycheck. It may not pay the gas bill but is the psychological encouragement to put in the hard work it takes to raise food. In our food system we have severed many of the connections between people and their food and between farmers and eaters—and we have paid a price for doing so. Efforts to build local and regional markets make good economic sense—and help reestablish connections and increase understanding of farming. The efforts do not detract from programs to support commodities but can be woven into our existing farm structure. Many in agriculture are concerned about what they see as undeserved criticisms—but it is hard to criticize people you know and trust. Local markets put a face on our food and benefit all farmers.

In that regard the Committee needs to realize how valuable the programs you include in the farm bill are for expanding local and regional food systems. Some are minor programs with small budgets but they are important to farmers and consumers in every state. Programs like the Farmers Market Promotion Program—USDA received nearly 500 applications for a recent round of $5 million in grants; the Women Infants and Children (WIC) and Seniors Farmers Market Nutrition coupons that help thousands of low income families and seniors buy fresh produce; and USDA's community food projects and Risk Management's office of civil rights and community outreach. They have funded hundreds of initiatives to build stronger, more resilient food and farming systems, like the Iowa Food Policy Council I chaired for 6 years. These programs aid thousands of farmers and connect the Committee to a growing part of our food system.

Another segment of agriculture deserves the Committee's time and attention, some refer to it as "agriculture of the middle." These are the mid-sized farms like my parents', and whatever name you use, it is important the farm bill supports family farms being squeezed by market forces but holding on. These farms may be too big or too remote to take advantage of direct marketing, but increasingly they are tapping into new value-added markets. With the right set of policies we can help these farmers thrive. The Committee took several important steps in 2008 with programs like the new mid-tier value chain program in Rural Development's Value-

Added Producer Grants and the Local and Regional Food Enterprise opportunity in the Business and Industry Loan Program. The Conservation Stewardship Program can provide support to care for the land as these farms pursue new market opportunities. I encourage you to continue and to expand these efforts in the next farm bill.

Our farm may be different than my parents but they are both farms and I encourage you to recognize all farms, regardless of their size, and all consumers, regardless of their means, as deserving. In the words of St. Paul etched on USDA's Whitten Building, "The husbandman that laboreth must be the first partaker of the fruits." These programs help many of your farm constituents thrive. This brings me to my final observation and that is our need to have a "big tent" approach to America's food and farming system. Corn and soybeans are central to our farm economy, I know because we raise them on my farm in Adams County. But the farm sector, the food system, and our rural economy are about more than just commodities. I have written about these forces as food democracy at work in our country creating more opportunities for farmers, eaters, and rural residents alike.

If our thinking is broad in efforts to assist farmers, rural communities and landowners we can include the traditional crops and forest products we produce, process and market—but also encourage a more diverse rural economy with a wide range of products and services. Some opportunities will be in renewable energy and new markets for environmental services, like carbon sequestration. We can build on our experience with ethanol in terms of rural investment, job creation, and creating new markets—and thereby help unlock the capital in rural America and create new businesses structures and opportunities for local owners. Some efforts will expand the range of food products and crops we raise, and how they are marketed. And other opportunities will involve helping conserve and steward our soil and land resources. We can support new uses for rural lands, and add to the farm economy by creating new livelihoods so our children can stay in rural America, or come home, and so others will want to move there. Your work on the next farm bill is critical in helping build a brighter future for America's farmers, eaters, and rural citizens. I wish you the best of luck and success. Thank you.

The CHAIRMAN. Thank you, Professor Hamilton.

Dr. Kinsey, welcome to the Committee. You are recognized.

STATEMENT OF JEAN D. KINSEY, PH.D., PROFESSOR, APPLIED ECONOMICS DEPARTMENT, AND DIRECTOR, THE FOOD INDUSTRY CENTER, UNIVERSITY OF MINNESOTA, ST. PAUL, MN

Dr. KINSEY. Thank you very much. Good morning, Honorable Chairman Peterson and other Members of the Committee. I thank you for bringing us together to explore the trends in food and agricultural industry as you prepare for the 2012 Farm Bill.

In my time in watching and studying the food and agricultural industry, I have seen an evolution in this industry across the entire supply chain. I think it is important to point out at the beginning, I view this, the farming, as a part of a continuum down to the plate and our work includes everything from farm to fork, if you will. I have also seen in consumers' attitudes towards the quality and healthfulness of the food being produced, so I will address those trends as I see them, those that are most apparent and that are influenced by public policies set in motion by the farm bill and the latest legislation.

In the interest of time, I am going to do this as the nature of a few bullet points because there are several that need to be considered. First of all, we have seen consolidation in all aspects of the food industry up and down the supply chain. This has been driven largely by the efficiencies of big box stores, and the dominant decision-making partners in the food supply chains have moved over the past 7 or 8 decades from the farmers, to the processors/manufacturers, to the wholesalers which are now merged with the retailers, and to a large extent now, retailers representing this revolution in consumers' thinking. There is some reversal in this consolidation due to a large fragmentation of consumer groups, but nevertheless that trend does continue.

Talking about consumer attitudes and health, there is great concern about the quality and healthfulness of the foods and diets. There is a merging of knowledge and interest between food and health. Food is being held responsible for chronic illnesses and the lack of wellbeing. We started at the consumer attitude area with organics, which moved into natural, then fresh, then sustainable and now local has been mentioned. It is being held up as responsible for environmental concerns, animal-friendly concerns and minimal processing, and this is an international concern. It is not confined to the United States. It includes concerns about the climate, as well. There is a general lack of trust in the food production and in the government's ability to handle the healthfulness of food.

The food has also been tied to the obesity crisis and is being held responsible for that. It is tied to concerns about cancer and heart disease and diabetes. As we all know, allowing these general health conditions to exist is a very expensive proposition. It is a very expensive proposition in the terms of healthcare for individuals as well as for the government.

The most common questions that I get these days from people in all walks of life including my own private physician is this, why is the government not subsidizing fruits and vegetables like they do corn and soybeans? I tell you I hear that at least once a week.

We are at one of the lowest levels of confidence in the safety of the food system that we have ever seen. We have been tracking confidence in the safety of the food system, now in our center on a weekly basis, and we are developing an index of this confidence so that we hopefully track it over time and find out how it changes. We know it changes with the media. After the peanut butter recall more than a year ago now, that confidence dipped to 22 percent. In other words, 22.5 percent of the consumers in this country were confident in the safety of the U.S. food system. Who do they hold responsible for their safety? Number one is government. Number two is manufacturers. Number three is consumers themselves. You will see this on the charts that were submitted. After the spinach recall, the responsibility of farmers which was the fourth one down the line now popped up to be the third one on the line. So the beginning of the food chain on the farm is not exempt from this responsibility in the consumers' mind. Food and agricultural policies certainly can't alleviate all of these problems, but they are related.

I would just like to put two more quick items on our agenda so to speak. I know you are not responsible for school lunch in this Committee, but what happens in food and agriculture affects that and affects the food that is available and also the cost.

We are still very concerned in this country about food insecurity, that is hungry people. About six percent of the people are still hungry. That is also a costly proposition in terms of the amount of healthcare costs individually, the increased cost of special education and related items.

Food is being called upon to lead the way and participate in creating a healthier population. In formulating the 2012 Farm Bill, we hope you will consider the role of food and agriculture in the health of the nation's people. Thank you very much.

[The prepared statement of Dr. Kinsey follows:]

PREPARED STATEMENT OF JEAN D. KINSEY, PH.D., PROFESSOR, APPLIED ECONOMICS DEPARTMENT, AND DIRECTOR, THE FOOD INDUSTRY CENTER, UNIVERSITY OF MINNESOTA, ST. PAUL, MN

Good morning, Chairman Peterson, and Committee Members. I am Jean D. Kinsey, Professor, Applied Economics Department, and Director of The Food Industry Center, University of Minnesota. Thank you for bringing us together to explore trends in the food and agriculture industry as you prepare for the 2012 Farm Bill.

In my capacity as a professor of agricultural and applied economics for thirty-three years and the director of a research and outreach center focused on changes in the food industry and consumer behavior, I have seen the evolution of this industry and of policies that facilitate efficient production, trade, and a safe, affordable and abundant food supply. I have also seen an evolution in the way food is delivered to consumers and a revolution in consumers' attitudes towards the quality and healthfulness of that food. I will address those trends that are most apparent and that are influenced by public policies set in motion through the farm bill or related legislation.

Food Industry Consolidation

It will come as no surprise to you that firms all across the food supply chain have consolidated and become larger, more global, and more competitive. Mergers and acquisitions have been largely horizontal, *i.e.,* retailers buying other retailers, farmers buying out other farmers. In the post-farm gate part of the supply chain it is generally observed that this consolidation started in the early 1990's with the advent of Wal-Mart, a large and extremely price competitive retailer who entered the food retail business. Their use of electronic inventory control and data management allowed them to push efficiencies in procurement and sales beyond that known to other U.S. retail food companies. In order to compete, retail food and food wholesale companies began to merge, learned to manage inventory, and pressured food processors and manufacturers for lower prices and just-in-time delivery. This led to mergers and acquisitions in the food processing sector as a way to counter the bargaining power of the new, larger retail firms. This trend continues today. However, there is some evidence of a reverse trend, one towards smaller, more local, more service oriented companies.

The reverse trend focuses on smaller, niche markets for largely middle to upper income households or to immigrant groups with their own unique food preferences. Retail food stores have been bifurcating since the early 1990's into low price, big box sellers and higher price, boutique sellers of food that is merchandised as organic, local, natural, environmentally friendly, exotic or global. This reverse trend is due in part to the fact that most retail food companies cannot compete with the big box stores on price so to survive as a business, they appeal to a customer who is more interested in service, a pleasant ambiance while shopping, and foods that come in smaller packages, are specially sourced to be compatible with a social cause, or are prepared to be ready-to-eat. This has turned many stores into semi-restaurants. Another trend is for stores of all types (gas stations, drug stores, department stores) to sell food. Food can be purchased almost anywhere, putting more competitive pressure on the conventional food retailer.

Also, there has been major investment from Europe in retail food stores, where successful companies have little room to expand and find this market profitable. (Aldi from Germany, Ahold from the Netherlands, Tesco and Sainsbury from England) Food retailers in the U.S. have rarely invested off-shore except for Wal-Mart who has expanded into Mexico, China, England and parts of South America. On average, the profitability of the U.S. retail food sector has not been adequate to generate investment capital for global expansion. The run-up in commodity prices and food prices in 2008–2009 and the recent recession have exacerbated this situation as more consumers seek lower priced food and retailers absorb some of the increased costs. In contrast, food processors/manufacturers were able to sustain prices that increased in 2008–2009 and have been largely profitable. They are in a position to negotiate with their suppliers (farmers) for price and quality characteristics.

Consumer Attitudes—Food Quality and Health

There is a level of awareness and concern about the quality and healthfulness of food in the marketplace that exceeds anything in memorable history. How did this come about?

- Authors like Michael Pollan (*Omnivor's Dilemma*), Paul Roberts (*The End of Food*) and many others have been widely read quoted and followed leading to serious questions about the healthfulness, safety and efficacy of the food available to the public.
- The development of organic farming and sustainable agricultural practices have been captured by the rest of the supply chain—food manufacturers and retailers and consumers who demand more organic foods on the belief that they are healthier not only for the environment and the earth, but healthier for the human body. A large increase in the demand for organic foods led to a short supply and questionable marketing practices (labeling) to meet the demand.
- The large demand for organic foods cooled during the recession because they are more expensive, but it has been merged with the demand for foods that are local, natural and not highly processed.
- Advice columns and many in the medical profession, among others, are advocating that consumers eat much more fresh or minimally processed foods. Some processed foods are viewed as artificial at worst and tasteless at best. Some of the advice is to not eat foods with ingredients that you cannot recognize or pronounce. This is putting great pressure on food processing companies to reformulate their products with heightened concerns about the food's shelf-life and safety. Minimally processed foods can be more hazardous due to microbiological contamination since the microbes may not be killed or controlled during the processing.

I participated in an international roundtable discussion sponsored by Ahold and Wageningen University in the Netherlands (Amsterdam) on February 4, 2010. One of the biggest food challenges of the Western world was explored—that of how consumers select a healthy diet? Sixteen thought leaders from top universities, major institutions and food companies spent a day identifying the issues that consumers have with selecting a healthy diet. Some findings: (a.) The perceptions of "healthy food" is that it is expensive, less accessible, less tasty and less convenient. (b.) Too many foods are calorie dense and border on being addictive; portion sizes are too big; supermarkets compete on price not quality; food companies are working too much on ingredients and too little on finished foods; and quick service food companies apply aggressive marketing (sometimes to children). (c.) Choices are confusing due to labeling inconsistencies and inaccuracies; dietary habits are very hard to change; some people really do not have a choice (no knowledge or low income); future health consequences are not accounted for at the time of food selection.[1]

During the roundtable discussion identifying the issues and problems was relatively easy; there was little disagreement among the global participants. The solutions are harder and involve small but persistent efforts from all parties to the food chain. Communication and education were widely advocated, but to be effective, retailers and food producers alike need to change production and marketing strategies. The environment in which food is produced and offered for sale must change to correspond with changing consumer habits and healthier choices.

Studies of consumers' motivations to purchase local, natural, organic foods show a desire for:

- Authenticity/Integrity (integrity of companies, food, information).
  - Consumers distrust company information and those who speak at them.
  - Consumers revert to social networks—friends and individuals for information—blogs, Facebook *etc.* A danger here is that everyone is an expert and rumors rapidly become "facts."
  - *Freshness* is the most important criteria—extremely important to ⅔ of consumers.
  - Attributes important to consumers:

■ hormone-free	35%.
■ all natural	32%.

[1] The Roundtable on Encouraging Healthy Food Choices *http://www.roundtablefoodchoices.wur.nl/UK/*.

■ local	23%.
■ organic	15–19% (growth in sales slowed to 1%).
■ gluten free	14%.

- **Minnesota Study** [2]—Reasons to buy local food.

  - ■ ~75% Better quality and freshness.
  - ■ ~35% Lower environmental impact/lower transportation.
  - ■ ~32% Support small business—(Big local businesses?)
  - ■ ~30% Help local economy.
  - ■ ~12% Food safety traceability.
  - ■ ~10% Better price.

  ○ Reasons to buy local food by demographic attributes:

  - ■ Better quality and freshness—increases with age.
  - ■ Lower environmental impact/lower transportation—highest income level and younger ages.
  - ■ Support small business—middle age and high income.
  - ■ Help local economy—youngest ages.
  - ■ Food safety traceability—low income.
  - ■ Better price—young age and low income.

The image of lower prices is most puzzling, because many studies show that local food is more expensive. Studies also show that despite fewer miles traveled, local food products sometime use more fuel per pound of food delivered because they use less efficient modes of transportation.[3] This illustrates the importance of accurate communications about the characteristics of the food in our supply chain.

In addition, there is the **obesity crisis** believed to be largely due to the wide availability of calorie dense foods and supersized portions throughout the food chain. This has often been construed as an unintended consequence of farm policies designed to make food abundant and affordable. Subsidized commodities grown in excess of domestic demand have been good for the export business and for the farmers. There have been many good reasons for these policies. But, these foods find their way into school lunches, into food assistance programs, and into low priced foods that may be replacing other foods, like fruit and vegetables, that have additional nutrients with fewer accompanying calories.

- The obesity crisis is real and is especially troublesome as it relates to children. Recent reports indicate that 27 percent of young people ages 17–24 are too fat to be accepted in the U.S. military.[4] This is shocking and is a concern for **our national defense.**
- Obese children are developing type II diabetes in record numbers which means that their **health care costs** will be higher throughout their lifetime and their life expectancy is diminished.
- Obese peoples' health care costs are 42 percent more than that of normal weight people, ($4,870 *versus* $3,400 per year) putting excess burdens on their households, on their employers and on the public health care bill through Medicare and Medicaid. This is an issue for **Federal and state deficits.**
- Obese people are absent from work an average of 5 days more per year than normal weight persons and cost employers an estimated 2.25 times as much due to illness. This is a problem for **productivity** as well as the well-being of workers.[5]
- It is well known that obesity is linked to numerous cardiovascular diseases and cancers. A recent study by the American Institute of Cancer Research, stipulates that 49 percent of endometrial, 35 percent of esophageal and 28 percent

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[2] Durham, Catherine A.; King, Robert P.; Roheim, Cathy A. "Consumer definitions of 'locally grown' for fresh fruits and vegetables" IN: *Journal of Food Distribution Research,* v. 40, no. 1, March 2009, pp. 56–62, 2009.

[3] King, Robert P.; Gomez, Miguel I.; DiGiacomo, Gigi., "Can local food go mainstream?" IN: Choices, v. 25, no. 1, 1st Quarter 2010, 2010. 6 p., 28 cm. *http://www.choicesmagazine.org/magazine/article.php?article=111.*

[4] Grist, "National Security and the Waistline," *New York Times, Week in Review,* April 23, 2010. (*http://NYTimes.com*)

[5] Burton *et al. Journal of Occupational and Environmental Medicine,* 1998.

of pancreatic cancers are linked to obesity. The costs of health care, loss of productivity and pain and suffering are obviously heightened in these cases.

Farm policy alone cannot solve the obesity crisis, but it is incumbent upon policy makers to carefully examine the consequences (intended and unintended) of the supports to agriculture that result in an over abundance of inexpensive, high calorie foods, especially to children.

- The most common comment I hear in conversations with people from all walks of life are, "Why doesn't our government **subsidize the production of fruits and vegetables** like (or instead of) corn and soybeans?"

  - With median farm household incomes between 3 and 21 percent higher than the incomes in non farm households since 1998, it is hard to justify subsidies on the basis of farm income supports.[6]

- Fresh foods are more expensive and they require more of consumers' time to prepare. Making them available through the support of community and farmers markets helps availability, but not the cost. Imports of fresh produce often lower the price and are one way to improve availability.

Farm Bill and National School Lunch Program (NSLP).[7]

As you are well aware, the primary legislation that affects the NSLP is the Child Nutrition Act, which is in the process of being reauthorized by Congress currently. This legislation is handled by the Senate Agriculture Committee, but in the House it is handled by the Committee on Labor and Education. However, there are elements of the farm bill enacted in 2008 that significantly benefited the NSLP.

- The U.S. Dept. of Agriculture (USDA) is almost certain to adopt the 2005 USDA Dietary Guidelines for Americans as the new nutritional standards for the NSLP, as recommended by a major study by the Institute of Medicine requested by USDA. In particular, this will **require that the NSLP serve more fruits, vegetables, and whole grains. This will raise the cost of school lunch since these are relatively expensive foods.**
- Specifically, the IOM recommendations will require the following:

  i. ¾ to 1 cup of vegetables per NSLP serving (varies from grades K–12).

  ii. ½ to 1 cup of fruit per day (varies by grade level).

  iii. must include ½ cup of orange, dark green leafy vegetables and legumes per week.

  iv. starchy vegetables (i.e., potatoes) limited to ½ cup per week, which is much lower than currently for school lunches.

  v. 1 to 2 grains per day; more than 60% must be made with greater than 50% whole grain flour.

- The Obama Administration called for spending $1 billion more per year on the NSLP. However, the bill that passed the Senate Agricultural Committee and is now before the Senate increases spending by only $450 million per year, which would work out **to $0.06 more per school lunch than the current Federal reimbursement rate for the NSLP.** The additional 6¢ is not nearly enough for most school districts to be able to meet the likely new nutritional guidelines, in particular to serve more fruits, vegetables, and whole grains. The School Nutrition Association (SNA) reports that the average cost to prepare and serve a school lunch that meets Federal nutritional standards was $2.92, that is, $0.24 more than the current reimbursement rate of $2.68 per meal. The SNA is recommending an increase of $0.35 per meal. If these programs were funded at a much higher level the NSLP would be in a much better position to meet the new nutritional requirements, plus farmers would benefit from greater sales especially of fruits and vegetables.
- The last farm bill contained crucial elements that benefited the NSLP, particularly in terms of serving more fruits, vegetables, and whole grains. However, most were funded at a very low level or were just pilot programs.

[6] Jones, Carol Adaire, Daniel Milkove, and Laura Paszkiewicz. *Farm Household Well-Being*, USDA, ERS Briefing Paper February 2010.

[7] Thanks to Dr. Ben Senauer for the information on the National School Lunch program. His research in this area has been most helpful.

—The Bill provided $70 million for the Fresh Fruit & Vegetable Programs per year.

—The Bill eased bidding restrictions for school districts that wanted to buy locally grown foods.

—The Bill established a pilot program with $4 million of funding to provide whole grains in several schools.

—The farm bill increased to $50 million per year the funding to Purchase Fresh Fruits and Vegetables for Schools, in the Dept. of Defense (DOD) Fresh Program. The DOD is involved because the nutritional status of military recruits affects our nation's national security.

—$10 million was provided for five state pilot programs to establish school gardens in "high-poverty" schools.

(Source: School Nutrition Association).

Food Insecurity

In spite of an abundant and generally affordable food supply, there are still at least 14.6 percent of households without enough food for optimum health and 5.7 percent that are hungry.[8] While conducting a study of the returns to investing in eliminating hunger it became obvious that poor nutrition, especially in children, is a costly phenomenon. Quite apart from the suffering and embarrassment to individuals, food insecure people suffer more illnesses and hospitalizations; there is more iron-deficiency in children and depression in mothers. Emotional and mental disabilities associated with chronic food insecurity lead to more absences from school and poorer school performance, in turn, leading to the need for expensive special educational programs and lower work productivity in later life. In sum, tolerating hunger in this land of plenty brings with it social and financial costs that can be minimized by programs that ensure food security in rural and urban areas alike.

Food Safety

I have personally been involved in food safety and food defense research through grants from the National Center for Food Protection and Defense, a Center of Excellence at the University of Minnesota funded by the Department of Homeland Security. Most of this research has focused on consumers' attitudes and expectations about food safety, but one study benchmarked food firms in the supply chain as to their preparedness to defend the food they handle and their other assets from a terrorist attack. The benchmark study found that the largest firms (manufacturers and foodservice companies especially) were the most prepared but there was room for much improvement. The weakest area of preparation was the communication and coordination with their supply chain partners. This emphasizes the importance of efforts to **track and trace** the source of food up and down the food chain.

Surveys of consumers regarding their concerns about food safety and defense have shown that they are more concerned about companies and the government being prepared against food terrorism than about attacks with airplanes or other methods.[9] We have been conducting a continuous survey of U.S. consumers since May 2008 to track the changes in concern about food safety and food defense as stories in the public media rise and fall with various food recalls related to foodborne illnesses. The impact of these recalls and lingering consumer concerns on retail sales of directly affected foods and their substitutes and complements is an ongoing part of this study. It is an important study since it is the first time we have had the

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[8] Nord, Mark, Margaret Andrews, and Steven Carlson. *Household Food Security in the U.S., 2008* USDA, ERS report, November 2009.

[9] Thomas F. Stinson, Jean Kinsey, Dennis Degeneffe and Koel Ghosh. "How Would Americans Allocate the Anti-Terrorism Budget? Findings from a National Survey of Attitudes about Terrorism." IN: *Homeland Security Affairs,* v. 3, no. 2, June 2007.

Jean Kinsey, Wes Harrison, Dennis Degeneffe, Gustavo Ferreira, and Sakiko Shiratori, "Index of Consumer Confidence in the Safety of the United States Food System," *American Journal of Agricultural Economics,* 91:5, 2009, pp. 1470–1476.

Dennis Degeneffe, Jean Kinsey, Koel Ghosh, Thomas F. Stinson, "Segmenting Consumers For Food Defense Communication Strategies," *International Journal Physical Distribution and Logics Management,* 39:5, 2009, p. 365–403.

Kinsey J., Stinson T., Degeneffe D., Ghosh K., Busta, F. Consumers Response to a New Food Safety Issue: Food Terrorism. *Global Issues in Food Science and Technology,* Ed. G.V. Barbosa-Canova G.V., Mortimer A., Colonna P., Lineback D., Spiess W., Buckle K., editors. IUFoST World Congress Publication. Elsevier. May 2009.

Thomas F. Stinson, Koel Ghosh, Jean Kinsey, and Dennis Degeneffe, "Do Household Attitudes About Food Defense and Food Safety change Following Highly Visible National Food Recalls?" *American Journal of Agricultural Economics,* 90:5, 2008, pp. 1272–1278.

resources to conduct a weekly survey of consumer sentiment related to food safety and develop an index to measure changes over time.

One of the most important and relevant findings in this survey is that consumers confidence in the safety of the U.S. food system is at an all-time low. Following the January nationwide *Salmonella* outbreak linked to peanut butter products, consumer confidence in the ongoing safety of the U.S. food supply had fallen to 22.5%.[10] Consumers do not trust the food producers, processors, or retailers to consistently deliver safe food to their plates. They do not trust the government to protect their food either. In an initial survey in 2007 we learned that 35 percent of consumers ranked the government as the most important party responsible for the safety of food. They ranked processors/manufacturers as the second most responsible party followed by consumers themselves, retailers, then farmers and last, transportation/logistics companies. After the large spinach recall in 2007 farmers' responsibility surpassed the individual consumers in expected responsibility for food safety.[11] As incidents of foodborne illness reoccurs in fresh produce, this perception is likely to persist.

Tracking confidence in the safety of the food system from May of 2008 to date and constructing an index of the change in confidence has shown that confidence in the current levels of safety fluctuate with media stories about food recalls, but recovers in 3 to 4 weeks. Confidence in the preparedness of the food system to defend or render food safety rises and falls with greater magnitude and recovers more slowly. Implications of this research and findings are that both the government and food companies need to work hard to improve their perceived and actual ability to protect consumers from foodborne illnesses. Improved traceability of food ingredients to their origins will help as will increased funding for food inspections and increased penalties for food companies that cause major food safety incidents. The incentives to be vigilant and careful about food safety need to be aligned with the consequences.

Not unlike the health care cost of obesity, the costs of foodborne illness are nontrivial. A new study estimates these cost to range from $39–$365 billion a year with an average estimate of $152 billion.[12] Even though the costs of investing in food safety measures seems high and the probability of an event to any given product or company is relatively low, the aggregate annual costs of these incidents are high and are born not only by individual consumers and their families but by employers and the health care system.

New Role of Food

We have traditionally viewed food as the source of nutrition and livelihood for human beings around the world. Indeed, there are many people still starving and the need to increase productivity to feed all the people of the world is a critical and immediate problem.

In the United States and many other countries of the world however, over eating and the problems it produces for healthy lives has come to dominate food concerns. It is as though, in our abundance, we take the production and supply of food for granted. And now, we are asking the food system to deliver many other benefits, to be the bearer of environmental cleanliness and recovery, good health, and good living.

The market for food has fragmented as has the market for other products and various cultures and lifestyles and philosophies about life and the role of government. Our heterogeneous population is segmented not so much by ethnicity, religion and race but by a quest to be unique, to rise above or move apart from mass cultural beliefs and activities. This splintering is facilitated by social media technology such as blogs and Facebook. Information about food travels fast whether it is true or not. Consumer frustrations are spread rapidly and food companies and government agencies have little time to react. There are no controls on the facts and fictions that "go viral" on the Internet.

As a general rule, legislation and regulation lags behind technology and innovation and behind changes in lifestyle and attitudes. A careful examination of the way the farm bill influences the well-being of not only farmers and the productivity and efficiency of the food system but the ability to facilitate healthier lives and lower

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[10] Press release by The Food Industry Center, University of Minnesota, February 23, 2009.

[11] Dennis Degeneffe, Research Fellow, Jean Kinsey, Director/Professor, Tom Stinson, Professor, Applied Economics Department, and Koel Ghosh, Post-Doctorate Researcher, The Food Industry Center, University of Minnesota. *Reinforcing the Circle of Trust: The Impact of Food Safety Incidents on Consumer Confidence.* Presentation at National Grocers Association National Convention & Supermarket Synergy Showcase, Paris Hotel, Las Vegas NV February 7, 2008.

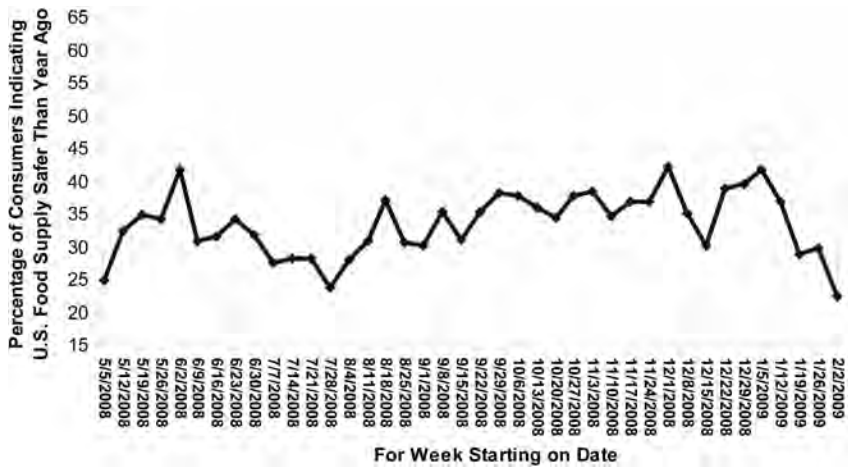
[12] Robert L. Scharff. "Health-Related Costs from Foodborne Illnesses in the United States, 2010." Pew Trust study at Georgetown University.

healthcare and education costs is sorely needed and encouraged. Nothing is the way it used to be, except the fact that we must all eat and what we eat determines who we are. And, what we eat is strongly influenced by policies in the farm bill.

Thank you for seeking to learn more about the trends in consumers' perceptions, expectations and needs as it relates to their food and how it is being supplied. I look forward to answering any questions you may have.

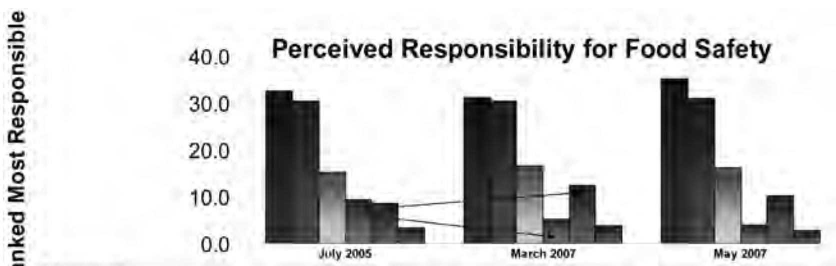
ATTACHMENT

Continuous Consumer Food Safety Confidence Tracking University of Minnesota Food Industry Center Louisiana State University AgCenter



Consumer Perceived Responsibility for Food Safety

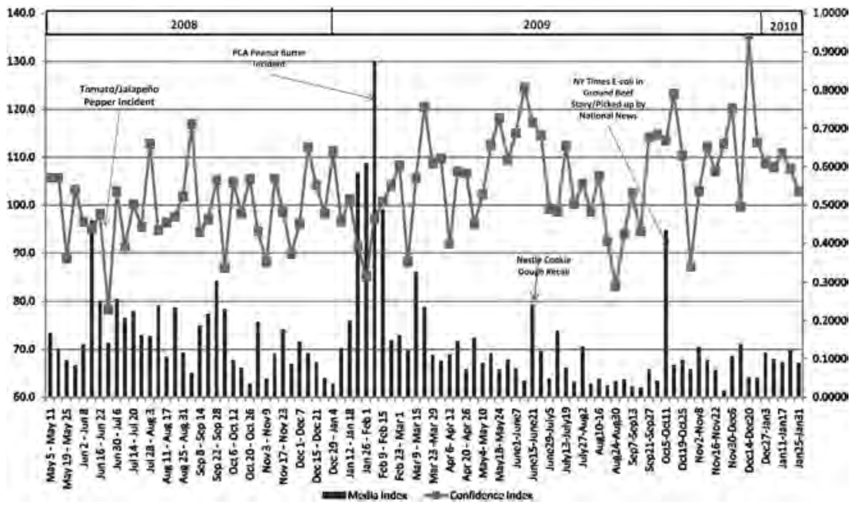
- The *government and food manufacturers* are seen as most responsible for insuring food safety.
- Since the spinach incident consumers view *farmers as more responsible and retail stores as less.*



	July 2005	March 2007	May 2007
Government	32.7	31.3	35.3
Processors/Manufacturers	30.4	30.4	31.1
Consumer	15.2	16.7	16.2
Retail-Grocery Store/Restaurants	9.4	5.2	4.0
Farmers	6.7	12.5	10.3
Transporters/Distributors	3.6	3.8	2.9

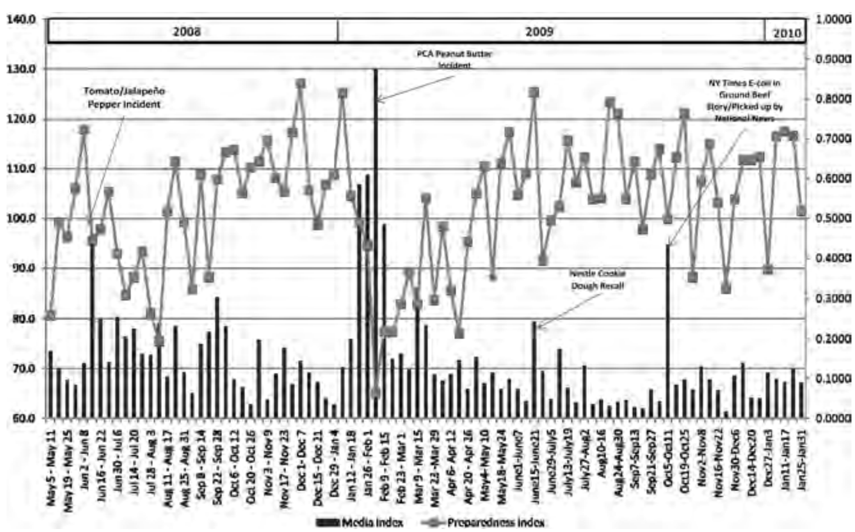
CFST Continuious Tracking of Consumer Confidence in Safety/Defense

*Consumer Confidence Index **versus** Media Coverage Index*



CFST Continuious Tracking of Consumer Confidence in Safety/Defense

*Perceived Preparedness Index **versus** Media Coverage Index*



The CHAIRMAN. Thank you very much, Dr. Kinsey.
Dr. Paarlberg, welcome to the Committee.

STATEMENT OF ROBERT PAARLBERG, PH.D., B.F. JOHNSON PROFESSOR OF POLITICAL SCIENCE, WELLESLEY COLLEGE; ADJUNCT PROFESSOR OF PUBLIC POLICY, HARVARD KENNEDY SCHOOL, WATERTOWN, MA

Dr. PAARLBERG. Thank you, Mr. Chairman and Members of the Committee. It is an honor to be a part of this panel and share some of my views on the 2012 Farm Bill.

My focus as an independent academic is on the politics of food and agriculture. I have just published a book called, *Food Politics,* and in my written testimony I examine three challenges that could change the politics of the 2012 Farm Bill debate and make the drafting of a business as usual farm bill more difficult for this Committee. The first two of these challenges, the budget challenge, with our current fiscal crisis, and the WTO challenge, particularly, the problem of WTO compliance for the cotton program. These two are obvious and I will skip over those in my oral testimony, but a third challenge just mentioned by Dr. Kinsey is the obesity crisis. I would like to focus on this.

Our nation's worsening obesity crisis is going to make passage of a business as usual farm bill more difficult in 2012 because a growing number of critics have become persuaded that Federal policy is one important cause of the crisis. You have heard the arguments, I am sure, that Federal programs have made junk foods and snack foods artificially cheap relative to healthier choices; that Federal programs have made livestock feed and hence meat, artificially cheap. Federal programs have also made corn-based sweeteners artificially cheap.

In my view, these are all baseless charges. The Economic Research Service at USDA has looked carefully at junk food and snack food prices. They have found that the price of fruits and vegetables has fallen just as rapidly as the price of junk foods and snack foods. Our Federal programs do plenty of things that could be criticized, and I am a critic of many of them, but the one thing you can't say they do is make sweetened foods artificially cheap or make corn or corn-based foods artificially cheap.

Our tariff rate quotas on imported sugar make sweetened foods artificially expensive, and certainly our subsidies, tariffs, tax credits, and mandates for corn-based ethanol have driven up the price of corn. It is artificially expensive not artificially cheap. Ask the livestock industry. Nonetheless, over the past several years a stream of dubious studies and popular books and amateur commentary have persuaded most of the American people that the farm bill causes obesity and that is a political problem. Fortunately, I believe there is something this Committee can do in the 2012 Farm Bill to counter this impression. Sweetened beverages, particularly caloric sodas are, on the consumption side, perhaps the single most important contributor to our current obesity crisis. So, it may be time to look at the Federal nutrition programs as a place to address this concern. The nutrition programs currently take up, most critics don't know they take up about 80 percent of the farm bill baseline. Maybe this is a more promising place to turn for solutions.

It may be time for these nutrition programs, particularly the SNAP program to stop subsidizing the consumption of caloric sodas. I would argue that caloric sodas should be made ineligible for purchase under the SNAP program. A little bit like tobacco and alcohol. This would not be an imposition of a tax. It would simply mean the removal of a subsidy and the total dollar value of SNAP benefits wouldn't fall. These benefits would simply be deployed away from an obesity-inducing product, which isn't even a food product after all. And of course, there is going to be resistance to this from those in the beverage industry that sell caloric sodas, but saying no to this segment of the beverage industry would be a good way to show the critics that the next farm bill is being drafted with the obesity crisis in mind. Thank you and I will stop there.

[The prepared statement of Dr. Paarlberg follows:]

PREPARED STATEMENT OF ROBERT PAARLBERG, PH.D., B.F. JOHNSON PROFESSOR OF POLITICAL SCIENCE, WELLESLEY COLLEGE; ADJUNCT PROFESSOR OF PUBLIC POLICY, HARVARD KENNEDY SCHOOL, WATERTOWN, MA

The Politics of the 2012 Farm Bill

Federal policy in the food and farm sector has long followed the preferences of the Agriculture Committees of Congress, most specifically this Committee. Over my career as an independent scholar, I have repeatedly witnessed this dominating Agriculture Committee role, and I have identified it again in a new book published last month by Oxford University Press titled "Food Politics: What Everyone Needs to Know." My task here is to draw from the thinking in that book and look ahead toward the 2012 Farm Bill. Is the politics of the farm bill process changing or not? Will this Committee be able to write another "business-as-usual" farm bill in 2012, or will political realities force a break from the past?

Historically, the Agriculture Committees of Congress have always been able to write the farm bill on their own terms, and I suspect this will remain the case in 2012. Nobody can "force" this Committee to make a change. Secretary Vilsack might want a break from the past, but Secretaries of Agriculture don't write farm bills. In fact, Secretary Vilsack has said he will not even send Congress a suggested farm bill for 2012, only perhaps an outline of a bill. Presidents don't write farm bills either. Remember that President Bush actually vetoed the 2008 Farm Bill, calling it "wasteful," yet Congress passed the bill over President Bush's veto by a wide margin of three to one in the House and six to one in the Senate. In fact, the 2008 Farm Bill *was* wasteful, given that it re-authorized expensive subsidies at a time when net farm income in the United States was 40 percent above the average of the previous 10 years. Yet the political reality remains: if the Agriculture Committees want an expensive business-as-usual farm bill, they can get one.

The continuing power of the Agriculture Committees over the farm bill process is at first puzzling, given that farming today represents less than one percent of GDP and that farmers are less than two percent of our labor force. The Agriculture Committees retain their power despite this sectoral shrinkage by employing what scholars of legislation call a "committee-based logroll." They draft a bill that first unifies all farmers (Republican and Democratic, crop and dairy, Northern and Southern, *etc.*) by providing something for everybody. Then they recruit support from beyond the sector by adding benefits for non-farmers. In proportion to the relative decline of the farm sector over the years, the share of benefits provided to non-farmers has grown.

This process of bringing non-farmers under the tent began in the 1960s and 1970s, when farm bills were written to include greatly expanded food assistance programs for the poor, valued by Members from urban districts. By 2002, more than 60 percent of all farm bill spending went for these nutrition programs. The 2008 Farm Bill was made attractive to nutrition advocates through an added $7.8 billion in spending over 10 years for the Food Stamp Program (renamed SNAP), an added $1.26 billion for the Emergency Food Assistance Program (TEFAP), and $1 billion for a free fresh fruit and vegetable snack program targeted to schools with low-income families (in each of the 50 states). In the 1970s, several reform-minded Secretaries of Agriculture had proposed that such nutrition programs be handed over to the Department of Health, Education, and Welfare, but the Agriculture Committees kept them inside USDA, to broaden non-farm political support for the farm bill.

In the 1980s, environmental advocates were brought into the farm bill tent through the addition of several resource protection measures. A Conservation Reserve Program (CRP) in the 1985 Farm Bill gave growers cash rental payments for idling portions of their land. Later an Environmental Quality Incentive Program (EQIP) was added, paying farmers up to 75 percent of the incurred costs and income foregone for adopting certain conservation practices. While these payments to be "green" were primarily beneficial to farmers, they helped add new non-farm constituencies to the Farm Bill Coalition.

Advocates for organic food were brought into the coalition in 1990, when that year's farm bill added a title that created an organic certification system. Increased subsidies for "alternative agriculture" are now used to soften criticism of the (vastly larger) subsidies provided to conventional agriculture. In the 2008 Farm Bill, support for the organic sector was expanded to include organic research and extension assistance, certification cost-sharing, and conversion assistance.

Supporters of international humanitarian assistance have also become an important part of the Farm Bill Coalition, thanks to the longstanding inclusion of a separate title for international food assistance programs. Title II of P.L. 480 (administered by USAID) has been funded at an average level of about $2 billion annually since the farm bill of 2002. It supports the operations of many U.S. private voluntary organizations working internationally in relief and development. This P.L. 480 program also brings in farm bill political support from the maritime lobby, since the law reserves for U.S.-flag vessels 75 percent of all gross tonnage of food aid shipped. A number of smaller international food aid programs (Food for Progress, Bill Emerson Humanitarian Trust, McGovern-Dole International School Feeding and Child Nutrition) are actually administered by USDA itself.

The something-for-everybody logroll approach has the advantage of keeping partisan paralysis to a minimum. For example, the legislation that eventually became the 2002 Farm Bill emerged from this Committee equally supported by Republicans and Democratics, without a single dissenting vote. The drawback to the logroll approach, however, is the final cost to taxpayers.

Outside the halls of Congress, a business-as-usual log-rolled farm bill in 2012 is likely to encounter several new kinds of pushback. Budget hawks and the recently energized Tea Party movement will probably pick up on President Bush's concern that farm bills have become too expensive. Opponents of corporate agriculture will make a more vigorous case that farm subsidies are worsening our nation's growing obesity crisis. And advocates for a new multilateral trade agreement in the World Trade Organization (WTO) will fight against any farm bill in 2012 that introduces new production distortions that might make an international agreement more difficult to reach. The new pushback from these various directions in 2012 will not be strong enough to determine what this Committee does, but it may impose a larger political price this time around for continuing a business-as-usual approach.

The Fiscal Crisis

The 2012 Farm Bill debate is likely to take place in an unusually stressed fiscal environment. The Federal budget deficit was $1.4 trillion last year. It is projected at $1.56 trillion for this year, roughly 10.3 percent of GDP, not as high as the disastrous budget deficit of Greece in 2009 (13.9 percent of GDP), but clearly a worrisome level. The Obama Administration hopes the deficit will shrink to only $1.3 trillion next year, but under the Administration's budget projections the deficit is unlikely to drop below $706 billion a year at any time over the next decade. In recognition of this crisis President Obama launched a bipartisan National Commission on Fiscal Responsibility, tasked with finding a way to shrink the deficit to three percent of GDP within 5 years. In this fiscal environment it will be more difficult to hide the high costs of a business-as-usual 2012 Farm Bill.

The Obesity Crisis

The farm bill debate in 2012 will also be shaped by our nation's growing obesity crisis. Between 1971 and 2000, the rate of obesity (BMI above 30) in the United States doubled from 14.5 percent to 30.9 percent. The medical costs associated with this crisis are now becoming significant. Between 1998 and 2008, the medical costs of treating obesity-related diseases in the United States doubled to reach $147 billion.

Farm subsidies do not cause obesity. Instead, the most important causes are a combination of reduced physical activity (as a constantly smaller part of workforce engages in actual physical labor; as automobile driving has replacing walking; and as more leisure time is spent seated before computers or television screens) plus increased calorie consumption (as the price of food has fallen relative to income, as cigarette smoking has decreased, and as "grazing" on super-convenient and energy-dense prepared foods, snack foods, and fast foods replaces sit-down meals prepared from fresh ingredients by homemakers). Yet influential critics are now blaming a significant part of our nation's obesity crisis on farm subsidies, which are said to be making animal feed, corn-based sweeteners, and unhealthy snack food artificially cheap.

Such allegations are mostly mistaken. A USDA study in 2008 found that the price of fruit and vegetable products in the United States, if you control for quality and season of the year, had fallen at almost exactly the same rate as the price of chocolate chip cookies, cola, ice cream, and potato chips. Nor is it true that Federal programs make corn artificially cheap for livestock producers. The corn program in the farm bill may lower prices slightly (by less than ten percent), but this effect is more than offset by Federal subsidies and mandates for corn-based ethanol, which drive up the price of corn, and also soybeans. Nor is it true that sweeteners have been made artificially cheap by our commodity programs; our tariff-rate quotas on sugar imports drive up all sweetener prices (and this further boosts feed prices, by diverting corn use to the production of high fructose corn syrup). Nor is it true that HFCS is more obesity inducing in drinks than natural sugar; HFCS in soft drinks consists of 55 percent fructose and 45 percent glucose, not significantly different from ordinary sugar, which is 50/50 fructose/glucose.

So the alleged links between the farm bill and obesity are largely bogus, but they are nonetheless becoming a more powerful political current, one that could make a business-as-usual farm bill more difficult to enact in 2012.

The WTO Crisis

In July 2008, shortly after passage of the last farm bill, multilateral negotiations in the WTO to liberalize trade came to a halt because of disagreements over trade-distorting agricultural subsidies. If the 2012 Farm Bill does not leave room for subsidy reductions, these multilateral negotiations may be impossible to revive. Also, earlier in 2005, the U.S. cotton program was found to be in violation of America's existing legal commitments in the WTO and the 2008 Farm Bill did not correct this flaw, so last August the WTO gave Brazil a right to impose punitive tariffs on U.S. exports as compensation for the U.S. violation. In order to prevent punitive action, the United States last month promised Brazil's cotton growers a "technical assistance" fund of $147 million a year, to be replenished until the improper U.S. cotton subsidies are removed. This costly and embarrassing failure to reform our cotton program in 2008 will be at the top of the farm bill agenda in 2012. If the offending U.S. cotton program is not changed, or if our currently decoupled payments are replaced by trade-distorting measures in the 2012 bill, America's larger trade policy interests will be put in jeopardy.

An Alternative Approach the Next Farm Bill

In view of the above circumstances, a business-as-usual farm bill in 2012 will invite wide and damaging criticism. To diminish or avoid that criticism, several alternative steps might be taken.

1. *Spend less than the budget baseline.* Leaders on this Committee have already committed to a 2012 Farm Bill that costs no more than the budget baseline. This is the right instinct, but our fiscal crisis has emerged because existing spending baselines are too high. It would be a bold and worthy step for this Committee to write a 2012 bill costing less than the baseline funds available.

Recall that designing farm bills to capture every dollar of available baseline spending has led to shortsighted changes in the past. For example, in 1996 a switch was made to de-coupled payments as a means to "capture the baseline" at a time when high crop prices were reducing projected outlays under existing programs. Congress was unable to discipline itself to stick to the new system when crop prices subsequently fell.

2. *Make caloric soda ineligible for purchase under the SNAP program.* Subsidizing food give-aways, even healthy food give-aways, has never been a credible policy response to our obesity crisis. Nor is it any longer sustainable within our new budget limits. In the Senate, recently, the Agriculture Committee passed a child-nutrition bill with an added $4.5 billion in spending that had to be financed in part through cuts in EQIP spending.

A better approach would be to stop using the SNAP program to subsidize consumption of unhealthy products. Caloric soda, which is not a food, might be made ineligible for purchase using SNAP benefits (along with various other products such as alcohol, cigarettes, and pet food). Removing the soda subsidy from the SNAP program would help correct the impression that our nutrition programs are hostage to the interests of beverage industry.

3. *Continue moving away from product-specific farm income support instruments such as countercyclical and loan deficiency payments. These distort production and trade. Replace these traditional instruments with whole farm revenue insurance.* The 2008 Farm Bill made a move in this direction with the ACRE program, which protects farmers against declines in price and yield. The attraction of this approach is that taxpayer outlays only go up when prices or yields are going down. The limitations of the ACRE program are its link to current acreage and prices for specific crops, which might require that it be counted as production distorting in the WTO, plus the fact that the payments will be made against an artificially high price standard (the price levels that prevailed in 2008). Also, participation has been limited so far (only about 13 percent of eligible crop acres were enrolled in ACRE for the 2009 crop year) in part because of farmer misgivings about the statewide yield trigger and a reluctance to accept the reduced direct payments and lowered marketing assistance loan rates that accompany the program. If the traditional instruments were made less attractive (*e.g.,* through comparable reductions in payments and loan rates) more large growers would move over to an ACRE-type system.

4. *Commit a larger share of farm bill resources to rural public goods and agricultural research.* Secretary Vilsack's testimony to this Committee last month correctly stressed the value of supporting job creation and wellbeing in rural America—both on and off the farm—through increased USDA support for rural broadband, for regional food systems and supply chains, and for rural health and education. I would also stress the importance of food and agricultural research, a task we should not hand off completely to corporate labs. The private companies have produced some wonderful innovations (for example, the technologies that are now moving American agriculture toward environment-friendly "precision farming"), but their money does not serve all crops or all farmers. The public sector should be playing a larger role. The 2008 Farm Bill took an important step in the right direction when it authorized creation of a new National Institute of Food and Agriculture, but NIFA doesn't yet have an adequate research budget. NIFA's agriculture and food research initiative (AFRI) competitive grant program was funded in FY2010 at only $262 million, only 1⁄90 the size of the Competitive grants programs of the National Institutes of Health.

In summary, this Committee will face an important set of choices when it begins drafting the 2012 Farm Bill. I believe this next farm bill should be approached as an opportunity to move U.S. food and agricultural policy into greater harmony with our fiscal and social needs, and with our larger national interests and international legal obligations. Many will be hoping for real change in the 2012 Farm Bill, beyond the standard business-as-usual committee-based logroll.

The CHAIRMAN. Well, thank you very much. Thank all of the panelists for that excellent testimony.

We will go to questioning. For those of you who haven't heard, we are going to limit our questions. We don't want you to ask three questions at the beginning of your time. We will ask you to ask one question at a time and when the yellow light goes on, you can't ask another question, so we are going to try to keep it more on track here. And with that, I would recognize the gentleman from Pennsylvania, Mr. Holden.

Mr. HOLDEN. Thank you, Mr. Chairman.

Dr. Babcock, you have been instrumental in developing the Livestock Gross Margin Program for Dairy. At a recent dairy policy hearing in my district in Harrisburg, Pennsylvania, producers expressed interest in a Margin Insurance Program but their participation in LGM was limited. Now, this program has now been in existence for a few years. What have you learned and what changes, if any, are you considering making to the program to encourage additional participation?

Dr. BABCOCK. The changes that we are considering is that we are working with RMA to not force producers to pay 100 percent of the unsubsidized premium upfront when they sign the contract so they may have 6 months of insurance. We are asking them right now that they have to pay all of the premium at the time they sign the policy. We are going to allow them to stagger it because the dairy farming is a cash flow business, and we think that that would be fairer. We are also working with the Pennsylvania Department of Agriculture to ask RMA to approve a small subsidy for an LGM for dairy.

Mr. HOLDEN. Thank you.

Dr. Paarlberg, in your written testimony you talk about ag research. As you know, the way research works at USDA doesn't necessarily follow what we do in a farm bill. The appropriators choose to do what they want to do with it. What changes do you think should be made in the way that the appropriations are made for ag research?

Dr. PAARLBERG. That is a good question. I think the Agriculture Committee did its job in the 2008 Farm Bill by creating a new research institute inside USDA. Unfortunately, the appropriations have not yet given the leadership of that initiative the resources needed to produce results. I took a look at the Fiscal Year 2010 appropriations for NIFA for the Competitive Grants Program inside NIFA, and its only 1⁄90 as large as the Competitive Grants Program inside the National Institutes of Health. So we have the institution in place but the money is not there.

Mr. HOLDEN. Mr. Chairman, that is a big problem. I remember Kika de la Garza talking about it in 1993. I yield back, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

The gentleman from Oklahoma, Mr. Lucas.

Mr. LUCAS. Thank you, Mr. Chairman, and we could spend literally a week with this panel alone, but Dr. Babcock, let us talk for a moment about Federal Crop Insurance. You make some pretty to-the-point comments about the cost of the present program and the delivery mechanism and a variety of things. I once in awhile have constituents out in the countryside who tell me quite simply just give me money and I will go buy my own product somewhere. But, the fact of the matter is Federal crop insurance, as it is sold today, has to be approved by RMA, the products do. If you develop a new product, RMA reimburses you and all the companies can sell the same product. So, it is which agent sells which company's product that is the same product. Discuss for a moment if you would the concept of Federal crop insurance working more like other insurance products, whether it is competition and the uniqueness in the end products, is it a possibility.

Dr. BABCOCK. In theory it could, but in practicality it is not clear that the purely privatized crop insurance companies can find the capital backing to underwrite the amount of risk that potentially could be taken on by them, and so it is just a risky business to underwrite agricultural losses. So in theory it could, but in practicality it is not clear that they could find the reinsurance to do it.

Mr. LUCAS. Even with the volume of dollars that would be available to farmers to purchase such products if we continued to make those dollars available to producers?

Dr. BABCOCK. It is not clear that farmers would actually buy the belts and braces types of products that we have out there today if they were given the dollars to choose the insurance products they want. We have seen farmers buy crop hail insurance and that was a private market that actually worked, but the characteristics of crop hail losses are such that it is poolable and it doesn't represent a very large need for reinsurance.

Mr. LUCAS. Dr. Paarlberg, your testimony also was fascinating and in your written testimony and your writings discussing the political process that has created past farm bills, if you would look with me towards 2012. I think we might have potentially 100 new Members in the United States House. We might have ten new Senators. Handicap what the odds are in passing the farm bill in 2012.

Dr. PAARLBERG. I think the odds are, do you mean in 2012 as opposed to 2013 or do you mean at all?

Mr. LUCAS. I mean in 2012, 2013, 2014, at all.

Dr. PAARLBERG. If you give us out to 2014 I would say 100 percent.

Mr. LUCAS. And that will be because we still will pass a farm bill that will be based on the principals of recent farm bills, nutrition, production, conservation, tying the political landscape together.

Dr. PAARLBERG. Well, in my written testimony I give maybe a less elevated explanation for the repeated success of the Farm Bill Coalition. It is based upon a provision of benefits to a diverse set of constituency groups, not just farmers from every part of the country and every product market, but also consumers. In nutrition programs, the environmental community likes some of the Conservation Programs. The international relief and developmental assistance community likes the food aid programs. The organic community likes the organic certification programs. The shipping lobby likes the food aid program, so it has been successfully log-rolled into the coalition.

Mr. LUCAS. Do you find that as a holy or an unholy alliance?

Dr. PAARLBERG. I find it as an entirely typical alliance and not unique to the farm program.

Mr. LUCAS. I take that as a compliment. Thank you. Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

The gentleman from North Carolina, Mr. McIntyre

Mr. MCINTYRE. Thank you, Mr. Chairman.

Dr. Babcock, I would particularly like you and Professor Hamilton to respond to the role that you see agricultural policy playing with regards to rural economic development, and where you see our policy in agriculture in relation to rural development. We know that rural development in the farm bill is really much, much broader than only dealing with the great issues of farming but also the entirety, such as in North Carolina where 85 percent of the state is classified as rural, and the impacts on rural health, telemedicine, broadband, telecommunication, public facilities, first responders' ability to be able to respond adequately and appropriately. Can you tell me how you see agricultural policy continuing to affect rural economic development?

Dr. BABCOCK. All those policies, those rural development policies that you mentioned are what is commonly called public goods. Their proper role, and they are for government and government is the proper place for those to be provided, and they are provided in the farm bill. They are part of the grand coalition that was just referred to in terms of why the farm bill exists. I think that if one was to design a better farm bill from a public goods perspective, one would take some and find some extra money for those public goods. I think that would be a better farm bill. Whether or not it would increase the political viability of the farm bill is for you guys to decide.

Mr. HAMILTON. Congressman, I have taught a class for several years on rural development and rural lands, rural livelihoods. Part of the challenge is making sure that people in rural communities, particularly bankers and lawyers, the people who can help folks work those programs are aware of the array of what rural development has to offer. You on this Committee have made a number of important improvements in rural development. Today you have the producer grants which we make great use of in Iowa. The Wheat Program and Rural Energy Program that has helped to put on-farm wind turbines on a number of operations around our state. These are valuable programs. Part of the challenge, I believe, is finding the capacity in rural America and the entrepreneurial spirit to take advantage of what you have provided in terms of the loan guarantees and the other programs. Rural development it seems, for a number of years, has been this kind of almost hidden entity, at least within the agricultural law community. I think that we could play a role in helping people know in fact what is available there.

Mr. MCINTYRE. I would like to ask any of the panel that would like to respond with regard to the importance of biotechnology. We know that in our area of North Carolina, that I have the opportunity to represent, it has been a cutting-edge opportunity to transition for farmers regarding biofuels and regarding research that can affect some of the concerns we have right now with foreign dependency on other sources for fuel. Can you speak to the importance of biotechnology and where you see that affecting farm policy, particularly the upcoming farm bill? Yes, sir.

Dr. PAARLBERG. I could comment on that very briefly. It is interesting. If you look at yield gains in different crops across countries, the crops where biotechnology applications have been approved, in the United States corn and soybean particularly, show yield gains that are dramatically higher now than for crops where biotechnology applications have not yet been approved such as wheat. And if you look at the same crop in countries where biotech applications have been approved, the United States *versus* those where they have not been approved, France, the biotech approving countries see dramatically higher yield gains then those that reject the technology. The technology has been around now for close to 15 years. I think it has demonstrated enormous potential to not only boost yield but to reduce chemical applications, reduce greenhouse gases, and reduce land-use requirements. I think any forward-looking farm bill is going to want to find plenty of space for new science of all kinds, certainly, including modern biotechnology.

Mr. MCINTYRE. Thank you, sir.

Dr. Babcock, do you have a response?

Dr. BABCOCK. Yes, it kind of is a double-edged sword from commodity policy though because the great success of biotechnology in increasing yield, if the food sector had to absorb all that extra production, you would first see very low prices. Second, you would see a lot of demands on the commodity policies from coming in and compensating for those lower prices. But we have biofuels that sucks up, soak up about for corn 4 to 5 billion bushels of the surplus if you will that is created in part due to the biotechnology-led yield gain. I think if you look out 10 years, you are going to see that yield improvement continuing in corn and to a lesser extent, soybeans. I think that we are going to have to grapple a little bit with the resulting supply impacts and the price impacts of that, and that should be rolled in with our energy policy.

Mr. MCINTYRE. Thank you.

Yes, ma'am.

Dr. KINSEY. To take just a little different tact on this, I think that it is very important to continue supporting as was said science of all sorts including biotechnology. Not just because it might increase yields of production here in the United States, but to the extent that we are a leader in increasing yields around the world for the rest of the starving people in the world. Biotechnology plays a very important part there, and whether we transfer bushels of wheat and corn, or whether we transfer the technology to the other countries, is a very important aspect of this.

Mr. MCINTYRE. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

The gentleman from Kansas, Mr. Moran.

Mr. MORAN. Mr. Chairman, thank you. Before I ask my question, I would like to recognize the gentleman from Iowa, Mr. Boswell. He was in Kansas last Monday and on Tuesday morning he was inducted into the General Command and Staff College Hall Fame at Fort Leavenworth, Kansas. I want his colleagues to know that his military service and the recognition for that, as well as his being an instructor at the Command College. He is in great company with outstanding American military leaders, and I was pleased that Fort Leavenworth recognized our colleague, Mr. Boswell's contribution to our country.

Mr. Chairman, let me ask a question that takes us to back to the testimony by Secretary Vilsack, when we initiated our hearings on the new farm bill here in Washington, D.C. It caught some of our attention at least that the Secretary had virtually nothing to say about Commodity Programs. His focus was on rural development, broadband, farmers' markets, and I have heard the witnesses here speak at least to some degree about those things. But, in my experience in watching the communities of Kansas and yes, we have challenges in still stabilizing the population. The demographics continue to trend against us, but it is clear to me that the success of the production of agriculture is going to determine the future of many communities that are located in my state. And if we are going to have a prospering Main Street, if we are going to have automobile and pickup dealers, we are going to have feed stores and grain elevators, it is not going to be because someone has a lifestyle as a farmer and has a job in the city and then comes home to enjoy a hundred acres. The Secretary in his conversation with the National Association of Farm Broadcasters then highlighted that that was a goal that we should supporting, the opportunity for people to return to that hundred acre setting while earning a living some place else. The reality is that while that is a great thing, and I encourage people to return to their roots and lifestyle of a farmer and living in rural America is a great thing, would you disagree that if we are going to have economic prosperity in rural America, our farmers are the ones who are going to have to have economic success on an ongoing basis? Am I missing something?

Mr. HAMILTON. Well, Congressman, I certainly agree that the farm community is the significant piece of the rural economy, but I am not sure that a solid and vibrant farm program is necessarily the same thing as a Rural Development program. You would have to ask the Secretary what he meant. I know that, as I see it, agriculture policy is part of it, but also dealing with the opportunities in rural America are part of it as well. And that is why part of my remarks focused on putting new people back there because if your part of Kansas is anything like the part of Iowa I grew up in, it has been a history of population decline, farm consolidation, larger operations. And, the farm programs are certainly important to those operations, but in terms of the health of those small rural communities, I would hate to bank on a successful farm program being what is going to support a Prescott or a Cromwell or a Corning, Iowa. I think there has to be more to it and the Census numbers would show that agriculture receives a significant amount of its income from non-farm employment and off-farm jobs. It has been that way forever and is increasing, so I don't necessarily see them as two separate things. I think they are actually woven together.

Mr. MORAN. Well, I don't disagree that they are both important, but I think that there is a growing emphasis upon one over the other. So what you just said, it makes sense to me, but we need to make certain that there is not this belief that farm programs or a farm bill that is structurally sound on behalf of production of agriculture is something that is no longer important. I look back to the 1980s in which farmers were failing instance after instance after instance and you can see the exact corresponding relationship in the changing demographics, the reduction in population of communities across Kansas. And so to suggest that we—what I worry about is there is now a suggestion that we don't have to worry so much about the financial success of production agriculture because there is something else, that lifestyle farming is going to take its place. It is going to repopulate rural America. The point I want to make, and I don't know that this panel is going to acquiesce to my point, but the point I want to make is that you cannot exclude the production agriculture and still expect these other things. Broadband is a great thing, but if we do not have successful farmers in rural America, those communities are not going to be there to enjoy broadband. That core is still there and if you look at Main

Streets of communities across Kansas and it is the feed store and the fertilizer dealer. It is the co-op. It is the bank that lends to farmers. It is the automobile dealership. Their customers are production agriculture and in their absence we are going to see an even greater exacerbation of the problem we face in the demographics of the population decline of rural America.

My time has expired, Mr. Chairman. Thank you.

The CHAIRMAN. I thank the gentleman.

The gentleman from Iowa, Mr. Boswell.

Mr. BOSWELL. Well, thank you, Mr. Chairman and Mr. Moran, again we are on the same track. I appreciate what you just said and I want to make a comment about that. I am not going to editorialize, but I will stick to one question, Mr. Chairman.

I appreciate what Mr. Lucas said early on that we can sit with this panel for a week. Thank you for giving us your time in being here probably all day and not finish our discussions, but you probably are not going to let us do that. No? Okay.

I, just on that point, that Mr. Moran was making, I look in the audience and I see the National Farm Bureau is here and many others, and everyone of us wants to provide food and fiber for this country and make it plentiful and affordable and safe. I have no doubt about that and I don't care who you are. And I believe that, Dr. Hamilton, as I have been, I have seen the land that you are a steward over several times because I believe that your point is well taken. There is room. There is not a threat to production agriculture. There is room for both. This world population is growing by what, 90+ million per year and there is no threat from one to the other. There is room for both is my belief, and I have been looking at this for a long time. I think that those markets you are talking about it, there is a need for it and people want it. It should be provided for, but we can't take away. I heard that from all of the panel, I think, and we have to keep the research going on yield production and the intrinsic values. You folks could tell us about what has happened in the different crops, corn whatever to get the intrinsic values to do what we want to do for the alternative fuels and so on. We must stay on the research and I just wish we could move away from worrying about one is a threat to the other because there is demand for both, and I don't see any threat at all.

Let us get to a question now. I am very concerned that at the hearings we heard about the ACRE Program and it is too confusing or whatever. I just wonder, Dr. Babcock or anybody, what you would suggest that we can do to put this, when you talked about it and maybe you have already answered it. We will carefully look at your testimony, but in your opinion if we change to county level, I totally agree. I think that is right. I think you find probably a lot of us do. You increase the coverage to 100 percent of planned acres as opposed to 83.3. In your opinion, what are the most important changes we need to make? We probably can't do everything or we may not or who knows, but what would be the most important?

Dr. BABCOCK. In terms of the ACRE Program, a lot of the confusion about it came about because there is this farm level loss trigger on it and so you had to have a farm level yield history. You had to go and get your FSA records or your RMA records, and you had to bring them together. It was pretty complicated how that all that got implemented, so that is one thing. Another thing was that is at the state level and then people were going well, what is the state yield and how is that going to affect me, because they don't identify so much with the state yield. So, two moves that could be made would be to move into the county level, so that it would be more local so the yield variation in acre would reflect to a large extent the yield variations on farms. I would just get rid of the loss trigger because then FSA can easily implement it, and farmers could easily understand the coverage they were getting. So that would be the move that I would make.

Mr. BOSWELL. Thank you very much.

What program do you think, Professor Hamilton, would be the most beneficial to the farmers markets? You have talked quite a bit on that, and I know you have put a lot of effort into it. What would be the most beneficial?

Mr. HAMILTON. Certainly a program that has shown a significant amount of demand is the money that you put into Farmers Market Promotion Programs. These are grants made by AMS to markets to help them deal with expanding their markets. You know, they have a $5 million grant round that receives over 500 applications, and after they went through the review panels they believe that they could have funded probably $20 million worth of those grants. These are grants at the local communities to the market structures themselves. Certainly, the programs that you have put a fair amount of money into, the Seniors and WIC, Farmers' Market Nutrition Coupon Programs that actually provide benefits to shoppers that are redeemed with farmers are important, but helping build the capacity of the markets. The capacity is also going to help cull the demand and increase the opportunities for the farm operations as well I believe.

Mr. BOSWELL. Well, thank you.

In closing, Mr. Chairman, I would just say this, I don't want the sustainable people to get worried about this. I am very enthusiastic, personally, and I think we all are. We have to promote and encourage in the yield and the values of production agriculture. I am very committed to that, but I don't see a threat from what is going on in the sustainable side of it because there is room for both. I yield back.

The CHAIRMAN. I agree with the gentleman.

And I recognize the former Chairman, the gentleman from Virginia, Mr. Goodlatte.

Mr. GOODLATTE. Well, thank you, Mr. Chairman, and thank you for holding this hearing. I have been interested in hearing the discussion about where our priorities should be in the next farm bill, in terms of spending. I happen to agree with Mr. Moran and Mr. Boswell that the core of successful economies in rural America is going to be centered around agricultural production and processing and those things related to providing a safe and affordable and abundant food supply for this country. It worries me that the trend, however gradual it may be, is to depend upon agriculture elsewhere in the world.

But I want to talk a little about the bigger picture that we face here in the Congress. We are facing this coming year another trillion+ dollar deficit. The President's budget which apparently will not be acted upon by the Congress, and may not even produce a budget this year, projects a $3.8 trillion in spending against $2.2 trillion in revenues and obviously part of that is related to the downturn in the economy that we have recently suffered. But, even assuming economic growth, which is taking place now to a certain extent, and assuming that that will continue on for the next decade, at the end of that decade the President's budget forecasts a deficit for the year 2020 of $1.2 trillion. So the net result of all of this is that the average over that decade is going to be adding a trillion dollars to our debt each year, and we are going to face some really tough decisions in this Congress. The sooner we get about facing them, the better off we and our nation's economy is going to be, and the more likely we will be able to avoid the fate that is now facing an increasing number of European countries which have obviously well-developed safety net systems in their country to help people in various sense and circumstances. But the end result is going to be the same if we don't curtail the growth in spending relative to the growth in our economy that generates those revenues. The result of that, in my opinion, is going to be that this next farm bill is going to be under extreme duress. We have no guarantee that we will be given the baseline that we have operated under in the past. I would just like to go through and ask each one of you where you see the maximum savings that can be attained and the best bang for the buck that we can get in rural America, and for the farmers who are the base economy of that rural economy. Let us start with you, Dr. Babcock.

Dr. BABCOCK. I would take direct payments and do a county ACRE Program, and then let the Crop Insurance Program shrink to a more appropriate size. I think that would save about $4 to $5 billion a year so in my own small, little way that is over 5 years that is $20 to $25 billion.

Mr. GOODLATTE. Professor Hamilton.

Mr. HAMILTON. Well, it may not answer the question directly in the sense of the cost to the government, but I think that the issue of looking at nutrition as a responsibility of the Agriculture Committee and the agricultural sector, that in fact we need to recognize that dealing with nutrition includes the needs of society is really a health challenge and looking for other places to in fact help fund and support the nutrition programs. It may not reduce the cost to the government, but it in part reduces the cost of this committee and on that issue, I think that as we think about food and its connection to health care reform we can deal with some of the cost that the government experiences in terms of healthcare by, in fact, improving the nutrition and diet of our population and look for the savings there.

Mr. GOODLATTE. Can we improve the nutrition and diet without spending more money? Can we spend less money in that area and achieve better nutritional habits on the part of our children and everybody else?

Mr. HAMILTON. Well, Dr. Paarlberg may well speak to this, but he mentioned earlier the question of the food that he would make accessible under the SNAP Program would be one of those potential reforms.

Mr. GOODLATTE. Thank you.

Dr. Kinsey.

Dr. KINSEY. Actually, I would just tag along on the tail end of what he just said. I think that when you talk about the total Federal budget, a big part of that is Medicare and a big part of what Medicare pays for is ill health due to obesity and due to unsafe food. To the extent that those two issues can be addressed through the kinds of foods available, the relative costs of food through the increased availability of fruits and vegetables and this sort of thing. I think that the reduction in costs on the health care side could largely, well maybe not largely, but substantially offset some of these costs that the total budget is worried about. There is about $40 billion estimated on the low side for foodborne illnesses and roughly the same amount for the health care costs due to obesity.

Mr. GOODLATTE. Thank you.

Dr. Paarlberg.

Dr. PAARLBERG. For saving money, if you look at the farm bill baseline and I say it is 80 percent for nutrition programs so you are forced to take a look at that. You know, it is interesting, these nutrition programs were begun when there was a serious hunger problem in American, particularly in rural, poor communities, but that was many years ago. If you look at the data that come out of ERS carefully, you will see that on hunger today on an average day only one percent of American families now face serious food insecurity. We have fortunately because of income growth and because of reduced food prices, moved away from the acute hunger crisis that faced this country 40 or 50 years ago. As I say, we now have an acute obesity crisis, and you can try to address that crisis by spending more Federal money to push healthier choices through nutrition programs. We have tried that or you can combine that approach with a removal of some of the subsidies in current nutrition programs for unhealthy choices. That would be my first preference.

Mr. GOODLATTE. Those are interesting suggestions and if you care to expand on those, I am sure the Committee would welcome those ideas. I do believe that we are going to have to achieve some substantial savings in this farm bill.

Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

The gentleman from California, Mr. Baca.

Mr. BACA. Thank you very much, Mr. Chairman and Ranking Member, for having this meeting and I appreciate the panelists being here.

I want to look back on a statement that Dr. Paarlberg indicated that there is not a serious hunger in America. There is a serious hunger in America, 38 million people are going hungry right now. There is a high unemployment right now. I also believe that obesity is part of the problem that adds a lot to it, so we still have a lot of work in trying to make sure that we feed many of the people that are going hungry in the United States, especially those that aren't employed right now. It seems like it is going to continue in that trend for awhile until the unemployment changes in the ability to have people put food on the table.

Meanwhile though, I want to ask Dr. Kinsey a question. As you note in your testimony, the primary law authorizing the National School Law Lunch Program is the Child Nutrition Reauthorization

Act, but I believe that the farm bill will continue to be a positive vehicle for us to work on to improve health and the quality of meals. How can we expand the policies enacted in 2008 to get more fruits and vegetables and whole grains into our schools, and make those affordable to them?

Dr. KINSEY. Well, I suppose one of the ways to do that is to shift some of the farm subsidy dollars away from the major crops and towards fruits and vegetables. As I said earlier and as I wrote, in terms of public opinion that is the most common statement that I hear, or the most common question is why can't we subsidize fruits and vegetables to make them less expensive not only to school lunch but to the general public. And, we have a relatively safe and affordable food supply, but it is the matter of the relative prices. You know, the prices of fat and sugar are much, much cheaper than the prices of fresh fruits and vegetables, and so somehow anything that can be done to change those relative prices will help.

Mr. BACA. Well, definitely because that is how we can begin to address the obesity problem. Reorientation, reeducation and educational literacy that needs to be disseminated to a lot of us because we have a lot of the food deserts that are out there. We know very well that parents and kids go out and the quickest meal is through a fast food place. We have to change that kind of concept, but we have to make sure that whatever we provide through the lunch programs, it has to be affordable to us. As we look at the budget now we look at the budget in the future to make sure that we have these fresh fruits and vegetables and whole grains.

Let me ask you this: In your opinion, are there any unintended consequences of the 2008 Farm Bill that may be contributing to the current obesity crisis in America? If so, what are they and how do you think Congress can best avoid them with crafting the next farm bill?

Dr. KINSEY. Well, some of the unintended consequences have been mentioned also by Dr. Paarlberg, but one of the end results as we have said before is that the combinations of fats, sugars and controlling the intake of salt, although that is not part of the purview, have made those kinds of foods super palatable. They have also made them super cheap and somehow we have to change that relative mix. Now, for school lunch, there is no doubt that the recommendations by the Institute of Medicine along with the 2008 Farm Bill to incorporate more fresh fruits and vegetables is going to cost a little bit more unless we can figure out a way to lower the cost of those. There are some other, and I can't give you specifics on this, but there are some other recommendations or maybe even regulations in school lunch that dictates the number of calories that must be served to children of certain ages. I have heard school lunch people that are planning meals say I couldn't serve a fresh pear for desert because it didn't give enough calories in this meal by regulation. I think that some of those things could be looked at, as well.

Mr. BACA. Okay and part of the problem, you mention super cheap and I am very much concerned that our American farmers have the ability to provide a lot of these fresh fruits and vegetables and whole grains. We are importing a lot from outside the country, and some of them may not be as safe as some of those that can be afforded through us. But then we have to look at how can we make that affordable too, as well, because a lot of parents are concerned with a lot of the pesticides and such that have come in from other countries that we don't inspect every one of those fresh fruits and vegetables that come in.

Dr. KINSEY. Well, we don't inspect those and we don't inspect our domestic ones either, that carefully. I think that really is not the biggest issue. But, to provide fresh fruits and vegetables around this country, we are going to have to have some of those imported. There is no question about that and I think that again is part of the equation. There is just no one silver bullet here. You have to look at all of the pieces that can help provide a more balanced and more nutritious diet at the school lunch table.

Mr. BACA. Okay, thank you.

I know that my time has expired.

The CHAIRMAN. I thank the gentleman.

The gentleman from Nebraska, Mr. Fortenberry.

Mr. FORTENBERRY. Good morning. Thank you, Mr. Chairman. Thank you all for coming today.

I think that it is important to start at the top of the mountain here and think in a little bit broader terms about how much general farm support costs the government, less than one percent of the overall Federal budget, and how much that provides in terms of the impact on the overall economy. Now, this Congress a year and a half ago threw $700 billion at the credit laundering operations on Wall Street in order to stabilize them, and year in and year out we have this set of farm programs that comes under a great deal of scrutiny, rightfully so. The farm bill isn't perfect, but, nonetheless, during this economic downturn throughout the rest of the economy, this portion of the economy has remained relatively stable. Some pockets of difficulty here and there, but overall agricultural product and the well-being of the farm sector has provided one of the stabilizing influences in this overall economy for a relatively small investment of the public dollar. I think it is important for all of us to keep that in mind as we look at, appropriately look at potential adjustments to the overall farm programs. In that regard though, and I apologize, I missed your earlier testimony but what works well? What doesn't work well, keeping in mind that earlier statement that I said that the main purpose of this is that, again, the stabilizing influence of this important sector of our overall economy? And I will turn to some of you that have talked about nutrition programs as well.

Dr. BABCOCK. Well, I will say one thing that worked fabulously well is our energy policy in terms of the Energy Independence Security Act in terms of raising the demand for farm commodities that has put a good floor under the price of corn, soybeans, and wheat because soybeans and wheat compete with corn. So, that is from the farm sector and has been from the crop sector that has been really good. Not so much for the livestock sector because the feed costs have gone up of course, but overall in agriculture I think that that has been what has worked.

Mr. FORTENBERRY. This is a good point and my second question was going to be about emerging opportunities and that is clearly one.

Mr. HAMILTON. Congressman, I would add that I think that it is important as you think about people, that you focus on the cost of the farm programs to also think about the benefits this society receives. One that hasn't been mentioned this morning, but is important to remember, is how the farm programs play a significant role as an environmental program and as a soil conservation program. You know, the 1985 conservation title was one of the most significant things that we have done in farm policy probably in the last century, and whether it is sod-buster or soil-buster or cross compliance, those are important programs. They are helping conserve soil and protect water quality. Many of you remember the situation before we had the CRP. CRP has functioned in part as a production control or management program that has really reduced some of the cost and other supply management programs. I guess part of my concern or at least issue would be as you look at the difficult question about how you move forward in structuring whatever the system of farm programs or farm support, the whole question about how we at least historically have used those as a carrying agent is the basis upon which we have rested our soil conservation policy and everything that is associated with that. That is important that we don't lose that or that we in fact identify how that is going to be able to remain.

Mr. FORTENBERRY. That is an interesting comment to wed the concepts of our environmental stewardship with the program itself. One of the other factors I failed to mention as well to substantially lower food costs that we actually do enjoy in this country compared to other developed nations. Would you like to respond as well, Dr. Kinsey?

Dr. KINSEY. Well, I think that obviously what has worked well is the large production of affordable and relatively safe food products. What hasn't worked so well is somehow being able to gain or regain the cause of this to the public in the safety of the food system. They hold the government largely responsible for that, whether that is the right party or not, and when the public loses confidence in the food system or in the safety of the food system, it leads to a lot of what we might call some of the more fringe activities around the food system. I think that fragments every ones opportunities.

Mr. FORTENBERRY. Thank you.

Dr. Paarlberg.

Dr. PAARLBERG. I would say what has worked particularly well in the past are programs that have supported agriculture research, rural infrastructure and rural education. Historically those have been the strongest contributors to the high productivity growth that has made food abundant and affordable for Americans and for foreign customers of U.S. agriculture exporters. Those are the strong programs. I would also include historically some of the well-targeted nutrition programs. I am not opposed to nutrition programs. They addressed serious problems with hunger in categories of our population several decades ago back when we were spending a fraction of what we are spending today. What doesn't work so well today are first, excessively expensive nutrition programs that are trying to solve a hunger problem when we have an obesity problem. And second, commodity programs that I agree aren't a large part of our nation's fiscal crisis at the moment, but they do present a fairness in targeting the issues. If you look at the distribution of farm program benefits, something like ten percent of farmers are getting 60 percent of the benefits. There is an inequitable distribution of benefits. Some very large growers with high net worth are receiving considerable subsidies from the Federal Government. Also, at a time when crop prices are high and the livestock industry is in trouble, should we still be providing such generous subsidies to feed producers and leaving what, I think, is an imbalance in outcomes across the sector as a whole.

Mr. FORTENBERRY. Great, thank you very much.

The CHAIRMAN. I thank the gentleman and I have to jump in here because I can't take this anymore. I think we need to point out that those ten percent of the farmers that are getting 60 percent of the subsidies are actually producing 80 percent of the food. So I mean the way I view this, the so-called subsidies which is really a safety net follows production and that is what it should do. So I mean in my opinion it is working the way it should, but the question I have is, how can we have these people come into my office talking to me about hunger and about food insecurity and then the same people basically coming in and talking about obesity? I don't get this. How can you have a hunger problem and obesity problem, you know what I mean? I think you rightly, Dr. Kinsey, have pointed out that we are losing the PR war, if you will, with city people, but these are the folks that are—they have some problems within their own thinking. I mean how do you square this? Have you checked into this? Have you examined how these people can have this conflicting view and does it make any sense?

Dr. KINSEY. Well, let me go back to the question about how can you have hunger and obesity existing side-by-side. The fact is that you do and you do around the world this exists.

The CHAIRMAN. Well, I am not talking about around the world. I am talking about the U.S.

Dr. KINSEY. Yes, I know and we can even talk about Minnesota.

The CHAIRMAN. Yes.

Dr. KINSEY. Where we have been doing some work with the hungry population, if you will, and charities that serve that area. Part of the reason that you get obesity and hunger coexisting in the same household, sometimes even in the same person is the—well I don't have time to get into the sort of the metabolics area here—but when people are hungry they eat whatever is available and whatever is available tends to be cheap. It tends to be fat. It tends to be calorie dense and nutrition poor, and so you perpetuate not only a hunger situation but you can do it with obesity simultaneously. And we have no evidence that in the hungry population there is a greater proportion that are obese then there are in the general population, but that is a whole lot of people. That is about 60 percent, so it does exist together and it just has to do with the kind of calorie-dense food that tends to be available. We find that obesity is greater at low income, and low and middle income households than it is in higher income households. Part of this is education and information and opportunity and exercise and all of that.

The CHAIRMAN. How much of it is marketing?

Dr. KINSEY. And a lot of it is marketing.

The CHAIRMAN. Are there people marketing to those folks?

Dr. KINSEY. They are marketing to those folks and they have the income and the wherewithal to purchase more expensive food basically.

The CHAIRMAN. Dr. Paarlberg, what do you think about this?

Dr. PAARLBERG. I think we have a serious poverty problem. We have long-term problems with low income communities in serious poverty. These problems do not any longer express themselves the way they used to in actual hunger. If you look at the diet of the poor and compare it to the diet of the middle class, in the past, the poor were undernourished compared to the middle class. Today, you compare the diet of the poor to the diet of the middle class the intake of protein is comparable. The intake of other nutrients is comparable and the intake of calories is comparably excessive. So I like the nutrition programs to the extent that they address income insecurity, and they do that. They provide an income supplement to the poor and they provide income insurance to the poor. I like that part of it, but I don't like imagining that they will be solving a hunger problem, and I don't like the way we try to redefine poverty which is a serious problem as hunger when among the poor now a greater problem is obesity.

The CHAIRMAN. Well, in other words what you are saying is we shouldn't put anymore money into these nutrition programs unless we take some of these problems out of the system first, because otherwise we will just be making it worse.

Dr. PAARLBERG. No, you can spend exactly the same amount of money. You know, in SNAP benefits, if you disqualify from eligibility some nonfood products that are contributing to the obesity.

The CHAIRMAN. Right and I agree with you on that, but there will be pressure to increase spending in nutrition. I guess what I am saying is I would be reluctant to do that if we don't fix some of these underlying problems. Would you agree with that?

Dr. PAARLBERG. I would agree with that.

The CHAIRMAN. Thank you.

The gentleman from Pennsylvania, Mr. Thompson.

Mr. THOMPSON. Thank you, Mr. Chairman.

Well, I wasn't going to talk about obesity. I was going to try to avoid that because when I go for my physical my doctor always writes morbidly obese in my record, but I just want to throw this out. We talk a lot about obesity and we are hanging a lot of it on intake and, obviously, there are more components to it. It sounds like the panel, or at least some of the panel, have really looked at this very closely in terms of the obesity issue and how much is lifestyle activity and level of activity? I mean growing up in the country, when I was young, we were not indoors. We were outside, our activity level wasn't limited to our thumbs. Any opinions in terms of this, and I am looking at a broader view in terms of it. We do have an obesity problem in this country. My background is healthcare, but I would just like your opinion in terms of you have nutrition but also have activity, lifestyle choices.

Dr. KINSEY. Well, you are absolutely right and anybody who has looked at this would agree with you. I mean it is a combination of the balance of the calories in and calories out in any given body and yes, there is a great lifestyle change. That is part of the problem. Nobody would deny that but you have to operate on both sides of the equation.

Mr. THOMPSON. Absolutely, yes, okay, thank you. I just wanted to kind of put that out there.

Dr. Paarlberg, I have heard some of the—from my Congressional district, we have a large forest area, 513,000 acres, Allegheny National Forest, and some of the forestry organizations have concerns that the BCAP Program, the Biomass Crop Assistance Program is having some unintended affects. And I don't know if you were aware of any of those or have any comments on that.

Dr. PAARLBERG. No, I am not a specialist on that. I shouldn't be guessing.

Mr. THOMPSON. Okay, I don't know if any of the panelists—what I am hearing from the industry is how it is driving up this program is driving up the cost in some areas making it challenging for folks who utilize wood chips for making wallboard. They are having difficulty getting that because it is all with the government subsidy. You only get the subsidy if it goes into energy production, so it is driving up the cost of building materials. It probably has other impacts as well but I didn't know if anybody had any experience or opinions on that.

Mr. HAMILTON. Last week I participated in a White House Clean Energy forum, and that was one of the subjects that were discussed by several of the biomass people. And the concern appears to be that the use of forest products that would otherwise have real uses like particle board or low-grade lumber, products that we didn't think about as being biomass like you would have with the slash from timber stand improvement, that you would put into ethanol production. And instead we are diverting formerly useful products and that is a difficult issue to address, but it would seem that with the right type of program guidelines, it might be something that was an unintended consequence. Certainly, it wasn't the goal when you wrote the BCAP Program.

Mr. THOMPSON. Right, okay, well, Professor Hamilton, while I have you I will start with you and then see if any other panelists have opinions. The estate tax is something I hear a lot about from our farmers in my district and they are very concerned about it. What in your view will be the affect on our nation's farms if nothing is done to fix the estate tax?

Mr. HAMILTON. Well, I will begin by saying this is dangerous territory since I don't specialize in estate tax planning, and many of you know Neil Harrow as kind of Big Neil in Iowa. I am the little Neil, and Neil is a specialist in this area. I know I have heard him say that he has difficulty finding a farm that has actually had to be sold because of the impact of the estate tax. I know that is debated by others, but the existing exemptions are, I don't know if you would describe them as generous or at least significant, and with appropriate tax in business planning most farms, in fact I believe, could avoid the negative impact of an estate tax. Now, it may take some special planning in terms of how you go about doing it, but in the discussion about the impact of the estate tax, we have to keep in mind the multiple number of goals of the estate tax. One of them was the issue of, not necessarily breaking up large land holdings or consolidated land holdings, but that was certainly a question as to where we put the discipline on where the exemptions were. It has an impact on the availability and accessibility of land in the rural marketplace that ties back to the new farmer issue that I touched on.

Mr. THOMPSON. Okay, thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman.

The gentleman from Georgia, Mr. Scott.

Mr. SCOTT. Thank you, Mr. Chairman.

Before I get into my questions I want to say welcome to all of our panelists. As I look down the list of those testifying before us today I can certainly say that you are all very distinguished, very knowledgeable, very well-respected in your fields. Your thoughts on these matters will certainly be helpful. But I also notice that our witnesses before us are all representatives from the larger 1860s land-grant universities. There seems to be no one here testifying before us today representing the 1890s land-grant, predominantly African American universities or the farmers that they work with. Our Committee here has historically shown bias, intentional or unintentional, in favoring 1860s universities. This bias shows up unfortunately in the voices we hear from often, the programs we authorize and most importantly, the funding we provide. The 1890s universities have just as much to offer as the 1860s in terms of expertise. As a matter of fact, their entire foundation was founded on agriculture. Agriculture is a part of their names, and it is my hope that the Committee will keep that in mind the next time we have panels of academics testify before us. But fortunately we will have that opportunity to hear from a representative of a 1890s university tomorrow in Atlanta, but it is a shame that we have to fly 500 miles to do so. Policy is made here in Washington. Spending is dedicated and made here in Washington, and we should make a concerted effort to have all voices represented before us here in Washington where the decisions are made and policy is made and the money is determined, and so I just wanted to make that statement.

Now, on the issue of obesity, I am firmly convinced that one of the serious reasons why we have obesity now within our children is that we have disavowed physical education in our school systems. If you look back during the times when we had physical education, a structured hour in the curriculum where our kids would go and exercise. We called it gym. Now, there is none, but there is a preponderance of fatty material that they are eating. There is a preponderance of sitting time before computers, and so I urge the Committee and all of us to make a concerted effort to restore physical education in our school system if we are serious about bringing down obesity. I am a firm believer that the farm bill is a necessary compilation of policies that allow our U.S. farmers to produce large amounts of safe, quality food for consumption here in the United States but also abroad. However, we hear frequently that the United States system of agriculture, and the government policies we have created to support it, have become a hindrance to the creation of a robust agricultural sector in the developing world, thereby perpetuating or exaggerating the world hunger problems. I would like for each of you to comment on how, if at all, our domestic agriculture policies affect the developing world.

Dr. BABCOCK. Well, in the past, there was a grain of truth to what was said in terms of to the extent that we tied the production of our crops to the subsidy levels that we provided farmers. That tended to depress world prices, and it tended to hurt agriculture around the world. I think today we have the opposite situation. By and large the programs that we have in place have tended to prop up world prices, and that has tended to help world agriculture. I don't think we are guilty at all of that anymore and particularly with the kind of programs that we have adopted.

Mr. HAMILTON. Congressman, I want to say that I agree with your comments about the need to hear from the 1890s. But, I just want the record to show that Drake University is a private university. We are not part of the land-grant system though I had an opportunity to be educated there at Iowa State where Dr. Babcock is.

Yes, one of the important changes that the Administration is trying to make is changing the mix of how we approach foreign aid and agriculture, looking at more transfer of technology and knowledge, and an approach toward trying to improve the capacity of foreign agricultural systems in Africa, in particular, where they had that focus. And so if there are problems or had been problems with the impact of our programs on the opportunities for producers in those countries, we are at least beginning to also broaden our thinking as to how we can best assist them.

Mr. SCOTT. Okay, thank you.

Dr. KINSEY. Yes, I think that it is well-known now that the problems with the import substitution in other countries by, as I mentioned before, importing the corn instead of importing the corn technology has worked against the development of agriculture in many developing countries. I think we have turned the corner on that. I think we are doing a lot better in developing indigenous, not only indigenous crops but indigenous technology. To the extent that we overproduce and then plug the markets with a lot of product, I think it can help the development of agriculture in developing countries.

Mr. SCOTT. Thank you.

Dr. PAARLBERG. I think it is undeniable that some of our commodity programs have lowered international prices at times to the disadvantage of small farmers in poor countries including for example cotton farmers in Africa. According to the dispute settlement body of the World Trade Organization, our cotton program hasn't yet corrected all of its tendencies to produce that result. So, we do have some changes on the agenda there, however, I don't think that poor farmers in developing countries are going to magically become prosperous if U.S. agricultural commodity programs are reformed. If the U.S. cotton program is changed, that is probably going to help the world's most productive cotton farmers in places like China or Brazil or Australia even more than it will help impoverished farmers in Africa, but that is not an argument against changing the program. Right now, the program is obliging our government to spend $147 million a year to subsidize the cotton industry in Brazil in order to deter Brazil from retaliating against us following the dispute settlement body judgment against our policy. So it is complicated and there is an element of truth to the injury argument, but it is only a small part of the story.

Mr. SCOTT. Thank you.

The CHAIRMAN. I thank the gentleman.

The gentleman from Texas, Mr. Neugebauer

Mr. NEUGEBAUER. Thank you, Mr. Chairman. I am sorry I had to step out there.

I want to go back to a little bit of a discussion on the safety net and in particular, crop insurance. Dr. Babcock, I read your testimony and as you know I have been a fairly strong advocate of reforming the crop insurance program because of back home when I talk to my producers it is not working for them. Now, even though we are investing in the issue, pointing out its potential now for the resources to that. One of the things that was kind of interesting to me going from the statewide to the county was that was a similar scenario that I introduced when we were putting together the current farm bill, being able to put GRIP or GRIP Program on top of the multi-peril which was triggered by the county deal. Your scenario though I believe is one where you, basically, convert the whole crop insurance program, to the countywide program; or and you do mention in there if you want to carry a multi-period or a crop hail or something like that. Are you thinking that that is a, would that be a revenue program or yield-based or what is your proposal?

Dr. BABCOCK. It could be either a yield-base or a revenue-base. The yield-base would work pretty well because we have futures and options markets out there that allow most crop farmers to manage their price risk. It is difficult to manage their yield risk, and the reason why I suggest that the first layer of coverage would be the county rather than the underlying farm level is because a lot of the risk is represented at the county level. A lot of the farm level risk is represented by movements in the county yield. The county yields are very easy to calculate. NASS does them every year so the administrative costs of that are far lower, and a lot of farmers would find they would not need the supplemental coverage. In terms of the last comment I would make in terms of revenue *versus* yield, my problem with doing revenue is that when the price is very high, you are providing a tremendous amount of coverage on price. So, even if the price moves from a very high level to not so high but a good level, you could still be on the hook for lots and lots of payments. But, it seems like the world is moving more towards income insurance, so then you would want to do some kind of revenue basis. But, that would be the only *caveat* I had in terms of how much protection are you actually providing.

Mr. NEUGEBAUER. I found this interesting since basically what your proposal is kind of reverse of mine. I would look forward to talking to you about that. I think one of the things that we have to do, and one of the reasons we know it is not working, is even though we have added SURE and ACRE, and made changes to the crop insurance program, and we have direct payments and countercyclical payments, but we still have situations where there is a request by the industry for disaster payments. So, that means all of these safety nets that we have in place today aren't being the exact scenario of safety nets that we need. I appreciate the comments of my colleagues are making, we do need to focus on production agriculture here, but, this is is really not a farm bill anymore, folks. This is a nutrition bill and we just happen to have a little of a production agriculture title because a very small percentage of this bill and it is a fairly big bill, is production agriculture. I guess the question I have is do you think the move to this kind of a process will make the farm bill more compliant, particularly, with things that have been mentioned, cotton.

Dr. BABCOCK. For cotton it does have the potential to make it more compliant if you are targeting income instead of just the two programs that were found to be noncompliant. But, it would have to be designed carefully, and what level of coverage are you actually providing the cotton industry. So, it has the potential for being more compliant than a countercyclical program and the marketing law program.

Mr. NEUGEBAUER. Thank you.

The CHAIRMAN. I thank the gentleman. Sorry about that.

The gentlelady from South Dakota, Ms. Herseth Sandlin.

Ms. HERSETH SANDLIN. Thank you, Mr. Chairman.

Professor Hamilton, nice to see you. I have a former staff member of mine who now is a student of yours, Mike Traxinger.

Mr. HAMILTON. Michael is doing very well and he is tearing them up.

Ms. HERSETH SANDLIN. Very good, glad to hear that.

Well, as you know, he grew up on a family farm in the northeastern part of South Dakota, and in your written testimony you emphasized the importance of beginning farmers. The 2008 Farm Bill, with the Chairman's leadership and support, Congressman Tim Walz of Minnesota and I worked on a number of provisions important to beginning farmers. In Des Moines, Iowa at a field hearing we had just a couple of weeks ago we heard some testimony as to how some of those provisions may or may not be working effectively for farmers in different segments of the agricultural industry. What are, if you can expound on some of your thoughts here, what more we need to do to assist beginning farmers and from your perspective and in your research and what you are seeing in the developments among the younger generation in farming, are they beginning with traditional farms, with getting in on the business through livestock through one of the commodities. Are they entering sort of different, more niche markets with more specialty crops? And as they look for more support from farm bill programs, what do you think are their major concerns? Is it land prices? Is it the amount of a down payment that we could help them with, or is it more access to financing to help them with operating costs and equipment leases? And then, you had also mentioned in your written testimony a New Farmer Corps and a Food Corps and if you could expand on those a bit more.

Mr. HAMILTON. Well, thank you, ma'am, and I apologize for not being with you in Des Moines. I was in Arizona giving a talk to a different agricultural group, in fact, a Kellogg Foundation meeting that involves the Farmer Corps. You know, on the new farmer issue, we had this forum in the city back in March, in fact, Mr. Traxinger and a number of our students came to it. Part of my goal with our educational program is to help train the lawyers who are going to be out there in the county seats or up here helping design those programs, and there are two programs that I believe have some real potential. We have the various land link and matching programs that exist in a number of states, California Farm Link is a good example. There is also a growth in incubator and Farm Training Programs, the Chairman has a land stewardship project in his state, and they have a Farm Beginnings Program in which they are really taking people through training, not just in agriculture but also in marketing and business planning.

Yes, but if there was an observation that we came away with from the forum, it is that in our effort to focus on new farmers, they are certainly important. You know, that is half of the equation, but part of the challenge here also is the availability of land and dealing with the population of landowners who are making the decisions as to do I sell the farm now? Do I try to make some type of transition? Do I rent a piece of it to a young family or wait until I pass on and then whatever my heirs decide to do with it. In fact, if we had another project that we will do to follow up it will be trying to look at that question of how do we deal with the population of landowners.

I don't think that we have created the recognition within our communities for people who make those steps to try to bring somebody home or let somebody come back home. I think of the awards that we give in agriculture for being the top corn producer or soil conserver, I would like to see where we had an opportunity to reward and thank people who went out of their way to try to put more people back on the school bus and going out of their way to do that. Certainly, tax policy is one of the ways you can do that. In Iowa, we have a tax credit that is available for landowners who rent or sell their land to beginning farmers. Briefly, on the New Farmer Corps issue, I wrote an editorial on that shortly after the election in looking at the whole question of how we could tie national service opportunities to try to create a way to reach, what I see, is this growing population of young people that are interested in being involved in food production. And, just next week in Detroit, as part of a larger conference on farm-to-school marketing, which is something that the Committee has supported in the farm bill, there is a meeting to design a pilot Food Corps Program. They are working with the AmeriCorps people to fund a pilot that will put people into schools helping run school gardens. It is certainly not the same thing as being out in the farm in agriculture, but it is involved in food production. It is helping educate children about the availability of nutrition, and also helping to try to make those linkages between farm-to-school marketing and the schools that would be involved with those initiatives. And so that is at least the next step of where the Farmer Corps and Food Corps idea is going.

Ms. HERSETH SANDLIN. I appreciate your response and my time is up, but I think that you are referring to the Healthy Start Program for school breakfasts. Thank you.

The CHAIRMAN. I thank the gentlelady.

The gentleman from Louisiana, Mr. Cassidy or are you first? I am backwards. I am sorry. The gentlelady from Wyoming, Mrs. Lummis.

Mrs. LUMMIS. Thank you, Mr. Chairman.

Now, I am dating myself but when I was a kid, we learned about the Nutrition Pyramid from 4–H, and a lot of the problems that we seem to be addressing as adults now in Congress about childhood obesity seem to be addressed pretty well in a rural setting, when I was young, through programs like 4–H. Is 4–H dead in terms of its influence on these issues? It seemed so well embedded within the Land-Grant University System and the Land-Grant University Outreach and Cooperative Extension that it seemed like the perfect delivery system for nutrition guidance and education to young people. I just wondered why that is no longer the case, and I pose that question to any of the panelists.

Dr. BABCOCK. Well, I wouldn't think that 4–H is dead. Certainly, the millions of people involved in it wouldn't believe that. But, part of the question might be the reach and that 4–H may reach those of us who grew up on farms. It certainly has expanded some into urban areas but I wouldn't, 4–H wouldn't come to my mind necessarily as one of those institutions that would be present in a lot of the places to deal with questions of nutrition education with children in urban settings.

Mrs. LUMMIS. Yes, sir.

Dr. PAARLBERG. I would like to see a study on nutrition outcomes among 4–H participants *versus* non-participants in the same demographic. That would be fascinating.

Mrs. LUMMIS. Anyone else? Yes, ma'am.

Dr. KINSEY. I really don't know, is the answer. I think that the idea that it just doesn't reach where a very large population is, I think is part of the answer.

Mrs. LUMMIS. Well, thank you.

My next question is actually for both Dr. Paarlberg and Mr. Hamilton, and it goes back to our farm programs and your comment earlier that some of the larger industrial farms are receiving farm subsidies. When I look at the Internal Revenue Code, it provides that as your income goes up, your deductions are no longer, you are no longer allowed to take your deductions. When I became a Member of Congress and got this salary compared to my old salary then my charitable deductions to my church and so forth disappeared. I no longer get to take them, and I am wondering if there is an analogy that could be made to farm programs where the larger you get, essentially, the less you need a subsidy, does it make sense to begin to phase them out? And, Dr. Paarlberg, in your comments, you might seem to agree with that remark. Mr. Chairman, I suspect, would not and I am just curious—oh, Mr. Chairman is gone. So I was curious about how you might react to that.

Dr. PAARLBERG. Of course, there are longstanding tussles, usually between the Executive Branch and the Congress, over payment limits for each program, and over eligibility based on income for the various programs. The pattern is that the President, whether it is President Bush or President Obama will propose tighter limits than the Congress is willing to accept, and I would count myself on the Executive Branch side of that argument.

Mrs. LUMMIS. One more question and it deals with Dr. Paarlberg, also an issue that I would like to visit with you about, and that is you have mentioned in your testimony that there are some development programs that don't have sufficient public support, whereas the private sector is supporting them and these are things like drug programs. I would argue that you are correct that Brucellosis, for example is an issue, a livestock disease that needs attention. The University of Wyoming, my alma mater, is working on some more efficacious drugs to deal with the Brucellosis issue around the Yellowstone Park area. Do you the think it is a fair statement that that may be an appropriate role for grants to universities? I know that the emphasis of late has been on dairy-related diseases, but other bovine issues as far as disease programs or disease eradication programs are unable to access those same funds, any comments on that?

Dr. PAARLBERG. No, I think you are right. If you hand over responsibility for food and agriculture research to the profit-making private sector, some problems will become orphaned because they just are not large enough from the vantage point of the corporate lab to make a front end investment, but that is not how agriculture got strong in America. It wasn't by waiting for private corporate labs to make an investment. We have a wonderful history of publicly supported agricultural research. We drifted away from that tradition in the 1980s when it became fashionable to imagine that everything could be met by the private sector. But, our history indicates that the private sector serves some farmers and some crops extremely well, but it doesn't serve all farmers and all crops. The dollar value of public investments in research in generating a long-term productivity growth just really can't be matched by anything else.

Mrs. LUMMIS. Thank you, Madam Chairman.

Ms. HERSETH SANDLIN [presiding.] I thank the gentlelady.

The chair now recognizes the gentlelady from Pennsylvania, Mrs. Dahlkemper.

Mrs. DAHLKEMPER. Thank you, Madam Chairman. Thank you to our panel today. It has been very interesting all the questions and answers.

I have a question, Dr. Babcock. I want to kind of go back to the first question that Mr. Holden asked you. I was also at the field hearing that we had up in Pennsylvania regarding dairy a couple of weeks ago, and our Secretary of Agriculture, Mr. Redding, had suggested he had already answered one question about the LGM Program for dairy. But, Mr. Redding also suggested an extension of the sales closing period for LGM Dairy, and he thought that would encourage more producers to actually take advantage of this new risk management option. I was just wondering if you could speak to that.

Dr. BABCOCK. Thanks, we already did extend it once. So, if we use the sale of the LGM Dairy, when the markets close on Friday they had until the opening of the markets the next day. That would give a very short window. Now what we do is that we sell at the close of market on Friday until 6 o'clock the next Saturday, 6 or 8 o'clock, I am not exactly sure but the whole day Saturday. I know it is not very good, but the thing about LGM is that it is a 100 percent market-based instrument, insurance instrument. The philosophy behind it is, is that you don't want to sell something that is not market-based, and so that is why. So the most we could do is sell it over the weekend before the markets open on Monday.

Mrs. DAHLKEMPER. What can we do, do you think, to encourage our producers to take advantage of this program?

Dr. BABCOCK. The frank answer is subsidize it. Make the premium more affordable. Right now it is fully priced with a load so it is more than fully priced. There is no premium subsidy on it at all, and the experience with crop insurance and other things are that if you don't help the producer buy that risk management, they will choose not to buy it.

Mrs. DAHLKEMPER. Thank you. I also want to ask you another question. I couldn't help but observe your body language during a previous question regarding subsidizing fruits and vegetables. Can you give me your opinion?

Dr. BABCOCK. Well, the problem with subsidizing fruits and vegetables are that those markets are pretty tightly integrated. That is, if you subsidize say a subset of a fruit or vegetable, the supply response would be so tremendous that what you would flood the market and destroy the market. So and what I mean by that is I will give you an analogy. If you subsidize corn, to a certain degree you will get more corn, but we already plant about 90 million acres of corn. We are not going to double corn production in response to a subsidy so we won't destroy the market for corn. If we subsidize let us say carrots. Carrots are produced on maybe 200,000 acres, maybe less in the United States. We could easily find another 200,000 or 300,000 acres of carrots if we subsidize them a little bit, and so what would happen if we double production of carrots? The price of carrots would fall to nothing. The profitability of carrot production would go away and we destroy the market, so that is why you saw my body language. For small production you have a very, what is called a very elastic supply response to subsidies. With big crops, you don't have that very elastic supply response. That is why I suggested it. So then on the other hand I started thinking most of the price of and the purpose is to make it more affordable. Most of the price of fruit and vegetables are in the distribution, the shipping, the handling, the harvesting. If you wanted to subsidize it, it would probably be better to subsidize the delivery to areas that don't consume them and to inner-city areas that don't have a good market for good fruits and vegetables. That would be a better use of money than to pay farmers to grow more of them.

Mrs. DAHLKEMPER. Thank you, I appreciate that answer, very interesting. I have a huge interest in nutrition and obesity issues. I have spent much of my life working on these issues in my previous career. I wanted to go back just real quickly because I only have about 25 second left but, Dr. Paarlberg, you talked about the SNAP Program and you talked about eliminating caloric sodas basically. Are there any other foods that you would look at as eliminating in terms of SNAP, The SNAP Program? Is there anything else that has been investigated?

Dr. PAARLBERG. I don't know if you can define candy tightly enough to make an enforceable exclusion, but that would be my next candidate.

Mrs. DAHLKEMPER. Okay, well, thank you and my time is up and I have many other questions, but I appreciate your time today.

The CHAIRMAN [presiding.] I thank the gentlelady.

The gentleman from Louisiana, Mr. Cassidy.

Mr. CASSIDY. You know, you can't define candy I suppose, but when I lived in California 20 years ago they instituted the junk food tax. Now there must be an operational definition that California used and I know other states have proposed a junk food tax, so to speak. So could you tax not just caloric soft drinks but other high density, high calorie foods as California tried to do 20 years ago. Could you also remove their eligibility for SNAP?

Dr. PAARLBERG. I am not a specialist. My guess is you would have to do a lot of preparatory work to make sure that the dividing line between a junk food and a near junk food was clear enough and would show up on the right bar codes to make it enforceable at the checkout counter.

Mr. CASSIDY. Well, that is just a database problem. I mean it seems like we could accomplish a database problem.

Dr. Babcock, going back to subsidy is actually relative right? If you will, you don't have to subsidize fruits and vegetables if you don't subsidize something else. So, just speaking conceptually, if you don't, if you take, I walked in and thought what is a guy from Wellesley doing here, but anyway now that I have answered the question. If you say okay, we are not going to allow SNAP to give you full value for high density high caloric foods but you do allow that for fruits and vegetables. It is effectively a differential subsidy for fruits and vegetables in the inner-city store, correct?

Dr. BABCOCK. That is correct because the demand would shift over towards the fruits and vegetables because of the relative price change. That is correct.

Mr. CASSIDY. Yes, so you wouldn't necessarily increase, artificially increase production but you would potentially increase the consumption again just by creating a price differential, if you follow what I am saying.

Dr. BABCOCK. That is correct. You would subsidize consumption of it but not the production, and that is what I was trying to get at. If you lowered the price, you could either directly lower the price through a subsidy or lower the price through infrastructure investments to lower the costs of getting those fruit and vegetables into inner-cities.

Mr. CASSIDY. So, Dr. Kinsey, what do you kind of think about that concept? I was looking at your testimony and obviously nutrition is what it focused on in part. So, what would you think about taking SNAP, it is not eligible to use for however California once defined it and so therefore you have a relative subsidy of fruits and vegetables, other high-fiber foods, for example, any thoughts about that, wisdom thereof?

Dr. KINSEY. Yes, one thought is that it is very difficult to make a dividing line between what some people call good food and bad food, and most nutritionists like to talk about good diets and bad diets so that no individual food is bad. It is just bad when you overconsume it. However, to reduce that over consumption, one way to do it would be through the disallowance in the SNAP Program or in the school program. We know many schools now have or many beverage companies have taken high-sugar or high-sweet content beverages out of schools. I think I totally agree that the whole object here is not necessarily to subsidize the farmers of avocados and almonds and carrots, but it is to make those kinds of products relatively inexpensive compared to where they are now.

Mr. CASSIDY. It is all relative.

Now, Dr. Babcock, what I also just learned from you is the cost of, on the grocery shelf, of fruits and vegetables related to its transportation, harvesting, *et cetera*. If you increase the fossil fuel-based inputs, you are going to disproportionately increase the cost of fruits and vegetables. So, as we go to a cap-and-trade type system, if you will, I have never thought about it but your distribution network disproportionately affects fruits and vegetables, fair statement?

Dr. BABCOCK. Well, disproportionate relative to what? I am not sure.

Mr. CASSIDY. Say for a large commodity like rice. You can put rice on a truck and take a whole bunch of it and it can sit around for awhile before transport because it stores fairly well. But, something time sensitive like blueberries, you would have to move quickly and doesn't matter what traffic patterns are, it has got to move, *et cetera*.

Dr. BABCOCK. When I was saying transportation costs I was including all the labor involved in the distribution system, that the actual fossil fuel cost of transporting fruits and vegetables and rice and other things is relatively low, relative to labor and other costs.

Mr. CASSIDY. Okay, I yield back. Thank you.

The CHAIRMAN. I thank the gentleman and I want to thank this panel for your excellent testimony and the questions and the answers to the questions. I think we have raised a lot of interesting questions and had discussions that we normally don't have here in the Agriculture Committee which is good, and we appreciate you being with us.

With that, we would like to excuse this panel and call the next panel to the witness table: Dr. Scott Brown from FAPRI, the University of Missouri, Dr. Otto Doering from Purdue University in Indiana, Dr. Paul Ellinger from the University of Illinois and Dr. Daryll Ray from the University of Tennessee. So, gentlemen, welcome to the Committee. Your full testimony will be made part of the record. We encourage you to summarize. We have votes coming up possibly in 20 minutes, 30 minutes so we might have to put you in a kind of a disadvantage here. We may get your testimony in and then we might have to make you wait until we get to that voting, if that is okay. You might be able to get lunch because it is going to take an hour or maybe more so anyway, welcome to the Committee. Dr. Brown, the floor is yours.

STATEMENT OF D. SCOTT BROWN, PH.D., RESEARCH ASSISTANT PROFESSOR AND PROGRAM DIRECTOR FOR LIVESTOCK AND DAIRY, FOOD AND AGRICULTURAL POLICY RESEARCH INSTITUTE, UNIVERSITY OF MISSOURI, COLUMBIA, MO

Dr. BROWN. Chairman Peterson, Ranking Member Lucas and Members of the Committee, thank you for the opportunity to appear today to review ag policy as the beginning stages of the 2012 Farm Bill occur. FAPRI looks forward to the opportunity to provide this Committee with unbiased analysis of the many policy proposals that will surface just as we have done over the past 3 decades.

It is true that animal agriculture has faced extreme changes in economic wellbeing in the past 5 years. Livestock and dairy producers have found themselves in the position of making strategic and tactical decisions that seem correct one day but prove to be absolutely disastrous the next. This quickly changing economic environment has made everyone look for ways to reduce the impacts on market volatility.

First, it is important to realize the magnitude of changes and factors outside of the direct control of animal agriculture. The recent economic downturn in the U.S. economy was severe by historical standards and has not been experienced since the early 1980s. This economic downturn followed strong growth in real GDP over the 2003 to 2007 period. World income growth also experienced a historically large contraction in 2009, the first contraction in the last 3 decades. This contraction followed above-average growth over 2003 to 2007. Many sectors of animal agriculture were gearing up for the new and growing demand for their products only to find contracting demand just as the production response was kicking in.

Second, these sectors have also seen a substantial rise in production costs over the past 5 years as prices for nearly all inputs have experienced large increases. There is some interesting observation one can gleam from the ERS' annual production cost estimates. For milk, production operating costs rose 15 percent in 2007 followed by an additional 22 percent rise in 2008, the two largest since 1980. For a long-term perspective, milk production operating cost rose by 24 percent over the 16 year period, 1990 to 2005, however, in just the past 4 years, milk production costs increased an additional 28 percent.

Third, disease events and their impacts on trade have added to the volatility animal agriculture has faced. BSE and H1N1 influenza outbreaks are just two examples. These are unlikely to be the last disease or trade events these industries will experience.

To understand more about the magnitude of the volatility that exists for producers, we can turn to the variability in cash receipts from farming. According to USDA, livestock cash receipts increased by $20 billion in 2007, and then fell by $22 billion in 2008, extremely large changes relative to historical standards. This certainly highlights the added volatility in cash receipts the industry has faced in the last decade, and also highlights that the volatility has its ups as well as its downs. These industries experienced a severe price cost squeeze between 2005 and 2009. Cash receipts declined by $6 billion alone while feed cost increased $16 billion.

The Dairy Product Price Support Program has been a longstanding part of Federal dairy policy. This program essentially provides price floors for supported dairy products. The program can become more challenging to use in an environment of commercial exports of dairy products out of the United States. More important to the discussion today is the effect that the Dairy Product Price Support Program has had on producer income volatility. As price support levels have been lowered over the past 3 decades, it has allowed for more price volatility that the industry began to experience in the late 1990s. With the rise of production costs that have occurred in the past 5 years, the support provided to producers by the Dairy Product Price Support Program has weakened considerably.

The Milk Income Loss Contract Program is a countercyclical direct payment program first implemented in the 2002 Farm Bill. The annual cap on marketing eligible for MILC payments is currently set at 2.985 million pounds. Very large producers have not found the MILC Program beneficial, largely as result of the limit. In the 2008 Farm Bill, a feed cost adjuster was added that raises the target price in months where the reported dairy ration value exceeds $7.35 per hundredweight.

Perhaps the most important parameter to discuss is the 45 percent factor imposed on the difference between the target price and the relevant milk price for the month. Producers get 45¢ per hundredweight in a direct payment for each $1 the relevant milk price falls below the trigger level. This MILC feature does not create a solid price floor, but it is a soft floor that lets producers feel additional economic pain as prices fall further from the trigger level. There are tradeoffs between a program that has a hard floor *versus* one that shares the loss of milk revenue between the level of government outlays and producer payments like MILC.

Some of the early discussion surrounding the 2012 Farm Bill is focused on offering whole farm insurance options to reduce the volatility of producers' bottom lines. Many of these options look promising. It remains to be seen the exact program operation and parameters of these proposals, as there will certainly be tradeoffs between overall program cost *versus* the degree of volatility offered to producers.

I will be happy to answer any questions that the Members may have today.

[The prepared statement of Dr. Brown follows:]

PREPARED STATEMENT OF D. SCOTT BROWN, PH.D., RESEARCH ASSISTANT PROFESSOR AND PROGRAM DIRECTOR FOR LIVESTOCK AND DAIRY, FOOD AND AGRICULTURAL POLICY RESEARCH INSTITUTE, UNIVERSITY OF MISSOURI, COLUMBIA, MO

Chairman Peterson, Ranking Member Lucas and Members of the Committee, thank you for the opportunity to appear today to review agricultural policy as the beginning stages of the 2012 Farm Bill occur. There will be many important choices to be made about future farm policy in the coming months as the 2012 Farm Bill is written. The Food and Agricultural Policy Research Institute at the University of Missouri (FAPRI–MU) looks forward to the opportunity to provide this Committee with unbiased quantitative analysis of the many policy proposals that will surface just as we have done over the past 3 decades.

It is true that animal agriculture has faced extreme changes in economic well-being in the past 5 years, in terms of both cash flow and equity. Disease outbreaks, trade restrictions, rapidly changing input costs, contraction in the United States and other important trading partners' economies, and fluctuations in the U.S. dollar are a few of the factors that have caused these sectors to experience record-setting highs and lows in profitability in just a few months.

Livestock and dairy producers have found themselves in the position of making strategic and tactical decisions that seem correct one day, but proves to be absolutely disastrous the next day. This quickly changing economic environment has made all market participants look for ways to reduce the impacts of market volatility.

This quickly fluctuating environment has led many to call for policy change to help livestock and dairy producers weather the difficult economic times they face today. The policy proposals currently circulating vary in their ability to reduce producer income volatility. In choosing policy instruments that best reduce producer income variability, it is instructive to examine the sources of the current variability.

First, it is important to realize the magnitude of change in factors outside of the direct control of animal agriculture. The economic downturn in the U.S. economy in 2008/09 was severe by historical standards with the economy shrinking at an annual rate of 6.4 percent in the first quarter of 2009. This level of contraction had not been experienced since the early 1980s. This economic downturn followed strong growth in real GDP over 2003 to 2007.

World income growth also experienced a historically large contraction in 2009 declining overall by one percent. International Monetary Fund (IMF) data on world GDP growth suggests this is the first annual contraction experienced over the past 3 decades. This contraction followed above-average growth of 4.7 percent over 2003 to 2007. This global contraction certainly reduced the demand for U.S. livestock and dairy products in 2009.

The combination of stronger than average income growth over 2003 to 2007, coupled with the contraction in 2009, resulted in many sectors of animal agriculture caught gearing up for the new and growing domestic and international demand for their products in the mid-2000s only to find contracting demand just as the production response was kicking in. The combination of falling demand and higher output caused prices to fall.

Second, these sectors have also seen a substantial rise in production costs over the past 5 years as prices for nearly all inputs experienced large increases. Although it is difficult to have a completely consistent set of production costs for the entire period since 1980, there are some interesting observations to be gleaned from the Economic Research Service's annual production cost estimates over this period.

For milk, production operating costs rose by 15 percent in 2007 followed by an additional 22 percent rise in 2008. These back-to-back increases are the two largest experienced since 1980. The next closest was the 1988 drought increase of 12 percent. In the past, periods of production costs increasing at a faster rate than the historical average are often followed by a period of declining production costs, thus limiting the overall long-term rise in costs of production. To put this in perspective, milk production operating costs rose by 24 percent over 16 years from 1990 to 2005. However, in just the past 4 years, 2006 to 2009, milk production costs have increased an additional 28 percent.

Third, disease events and their impacts on trade have added to the volatility animal agriculture has faced over the past few years. The 2003 outbreak of BSE, bovine spongiform encephalopathy, in Canada and the U.S. continues to disrupt trade in cattle and beef today. The April 2009 H1N1 influenza outbreak created domestic and international demand challenges for U.S. pork producers. Other trade restrictions such as the recent Russian curtailment of U.S. chicken imports have also had impacts on animal agriculture. It is impossible to eliminate or to predict these sources of added volatility but these are unlikely to be the last disease or trade events these industries will experience.

It becomes clear from this broad review that the volatility experienced in livestock and dairy markets is coming from a number of factors and cannot be isolated to a single source. It is just not that simple. Again, it is instructive to understand the many sources of variability as policy proposals surface that attempt to reduce volatility. Although the future remains uncertain, it is difficult to imagine that a policy that only deals with one aspect of an industry can be completely successful in reducing producer income volatility.

To understand more about the magnitude of volatility that exists for livestock and dairy producers, a partial perspective can be found in the variability in cash receipts from farming. According to USDA, livestock receipts increased by $20 billion in 2007 and then fell by $22 billion in 2008. Over the 1980 to 2000 period, the largest year-to-year increase occurred in 1996 at $6 billion while the largest year-to-year decline occurred in 1991 with a $3 billion decline. This comparison certainly highlights the added volatility in cash receipts the livestock and dairy industries have faced in the last decade, and also highlights that the volatility has its "ups" as well as its "downs" from the producers' perspective.

Although it is more difficult to get a complete picture on the cost side of animal agriculture from the farm income production expense accounts, feed costs rose 33 percent in 2007 and another 12 percent in 2008. For 2009, USDA estimates a six percent decline in feed costs.

These industries experienced a severe price-cost squeeze between 2005 and 2009. Cash receipts declined by $6 billion while feed costs alone increased by $16 billion. Add to that the escalation of other production costs and it equates to the extremely unfavorable financial position of many livestock and dairy producers today. Pork and dairy producers in particular saw their bottom lines at crisis levels in 2009. It would have required several billion dollars of support from any program attempting to eliminate the volatility in profitability seen from 2008 to 2009.

Let me repeat that the income volatility the livestock and dairy industries have experienced the past few years is a result of both cost and revenue variability. The biological lag in production response can and has exaggerated this variability. If the objective of future policy is to reduce variability in producer income, both components of this equation must be examined.

The 2010 FAPRI outlook suggests livestock and dairy producers' financial positions will improve slowly in the next couple of years. We have begun to see signs of recovery already with feed costs moving down from their peaks and output prices moving higher as some demand recovery in this country and around the world is beginning to take place. However, the economic recovery will likely not be smooth and will result in continued variability in the livestock and dairy industries. The probabilistic FAPRI baseline certainly shows the possibility remains for extreme volatility.

There has been little direct support provided to meat producers in previous farm bills. However, there are a number of support programs included in the current farm bill to help support dairy farmers. The two I will discuss today are the Dairy Product Price Support (DPPS) program and the Milk Income Loss Contract (MILC) program.

The DPPS program has been a long-standing part of Federal dairy policy. It was converted to a specific dairy product support program from a milk support program in the 2008 Farm Bill but operates in a virtually identical manner to the older program. Under this program, the CCC stands ready to buy all specified products offered at the supported product price level. This program essentially provides price floors for the supported dairy products. There has been times where product prices fell below the price floors because of the added costs of producing products that meet CCC specifications relative to market specifications. The program can become more challenging to use in an environment of commercial exports of dairy products out of the U.S. It can result in the U.S. being a commercial exporter 1 day to shutting off trade and selling product to the CCC the next day.

More important to the discussion today is the effect that the DPPS program has on producer income volatility. As only an economist can answer, "it depends" is the short answer. In the early 1980s, the program had support levels that were above market clearing price levels resulting in large CCC inventories of dairy products and little volatility in producer milk prices. As price support levels were ratcheted downward during the late 1980s and 1990s, it was common to find that support prices had fallen below market-clearing levels. This allowed for more price volatility that the industry began to experience in the late 1990s. With the rise in production costs that have occurred in the past 5 years, the support provided to producers by the DPPS program has weakened considerably. When the supported level is more than $5 per hundredweight below current operating costs, most dairy producers do not feel this offers much of a safety net. Since the DPPS program offers only price support, it does not adjust as producers' costs change over time.

The MILC program is a countercyclical direct payment program first implemented in the 2002 Farm Bill. Once producer milk prices fall below a specified target, producers can receive payments up to certain level of production. The annual cap on marketings eligible for MILC payments is currently set at 2.985 million pounds and will be reduced to 2.4 million pounds in September 2012 under current law. Very large producers have not found the MILC program beneficial largely as a result of the limit on the amount of their total marketings that are covered each year.

In the 2008 Farm Bill, a feed cost adjuster was added that raises the target price in months where the USDA/NASS reported dairy ration value exceeds $7.35 per hundredweight. The feed cost adjustment level increases to $9.50 per hundredweight in September 2012. This appears to be the only livestock industry that has a countercyclical feed cost adjustment under current law.

The MILC program includes features that adjust producer payments for high feed costs and low milk prices. Of all the components that determine dairy producer returns, only changes in non-feed production costs or production disruptions have no coverage under the MILC program. In addition to the production cap issue, other parameters also affect monthly MILC payments to producers.

Perhaps the most important parameter to discuss is the 45 percent factor (set to revert to 34 percent in September 2012) imposed on the difference between the target price and the relevant milk price for the month. This essentially means that once MILC payments are made, producers get $0.45 per hundredweight in a direct payment for each $1 the relevant market price falls below the trigger level. This MILC feature does not create a flat or solid price floor but it is a soft floor that still lets producers feel additional economic pain as milk prices fall further from the trigger level. There are certainly tradeoffs between a program that has a hard floor *versus* one that shares the loss of milk revenue between the level of government outlays and producer payments like the operation of the current MILC program.

Some of the early discussion surrounding policy alternatives for the 2012 Farm Bill has focused on offering whole farm insurance options to reduce the volatility producers have seen in their bottom lines. Many of these options look promising in addressing many of these concerns. It remains to be seen the exact program operation and parameters of these kinds of policy proposals, as there will certainly be tradeoffs between overall program costs *versus* the degree of volatility reduction offered to producers.

Again, FAPRI–MU looks forward to the opportunity to analyze the quantitative impacts of proposed policies for the 2012 Farm Bill. I am happy to address any questions that Members may have today.

The CHAIRMAN. Thank you very much, Dr. Brown. We appreciate that testimony.

Dr. Doering, welcome to the Committee.

STATEMENT OF OTTO C. DOERING III, PH.D., PROFESSOR OF AGRICULTURAL ECONOMICS, PURDUE UNIVERSITY, LAFAYETTE, IN

Dr. DOERING. Thank you very much, Mr. Chairman.

I feel that it is very important that we think a little bit about where we have come from while talking about where we are going to go. If you go back to Howard Colley, Chief of the Bureau of Agricultural Economics, in 1940, he laid out three objectives for farm policy. One was to help the large commercial farmers maintain viability, another was to raise the incomes and improve the conditions of those disadvantaged in agriculture, and the third was to encourage better land use, conservation and more efficient production. He made the comment then that we have done pretty well on the first one but the last two are still lagging, and I would agree with that today.

I think one of the things that we have to recognize is that the goal of income parity of farm people *versus* urban people has been achieved. Our chief concern now should be volatility. I am less favorably disposed towards direct payments which do not address the volatility question. I am also concerned with the negative perception of taxpayers with respect to the cost of direct payments, and that it doesn't deal with volatility, both on the input side which was just mentioned as well as the price side.

I think we are going to have to look seriously I would argue at folding down or discontinuing direct payment. But, the thing that I would like to emphasize here is that we have a three-legged stool of support for farmers. One of these are the traditional program, the safety net programs, another is insurance that Dr. Babcock has already addressed, and the third is disaster payments. If we go ahead with the farm bill, they should be crafted together looking at the influence of each upon the other. We have not been able to do that successfully in the past. Congress has never been willing not to give disaster aid to farmers in trouble, irrespective of what that does to undermine the insurance or the payments situation.

Let me turn for a second to conservation which no one else has talked about. I think we are doing some terrifically good things there. I think there are some things that need to be done. I think CRP is doing its job. This is not highly productive land that is in the program, this is land that primarily shouldn't be farmed. I think EQIP is doing a good job and I would hate to see money taken from EQIP for the nutrition program. I think NRCS's recent Mississippi River Basin Initiative is a big step forward. I think we have to target payments. This is something that is against our tradition, which I outline in my testimony but to get the most effective use of conservation payments we are going to have to target them to those areas that cause the biggest problem. The Conservation Effects Assessment Program is tremendously valuable for trying to ferret out what works, what doesn't and allow us to do adaptive management.

Let me turn for a second to biofuels. I am very concerned about the notion of breaking the blending wall by increasing the amount of ethanol blended to 15 percent. I think this would come largely from corn ethanol. I feel that we are at the edge of our land base, and while we are increasing production per acre, I think this would put real stress on markets. I think it would put real stress on the livestock industry. I also think it would affect sustainability, and we just have to think of it as to how far do we want to go with this.

The last thing is related to what Professor Babcock said about the demand for various agricultural commodities. When petroleum prices are high, the ethanol plant can pay to infinity to pay for corn. If we have ⅓ of the corn crop already going for ethanol, you increase that by 50 percent and you have high petroleum prices, you are going to see $8 corn prices again, and I do not believe this variability is good for the system.

Last, a colleague of mine, some years ago, made the comment that in the United States we have a tendency to socialize losses and privatize gains. We have seen that in the recent financial crisis. We can see it in some agricultural programs. This nation no longer has the resources to be able to do this continuously and in addition, we aren't even willing to tax ourselves to do what needs to be done now, let alone tax ourselves to be able to continue to do this.

Thank you very much.

[The prepared statement of Dr. Doering follows:]

PREPARED STATEMENT OF OTTO C. DOERING III, PH.D., PROFESSOR OF AGRICULTURAL ECONOMICS, PURDUE UNIVERSITY, LAFAYETTE, IN

Going Forward While Being Mindful of Our Past

My remarks will be general in nature representing my overall views on policies related to the farm bill. Many of the concerns we have about agriculture today echo the concerns of the past. I also find that an understanding of the path we set in the past helps guide our path in the future. Seventy years ago, Howard Tolley, Chief of the Bureau of Agricultural Economics, described three objectives for agricultural policy efforts * that I have paraphrased here. These objectives were:

- Activities designed to increase the incomes (and preserve the economic viability) of commercial farmers producing the bulk of the nation's food and fiber.
- Efforts to raise incomes and improve living conditions of subsistence farmers, victims of drought, and others at a disadvantage within agriculture itself.
- Activities designed to encourage better land use (and conservation) and more efficient production.

* Howard Tolley, "Some Essentials of a Good Agricultural Policy" in the 1940 Agricultural Yearbook, *Farmers In A Changing World,* USDA, Washington D.C., 1940.

Tolley goes on to say that most of government's activities had been directed towards the first objective and that the last two would need to receive increased attention in the future. I would argue that today we still focus on the first objective and may need to focus more on the last two. The first objective is also somewhat different today. We need to remember that the level of farm income was critical in the 1930s (roughly 40% of urban incomes) and that farm family income is now larger than urban family income. The goal of income parity has been achieved. Volatility should be the more important concern today.

My concern for the future with respect to commodity policy is the cost of these programs and the trade-offs involved when we create a government role to provide a safety net along with a direct income payment. Briefly, our history has been that up until the 1996 Farm Bill the focus was on financial support that related to crop prices—what I see as a classic safety net. With the combination of set asides to restrict supply and the loan rates and later target prices we put a floor under prices for the program commodities and indirectly supported incomes. As U.S. programs were based on the volume of the commodity produced we gave the most support to those producing the largest volumes of those commodities. In some cases we also ended up attempting to support world prices with our direct intervention before we adopted target prices. In 1996, with Freedom to Farm, we moved to a direct payment system based on past program benefits and participation. The political attractiveness for this reflected high commodity prices at the time with the knowledge that traditional safety-net payments would not be forthcoming so there would be no payments under safety net programs. There was also the realization that direct payments would be a fixed and predictable budget expenditure. The post 1996 decline in commodity prices resulted in Congress making repeated emergency payments in addition to the prescribed direct payments to try to maintain farm income. Given that experience, in the 2002 Farm Bill we returned to the more traditional support payments but we also continued the direct payments—taking us back to where we were before 1996 but now with the addition of a guaranteed direct payment.

I am more comfortable with the safety net approach. I am concerned about the negative perception and taxpayer cost of direct payments, especially when prices are high. I see direct payments as the form of government support most likely to be bid directly into land prices. We need to move to a more effective and appropriate safety net while withdrawing the direct payments, as was begun recently with the ACRE program. Direct payments do not deal directly with the volatility problem—as we learned in the late 1990s. Today this is volatility not only on the price side but also the input side.

If we were to discontinue the direct payments, then are there ways to structure the safety net better than we have in the past? A safety net is not only the set of countercyclical payments based largely on crop prices, but this tool also must be in balance with crop insurance and disaster payments. There is a perception that Congress has always been willing to help farmers in a disaster, and this has at times undercut crop insurance participation. Even when crop insurance is required, the perception is that if the disaster is severe there will be overriding disaster payments. Crop insurance is a critical part of the safety net. Among other things it allows more participation in market based risk tools. Setting a balanced course between the three legs of this safety net (program payments, insurance and disaster payments) and then sticking to it will take discipline on all sides. We need to recognize that a poorly designed or undisciplined approach that does not coordinate all three hurts the public perception of agriculture, may be more costly than it needs to be, and can invite moral hazard. We see evidence of this in irrational cropping patterns and "farming the program". It also affects conservation efforts when we have to buy land unsuitable for agriculture out of production.

Much of my recent experience is with conservation programs and biofuels, and I would like to share some thoughts in these areas as well.

I believe that Congress and the Department have done a good job with the Conservation Reserve Program. Most of the land in the program today is land that probably should not be farmed at all or farmed intensively. Much of the land has high conservation benefit for the public. The public appears comfortable with both the costs and benefits of this program. It provides valuable environmental protection cost effectively in critical geographical and environmental areas.

The Department has made progress with the Environmental Quality Incentive Program and this also appears to be delivering good value to the public. I am concerned about the suggestion to take the additional money needed for nutrition programs from EQIP. This need for additional funds can come equally or more so from the commodity programs in which I would target direct payments.

I am most supportive of NRCS's recent Mississippi River Basin Initiative. If we are to get a handle on reducing nutrient run-off, we will have to target those watersheds, crops, or management practices where we can have the most impact for the dollars spent. Our budget situation is such that everyone should not be able to receive benefits from conservation program payments unless they can contribute high value to solving resource problems cost effectively in return.

The Conservation Effects Assessment Project (CEAP) has great promise to improve our conservation programs and create a better accounting of progress (or the lack of it) towards specific environmental goals. This effort also provides the information and data for meaningful adaptive management of conservation programs. CEAP is not a small investment, but it should allow real improvement in assessing what works and what does not work as we put practices on the land. This must continue to be supported.

We have a different tradition of government involvement in conservation than many other countries—in Europe, as well as Canada and Australia. The primary economic need in the U.S. in the 1930s was to get cash into rural areas. It was not politically acceptable to send farmers an income support or commodity target price payment. The solution was to give farmers financial assistance for setting land aside for conserving uses and for undertaking practices or improvements on the landscape. Note the amounts expended below expressed in constant dollars for financial assistance and long term land retirement:

Conservation Funding*

	1937	1999
Financial Assistance	$5,041,700,000	$231,383,000
Land Reserve	$261,863,000	$1,711,163,000

*in constant 2000 dollars.

Financial assistance related to conservation was the primary vehicle for bringing cash to rural areas. The relative financial assistance under conservation in 1937 is comparable to the expenditure on commodity programs in recent times. My concern today is when conservation programs are still viewed as income transfer mechanisms. Part of the concern over targeting conservation payments relates to this earlier history where the imperative was that everyone in the conservation district should be eligible for payments. If we are to successfully tackle our resource concerns we will have to target resources in the knowledge that these resources are limited and in fact probably inadequate.

Effective conservation programs are a critically important public good. This is increasingly the case as we attempt to get increased production from a largely fixed land base. We are beginning to realize that there are sustainability limits.

With respect to biofuels, there are key issues of importance to this Committee. The greenhouse gas issue is important in making public policy supporting biofuels. The indirect land use issue needs to be part of the decision process, but is less important than initially determined. A key question at this point is what might be done to relieve the ethanol industry of the blending wall barrier. Raising the blend rate when cellulosic ethanol is some way down the road would force an increase in the amount of corn based ethanol production. This raises resource use concerns among others.

Today we are utilizing most all of our high quality agricultural land. When corn prices approached record highs a few years ago the new land that then went into corn production came largely from soybeans, wheat, and cotton. There were not many idle lands of sufficient quality waiting to be planted. Since the early 1900s the number of harvested acres for major crops in the U.S. has remained relatively stable. As acres were taken out of production due to such things as urbanization we have taken the fifty to seventy million acres we used for feed for horses and mules from that use to meet the loss of land for food and feed-grains. Today, acreage expansion will have to come out of high quality pasture and then from land of declining quality after that. What we see today is the agricultural land base that we have. From this point on, only increased yields (possibly pushing the land harder) will be our primary expansion route. More corn for biofuels involves conservation concerns and a very real food *versus* fuel concern. In addition, high feed-grain prices decimate the livestock and dairy industries.

Cellulosic ethanol production does not remove the land base concern. To approach economic viability, cellulosic materials will have to be grown within close transportation radius of conversion plants. High quality land will likely have to be used as well as land that would be less suitable for food and feed-grains if this activity is to be spread across the country at large scale. These crops do require fertilizer and do present management challenges, such as their invasive characteristics, that are no less daunting than those we face for other crops. There is also only so much biomass material that should be removed from the land if we are to maintain soil health. Cellulosic biofuels are not a silver bullet for our liquid fuel problems. Increased energy efficiency is in many cases still a more cost effective option.

In closing, I would like to note that some years ago my colleague Lyle Schertz made the comment that we have a tendency in the U.S. to socialize losses and privatize gains.* This has been the case across many of our activities associated with government. Today, we can no longer afford to do this—in agriculture or in other sectors we no longer command the national wealth nor are we willing to tax ourselves to cover the cost to allow us to do this. The other side of the coin is that if we actually believe in markets, more of the private gains will have to cover losses.

While my remarks here have been general, I will try to respond now or in writing later to the more detailed concerns you might have with the help of my colleagues at Purdue.

The CHAIRMAN. Thank you very much, Dr. Doering, for that testimony.

Dr. Ellinger, welcome to the Committee.

STATEMENT OF PAUL N. ELLINGER, PH.D., HEAD AND PROFESSOR, DEPARTMENT OF AGRICULTURAL AND CONSUMER ECONOMICS, UNIVERSITY OF ILLINOIS, URBANA-CHAMPAIGN, URBANA, IL

Dr. ELLINGER. Good morning, Chairman, Committee and observers. I am pleased the Committee is doing these hearings and at this time they are setting the stage for the farm bill. My role, as I understand it, is to discuss the area of credit, and I also will spend a little bit of time talking about the funding issues related to land-grant infrastructure.

First, credit, I did provide some data regarding the market shares, loss rates and individual lender data in written testimony, but let me summarize. In general, ag lenders have performed well through the crisis. They continued to offer credit during the crisis and they continue to do so. Agriculture as an industry uses a lower amount of debt relative to other sectors. If you compare the total amount of debt in the sector of $250 billion, it is dwarfed by what is spent in Wall Street at the larger institutions in the recent past.

We have a very diverse set of lenders in ag and we have two GSEs that continue to perform and have good capital positions. We have large banks lending to a relatively large sector, and thousands of community banks that continue to be successful in providing credit in agriculture. Loss rates, although they have been increasing during the credit crisis, they are not near the level of the other sectors in our economy.

The key stress sectors and the portfolios of ag lenders are dairy, pork, poultry, ethanol and timber. The increase in unemployment in rural areas has certainly impacted debt repayment capacity of many farm rural borrowers. Historic repayment capacity has relied very heavily on non-farm income, and this is being jeopardized with the amount of unemployment in this area.

Now, related to the policy issues related to credit, if we are looking at continued access to credit and credit availability, I think

*Lyle Schertz and Otto Doering, *The Making of the 1996 Farm Bill,* Iowa State University Press, Ames, 1999.

that one of the most important pieces is what Professor Babcock talked about this morning. Having adequate risk controls in place will allow credit to continue. I think this is a very critical piece as we continue to look at making tweaks to the system and changes in risk management. I think the risk management aspects will be very important to lenders in the future. My concern is the risk sector is being pushed back to the producer. Mr. Lucas talked about increasing interest rate risk. We have increasing volatility in commodity markets. We have increasing risk related to contractual and counterparty risk. A lot of this risk now is going back to producers, and we need mechanisms for risk management and risk education as the result of that.

Continuing expanded funding of direct and guaranty programs administered by the Farm Service Agency are also very important for the development of beginning farmers and ranchers, socially disadvantaged farmers and ranchers and selected family-size operations. These credit programs have been successful and are well-understood by the agricultural lending community. Consideration should be given to increasing the borrower limits. We have had increases in farm real estate prices, equipment is more expensive and fuel, fertilizer, seed and rent, and costs are much higher. Credit limits of $300,000 may be insufficient to meet the needs of moderate-size family operations.

There are many intersecting issues surrounding the current financial regulatory forum. Restructuring or consolidation of financial institution regulators are being considered by another committee, but the Farm Credit Administration has been a strong, independent regulator for Farm Credit System and Farmer Mac. This is especially evident during the financial crisis, and it is in my opinion it is the best interest of the two successful agricultural GSEs perhaps to remain as the primary and independent regulator.

In summary, most agricultural lending institutions have navigated the turmoil through prudent lending, effective underwriting, strong capital management and successful risk management. New and increasing risk in agriculture will result in more winners and likely more losers. Risk management by lenders and borrowers should be a high priority.

The next segment I would like to talk briefly about are the issues facing our land-grant infrastructure. As the farm bill discussion evolves establishing the next Federal framework for food, agricultural, natural resource and rural development policy. I would be remiss in not calling attention to another change taking place right now with respect to research, education and extension infrastructure that has served us so well for many decades. Today, many of the most urgent issues facing policymakers falls squarely within the purview of the land-grant system such as food, as well as security, climate change, use and protection of land, water and other resources, health and nutrition, energy independence. However, for the last 2 decades, Federal investment in this has stagnated and is nominal, and we have had declining real investments in appropriations.

To summarize as we are close to running out of time, we are looking at disinvesting in our structure and our ability to do things like full range, like extension, like our experimentation research. We are at a time where we need to be thinking about what we need to do to invest in our next century of land-grant institutions. Thank you.

[The prepared statement of Dr. Ellinger follows:]

PREPARED STATEMENT OF PAUL N. ELLINGER, PH.D., HEAD AND PROFESSOR, DEPARTMENT OF AGRICULTURAL AND CONSUMER ECONOMICS, UNIVERSITY OF ILLINOIS, URBANA-CHAMPAIGN, URBANA, IL

Good morning, Chairman, Committee Members, and observers. My name is Paul Ellinger and I am a professor and head of the Department of Agricultural and Consumer Economics at the University of Illinois at Urbana Champaign.

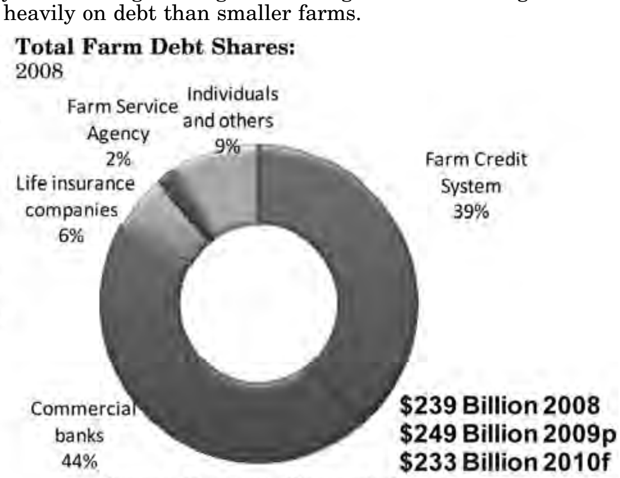
I am pleased the Committee is conducting these hearings to help set the stage for next farm bill. My understanding is that my primary role today is to provide background and expertise regarding the finance and credit issues facing agriculture and rural America. I would also like to discuss briefly the changing landscape for research, education and extension. The current budget crisis has significantly challenged our academic institutions. We are at a critical crossroad as land-grant institutions incur significant declines in funding and investments needed to lead discovery and innovation for a competitive and efficient food and agricultural system.

Current Credit Landscape in Agriculture

Financial markets and institutions are coming through unprecedented and well-documented disruption. Production agriculture has not been immune to the crisis. The direct impact of the credit crisis impacted global economic growth that subsequently contracted aggregate demand for agricultural commodities.

In comparison with other sectors of the economy, agriculture is generally characterized as using a low amount of debt relative to assets. The U.S. Department of Agriculture estimates total farm debt of approximately $233 billion at the end of 2010. Total assets in the farm sector are forecast at $1.876 trillion resulting in a farm aggregate debt-to-asset ratio of only 12.4%. The aggregate debt numbers often mask the wide disparity of debt usage among farms. Larger farms with higher revenues tend to rely more heavily on debt than smaller farms.

The primary lenders in agriculture are commercial banks, the Farm Credit System, life insurance companies, Farm Service Agency, and captive finance companies. The Farm Credit System holds approximately 38% of the total farm debt while commercial banks hold 44%.



Source: Economic Research Service.

Commercial banks lending to agriculture can be further divided into three general segments—small, community banks, regional banks and larger money-center banks. Over 78% of the loan volume and over 98% of the banks lending to agriculture are from banks with less than $10 billion in assets.

Commercial Banks Lending to Agriculture

Asset Size	Percent of Ag Loans at Commerical Banks	Number of Banks
Less than $100	14%	2,241
$ 100 to 500	35%	2,728
$ 500 to 1,000	11%	479
$1,000 to 10,000	17%	360
Greater than $10,000	22%	63

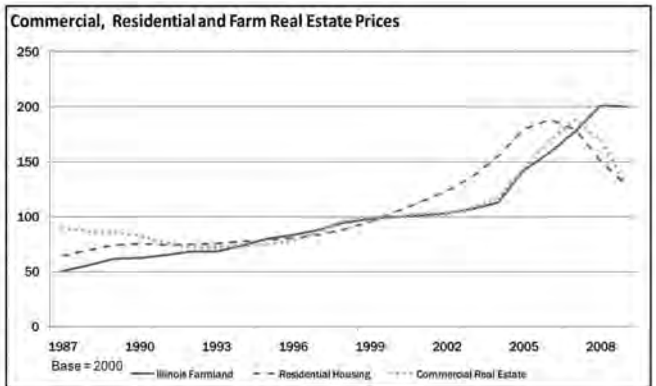
Source: Call and Income Reports 12/31/2009.

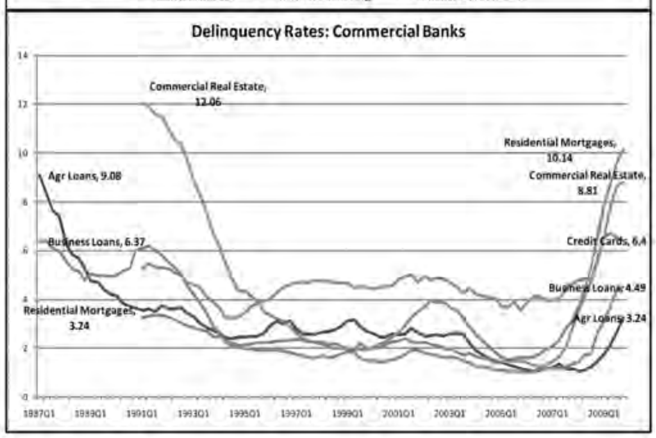
Approximately, 18% of the banks lending money to agriculture are publicly traded or owned by a publicly traded bank holding company.

Impacts of Financial Crisis on Lending Institutions to Agriculture

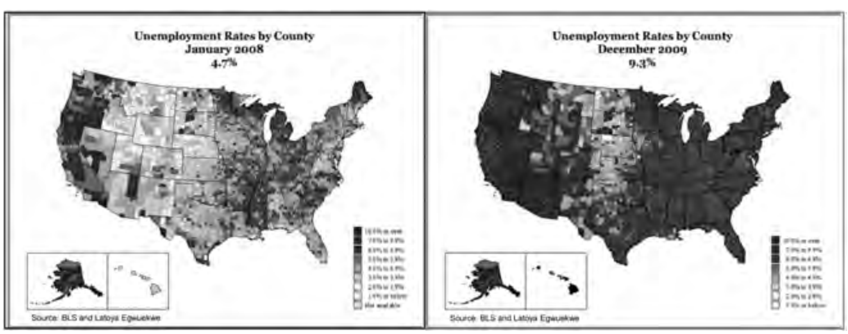
Relative to other financial intermediaries, agricultural lenders generally remain healthy. Many of the agricultural-related institutions did not participate in higher-risk housing lending procedures nor were they significantly invested in the structured securities that lost substantial market value. The initial impact of the crisis did impact larger agribusinesses through lack of working capital financing or trade credit and the large increase in the cost of debt capital. The initial phase of the financial crisis did not have a pronounced effect on the credit availability to much of commercial agriculture, but did impact the securities portfolios of many lenders providing credit to agriculture. Agricultural lenders have also benefitted from strong sector income in 2007–2008. Moreover, farm real estate valuations have not experienced the steep declines in residential and commercial real estate prices.

Delinquency rates of agricultural loans at commercial banks and the Farm Credit System have increased, but remain lower than other economic sectors.





The key stress sectors in the portfolios of agricultural lenders are dairy, pork, poultry, ethanol, and timber. Increased unemployment in rural areas has impacted debt repayment capacity of many rural farm borrowers.



Widespread banks failures in 2009 resulted in the FDIC imposing an additional assessment to banks for prepayment of 3 years of premiums. Of the 205 commercial bank failures in the U.S. from January 1, 2009 through May 7, 2010, only 134 failed banks held agricultural loans and represented only 1.41% of the volume of agricultural loans held by commercial banks. The more than 700 banks estimated to be on the FDIC watch list hold only 4.5% of commercial bank agricultural loans. Challenges facing rural community banks include continued stress in the commercial and residential real estate loans sectors, prolonged unemployment in rural areas, increased vulnerability to interest rate risk, and reduced profit margins resulting from the substantial increase in the FDIC assessment in 2009.

The Farm Credit System has also experienced stress in their portfolio, but remains healthy as a result of a strong capital position. Non-performing loans were 2.14% of total loans at year-end 2009. Farmer Mac, the GSE which serves as the secondary market for agricultural loans, suffered substantial capital losses due to investments in Fannie Mae, Freddie Mac, Lehman Brothers, and similar securities. As a result of their exposure to these positions, they issued preferred stock to increase their capital ratio. In early 2010, the capital was paid back in full and now Farmer Mac has the largest capital surplus in its history. Authority to allow rural-utility loans to be considered as Farmer Mac "qualified loans" in the 2008 Farm Bill has provided needed funding for rural-infrastructure as well as a strong portfolio segment for Farmer Mac.

The asset-backed-security market was also crippled by the initial crisis. Asset backed securities are used by some farm machinery companies such as John Deere and Case New Holland as a cost-effective method to fund loans to borrowers. Since this alternative was not available, some companies had to use higher cost methods to finance these loans. The Term Asset-Backed Securities Loan Facility (TALF) helped revive the ABS market and provide additional funding opportunities for farm machinery companies to extend credit to farmers.

In summary, despite a very turbulent economy, agricultural lenders continue to lend to agriculture. Moreover, even as credit standards tighten, many institutions have taken on new agricultural loans.

Credit Related Agriculture Policy Issues

Continued credit availability in agriculture will hinge on collateral values and borrower profitability in an era of heightened risk. Producers tend to be bearing a higher share of the risk in the sector. These risks include increased financial, commodity and input cost volatility in conjunction with amplified contractual and counterparty risks. Effective risk management tools are essential to continued credit availability in agriculture. I urge the Committee to look at refining and expanding the risk management options available to producers. Moreover, increased emphasis on financial and risk management education is essential. Risk management tools are often complex and difficult to understand. Education will be a necessary complement to enhanced risk management tools. Successful producers will likely have to prepare more detailed financial statements and develop their risk mitigation strategies.

Continued and expanded funding of the successful direct and guarantee loan programs administered by the Farm Service Agency are very important to the development of beginning farmers/ranchers, socially disadvantaged farmers/ranchers, and selected family-sized operations. The credit programs have been an efficient method to leverage funding into credit for production agriculture. Agricultural lenders have learned to use these programs to manage their risks and expand credit availability.

Consideration should be given to increasing borrowing limits on direct operating and ownership loans. Farm real estate prices have increased, equipment is more expensive, and fuel, fertilizer, seed rent and other input costs are higher. For example, nonland cash costs exceed $400 per acre in Illinois; cash rents on good to excellent farmland exceed $200 per acre; and Illinois farmland prices on good to excellent farmland range from $6,000 to 7,000 per acre. Credit limits of $300,000 may be insufficient to meet the needs of moderate-sized family operations.

There are many intersecting issues surrounding the current financial regulatory reform. Restructuring or consolidating of financial institution regulators are being considered. The Farm Credit Administration (FCA) has been a firm, independent regulator for the Farm Credit System and Farmer Mac. This was especially evident during the recent financial crisis. The Farm Credit Administration, formed in the early 1900s, has an understanding of the risks inherent in agriculture and the food system. It is in the best interest of the two successful agricultural GSEs for FCA to remain as their primary and independent regulator.

In summary, most agricultural lending institutions have navigated the economic turmoil through prudent lending/investing, effective loan underwriting, strong capital management, and successful risk management. New and increasing risks in agriculture will likely result in more winners and more losers. Risk management by lenders and borrowers should be a high priority. Policy makers can assist through developing and enhancing existing tools and investing in producer education.

This first segment on agricultural credit relates to my research and education responsibilities. Next, I would like to discuss the administrative component of my academic responsibilities. Richard Vogen, Director of Planning, College of Agricultural, Consumer and Environmental Sciences assisted in developing and organizing this portion of the testimony.

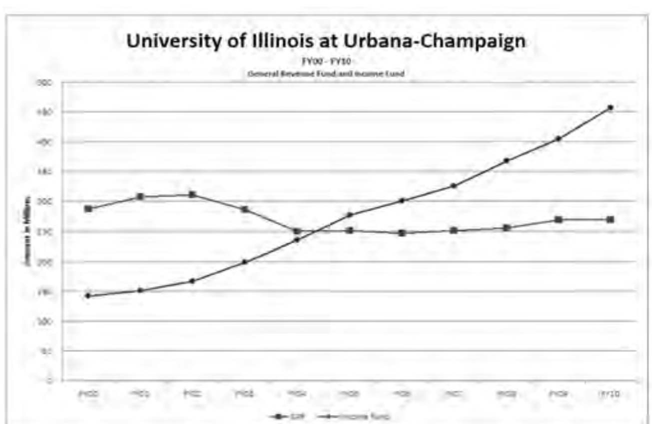
Changing Landscape for Research, Education, and Extension

As the farm bill discussion evolves, establishing the next Federal framework for food, agricultural, natural resource, and rural development policy, I would be remiss in not calling attention to another watershed of change taking place right now—with respect to the research, education, and extension infrastructure that has served us so well for many decades. For over a century, this nation prudently invested, by partnership with the individual states, in an integrated approach to discovery, learning, and application of knowledge. By establishing successful land-grant colleges and universities, agricultural experiment stations, and extension services, the public across America contributed to a powerful engine of growth and learning; resulting in the most successful food and agricultural system the world has ever seen, reduced rural poverty, and improved understanding of our resources and environment.

Today, many of the most urgent issues facing policy makers fall squarely within the purview of this land-grant system, such as global food security, climate change, use and protection of land, water, and other resources, health and nutrition, and energy independence. Some of the most exciting developments in science and technology are at the nexus of life sciences and other disciplines, played out in the domains of food, agriculture, and natural resources. Even in this most recent period of economic turbulence, these sectors of our economy proved to be resilient, a bellwether of opportunity in the future.

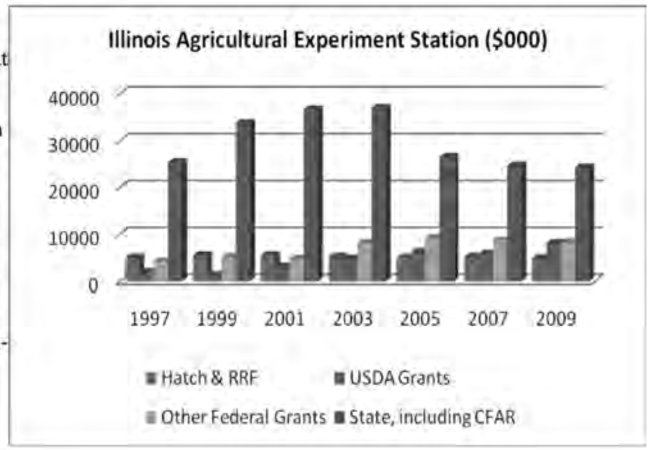
However for at least 2 decades, the Federal investment in the land-grant infrastructure stagnated, in evidence by the flat nominal and declining real investments in Hatch and Smith-Lever appropriations. The recent increase in competitive research funding through the Agriculture and Food Research Initiative (AFRI) is one hopeful sign that the needs are being recognized. Ironically though, the states, especially those with large populations and entitlement obligations, are divesting in their higher education, research, and extension infrastructure related to agriculture. The longstanding land-grant services that rely on Federal-state partnerships are in an accelerated period of disinvestment.

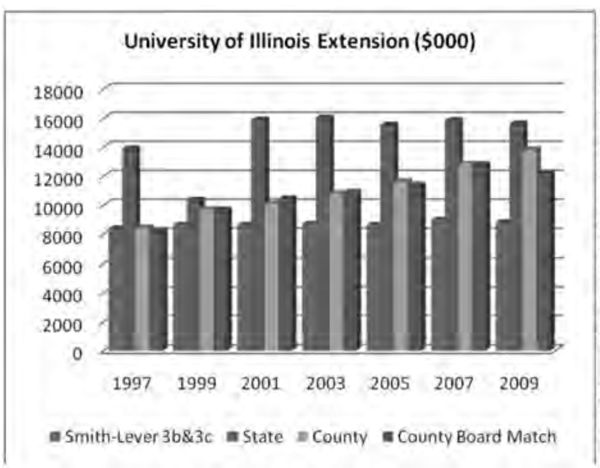
Let me illustrate with the situation I know the best. In the case of the University of Illinois, the state is seriously in arrears for its currently obligated funding to higher education, and the state's budget deficit has widened dramatically. At stake are the central principles of the land-grant university and whether this mission is consistent with both the escalating share of costs borne by undergraduate students and the direction of a research intensive university. In the case of the University of Illinois, as in many of our sister institutions, the contribution of state resources (GRF) to the University has been outstripped by contributions of student tuition (Income Fund). A fair question is whether students should be asked to pay for public services in the research and extension missions. To an increasing degree, the answer is no. The consequence of that trend is that fewer resources are available to maintain the land-grant infrastructure, train the next generation of leaders and scientists, or address the local issues of agriculture, food, and the environment. A measure of this disinvestment is the 25% decrease in faculty capacity in our College of Agriculture, Consumer and Environmental Sciences over the past 2 decades.



The emphasis on competitive funding at the national level exacerbates these trends. Locally relevant problems are neglected in pursuit of science in the context of larger, complex issues; or by seeking support from granting agencies with higher potential returns, but less relevance to food, agriculture, and natural resource issues. The inevitable result will be a narrowing of the field to fewer successful researchers and institutions. It is reasonable to ask if that concentration of science in the most competitive research institutions will be able to serve many local, state or regional concerns.

This can be illustrated by the trend in public funding streams for the Illinois Agricultural Experiment Station, where federal formula funding (Hatch) has remained flat, while State funding peaked several years ago and has fallen substantially.





A similar story is may be told for University of Illinois Extension. The primary source of Federal formula funding (Smith-Lever 3b & 3c) has changed little in nominal dollars over the past decade, while the State's investment has waxed and waned. The real growth for Extension is evident in the funding support by counties for local programs.

These trends serve to demonstrate the main point; as states struggle with mounting fiscal problems, the historic Federal-state partnerships that serve the food, agricultural, and natural resource sectors of our nation are in peril. The irony of this circumstance is that there is a resurgence of interest in the principles of the land-grant philosophy, which for us means actively discovering, advancing, and integrating new knowledge to ensure nutritious and safe food, sustainable and innovative agriculture, renewable sources of energy, strong families and communities, and environmentally sound natural resource management to benefit the people of Illinois and the world.

I urge the Committee to carefully consider this issue, as deliberations proceed for a new food, agricultural, and natural resource policy framework in the United States. Thank you for your time this morning.

Sources:

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The CHAIRMAN. Thank you very much, Dr. Ellinger.

Dr. Ray, welcome back to the Committee, glad to have you.

STATEMENT OF DARYLL E. RAY, PH.D., PROFESSOR, BLASINGAME CHAIR OF EXCELLENCE AND DIRECTOR, AGRICULTURAL POLICY ANALYSIS CENTER, UNIVERSITY OF TENNESSEE, KNOXVILLE, TN

Dr. RAY. Thank you very much for the opportunity to talk with you and to interact with you.

I think that there is a possibility that we might get lulled into thinking that the $3 to $4 prices of corn and prices that correspond to that for other crops are going to be the future, and I am not convinced. What we need to do when we look at policy, or one of the things we need to do is to look at how it reacts and how it protects farmers, and maybe consumers and others that are involved, all the stakeholders at the extremes. When we have extremely low prices and extremely high prices because if history has taught us anything, we will have both and we have had that in the last decade actually. In 1998 to 2001, we had extremely low prices and of course prices exploded about 10 years later.

I want to talk about some of the specific types of programs and how they might react to those kinds of extremes. There is a lot that can be said positively about the ACRE Program, but I do think that as Dr. Babcock mentioned, when prices are very high that is when the ACRE Program does the best job of providing benefits to farmers, and, therefore, would cost taxpayers potentially a considerable amount of money. But on the bottom side, we don't have that kind of protection with the ACRE Program, I would argue. If you let the prices, if the prices fall for one reason or another, the protection level, the safety net is going to be dropping with prices, and at some point there would actually be very little or no protection at all.

In some ways, ACRE is a revenue smoother over time, and it is not a consistent provider of countercyclical protection. We need to take that into account. And a number of the analyses that I have seen, some of which look at the current price picture, others look at the averages over say 1980 on, those numbers tend to indicate that ACRE would be beneficial to farmers. But, the ones that I would want to look at are how it performed or would have performed in 1998 to 2001 when we had low prices. I think that we need to have that information as policymakers, and as also as farmers, if we are going to use those kind of program. So that is one thing that I wanted to focus on and to lift up.

I want to talk a little bit about exports, too. I think that one of the reasons that we have gone to the payment kind of programs that we have for agriculture now is because of the export centric narrative, that is we believe that if the supply management and price support programs that we once had were preventing us from keeping our customers, and if we lowered the price why they would come back, running right back. And then the other aspect is that we have had a lot of folks that have said that population growth, income growth around the world is going to make agriculture prosperous and that it is going to happen any time now. But, over the last 20 years it really hasn't happened. In fact, if you take the total tonnage of the three major crops, wheat, corn, and soybeans, we are actually exporting the same amount today as we did in 1980, and of course that is a percentage of production that has been going down. I think it is important to not think that exports are necessarily going to save us.

In the time I have left I just want to throw out some fairly disjointed things. I think that excess capacity is likely to return and we can talk about that in more detail later. I think that it is possible to have lower prices if you have $2 corn. There is nothing to stop it, and we don't have the kinds of protections in place that we have had in the past. So, if conditions are right, it indeed could happen.

I think that it is unreasonable to think that if we had complete trade access, complete freedom of trade that we could do away with our farm programs. I don't think that that kind of activity would change the nature and structure of agriculture, and it would be difficult to see that.

So with that, I will quit. Thank you.

[The prepared statement of Dr. Ray follows:]

PREPARED STATEMENT OF DARYLL E. RAY, PH.D.,[1] PROFESSOR, BLASINGAME CHAIR OF EXCELLENCE AND DIRECTOR, AGRICULTURAL POLICY ANALYSIS CENTER, UNIVERSITY OF TENNESSEE, KNOXVILLE, TN

Thank you Mr. Chairman and the Members of the Agriculture Committee of the U.S. House of Representative for your invitation to participate in this hearing to review U.S. agricultural policy in advance of the 2012 Farm Bill. It is indeed an honor to appear and to interact with the Committee.

My testimony steps back from the nuts-and-bolts of the commodity program trees and focuses on the broader farm policy forest. Specifically, I want to suggest that it is important to consider how public policy for commercial agriculture performs during the times of economic extremes. Any farm policy or no farm policy at all works just fine in times economic stability with little stress. But how does it perform when prices plummet and remain "low" due to successive years of production outrunning demand? Or when prices sky rocket due a sudden and persistent demand surge or multiple years of crop failure?

We lived through both extremes within the period of a decade: low prices for several years beginning in 1998 and a price explosion a decade later. It is, of course, during these extremes that economies of agricultural sectors are the most disrupted and long-term price incentives are the most distorted.

[1] Harwood D. Schaffer, Agricultural Policy Analysis Center, made contributions to this statement, but any errors of fact or logic remain the responsibility of the author.

During the low-price period at the end of last decade, many program-crop farmers became "wards of the state" as they received more than all of their crop net income from government payments. These low prices caused immediate harm to farmers living in developing countries where backfilling gaps in market receipts with public payments was not remotely possible. Livestock producers and grain ingredient buyers gladly accepted the subsidy and based production decisions on unrealistically low grain prices.

The price surge a decade later wreaked havoc on the livestock industry, the ethanol industry, and the nutritionally vulnerable worldwide, as well many other sectors and groups.

These extremes would not have occurred or would have been moderated if food and production agriculture could have quickly adjusted to price swings. But as has been known for decades if not centuries, neither can. Consumers don't quit eating when prices explode (and thereby relieve the pressure on prices, which consumers would do for most other goods) nor do individual producers, who are price-takers for undifferentiated crops, shut down production on their land when prices are low (in contrast to producers in other sectors who take production orders or affect their price by gauging production to demand).

Although we sometimes forget it, commodity programs exist because of this inability of aggregate agriculture to quickly self-correct. Logically it makes sense then to evaluate recent farm policy approaches examining how each functions during the times when this lack of quick market self-correction causes the most economic and social disruptions.

Let's consider the two basic alternatives offered in the 2008 FB, ACRE and DCP.

In the case of revenue insurance programs such as ACRE, the bottom line for me is that they tend to generously insure farmers during good times and provide virtually no help during extended bad times.[2]

Following a series of "good" market revenue years, revenue insurance provides farmers with a proportion of the relatively "high" revenue level if prices (or yields) tumble. Depending on how high prices were during the good revenue years, farmers' revenue may be protected at or even above the full cost of crop production.

On the other hand, if prices fall and remain relatively low for several years, revenue insurance provides farmers with very little protection—actually no protection if prices are relatively unchanged but "remain very low compared to production costs" and little protection if prices or yields drop hard and stay there. With declining prices, protection ratchets down with the prices.

The reason many stochastic studies have shown that ACRE would typically pay farmers more than DCP is because of recent advantageous market conditions. Since revenue insurance is calibrated to recent market revenue (constrained by the ten percent rule in ACRE), the safety net does not stay put. There is no long-term floor for the price portion of revenue as there is with DCP. That is why I say revenue insurance programs tend to generously insure crop farmers during good times and provide virtually no help during extended bad times. During times when prices hit bottom and remain there and the "need" in crop agriculture is the most acute, revenue insurance protection marches to zero.

So how well do revenue insurance programs overcome the extreme economic conditions created by lack of quick price responsiveness by food consumers and aggregate crop agriculture? Since revenue insurance programs do not dependably protect even crop farmers when production outruns demand for extended periods of time, revenue insurance fails on all counts. There is little or no help for domestic or worldwide crop farmers when prices are pushed well below the cost of production. And there is no help for livestock producers, other grain users including ethanol producers, and the nutritionally vulnerable when prices explode.

During the two identified sets of extreme (also polar extreme) economic conditions, the DCP program was the basic farm program in effect, albeit with some variation in details. DCP and the emergency payments during 1998 to 2001 protected crop farmers from total economic ruin by replacing market receipts with government payments.[3] But aside from that, the DCP program fares no better at ameliorating the extremes than a revenue insurance program.

[2] In general selling revenue insurance is akin to selling residential fire insurance when it is known that all the insured houses have the potential to burn down simultaneously. Prices do not affect farmers randomly. When prices fall, they fall for all. Traditional insurance, on the other hand, is a numbers game based on the knowledge that a relatively small but predictable percentage will "collect" during a finite period of time. So if the good times are really good and then prices fall very hard, the cost of insuring revenue could be extremely large.

[3] Of course, had revenue insurance been in effect during the low price years, emergency payments likely would have been paid as well. But then what would the 2002 FB have looked like?

U.S. farm policy has evolved over time to its present configuration partly, if not mostly, because it was thought that earlier programs were hindering trade. It was widely thought that supply management and price support programs were allowing U.S. export competitors to undercut the U.S. and to snatch away export markets. It was thought that by allowing prices to fall to free market levels, crop exports would increase ferociously, compared the degree of decline in prices, allowing the U.S. to reclaim its former stratospheric share of total world grain exports. And since export volumes were expected to increase proportionally more than the fall in prices (implying a price elastic export demand), export values were expected to soar when prices were lowered from price support levels.

There was a second component to the export-centric narrative driving U.S. farm policy for the last quarter century. Administration officials, farm organizations, academics, and commodity organizations have continually fed the belief that growth in world population and incomes are "about to" propel U.S. agriculture to the promised land of accelerating export growth and financial prosperity.

While this export-centric narrative was successful in moving farm policies to the check-writing-payment programs of today, the grain-export promises failed to occur. Over the last 3 decades, U.S. corn export demand has been variable but with a flat trend while wheat export demand has trended downward. Soybean complex exports (soybeans, soybean meal and soybean oil) have trended upward during part of the period, but the U.S. share of world soybean complex exports has plummeted, declining from 56 percent in 1980 to 33 percent in 2009.

Even with the increase in soybean exports, the combined exports for the three major export crops remained below their 1980 level during most of the last thirty years. Amazingly and contrary to general belief, the U.S. is now exporting a smaller proportion of its combined production of corn, wheat and soybeans than in 1980—45 percent in 1980 and 25 percent in 2009. That is to say that the increase in domestic demand has been far more important to U.S. farmers than the vacillation of grain exports.

The price elastic export demand argument didn't pan out either. Contrary to expectations, USDA historical data on crop prices show fluctuations of greater amplitude typically than the corresponding amplitude of changes in the volume of crop exports. Even more telling—again contrary to expectations—USDA data on the value of crop exports typically moves in the same direction as change in the crops' prices. These market observations are not consistent with a demand that is price elastic, rather one that is price inelastic.

Crop exports have not performed as promised. It is not uncommon for conventional wisdom to lag behind reality, sometimes because of inertia, sometimes because we don't bother to look up the data, and sometimes because we "know how something should be" and that's good enough. Crop exports are indeed a case in which conventional wisdom lags reality.

Since the premises of the export-centric narrative turned out to be false, that export narrative is not a valid reason to confine commodity program discussions to government payment programs of one kind or another.

Nor, in my opinion, is it valid to not consider non-government-payment approaches to farm policy because such market interventions cause market distortions. I submit to you that severity of economic dislocations flowing from the current produce-all-you-can-and-backfill-market-receipts-catastrophes-with-payments-with-no-reserve type of program takes the market distortion argument off table.

Nor would previous complaints about the cumulative cost of previous non-government-payment commodity programs standup well against the cumulative cost of payment-based programs. Aside from being less expensive than current programs, there could be billions of dollars of potential savings by avoiding the reactions to and effects of the exaggerated price signals experienced with current programs.

So to those who claim that inventory management programs including grains reserves are too expensive to consider, my question is: compared to what?

- ✤ Compared to the billions of dollars of economic losses of the livestock, dairy and ethanol industries because there were no grain reserves to help affect the market?
- ✤ Compared to additional millions of people worldwide who were forced into poverty because of the price of staples? Compared to the future "low" U.S. crop prices that almost inevitably follows major crop price run-ups?

If revenue insurance were the principle program instrument, would the countercyclical payment program have been put into the 2002 FB? Would ad hoc emergency payments been continued instead?

✤ Compared to the losses to farmers worldwide who have experienced (and most likely will experience future) low prices but who receive no payments?

✤ Compared to the other impacts of dumping commodities on the world market at below the cost of production including the Brazilian cotton case?

I recognize that today's farm policy is what it is and even noncontroversial changes can come grudgingly or not at all. But one place to begin would be to re-institute a grain reserve program. With its authorization when, not if, grain prices drop into government payment territory, grain could be *isolated* from the market in a reserve. The benefits would be reduced government expenditures for farm payments since isolating and storing a relatively small percent of production which would raise prices, is much different than doling out annual payments for most or all of production. In addition, a reserve would be available to moderate prices that otherwise would go skyward during TRUE demand or supply shocks. Other criticisms have been lodged against grains reserves besides cost and price distortion concerns, but most of those criticisms deal with implementation and thus it is important to codify purposeful operational rules and to make the rules transparent to all.

As we have seen in the financial markets, the efficient markets hypothesis on which so many economic recommendations, including agricultural policy, rest is not without its problems. This is especially true for crop markets where the low elasticities of supply and demand create further challenges. In recent years we have dealt with both of these challenges by searching for mechanisms by which we can stabilize farm income. The result has been either the backfilling of farm income through huge emergency and marketing loan payments or offering outsized subsidies to insurance companies to induce them to offer actuarially unsound policies designed to protect farmers against widespread systemic risks like yield, production, and/or income loss. In addition, these programs have been unable to reduce the huge economic distortions that occur on both the high and low ends of the price spectrum.

The direct and indirect costs of these various approaches have been far in excess of what they would have been with the traditional reserve and supply management programs which, when well managed, provided a price band within which the forces of supply and demand efficiently allocated agricultural resources, protecting farm income while guarding against the distortions that result from price extremes.

Other Thoughts and Perceptions

- Excess capacity can and likely will return with a vengeance. Yes, this time it *could* be different. But as any agriculturalist who lived the through the 1970s and those familiar with agriculture's long-term history (not to mention Malthus) can tell you, the odds of "this time being different" are extremely small. In the past, supply has *always* caught up with demand growth and then surpassed it. And typically it does not take long for that to happen.
- Once again we could see $2 per bushel corn and comparable prices for other major crops in the future. There is nothing to stop it. Yes, there was a higher price plateau after the price run up in the seventies but then there were two factors that do not exist today: one was extreme high general price inflation by U.S. standards and the other was increased support prices.
- Given agriculture's propensity to overproduce, drafting FB legislation based on projections of "high" prices that happen to exist during FB debates usually results in unexpected and disappointing outcomes. One example being the 1996 FB when prices dropped by nearly ½ less than a year after the legislation was signed into law.
- There is little reason to believe that U.S. farmers could prosper by trading the farm program safety net for complete access to international markets. Such a fantasy fails to take into account how most, if not all, countries view food and the other unique characteristics of the food and agriculture sectors.
- The export-centric narrative, which has been recited as fact to sell the current direction of farm programs, has turned out to be fiction. It is time to acknowledge that, while exports are important and always will be, they are not going to make agriculture ever more prosperous. This won't happen because importing countries want to produce as much of their own food as possible (even if it is cheaper to import it) and, just as importantly, because our export competitors really are export competitors, many of whom have profitable growth opportunities in terms of acreage expansion and the closing of yield gaps.
- Grain reserves also perform an important international trade function. Production disruptions can be so severe even in the U.S. that domestic demanders of grains could have difficulty securing physical quantities of grain at any price.

It is in those situations that we also are most likely to become unreliable suppliers in the export market. Legislation preventing embargoes can and likely would be rescinded. Previous grain and soybean export embargoes occurred during times, like now, when the U.S. had no reserves on hand.

- The trade disruptions in 2008 could have been avoided had reserves been available. Without the security of knowing that reserves exist, it is perfectly understandable why countries felt compelled, when availability became uncertain, to restrict exports of the very staples that their populace depend upon. It is also important to understand that, without reserves, it is unlikely that the existence of totally free trade, in its most complete sense, would have changed the motivations or actions of those exporters.
- We should do our part to combat world hunger. We should remember however that even when crop supplies were plentiful and cheap (1998–2001), there were in excess of 800 million people in the world who were hungry. Producing 300 bushel per acre corn and 90 bushel soybeans in the years ahead does not magically translate into feeding the hungry of the world. Neither do we do developing countries any favors by supporting policies or agribusiness aspirations to move poor small-holder farmers from their land into urban slums.

The CHAIRMAN. Well, thank you very much. I thank all the panelists for your excellent testimony.

We have votes. I don't know what your schedules are but would it be possible for you all to return say around 1 o'clock? You could have lunch and then we will come back and we will have the questions at that time. These votes may last until about 1 o'clock, so does that cause a problem for anybody? No? All right, then we will just, why don't we just set a 1 o'clock time and we will be back here. There will be some other Members that will come back at that point and we will have some questions. Thank you all very much.

The Committee will be in recess until 1:00.

[Recess.]

The CHAIRMAN. The Committee will come back to order and it is typical when we have votes where it is the end of the day, I don't know if we may have some more people join us. We may not. We appreciate the witnesses' patience in sticking with us.

I guess Dr. Ray brought up an issue that I have been concerned about and that is what happens if we get into another downturn in prices with the current system. Well, obviously in dairy they have figured out what happens and they are working hard to try to change it, but I would like the thoughts of the other panelists about that issue.

Dr. DOERING. I agree with Daryll. I think it is possible. I am not sure it is probable. I guess I will go back to my original sort of structural argument and that is: our programs developed from the 1930s as safety nets, complete with the loan rates, and with the set asides, and with the storage programs. We moved to target prices and then had the political ability to send the farmer a check. I guess I believe that some of these old vehicles are still equally viable in terms of dealing with some of these eventualities.

The CHAIRMAN. Old vehicles, you mean, what do you mean by old vehicles?

Dr. DOERING. The target price, the loan rate, that these things can be operative when prices collapse. They can give support to farmers. I am not sure I am willing to go back to storage programs, but we did structure these to perform that function before. We can do so again. It depends upon where your triggers are. It depends upon what your target price is. It depends upon what you do in terms of how you figure if we are dealing with a yield problem in a bad weather year where you put those targets, but these devices are capable of doing these things.

The CHAIRMAN. I guess I agree with that, but I am not sure we have the money to get these loan rates and target prices high enough, given the new cost structure that we are involved in. That is the thing that I have been struggling with.

Dr. DOERING. I would argue with you if you give up the direct payments, it will give you a little money to work on the target prices and loan rates.

The CHAIRMAN. I have heard that.

Dr. Ellinger.

Dr. ELLINGER. I don't have a real lot more to add. Again, I would also agree with Otto on the probability of that as well, given the floor that ethanol is now provided to perform. I don't know the likelihood of going down to that, but I could at least respond to the fact that if it did and regardless of how we got there, being that it is so far below the cost of production and what we have with ethanol producers and the amount of loss that would occur, the data would support that. We could go back and look at those income levels in Illinois and the net losses that would occur if we are at debt levels would be substantial, but, again, the probability of that happening may be relatively low given what we have. And then with the opportunity to have again the crop insurance underneath what we have in Illinois does support some of this as well.

The CHAIRMAN. It looked like you were going to say something, Dr. Brown.

Dr. BROWN. Well, I would certainly like to add that it seems like one of the questions we have to face is whether the supply sides of these industries have changed substantially over the past several years. I think the dairy industry found itself in a situation where potentially supplies got much more less responsive, especially, in a low price situation. I think many of us thought going into late 2008 or late 2009, we couldn't see all milk prices below $12 again given what work cost production had risen to. But, that is certainly not the case, and if you believe we have become less responsive in this down price situation, it certainly just exacerbates the chance that when we do have demand shifting to the left for, let us say, corn that prices can move a lot lower than we would have ever once imagined. And then we are seeing signs now of adjustments in the livestock industry that they are adjusting to those higher feed costs. I think that is going to play into the demand for corn as we look ahead as well.

The CHAIRMAN. I am going to violate my rule here if that is all right, Mr. Ranking Member.

You know, in the past we have always had the same program in Title I across all the commodities, but now it seems to me that you have a much different situation between these crops in terms of where they are at in the marketplace and what other kind of support they have and so forth. Does it make sense for us to look at having different types of programs for different crops? For example, cotton's situation, maybe I could say rice too, peanuts, are very different than corn and soybeans, and wheat is a little bit different than those crops. So, does it make sense for us to have the same type of system for every crop, or should we look at having different types of support for different crops depending on their situation, Daryll?

Dr. RAY. The situation that you describe with regard to the cotton and rice and peanuts, would suggest that that may be the case in my view. I think that from what we are hearing from the farmers that produce those crops, the direct payments are an important part of what they depend on and what their creditors depend on. So, that direct payment part, although I have trouble in general figuring out what the purpose of direct payments are, especially when we have the prices that we have seen the last 2 years. But for some crops it seems to be important, so I think that would make some sense.

The CHAIRMAN. Does anybody else want to take a shot?

Dr. DOERING. But in a sense we already have. If you look at the cotton program or the peanut program, particularly, we already have modified those crop programs so that they are somewhat different. I guess I understand what Daryll is saying in terms of the importance of the direct payments, particularly for the bankers for those other crops. I guess one of my concerns with the direct payments is that is the first and foremost government subsidy that gets directly put into land prices. It gets capitalized almost immediately into land prices. Now, one of the problems is that when you withdraw that, if you try to withdraw that direct payment, you are going to put a little bit of softness in the land market. I think we are doing some of this differentiation already. I think it makes sense, but I still feel there are real problems with the direct payment.

The CHAIRMAN. Anybody else? Well, thank you.

The gentleman from Oklahoma.

Mr. LUCAS. Thank you, Mr. Chairman.

But, gentlemen, don't all government subsidies or payments or investments, however you want to describe it in agriculture, don't they all manifest themselves ultimately in land prices?

Dr. DOERING. Yes, absolutely.

Mr. LUCAS. The best agricultural economist out there and no offense, Dr. Ray, I sat through your class 30 years ago. The best agricultural economist is still those guys and ladies out there with the pencil or that pocket calculator or some spreadsheet they have cobbled together themselves. They calculate within a day everything we do and they incorporate that into the decisions.

If we could for a moment, let us step back and discuss just how we got to this point. Whether you talk about direct payments since the 1996 Farm Bill, or the old target loan rate systems before that, or whatever into the past, haven't we almost continuously since the 1940s gone through a cycle when we invest too much, or when we turn up the target rates, or the loan prices, we send the wrong signals. And we saw production go up, and our predecessors then went through the painful process of turning target prices down and loan rates down to clear those surpluses off the market, and we have gone through this wave process. I set in Dr. Ray's class in the early 1980s we were suffering intensely through that process of trying to rebalance supply and demand out there. Where we are now, the direct payment program since 1996 that is still a government investment that makes a tremendous effect on what producers decide and how they decide to do it, and even though since 1985 we have had CRP, a dramatic reduction in supply. Even though for the last couple years when we have driven so many dollars towards ethanol and biodiesel which has soaked up a lot of demand, aren't we still basically talking about how to account for the government's distorting effect when we help out there?

Dr. RAY. I would argue that if you look at the times in which we have had the most distortions, Mr. Lucas, they have been generated not by government programs but other events, some of them political. For example, in 1970s we had a tremendous run-up in prices and that wasn't because of policy early on. Now, we may have validated it with loan rates later on, but it was due to decisions that were made in Russia and circumstances that were outside of the U.S. borders. Now, and similarly this last run-up although it was accelerated by the increase in the demand for ethanol and increase prices tremendously.

Mr. LUCAS. And the reduction and supply effected by material from the CRP decisions of 1985.

Dr. RAY. But then what about the low prices that we saw in 1999 and 2000 and 2001. Apparently, CRP didn't keep prices high enough at those times and we ended up with $18 billion in payments, and in some states we had more payments then we had net farm income. So, my view is is that actually what we have experienced in the last few years with payment types of programs is we have seen more distortions occurring in agriculture, sometimes on the livestock side and sometimes on the crop side then we get if we change the loan rate by 25¢ or 10¢. We had prices that were too low early on. I say too low in the sense that they were providing incentives for the livestock industry that didn't make sense in the long run, and then we didn't have a reserve of any kind that we could bring on when we had the ethanol spurt and demand. There will always be those kinds of random events and keeping us kind of in a fairly decent band rather than outside that I think makes good sense in terms of providing planning and for efficient allocation of resources in the long run.

Mr. LUCAS. Do the rest of you gentlemen agree with that? Does Uncle Sam have to stay engaged to that level?

Dr. DOERING. If your critical comment is to that level, I see it.

Mr. LUCAS. It is just that it seems like when we set a bottom, we automatically wind up setting a top intentionally, or unintentionally, when we have grain in reserve for a tough day that becomes something overhanging the market.

Dr. DOERING. Correct, with equal complaints from farmers at both ends of that spectrum. But, in terms of involvement in agriculture, I guess my value judgment is that one of the key reasons for government to be involved is variability today, not necessarily the income level and a lot of that relates to weather. A lot of it relates to the concerns that have been voiced by Dr. Babcock about crop insurance. I think we cannot talk about loan rates, target prices, direct payments without putting them within the same discussion you have with crop insurance and disaster programs. They are all going to work, and what you don't want is for them to either accelerate the bad ends of each other or work against each other.

I think crop insurance questions are probably some of the most important ones in front of you today.

Mr. LUCAS. Clearly, the Chairman and I, while we are both great fiscal conservatives and very close allies in an effort to pass a farm bill, don't necessarily agree in every detail about how to deliver those resources and to accomplish that. I just worry in my observations that there is a tendency when the government takes a particular action, whether it is creating and directing and deciding a target price or a loan rate, that there is a tendency for those good country economists out there to pursue those decisions in a way to try and maximize the return under the particular program. I have been a connoisseur of the direct loan program because I felt like it put the most onus on the individual producers' decision making process. Now, I know you can't grow every crop everywhere in America, but giving the most possible flexibility to the producers to make their decisions to determine where they should go seems important to me. I would also say that in the environment that the Chairman and I work in when we craft this next farm bill, not only will we have less money and it doesn't matter who the next Speaker is, we will have less money to work with. Trying to convince our colleagues in Congress in the United States House that there is this great benefit that their constituents receive from having a Federal farm bill is going to be even tougher than it has been in the past. I appreciate the economic points all of you make, but we have to convince the people we serve with that there is merit in having a farm bill and whatever mechanism we use to deliver those commitments. I just know it is going to be a tough grind the next time and there are some different points of view, and by the way, I did enjoy Dr. Ray's class and I did learn a lot. He might not believe that to this day but I did learn a lot.

With that, Mr. Chairman, I yield back my time.

The CHAIRMAN. I thank the gentleman and we may be in more agreement than you realize, but we will see what happens.

The gentlelady from South Dakota.

Ms. HERSETH SANDLIN. Thank you, Mr. Chairman, and I in many respects agree, Dr. Doering, with the idea that crop insurance questions are among the most important. Chairman Peterson, in some of the field hearings that we have already had and some of the conversations that he has had with Members of the Committee, with other groups out there interested in the next farm bill, we recognize that crop insurance issues are of the utmost importance. Where I am from in South Dakota, it is the most important part of the safety net for a lot of producers right now, and there are some creative ideas that are being put on the table to look at what reforms may be necessary, how to make it work most effectively for most producers, and to give the taxpayers the best return on the investment of those dollars in that program.

Dr. Brown, I would just like to spend a little bit of time on the dairy industry. There is a lot of dairy in eastern South Dakota, it is a very challenging time for them. Where does the 2009 dairy margin rank compared to past historic bad years? Do you have that information?

Dr. BROWN. I think it is safe to say that the margin itself is probably the worst we have ever seen. You potentially can go back to the early 1990s, 1990–1991, when we had a pretty tough time, but the combination of not record low milk prices but very low milk prices coupled with record high feed prices probably puts this one pretty much at the top of the list.

Ms. HERSETH SANDLIN. Okay and so you think it was sort of the perfect storm of some variables that made it such a difficult year.

Dr. BROWN. Absolutely, we were in a situation where 2007–2008 demand, domestically and internationally, couldn't have been better. We were giving producers the signal to respond with more milk production at the same time feed costs were rising. That was kind of masked with the fact the revenue side was even increasing at a faster rate, and I would just remind us that 2009 was kind of the worst economic situation we have seen in decades in this country and around the world. So we ramped them up with additional production that said the world could be ours in the coming years, and all of a sudden that moved away and just created the situation of very low milk prices, by the way, feed prices and other production costs not just feed, continued to be at historically high levels.

Ms. HERSETH SANDLIN. Well, in Des Moines in a field hearing we had there recently, we sort of explored some ideas that had been put on the table. Some that have started getting some evaluation during the last farm bill, and, in your opinion, how does the producer protect against some of those risks or all of the variables? From our existing programs or aspects of them, what do you think we should retain based on some of what we have seen over the last year and a half?

Dr. BROWN. Well, we can take some of the programs and look at them. The Dairy Product Price Support Program, although it was very effective in reducing volatility in the 1980s, has really gotten low enough that it isn't providing really producers much protection. That safety net is pretty much on the concrete floor as many producers will attest to in 2009. I know it is likely not possible to talk about increases in that support level, but it is certainly a program that in its current features and levels, it isn't providing much of a safety net. The MILC Program, there you have the issue of the production cap, 2.985 million pounds. A lot of folks, larger producers don't feel like that offers much protection when they produce well above that level.

But if I set that aside for a minute, the fact that we are paying 45 percent of the difference between the Boston Class I and trigger price, I guess I kind of come back to the fact that you have a couple of options here, and one is when you think about providing support to producers. Do you want some type of hard floor at some point so instead of this 45 percent where roughly every dollar declined, producers only get back 45¢ on the dollar? I mean, no one producer would really want MILC payments. They would rather market prices above that level, so are you willing to reduce the target to give them a harder floor at some point in time as a way to protect against the really tough economic times like 2009. You can look at some of the insurance proposals that are out there that tend to be looking at operating in that way that would be different from current MILC operation. In terms of what can dairy producers do, there certainly are a number of producers that are trying to use futures markets to lay off risk. Some of them have done it very successfully, some of them have not. I think we have all begun to realize that it is going to require you to lock in both feed cost and milk prices if you are going to try to lay that risk off in these other markets.

Ms. HERSETH SANDLIN. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentlelady.

The gentleman from Idaho, Mr. Minnick.

Mr. MINNICK. If we take as a given that in this era of $1.6 trillion budget deficits that even at full employment may still be in the order of if I said billion, I meant trillion dollars a year. If a consequence of that is that we must reduce by some significant magnitude the cost to farm programs in the next farm bill. I want to explore with the panel the concept that has come out of the distress that my colleague from South Dakota just talked about in the dairy industry, of essentially income insurance that presumably would come with a government participation in the cost of a subsistence level of income, the producer at perhaps 100 percent, perhaps with some declining participation participating in the premium cost of income above subsistence. If one were to adopt that not just in theory, but adopt it for farm production generally as the conceptual framework around which we would try to protect income without inducing excess production for farm programs generally. The question I would like to ask is purely theoretical and hypothetical at this point, but if we were to go that route, are there any crops that this approach would be ill-suited to, conceptually? Are there any particular crops that we should exclude from this kind of income program and if so, why?

Dr. RAY. Can I comment in general?

Mr. MINNICK. Certainly.

Dr. RAY. I think that maybe what we are assuming with that kind of a program is that there is kind of a bell-shape curve around an acceptable price, and that over time the prices themselves are okay. So, we are just going to insure against the low prices and we will have those farmers participate in that, and it is easy for us to think about farm policy in general like that. The hard problem is that if instead of, and we talk about developing policies that don't interfere with the supply, in other words don't increase supply and so on. Actually, most of the supply increase is coming from yields and productivity increases, some of which we support as government did to increase. Most of the increase that we see in supply comes from developmental policies, I would say and that oftentimes is what causes prices to go down. Costs can go down too on a per unit basis, but there is a lot of intervention that comes in from that direction. So suppose that we do have excess capacity because our yields do go to 300 bushels per acre for corn and corresponding yields for the others, why then I think that we would see prices with unit demand being pushed down sufficiently that that kind of a program wouldn't protect farmers as much as it might seem.

Mr. MINNICK. Well, why wouldn't it if they were guaranteeing a level of income that based on assumptions, with respect to production costs and prices, but you are guaranteeing the income, you are not guaranteeing either the subsidies based either on the price of your final output, nor on actual production costs?

Dr. RAY. If you develop that guarantee of income when prices on the yields were in good shape and you kept it that way, and didn't allow it to be adjusted because prices went down, that would work, or even if you just kept the price fixed then you would continue to have that standard. But if you allow the standard to be a function of prices, as prices go down so does the standard, and, therefore, the standard could actually not even cover variable costs after awhile.

Mr. MINNICK. But you could adjust those. You could adjust your assumptions every year in order to have a reasonable start point.

Dr. RAY. If I use a running average of prices but you kept them at the price level that you started with and just froze them there, that would work.

Mr. MINNICK. Do any of the other three of you have an observation with respect to this in conceptual form, and an opinion as to whether it would be superior or inferior to existing crop support loan payment kinds of incentives?

Dr. DOERING. Superior or inferior partially depends upon your value judgments as to what is good and what isn't. The last work I did on this was some years ago, and what we basically decided at that time was that this was certainly something that you could extend easily to all the then-program crops. We also did some work in terms of expanding a guaranteed income program to some major vegetable and fruit crops, and there it seemed to work as well. I certainly will not say that there aren't some crops out there for which it is not suitable.

Mr. MINNICK. How about sugar?

Dr. DOERING. We didn't consider sugar on this one, all right, and there the question is at what relative income do you want to maintain sugar producers, just plan and simple. How much do you want to keep them above the world sugar price in terms of the income they get from the beet crop. So, sugar might very well be one if you want to maintain domestic beet production at current levels that that would be one that this would be a difficult one to deal with.

Mr. MINNICK. My time has expired, but thank you very much for your thoughts.

The CHAIRMAN. Thank you very much, Mr. Minnick, and I want to thank the panel.

I would just like to recognize Mr. Lucas for any closing comment. He might have one more question, but before I do, I want to mention that on the revenue program one of the things that I heard in my area is that the bankers wouldn't let them sign up because there was not a guaranteed kind of a thing, so they wanted to hang onto the loan because they knew what it was. It seems to me we could craft a revenue thing so that it had some kind of a guarantee with it. I would ask you to help us try to figure out how to do that. I think we need to go to county average, but if you could help us work with this revenue and give us some ideas about how to make this program more workable, and maybe have some kind of transition with this, we would appreciate it.

Mr. Lucas.

Mr. LUCAS. Thank you, Mr. Chairman, for holding this hearing. It was a fascinating two panels and no doubt we will be drawing on this kind of wisdom on many, many more occasions before we actually put that bill together.

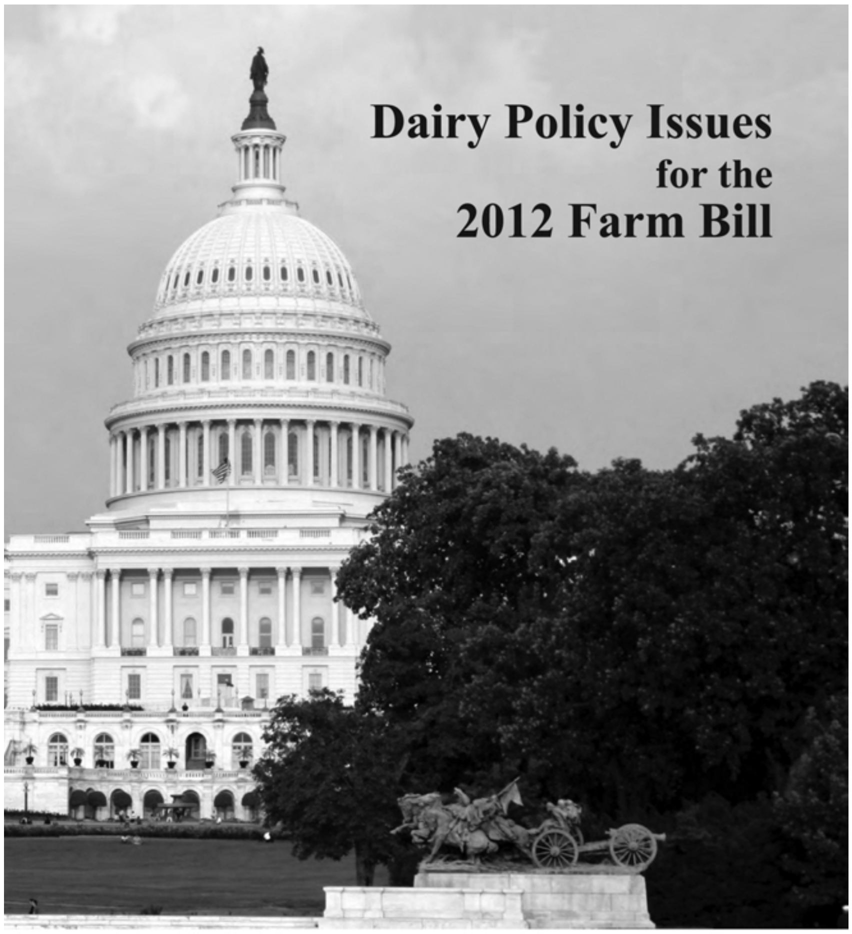
Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman, and I thank the panel of witnesses. We appreciate your patience in hanging with us, and we look forward to working with you as we look at ideas and try to figure out how to harmonize these programs and make sure they work the best for the taxpayers and for farmers as we go forward, so thank you very much. The panel is excused and with that, under the rules of the Committee, the record of today's hearing will remain open for 10 days to receive additional material, supplementary written responses from witnesses to any question posed by a Member. This hearing of the Committee on Agriculture is adjourned.

[Whereupon, at 1:45 p.m., the Committee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUBMITTED REPORT BY D. SCOTT BROWN, PH.D., RESEARCH ASSISTANT PROFESSOR AND PROGRAM DIRECTOR FOR LIVESTOCK AND DAIRY, FOOD AND AGRICULTURAL POLICY RESEARCH INSTITUTE, UNIVERSITY OF MISSOURI



Food and Agricultural Policy Research Institute
FAPRI
University of Missouri

Dairy Policy Analysis Alliance

THE UNIVERSITY of WISCONSIN MADISON

Dairy Policy Issues for the 2012 Farm Bill

Dairy Policy Analysis Alliance

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Introduction

Since the last farm bill (the Food, Conservation and Energy Act of 2008) was enacted in May 2008, the U.S. dairy industry has experienced major upheaval. The U.S. all-milk price in May 2008 was $18.30/hundredweight; a year later it was $11.60. Given high feed costs, this price was below the cash costs of producing milk for most, if not all, dairies in the United States. Moreover, the 37 percent fall-off in the milk price was indicative of the enormous increase in price volatility observed over the last 15 years, putting milk prices and dairy profitability on a more-or-less constant roller coaster ride that nearly all dairy market participants would like to see end.

Discussions about the dairy title of the next farm bill have already begun in Washington, DC, with this backdrop of intensified concern among producers about the level and volatility of milk prices. Also relevant to these discussions are anticipated federal spending constraints in the face of record budget deficits and the growing global presence of dairy companies located in the U.S. In addition to proposing alterations in existing federal dairy programs (including federal milk marketing orders, which are not usually part of farm bill discussions), dairy groups are looking at brand new federal programs and private initiatives to stabilize milk prices and provide a more effective price floor.

This report is intended to help sort through the myriad of dairy policy alternatives that will likely be considered as the next farm bill process evolves. We provide a description of existing and potential programs and policies that attempt to stabilize or support milk prices and identify issues relating to their current and future deployment.

In brief:

Dairy price supports have been a fixture of federal dairy policy for more than 60 years. The ability of price supports to maintain an effective price floor diminished as the support price was lowered and as dairy product manufacturers became increasingly reluctant to sell product to the government. In some cases, price supports have impeded U.S. dairy exports, distorted domestic markets, and constrained dairy product innovation.

The federal Milk Income Loss Contract (MILC) program is relatively new, and provides income support rather than price support. MILC has supported dairy farmers' incomes, but size-based limits on payments have generated strong opposition from regions with predominantly larger herds.

Voluntary supply management, which offers a carrot to producers willing to cut milk production in times of surplus, has been used only sparingly as a part of federal dairy policy. The Cooperatives Working Together (CWT) herd retirement program is a new approach that is privately funded through voluntary producer assessments. CWT has achieved success, but because assessments are not mandatory, there are issues related to free riders and the adequacy of funding.

Mandatory supply control uses a stick instead of a carrot to manage milk supplies, assessing penalties on producers who exceed assigned production quotas or bases. Mandatory supply control is attractive from a budgetary perspective because the milk price can be enhanced without payments to dairy farmers. But quotas and bases inevitably take on value that raises production costs for new entrants or farmers expanding their dairy herds and they can prevent efficient structural change and regional shifts in milk production.

Federal and state milk marketing orders have regulated minimum milk prices since the 1930s. Marketing orders are complex instruments that can significantly affect milk allocation and milk production decisions. Orders use classified pricing and pooling to achieve their stated purpose of promoting orderly marketing. Pricing issues relate to the appropriate number of classes and how to set minimum milk prices for manufacturing milk and price differentials for milk used for fluid products. Pooling issues include which dairy plants should be allowed to pool and how to promote equitable and efficient inter-order movement of milk.

Finally, ***U.S. dairy trade policy*** does not directly affect milk prices in the same way as marketing orders or the MILC program, but trade policy does influence the competitive environment for U.S. exports and imports of dairy products. Greater exposure to world markets has brought an added element of milk price instability to U.S. dairy markets. At the same time, foreign demand for dairy products is expanding more rapidly than U.S. demand, offering an opportunity for accelerated growth in U.S. milk production.

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This report was authored by members of the FAPRI-UW Dairy Policy Analysis Alliance. It serves as a companion to a related Alliance report titled, *Dairy Policy Briefs*, which consists of one-page summaries of the material covered here.

The Alliance is a cooperative dairy policy research and outreach program between the Food and Agricultural Policy Research Institute at the University of Missouri and the Department of Agricultural and Applied Economics at the University of Wisconsin-Madison.

Alliance documents and other resources can be accessed and downloaded at either of the following websites:

FAPRI site: (http://www.fapri.missouri.edu/)
University of Wisconsin Understanding Dairy Markets site: (http://www.aae.wisc.edu/future/).

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April 2010

Dairy Price Supports

Price supports for milk and dairy products used in the United States represent a market intervention program. The government offers to purchase nonperishable dairy products (cheese, butter and nonfat dry milk) from manufacturers at specified (intervention) prices. The program is dormant when market prices are above intervention prices. It is activated when the supply of products exceeds demand at the intervention prices, preventing market prices from dropping to levels that would otherwise be necessary to clear the excess supply.

Dairy price supports have been amended over time, mainly to alter the way that the support price for milk is determined and how corresponding product prices are set and changed. A major change implemented with passage of the 2008 Farm Bill eliminated reference to supporting a milk price. Now, purchase prices for cheese, butter and nonfat dry milk are specified, but there is no longer a minimum milk price target.

Public policy issues and concerns relating to dairy price supports include:

- Effectiveness in establishing a realistic price floor
- Distortion in allocation of milk and relative product prices
- Impact on U.S. dairy trade

Historical Review

Price supports for milk and dairy products have been used continuously in the United States since passage of the Agricultural Act of 1949. That Act required the Secretary of Agriculture to support the price received by dairy farmers for manufacturing use milk at between 75 percent and 90 percent of parity. The Secretary determined the specific parity level within this range by forecasting the adequacy of future milk production in fulfilling market needs. Parity attempted to keep the same relationship between milk prices and farm costs as existed in the period 1910-14. The parity formula used the Index of Prices Paid by farmers to adjust the parity price for milk.

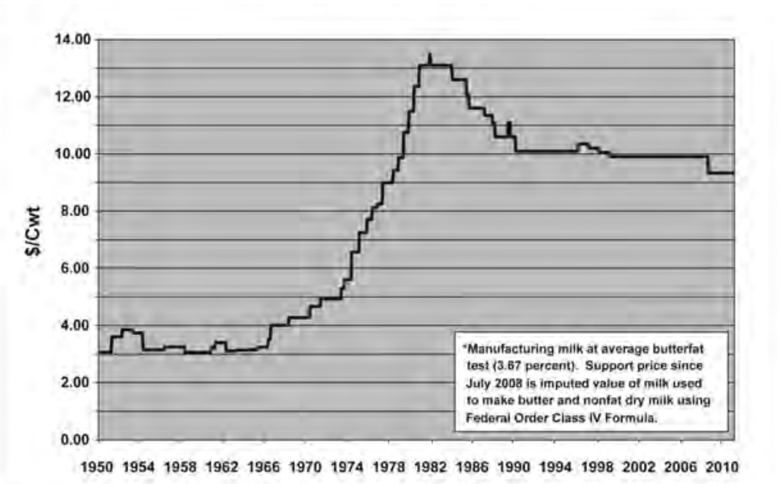
Using assumed yields and manufacturing costs, the support price for manufacturing use milk was translated into prices per pound for three "hard" (i.e., nonperishable) manufactured dairy products—cheddar cheese, butter and nonfat dry milk—and USDA's Commodity Credit Corporation (CCC) stood ready to purchase unlimited quantities of these dairy products at the announced prices. Reasonably efficient plants making and selling cheese, butter and nonfat dry milk at the purchase prices would, in theory, have enough money to pay farmers the announced support price for milk. And competition among plants would force those plants manufacturing other dairy products to also pay the support price or risk losing their milk supply.

As long as milk supply and demand were in balance and market prices stayed above CCC purchase prices, the support program was inactive. But during periods of surplus milk production, milk in excess of fluid and fresh product needs would increasingly be diverted to plants making nonperishable products. Larger supplies of cheese, butter and nonfat dry milk would lower their market prices, triggering government sales if and when market prices fell below CCC purchase prices.

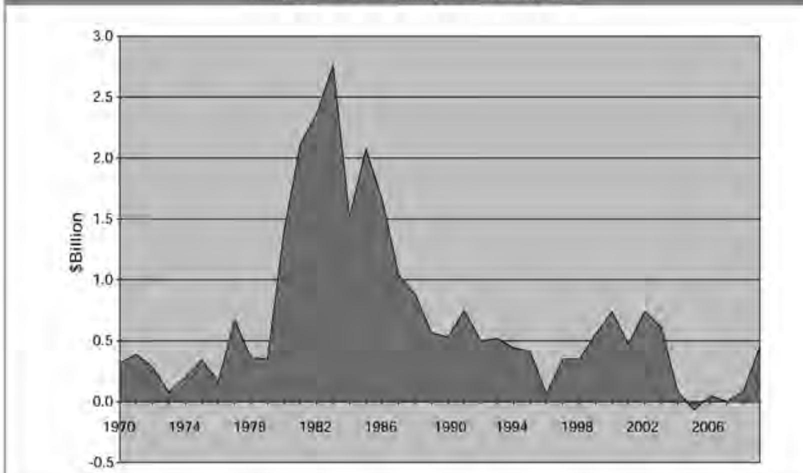
The 1949 Agricultural Act has been amended many times, most commonly through omnibus farm bills. A critical amendment that proved very disruptive and costly was in the 1973 Agricultural and Consumer Protection Act, which raised the minimum support level from 75 percent to 80 percent of parity. The subsequent farm bill (the Food and Agriculture Act of 1977) continued the minimum support level of 80 percent of parity through April 1, 1981 and required that the support price be adjusted semi-annually (October 1 and April 1) to reflect changes in the parity formula.

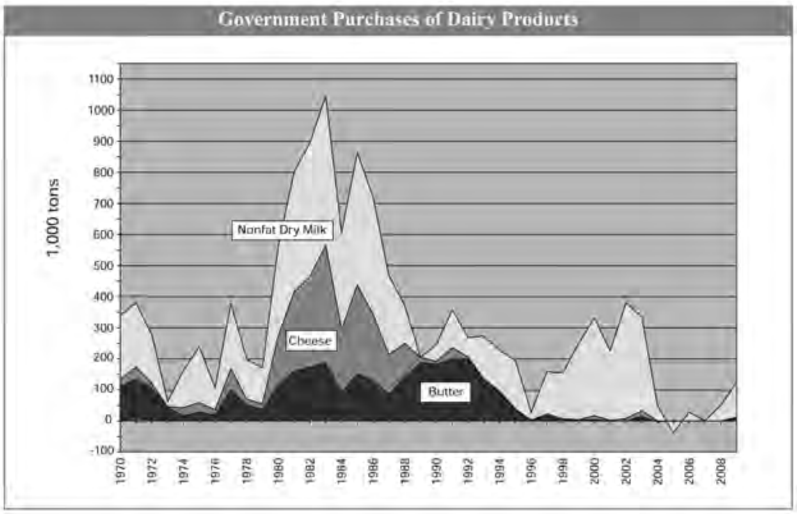
High rates of inflation during the 1970s—plus the fact that the parity formula ignored changes in productivity at the farm—resulted in the support price increasing from $4.28 per hundredweight on October 1, 1970, to $13.10 per hundredweight on October 1,1980 (see figure)[1]. Dairy farmers responded to rapidly-increasing support prices by increasing milk production far beyond commercial use. Surplus dairy products purchased by the CCC under the support program approached the equivalent of 10 percent of all farm milk marketed and associated government costs reached $2.7 billion in 1983 (see figures on following page.)

Support Price for Milk*



Budget Cost for Dairy Price Supports





This unprecedented surplus situation resulted in major changes in the support program. The Agriculture and Food Act of 1981 removed the milk support price from parity, instead tying it to the level of CCC purchases and associated net government costs of the program. Under this and subsequent amendments, the support price was gradually ratcheted down to $9.90 per hundredweight.

The Food, Agriculture, Conversation and Trade Act of 1990 required termination of the program on December 31,1999. Subsequent legislation extended the program until May 2002, when the Farm Security and Rural Investment Act of 2002 reinstated the price program through 2007 at the $9.90 per hundredweight support level then in effect.

The Current Price Support Program

The 2008 Food, Conservation and Energy Act made another major change in the federal dairy price support program. What was the Milk Price Support Program was renamed the Dairy Product Price Support Program. USDA still commits to purchasing cheddar cheese, butter and nonfat dry milk, but the CCC purchase prices for these products are no longer linked to a specified support price per hundredweight of manufacturing milk.

The CCC purchase prices specified in current legislation are: butter–$1.05 per pound; block cheddar cheese–$1.13 per pound; barrel cheddar cheese–$1.10 per pound; and nonfat dry milk–$0.80 per pound. These prices are the same as what were linked to the $9.90 milk support price in previous legislation. When the current purchase prices are inserted into federal milk marketing order formulas used for calculating minimum prices for milk used for cheese (Class III) and butter and nonfat dry milk (Class IV), they yield milk prices of $9.50 and $9.33 per hundredweight, respectively.[2]

Under current law, purchase prices may be reduced if CCC net removals of product exceed specified levels for 12 consecutive months.[3] These trigger inventory levels are large compared to recent net removals and are not expected to alter purchase prices during the life of the 2008 Act (expires December 2012).

Commodities purchased by CCC can be re-sold at market prices prevailing at the time of sale as long as market prices are at least 110 percent of the purchase price at the time the commodity was acquired. Sales back into commercial markets are called unrestricted sales.

Besides making unrestricted sales when market prices warrant, the CCC makes surplus dairy products available for use in several domestic and foreign food programs. Most of these special programs only provide dairy products on an "as available" basis; that is, donations are made only if there are stocks available to donate. The CCC has also held fire sales of nonfat dry milk for cattle feed and for manufacturing milk protein concentrate when stocks were especially burdensome.

While the change from supporting a milk price to supporting prices for dairy products may seem subtle, it could have significant implications for U.S. conformance with World Trade Organization (WTO) rules. Even though there were few CCC purchases of surplus dairy products between 2004 and 2007, the WTO still scores the dairy support program as a major trade-distorting domestic subsidy to dairy farmers. The WTO calculates domestic farm subsidies for a country by using a value called the Aggregate Measure of Support (AMS). Computing AMS for marketing intervention programs involves comparing supported prices with world market prices. Under the current WTO agreement (the 1994 Uruguay Round), the contribution of the dairy price support program to AMS is measured as the difference between the $9.90 per hundredweight support price and a world price of $7.25 per hundredweight (average price for 1986-88) multiplied by total U.S. milk production. For 2008, the dairy AMS calculation yields $5 billion ($2.65 per hundredweight X 1.9 billion hundredweight of milk). The AMS upper limit for all of U.S. agriculture is $19.1 billion annually, which means that the dairy price support program alone contributed more than 25 percent to this limit.

Supporting product prices instead of milk prices is an attempt to reduce dairy's contribution to the WTO calculation of AMS for the United States. Using 1986-88 world market prices for cheddar cheese, butter and nonfat dry milk, we estimate that the current support program would contribute only about $3 billion to AMS. More recent base year prices that would be used in any new WTO agreement would generate much smaller AMS contributions.

Another major difference between supporting a specific milk price and supporting dairy product prices has to do with alignment of CCC purchase prices for butter and nonfat dry milk. Under current law, the Secretary can reduce the purchase prices for cheese, butter or nonfat dry milk if accumulated purchases of any of these products exceed trigger levels. The Secretary is not obligated to consider the impact on milk prices or to maintain relative price relationships.

This authority replaces language in farm bills dating to 1990 that instructed the Secretary to use butter-powder "tilts"— altering the relative CCC purchase prices for butter and nonfat dry milk — to minimize the public cost of the support program. Under previous versions of the dairy price support program, butter and nonfat dry milk were considered joint products and the combined net revenue from sales of butter and nonfat dry milk made from a hundredweight of milk was intended to yield the milk support price. So the purchase price of one product (e.g., butter) could only be lowered if the purchase price of the other product (nonfat dry milk) were increased enough to offset the reduced revenue

In the early 1990s, butter was in surplus relative to nonfat dry milk. Four tilts were made between April 1990 and July 1993, when the support price was constant at $10.10 per hundredweight. The butter purchase price was decreased from $1.0925 to $0.65 per pound and the nonfat dry milk price was correspondingly increased from $0.79 to $1.034 per pound in order to maintain the $10.10 per hundredweight value for milk used to make butter and nonfat dry milk.

Beginning in 2000, nonfat dry milk was in surplus relative to butter and the Secretary implemented two tilts, reducing the support price for nonfat dry milk from $1.032 to $0.80 per pound and correspondingly increasing the support price for butter from $0.6549 to $1.05 per pound in order to maintain the $9.90 per hundredweight support price then in effect.

The lowering of the nonfat dry milk price was very contentious because of its effect on the minimum price of milk used to make fluid dairy products.[4] Under the Dairy Product Price Support Program, CCC purchase prices for cheese, butter and nonfat dry milk are no longer tied to a milk support price. So if butter were in surplus relative to nonfat dry milk, for example, the CCC purchase price for butter may be lowered without increasing the purchase price for nonfat dry milk. The controversial issue of butter-powder tilts no longer exists.

Dairy Price Support Issues

Flooring milk prices. Dairy price supports have not always been successful in keeping dairy product prices above CCC purchase prices or in flooring farm milk prices when that was a direct program objective. For example, during the 48-month period January 2000 to December 2003, the Class III price was below the support price in 17 months, with the gap as large as $1.23 per hundredweight. During January 2009, the CME block cheddar cheese price averaged $1.07 per pound and reached as low as $1.04. These prices were well below the CCC block cheddar cheese price of $1.13 per pound.

Because of product, packaging, payment and other specifications that do not meet industry standards, it costs more to sell products to the government than to commercial buyers. This is a particular problem for cheese and butter; less so for nonfat dry milk. So market prices for the products that are purchased under the Dairy Products Price Support Program need to be less than intervention prices in order t o offset the difference in costs and trigger CCC purchases.

There are several ways of correcting this problem. A direct way is to simply raise the intervention prices enough to offset the higher costs of selling product to the CCC. This would require monitoring of cost differences and making periodic changes in CCC purchase prices, adding administrative burden to the DPPSP. Moreover, higher selling costs are not likely the only reason market prices fall below CCC purchase prices, so raising purchase prices would not guarantee the problem would be corrected.

Another option, at least in areas regulated by federal milk marketing orders, is to "snub" the butter, cheese, and nonfat dry milk prices used in federal order Class III and Class IV pricing formulas at the CCC purchase prices. In other words, if in any month a NASS product price used in the formulas were less than CCC prices, the formula would use the higher CCC price. This option was used in the California milk pricing system for about a two-year period beginning April 1, 2003. California 4a (butter-powder) and 4b (cheese) pricing formulas used the higher of market prices or CCC purchase prices for butter, nonfat dry milk, and cheese.[5]

Snubbing formula product prices would be a very effective way to prevent market prices less than support from negatively affecting federal order minimum Class III and Class IV prices. However, snubbing would not prevent market prices for cheese and other CCC products from falling below CCC purchase prices by at least the difference in selling costs between commercial and CCC sales. Consequently, manufacturers would object strongly to this option. They would legitimately argue that their margins were being squeezed whenever CME prices were less than CCC prices. Snubbing would place a particular hardship on smaller plants that are not in a position to sell to the CCC.

A third way to solidify DPPSP price floors is to have the CCC participate as a trader on the CME or contract with CME brokers to place an irrevocable bid (offer to purchase) for block cheese, butter and nonfat dry milk on the CME at announced CCC purchase prices. CCC product, delivery, and payment specifications would need to be modified to more closely match those of the CME. To the extent that is impractical or impossible under USDA rules, then the CCC would have to equalize net sales prices between CCC and CME sales, probably through premiums that offset these costs. Any offers to sell at the standing bid would be accepted by the CCC. Under CME trading rules, there can be no sales or offers to sell at a price below the standing bid. Hence, this option would place an absolute floor on CME prices at the CCC purchase prices.

While this option would effectively floor CME prices, it may not floor the NASS survey prices used in Class III and Class IV pricing formulas. For example, the relationship between CME and NASS cheese prices has been very tight because most cheese is sold through pricing formulas tied to CME prices. But there is a possibility that these sales contracts could be altered if the CCC were a buyer on the CME. Buyers might use larger discounts or smaller premiums when CME prices reached floors that resulted in. In that event, NASS commodity prices could end up lower than CCC prices.

Market price distortions. Dairy price supports have affected milk utilization by setting a price floor for some commodities but not for others. Perhaps the best example of this market distortion relates to nonfat dry milk. Nonfat dry milk is a source of dairy protein in many food applications. There is a large U.S. market for other dairy-based proteins, notably milk protein concentrate (MPC) and casein. Most of the MPC and nearly all of the casein used in the U.S. comes from imports.[6] Because nonfat dry milk is purchased by the CCC at a minimum price, it is often more profitable and less risky to produce nonfat dry milk than other forms of dairy proteins. U.S. production of whole milk powder (WMP) is similarly affected by the DPPSP standing ready to purchase unlimited quantities of nonfat dry milk. WMP is a major world dairy export product, but little is produced in the U.S.

The narrow line of homogeneous dry milk products stands in vivid contrast to the broad spectrum of whey products manufactured in the U.S. for domestic and export use. Whey protein has become essentially a "made to spec" product tailored to individualized uses. Whey is also converted to specialized lactose products. Not coincidentally, whey is not purchased under the DPPSP.

While the evidence is less clear, the DPPSP may also affect the mix of cheeses produced in the U.S. Cheddar cheese accounted for about a third of total U.S. cheese production in 2009. Obviously, cheddar cheese demand heavily influences how much is manufactured. But both absolute production and the styles of cheddar being produced may be influenced by the ability to sell cheese to the CCC.

U.S. dairy export effects. Prior to 2006, world prices for cheese, butter and nonfat dry milk were often below CCC purchase prices. This was primarily the result of limited world trade in dairy products and, for what trade there was, large EU export subsidies that kept prices low. Consequently, selling to the CCC was usually a more lucrative market than exporting.

During most of 2006-2008, world dairy market prices exceeded CCC purchase prices and the U.S. enjoyed a dairy export boom. Purchase prices are currently low by historical standards and they cannot be increased under existing law. Consequently, on average, export markets are expected to be more attractive to U.S manufacturers than selling cheese, butter and nonfat dry milk to the CCC over the long term.

But averages hide world market downsides. With the dairy price support program in effect, manufacturers shift their allegiance from export sales to CCC sales when world market prices dip far enough below CCC prices. This tends to make the United States an unreliable supplier to world markets.

Endnotes

[1] Milk price support levels noted here are for milk of average butterfat content (3.67 percent).

[2] The Class III price includes a value for dry whey, which is not purchased by the CCC. The Class III value noted here assumes a dry whey price of 19.11 cents per pound, which is equal to the whey make allowance in the Class III price formula. For every penny per pound that the whey price exceeds 19.11 cents, the supported Class III price would be higher by 5.8 cents per hundredweight

[3] Net removals under the 2008 Act are defined as CCC purchases plus Dairy Export Incentive Program (DEIP) removals minus unrestricted sales.

[4] See paper on federal milk marketing orders.

[5] Market prices under the California pricing system are defined as: CME butter, CME block cheddar cheese, California Grade A and Extra Grade nonfat dry milk, and Western dry whey. Federal orders use NASS prices for these four commodities.

[6] U.S. production of MPC was reported by USDA for the first time in 2009, and measured about 92 million pounds. MPC imports in 2009 were 114 million pounds. U.S. production of MPC is believed to have increased from near zero ten years ago, while imported MPC has declined 40 percent from 2005-2007 levels. U.S. casein production is not reported by USDA. In 2009, imports of casein and caseinates totaled 160 million pounds.

Milk Income Loss Contract (MILC) Program

The Milk Income Loss Contract (MILC) program is a target price-deficiency payment program that makes direct payments to dairy farmers when milk prices fall below specified target levels. MILC was first authorized in the Farm Security and Rural Investment Act of 2002 (the 2002 farm bill) and extended through annual appropriations bills and the Food, Conservation, and Energy Act of 2008 (the 2008 farm bill). Since it began through 2009, the program has made payments of $3.5 billion to U.S. dairy producers. Individual farm payments are limited by a cap on annual production eligible for payment. This has made the program unpopular in regions with larger herds. The program has also been criticized for extending the length of low price periods and causing larger dairies to bear the brunt of supply adjustments.

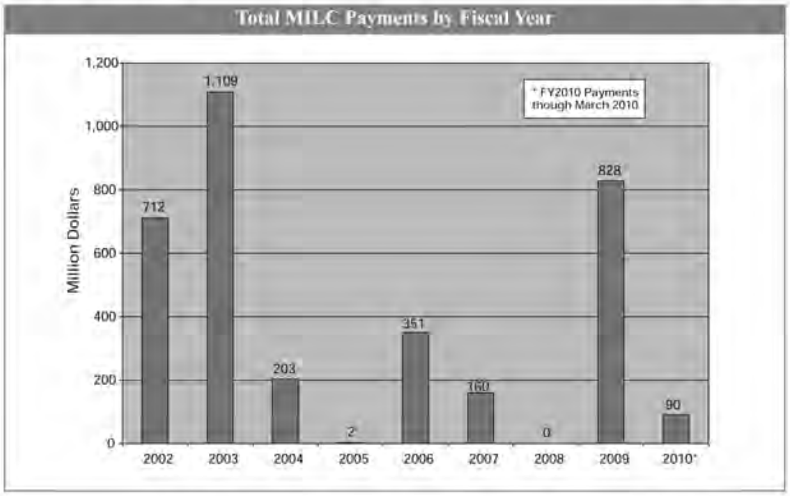
Historical Review

MILC is the product of a political compromise during passage of the 2002 farm bill. Members of Congress from the Northeast attempted to reinstate the Northeast Interstate Dairy Compact, which had expired in November 2001, in the 2002 farm bill. This attempt was fought by legislators from the Midwest. The Senate version of the Dairy Title of the new Bill contained a reincarnated compact applicable only to the New England states and a different target price-deficiency payment program applicable to the rest of the country.

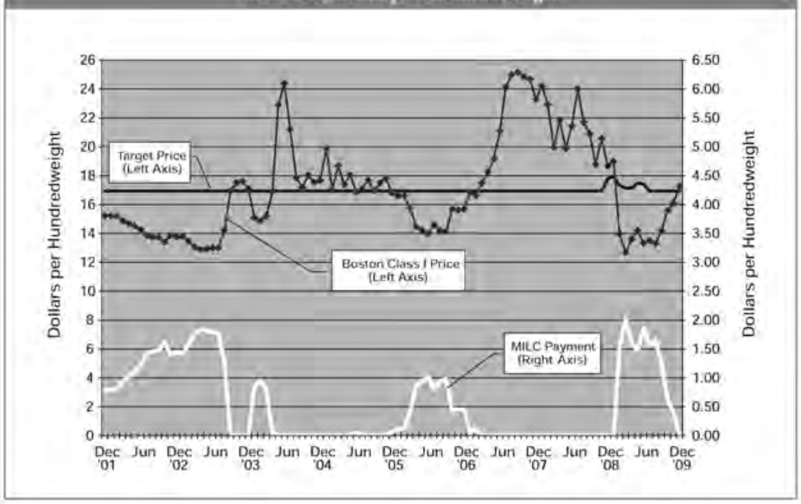
In the New England variant, the target price was the $16.94 per hundredweight compact target. If the Boston Class I price in any month was less than the target price, then producers in the New England states would receive 45 percent of the difference on their entire monthly milk deliveries regardless of how the milk was utilized.[1] In House-Senate conference, the wisdom of having disparate regional programs was called into question, and what ultimately emerged was the New England plan applied nationally with production caps—all milk marketed in the U.S. was eligible to receive the deficiency payment. The program was made retroactive to December 2001. Milk prices had fallen sharply in the fall of 2001, yielding MILC payments during the first month the program was in effect.

The MILC program was authorized with a unique method of limiting individual farm payments. Instead of using a dollar-denominated payment limitation as

Total MILC Payments by Fiscal Year



MILC Payments per Hundredweight



in most farm programs, the MILC program imposed a limit on milk marketings eligible for payment during any fiscal year. The cap was initially set at 2.4 million pounds, the annual production from a herd of 100-150 cows, depending on milk yield per cow. Producers could sign up to begin receiving payments any month during a fiscal year (October-September) and receive payments from that month until marketings for which MILC payments had been received reached the cap or the end of the fiscal year. Marketings during any month in which there was not a MILC payment did not count against the cap.

In the 2002 farm bill, the MILC program was only authorized through September 2005. The program was extended in the fall of 2005 through the life of the bill. The extension renamed the program MILC-X and reduced the payment rate from 45 percent to 34 percent of the difference between $16.94 and the Boston Class I price.

The MILC name and initial payment rate were reinstated in the 2008 farm bill. Other significant changes to this program were "floating" the target price in accordance with changes in feed prices and raising the payment cap from 2.4 million pounds to 2.985 million pounds.

Since it began, the MILC program has made payments of about $3.5 billion. More than half of total payments were made in the first two years the program was in effect. No payments were made in FY2008 and practically none in FY2005.

From the program's inception, MILC payments per hundredweight increased steadily through an extended period of low milk prices that finally ended in late 2002. Payments were made every month of 2006. The longest period of no payments was 23 months—March 2007 through January 2009. The largest monthly payment was just over $2 per hundredweight in March 2009, when the Boston Class I price dipped to $12.68 and relatively high feed prices elevated the target price to $17.14.

The Current MILC Program

The current MILC program consists of the following elements, which apply to the period October 1, 2008 through August 31, 2012:

- The target price is a minimum of $16.94 per hundredweight. The target price is increased if feed prices exceed a base level as noted below.
- The target price is compared to the monthly Boston

Class I price. If the Boston Class I price is less than the target price, then all producers are eligible to receive a deficiency payment of 45 percent of the difference.

• Producers can receive payment on no more than 2.985 million pounds of milk marketed in any fiscal year (October-September). Producers can specify which month during the fiscal year they want to begin receiving MILC payments. Once payments begin, marketings during any month that payments are made count against the cap. The default month to begin receiving payments is October. Once enrolled in the MILC program a producer cannot withdraw from the program and then re-enroll during the same fiscal year.

On September 1, 2012 (unless altered by a new farm bill or other legislation), the payment rate is reduced from 45 percent to 34 percent and the production cap is reduced from 2.985 million pounds to 2.4 million pounds.

The feed price adjustment to the target price is based on the cost of a standard dairy ration, referred to as the National Average Dairy Feed Cost. This feed cost is the estimated cost per hundredweight of a 16 percent protein dairy consisting of 51 pounds of corn, 8 pounds of soybeans and 41 pounds of alfalfa hay.[2] In any month the National Dairy Feed Cost is above a specified base of $7.35 per hundredweight, the target price is increased by a percentage equal to 45 percent of the percentage difference between the National Dairy Feed Cost and $7.35. The base is increased from $7.35 to $9.50 in September 2012.

Prices for the feeds making up the National Dairy Feed Cost are the final U.S. average prices reported by USDA in *Agricultural Prices*. This results in a two-month delay in calculating MILC payments, since USDA does not report final estimates for a month until the end of the following month.

An example may clarify calculation of the feed price adjuster. Suppose that for a given month USDA reported final estimates of U.S. average prices for corn, soybeans, and hay of $4.00 per bushel for corn, $10 per bushel for soybeans, and $150 per ton for baled alfalfa hay. Using the weights noted above and bushel weights of 56 pounds for corn and 60 pounds for soybeans, these feed prices yield a National Dairy Feed Cost of $8.04 per hundredweight:

Corn:
($4.00/bu divided by 56 lb) = $0.071/ lb X 51 lb = $3.62

Soybeans:
($10.00/bu divided by 60 lb) = $0.167/ lb X 8 lb = $1.34

Alfalfa Hay:
($150/ton divided by 2000 lb) = $0.075/ lb X 41 lb = $3.08

Total value = $8.04

Based on the value of the National Dairy Feed Cost, the adjusted MILC target price is calculated as follows:

($8.04 - $7.35)/$7.35 = **9.8% over base**

9.8% X 45% = **4.4% feed adjuster increase**

($16.94 X 1.044) = **$17.69 target price.**

MILC Program Issues

Distribution of Program Benefits

The most controversial feature of the MILC program since its inception has been the individual producer cap on annual milk production eligible for payment. Opposition to the cap has come from large producers, some large enough to exhaust their 2.985 million pound cap in less than a month, and, politically, from regions like the West where large dairy herds dominate.

Differences in average dairy farm size and productivity across states do, indeed, affect the regional distribution of benefits from the MILC program. The table below shows dairy herd size and milk yield for the twenty largest dairy states. Average number of cows per herd in 2007 ranged from 66 (Pennsylvania) to more than 1,000 (New Mexico and Arizona). The percent of dairy farms with herds larger than 200 cows ranged from less than 10 percent in many states to 70 percent in California. The range in annual milk production per cow was from less than 17,000 pounds (Florida) to more than 23,000 pounds.

The last column of the table, labeled critical herd size, shows the maximum herd size in the twenty states that would be eligible to receive full benefits if MILC payments were made every month. Because of differences in per cow productivity, the critical herd size varies from fewer than 130 cows in Arizona and Washington to almost 180 cows in Florida. In general, there is a positive correlation between critical herd size and average herd size, meaning that states with the largest percentage of herds likely to exceed the eligibility cap would also exceed the cap with the fewest number of cows.

Herd Size and Annual Milk Yield per Cow, Top 20 Dairy States, 2007*

State	*Herds*	*Cows*	*Milk per Cow*	*Avg. Herd Size*	*% of Herds over 200 cows*	*Critical Herd Size***
	No.	*1,000*	*Lbs/Year*	*No.*	*%*	*No.*
California	2,200	1,813	22,440	824.1	70%	133
Wisconsin	14,200	1,247	19,310	87.8	8%	155
New York	5,700	627	19,303	110.0	10%	155
Idaho	810	513	22,513	633.3	42%	133
Pennsylvania	8,300	550	19,422	66.3	4%	154
Minnesota	5,100	460	18,817	90.2	7%	159
Texas	1,300	389	18,982	299.2	26%	157
Michigan	2,700	335	22,761	124.1	14%	131
New Mexico	270	332	21,958	1,229.6	54%	136
Washington	820	238	23,239	290.2	33%	128
Ohio	3,700	275	18,109	74.3	5%	165
Iowa	2,400	213	20,085	88.8	7%	149
Arizona	180	181	23,260	1,005.6	42%	128
Indiana	2,000	166	20,307	83.0	6%	147
Colorado	450	118	22,932	262.2	21%	130
Kansas	780	110	19,882	141.0	7%	150
Vermont	1,200	140	18,079	116.7	14%	165
Oregon	600	115	19,417	191.7	22%	154
Florida	420	125	16,832	297.6	26%	177
Illinois	1,200	103	18,612	85.8	8%	160
United States	***69,995***	***9,189***	***20,204***	***131.3***	***11%***	***148***

*Ranked by milk production in 2009. State herd numbers and size distribution last published by USDA for 2007.

**Current MILC payment eligibility cap (2.985 million pounds) divided by milk yield per cow

Source: USDA-NASS

The impact of varying herd size on receipt of milk payments by state is shown in the following table. The second and third column show calendar year 2009 milk production and the percentage of total U.S. production it represents. The third and fourth columns show fiscal year 2009 MILC payments for the state and share of total U.S. payments. The last column, denoted discrepancy ratio, is the percent of MILC payments for the state divided by the percent of milk production. The lower the discrepancy ratio, the smaller the share of benefits relative to what would have been received if benefits had been distributed in proportion to production.

The MILC program clearly provides disproportionate benefits to states and regions with smaller-sized herds. While this could be interpreted as discriminatory, payment limitations are a fixture of government agricultural programs, some involving income means tests and some absolute dollar limits. What makes the MILC cap unusual is the more visible regional impact because milk production is so broadly dispersed compared to the more concentrated production of many crops subject to program payment limitations.

Milk Production versus MILC Payments, Top 20 Dairy States*

State	*CY2009 Milk Production*		*FY2009 MILC Payments*		*Discrepancy Ratio***
	Million Lbs	*% of U.S.*	*$Million*	*% of U.S.*	
California	39,512	20.9%	84.80	10.3%	0.5
Wisconsin	25,239	13.3%	175.01	21.3%	1.6
New York	12,424	6.6%	73.16	8.9%	1.4
Idaho	12,150	6.4%	18.59	2.3%	0.4
Pennsylvania	10,551	5.6%	69.01	8.4%	1.5
Minnesota	9,019	4.8%	66.27	8.1%	1.7
Texas	8,840	4.7%	20.82	2.5%	0.5
Michigan	7,968	4.2%	38.50	4.7%	1.1
New Mexico	7,904	4.2%	8.52	1.0%	0.2
Washington	5,561	2.9%	15.34	1.9%	0.6
Ohio	5,192	2.7%	30.09	3.7%	1.3
Iowa	4,379	2.3%	27.53	3.3%	1.4
Arizona	4,076	2.2%	4.75	0.6%	0.3
Indiana	3,383	1.8%	12.99	1.6%	0.9
Colorado	2,840	1.5%	5.23	0.6%	0.4
Kansas	2,488	1.3%	6.31	0.8%	0.6
Vermont	2,469	1.3%	17.72	2.2%	1.7
Oregon	2,248	1.2%	8.50	1.0%	0.9
Florida	2,077	1.1%	4.79	0.6%	0.5
Illinois	1,925	1.0%	14.37	1.7%	1.7
United States	***189,320***	***100.0%***	***822.37***	***100.0%***	***1.0***

*Ranked by 2009 milk production.

**Percent of total MILC payments divided by percent of total milk production.

Source: USDA-NASS and USDA-FSA.

To its credit, the production eligibility cap is a very effective means of capping farm payments compared to dollar-denominated payment limitations. Information is readily available through dairy plant records to monitor milk deliveries and impose caps. Evading the payment limit is difficult if not impossible.

The question of whether the MILC production cap is "fair" is partly tied to its role as establishing the only real price floor for dairy farmers (even though MILC is technically an income support program; not a mechanism to floor milk prices). The dairy price support program once served that purpose, but the support price for milk was ratcheted down over time to a level that ended up well below production costs for nearly all dairy farmers, especially given today's feed costs. And there is currently no milk price floor established under the Dairy Product Price Support Program. So an argument could be made that if MILC is the only mechanism that will be used to establish a floor price, then the floor should be more level.

Supply Impacts

While the purpose of the MILC program is to provide income protection to dairy farmers, most dairy farmers likely view MILC payments as an augmentation of their milk price rather than a decoupled income supplement. Accordingly, the MILC program has been criticized by some for lengthening the period of supply adjustment to low milk prices by implicitly raising prices, thus impeding or preventing the "natural selection process" of attrition that occurs in response to sustained low milk prices.

The argument behind this criticism is that operators of smaller dairy farms whose payments are not capped would be the most likely to exit the industry when milk prices are low. Since smaller dairies receive maximum MILC payments, they are able to stay in business. Moreover, the argument goes, operators of large dairies receive only a fraction of the per hundredweight MILC payments going to small dairies (a smaller milk price augmentation). Therefore they are forced to bear the brunt of supply adjustment.

While this argument is plausible, the assumption that, absent MILC payments, smaller dairy farms would be the first to go is questionable. There are many factors that determine financial vulnerability. Important determinants are debt load and debt-to-equity ratios. USDA-ERS dairy balance sheet data indicate that smaller dairy farmers carry less debt per dollar of assets and have a lower debt-to-equity ratio than larger dairy farmers.[3] Hence, it seems unlikely that smaller farmers are more likely to be forced out of business from foreclosure than large farmers.

Composition of the Feed Price Adjuster

The feed composition and the weights applied to corn, soybeans and alfalfa hay are subject to question. Few dairies include soybeans directly in their dairy ration, instead using soybean meal or other oilseed meals as a source of protein. Prices for soybean and other oilseed meals are highly correlated with the U.S. average soybean price, but the small weight on soybeans may not match the use of high protein meals in dairy rations. Similarly, while dry alfalfa hay is common in dairy rations, corn silage is extensively used in many parts of the United States. The value of corn silage would be more highly correlated with corn prices than alfalfa hay prices. Moreover, while the use of a single feed price adjustor is likely necessary for purposes of administration, it ignores significant regional differences in feed rations and feeding rates.

Delay in Calculating Feed Cost Adjuster

Using the feed price adjuster makes the MILC program more sensitive to cost side changes in dairy profitability, but the way it is calculated has created a delay in calculating MILC payments.

The monthly feed cost adjuster used to increase the MILC target price is based on USDA-NASS final estimates of U.S. average corn, soybean and baled alfalfa hay prices. These estimates are reported in the monthly *Agriculture Prices* report published by the USDA near the end of each month.

Agricultural Prices reports preliminary estimates of the prices making up the feed cost adjuster at the end of the current month. For example, preliminary corn, soybean and hay prices for the month of March 2010 were reported on March 30. Final estimates are reported at the end of the following month, e.g. March 2010 final estimates were reported April 30. This means that the feed price adjusted MILC target price is not known until the end of the month following the month it applies, e.g., the March 2010 target price could not be reported until April 30.

Federal Order Class I prices are announced on the Friday on or before the 23rd of the month before they apply. The March 2010 Boston Class I price was announced on February 19. So the reference price in the calculation of the March 2010 MILC payment was known 10 weeks before the target price.

Prior to adoption of the feed price adjuster, MILC payment rates were known as soon as the Boston Class I price was announced, which was several days before the month the rates applied. Currently, payments are not known until the end of the month following the month they apply, delaying the accounting and payment process.

This lag could be shortened by using preliminary NASS estimates of feed prices. Historically, differences between preliminary and final feed cost estimates have been small. But revisions have become larger on average with higher and more volatile corn and soybean prices in recent years.

Using preliminary feed prices would result in potential underpayment of producers in months when final feed price estimates exceeded preliminary estimates and possible overpayment if the opposite occurred. Over time, downward price adjustments would be expected to offset upward adjustments. But offsets would not likely match the timing of MILC payment months—for example positive revisions might occur mostly in months when no payments are made. USDA could adjust subsequent payments if feed price revisions resulted in over- or under-payments for a given month. But adjustments could not be made for several months if prices stayed above the target.

Soft Price Floor

The current MILC program pays out 45 percent of the difference between the feed price adjusted target price and the Boston Class I price. Especially in light of recent low milk prices, some question whether the program always offers an acceptable safety net for dairy producers.

The decision to use $16.94 per hundredweight in reference to the Boston Class I price is the main reason for the 45 percent payout factor. A payout factor of 100 percent would have resulted in a level of support above average price levels since the program's inception, considerably higher than what many might think is a reasonable safety net. Using a 100 percent payout factor would have resulted in very high government costs. Given budget constraints, the price floor can be made more solid only by setting a lower target price, perhaps in reference to some percentage of a moving national average all-milk price or the federal order Class III price.

Simply put and ignoring the production cap, once the Boston class I price falls below the feed-adjusted trigger level, producers only recoup 45 percent of the decline in market receipts from the MILC direct payments. That is, they still see lower overall receipts as prices decline from the trigger level.

This raises the question of whether a better option would be a sliding payout factor that increased the further the market price fell below the target price. Alternatively, once the market price fell to a specified minimum level, the program could compensate 100 percent of the difference between that level and the market price. Choosing a price floor would be a critical decision in order to avoid interference with market signals. Given the variability in production costs today, the price floor may need to be adjusted regularly to avoid the over-supply situation that excessively high support price levels created in the 1980s or the under-supply situation that could unfold if production costs continue their rise of the past few years.

Endnotes

[1]Under the compact, Class I handlers paid the full difference between $16.94 and the Boston Class I price into a compact pool, which was distributed to all producers in proportion to their monthly total milk marketings. Since Class I utilization in the compact area was about 45 percent, in effect, MILC reproduced the compact.

[2]For a spreadsheet model that shows the MILC feed adjuster refer to the following URL located within the University of Wisconsin Understanding Dairy Markets website: http://future.aae.wisc.edu/

[3]For state level balance sheet data, see: http://www.ers.usda.gov/Data/ARMS/StatesOverview.htm

Voluntary Supply Management

Government-sponsored voluntary supply management has been used infrequently in the U.S. dairy industry. Programs used in the mid-1980s involved paying dairy farmers to reduce milk production or exit dairy farming. After much of the burdensome supplies of the 1980s were controlled, there were no programs that allowed producers to voluntarily cut supplies in exchange for incentives. In July 2003, a private voluntary supply management program was initiated by the National Milk Producers Federation. The Cooperatives Working Together, or CWT, program periodically solicits bids from eligible dairy farmers (those paying an assessment) representing how much per hundredweight of base production they are willing to accept to slaughter their dairy herds. Through the end of 2009, there have been nine CWT herd retirement rounds and participating producers are currently signed up through the end of 2010 to pay an assessment of 10 cents per cwt of milk marketed.

Historical Review

Voluntary supply management involves a "carrot" approach to keeping supply in line with consumption in order to achieve satisfactory farm-level prices. In a generic sense, voluntary supply management programs pay producers to cut back production or go out of business. Willing producers participate; others are not obligated to.

Prior to the 21st century, voluntary supply management had been used only twice in the U.S dairy sector, both within a short period of time in the mid-1980s. This period was characterized by massive overproduction of milk, which resulted in government purchase costs under the dairy price support program in excess of $2 billion per year.

To help reduce the milk supply, Congress authorized the Milk Diversion Program in 1983. Under this program, dairy farmers who agreed to reduce their milk marketings by 5 to 30 percent from their base level were paid $10 per hundredweight on the reduced marketings. The program was funded in part by assessments on all milk producers and in part by government funds.

The Milk Diversion Program cut milk production sharply in 1984, but it had no long-term effect—U.S. milk production in 1985 was about 3 billion pounds more than the level in 1983. The 38,000 dairy farmers who participated in the program culled cows to meet the required short-term cut in production, but in many cases the culled cows were replaced by heifers with superior genetic potential as soon as the program expired. There are at least two lessons to be learned from the failure of the Milk Diversion Program. First, the $10 per hundredweight payment was probably too high compared to the fixed cost of producing milk,

making the program attractive to savvy milk producers who knew how to "beat the system."Second, the time period for reducing milk marketings was too short, making it easy to hold back higher-producing replacements for the cows culled to meet the marketing restriction.

Still facing a major milk surplus problem, Congress authorized the Dairy Termination Program (Whole Herd Buyout) in the Food Security Act of 1985. The USDA accepted bids from dairy farmers who were willing to slaughter or export all female dairy cattle and remain out of the dairy business for at least 5 years.

The USDA was able to sign up dairy producers totaling about 12 billion pounds of milk marketings by accepting all bids made by producers of $22.50 per cwt or less. Those producers whose bids were accepted had to dispose of all dairy cattle over an 18 month period during 1986 and 1987 and remain out of dairying for five years. Direct payments to participants totaled $1.8 billion over the fiscal 1986 through fiscal 1991 period.

Compared to the Milk Diversion Program, the whole herd buyout was successful in moderating production trends. However, the induced slaughter of dairy cows was credited for negatively affected beef markets, raising the ire of cattle producers and leading to cries of, "never again."

The use of refundable assessments has been the most recent voluntary supply management option used in the U.S. dairy industry. The milk assessments that dairy producers faced during the early 1990s were put in place to reduce government spending on dairy programs. These assessments were not debated as a voluntary supply management proposal. Yet, when Congress allowed these assessments to be refunded to producers who did not increase their milk marketings, producers had to make a choice each year about whether to increase their milk production or hold milk production flat and receive a check reimbursing their assessment.

The first assessment program that allowed for the refund of producer assessments arose out of the 1982 Omnibus Reconciliation Act. The act collected two separate 50 cent assessments. The first 50 cent assessment was not refundable while the second 50 cent assessment was refundable to producers who reduced their marketings at least 8.4 percent below their base marketings.

The 1990 Omnibus Budget Reconciliation Act required that all milk marketed in the U.S. be assessed 5 cents per hundredweight in 1991 and a minimum of 11.25 cents per hundredweight over 1992-1995. Those producers who held milk marketings flat relative to the previous year were eligible for a refund of the assessments they paid the following year. The assessment rate was then increased during the 1992-1995 period to result in a net assessment of 11.25 cents per hundredweight to be collected. Refunds of dairy assessments in fiscal 1996 reached $82.039 million, the last full fiscal year of the program. Assessments collected in fiscal 1995 totaled $225 million.

The Current Program: Cooperatives Working Together (CWT)

The objective of the government-sponsored voluntary supply management programs was to enhance and stabilize farm-level milk prices by controlling the amount of milk marketed. Recently, an industry-sponsored voluntary milk supply management program was initiated to achieve similar objectives by using some of the same techniques.

The program, labeled CWT for Cooperatives Working Together, was designed and is managed by the National Milk Producers Federation, a trade association of dairy cooperatives. Members of participating dairy cooperatives and, if they choose, independent dairy farmers fund the program through an assessment of ten cents per hundredweight of milk marketed (the original program had a five cent assessment that increased to the current ten cent level in July 2006). Participation in the CWT has ranged between 67 and 74 percent of all milk marketed in the U.S. The early CWT press releases suggest the program collected a little less than $60 million annually when there was a five cent assessment. Moving to the ten cent assessment reduced program participation, but a general increase in milk production suggests that funds have roughly doubled with the increase in the assessment.

CWT has used two methods of voluntary supply management: herd retirement and dairy export incentives.[1] Under herd retirement, bids are accepted from dairy farmers who are willing to slaughter their milking herd. Export incentives provide participating cooperatives subsidies on exports of butter and cheese. There is some flexibility in the operation of CWT program since the CWT committee has the ability to adjust the operation of these two programs or add new programs as it chooses.

CWT programs are only available to those producers and cooperatives who participate by paying the CWT assessment. The CWT program is a federation of cooperatives and producers formed in accordance with the Capper-Volstead Act and acts in association for the specific purpose of achieving strong and stable milk prices.

The CWT Herd Retirement Program

The herd retirement program has been the most heavily used part of the CWT programs. Roughly 90 percent of the funds have been used for herd retirement. CWT has had nine herd retirement "rounds" to date. The inaugural herd retirement in late 2003 removed 32,724 cows from 299 dairy farms (see figure below for a history of CWT herd retirements). In total, the herd retirement program has removed over 475,000 cows through 2009.

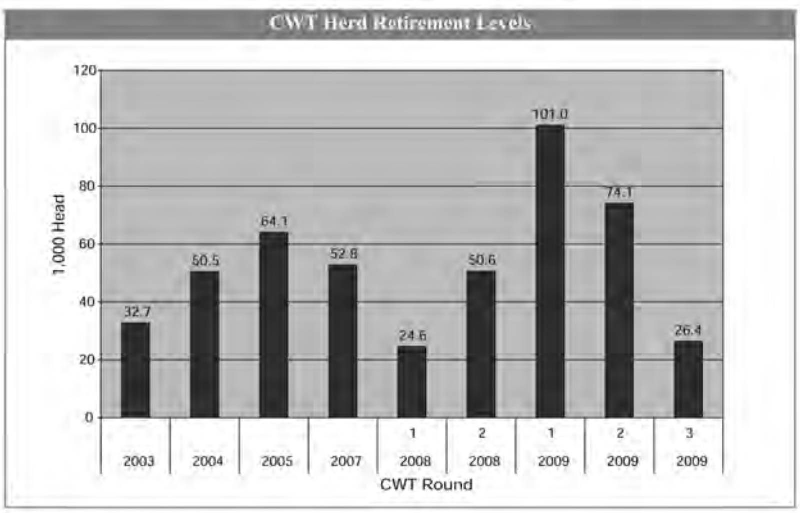
Herds accepted in any CWT herd retirement round go through an audit process that includes examining current milk production relative to the previous year to ensure that the herd has not seen significant changes in production prior to be accepted. Once that audit process is successfully completed, the dry and milking cows are CWT tagged and the producer is responsible to send these animals to slaughter in the next 15 days. Once the tags are returned to CWT, the producer will receive his/her check.

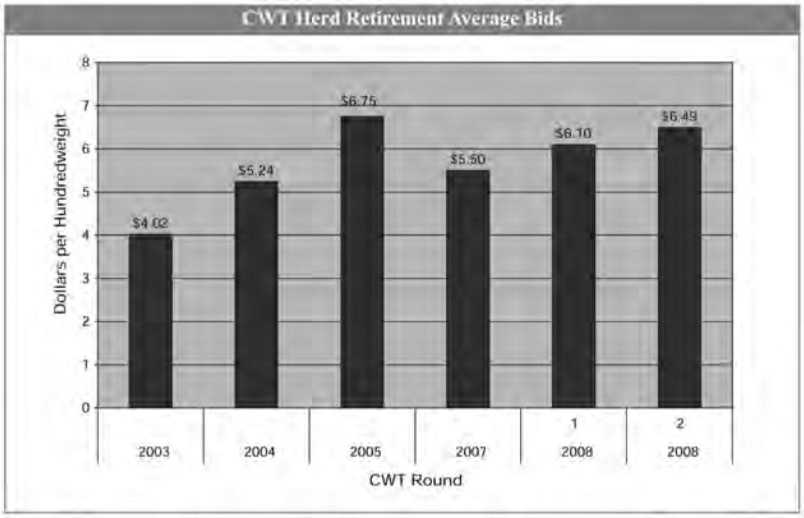
CWT has a general set of guidelines that are used in determining when to hold a herd retirement. They include the: 1) all-milk price, 2) cost of milk production, 3) milk-feed price ratio, 4) dairy cow numbers, 5) milk production, and 6) dairy cow culling.

Beginning in 2008, the herd retirement program was expanded to allow producers to bid their bred heifers in addition to their milk cow herd. To date, just over 4,500 bred heifers have been removed through slaughter.

The herd retirement program was ramped up significantly in late 2008 as the serious decline in milk prices was becoming reality for the industry. In fact, over 50 percent of the cows bought in herd retirements occurred in the last four herd retirements that occurred in a span of about 12 months.

Current discussion of CWT has focused on how to make the herd retirement program more effective. As CWT looks to maximize return on participating producers' assessment, new program features continue to be examined. Ideas like partial herd retirements have recently surfaced.





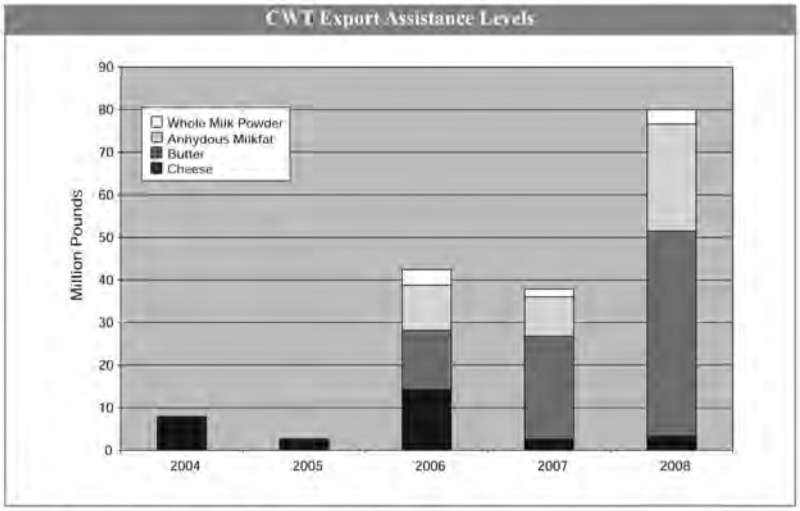
When CWT announces a herd retirement event, CWT participants can offer a bid to the program to remove their current milking herd. CWT then selects bids based primarily on the level of bids. In the original herd retirement rules, regional safeguards were included to ensure a balanced approach to removing cows. This tended to cause average bids across regions to vary when the safeguard level was triggered Regional safeguards have been lifted in recent herd retirements. In general, the level of average bids has varied with economic conditions. In tough economic times, average bids tended to be lower than in strong financial times. Note from the figure below that 2005 had the highest average bid of $6.75 per cwt. In the most recent rounds, CWT imposed a cap on bids of $5.25 per cwt.

The CWT Export Assistance Program

The export assistance program was included in the CWT original program detail announcement on July 11, 2003. In November 2003, an export assistance announcement was made where CWT made $20 million available for export assistance and announced that the program was expected to move 30 million pounds of cheese and 10 million pounds of butter overseas. To avoid conflict with significant volumes of nonfat dry milk that could be moved under the Dairy Export Incentive Program (DEIP), CWT has not offered export assistance to nonfat dry milk.The November 2003 export assistance announcement suggested that the export assistance program would kick in when cheese prices were l ess than $1.30 per pound and when butter prices fell below $1.10 per pound.

The total volume of dairy products exported with CWT export assistance remained below 10 million pounds annually until 2006 when slightly more than 40 million pounds moved under the program. In 2004, CWT raised the triggers for export assistance to $1.40 per pound for cheese and $1.30 per pound for butter. By 2008, CWT had removed specific triggers for the operation of the export assistance program.

Note from the figure below that 2008 has been the largest year for use of CWT export assistance with 80 million pounds of products exported with assistance. In 2008, the difference between world prices and domestic prices reduced the level of per unit assistance required, making the program less expensive to operate. With the collapse of world prices in 2009, export assistance was not used. In March 2010, CWT announced the use of export assistance for cheddar cheese.



Issues Regarding the Operation of the CWT Program

As with any program that has operated in agricultural markets, there have been critics of the CWT program and the associated benefits and costs to the U.S. dairy industry. There are several features involved in operating the CWT program that can influence the effects the program can have on the marketplace. Some of the criticism can be tackled head on while other criticism remains impossible to answer with certainty given CWT effects happen simultaneously with everything else happening in the industry.

The herd retirement program has had critics that feel significant producer cheating has occurred. Moving of milking cows in the night or construction of a CWT herd retirement operation are examples of these criticisms. However, the stories of these kinds of activities often greatly exaggerate what has happened in reality. CWT has a formal audit process that takes place for each operation that bids into a herd retirement to ensure compliance with the program. Additional guidelines have been incorporated through time that has minimized the ability to take advantage of the system. Cheating in any program can never be eliminated but the guidelines used by CWT make this a rare problem.

Perhaps a more important issue to the CWT herd retirement program is whether the program has bought cows that were going to leave regardless of the whether they were taken out in a herd retirement event or not. This is often described as "buying air" since the production was going to leave anyway. It is impossible to know which or how many dairy farmers who bid into a herd retirement would have done so in the absence of the program. It is clear that CWT bought and removed cows that were contributing to current milk supplies. By buying these cows, they were removed from production instead of being sold to another dairy farmer who continued to milk them. So regardless of producer intent, CWT herd retirement removed milk supplies more quickly than would have occurred otherwise.

The CWT program does not require producers to stay out of production when they participate in a herd retirement round; only that they sell all of their milking cows. If producers have interest in multiple operations, they must offer cows from all of the operations if they wish to participate. Rule changes in 2009 require producers to stay out of production for twelve months to receive their full payment. Specifically, producers are paid 90 percent of their bid when accepted but the last 10 percent plus interest is paid twelve months later when it is verified that the producer and the producer's operation still remains out of milking. But this CWT feature is less restrictive than many of the government voluntary supply management programs used in the past. Consequently, bids under CWT have fallen well below the average $15 bid accepted under the whole herd buyout program of the 1980s, which has been the only other program that directly targeted cow removal. This aspect of the program has led to discussion about how quickly CWT herd retirement producers are returning to production. CWT surveyed producers who participated in the 2007 herd retirement program and found that 88 percent of those who returned a survey did not plan to return to production. Many of the respondents cited economic conditions as the reason for exiting with only eight percent wanting to start a new herd and one percent of respondents indicating that they wanted to relocate the dairy.

Perhaps more important to the magnitude of the effects of a herd retirement program is how producers not participating respond. If these producers are interested in expanding their operation, they may time their expansion to coincide with a herd retirement round, anticipating higher milk prices from the herd retirement. Current economic conditions facing the industry and the availability of dairy heifers are important determinants of the magnitude of this effect. Other things held constant, the less anticipated a CWT herd retirement round, the less likely non-participants are to ramp up cow numbers and thereby offset the CWT program effect.

Many participating dairy producers have voiced concern regarding those producers who are not contributing to the CWT program but still benefit from it through the participation of others. The CWT program saw participation reach 74 percent around 2006 but then decline to below 70 percent today. Declining participation reduces total funding for CWT and diminishes its impact. How to increase participation and funding appears to be the largest issue the CWT program will need to address in the near term.

CWT herd retirements have little long-term effect on milk supplies. The general economic conditions facing the dairy industry will determine milk supplies. However, CWT can significantly influence short-run milk supplies in periods of low economic returns. If CWT herd retirements end, the industry will return to the same level of milk supplies in three to five years that would have occurred in absence of the program. As a result, herd retirements can have significant effects on the path towards long-run milk prices. Analysis conducted by Brown for the CWT program shows that the effects of an individual herd retirement are completely gone after about three years. Yet the combination of all herd retirement events has provided an increase in 2009 U.S. all milk prices of over $1.50 per cwt.

CWT export assistance moves certain dairy products out of domestic markets and into world markets. That reduces available supplies of these dairy products and raises their prices. How much depends on the elasticity of domestic demand for these products. The more inelastic the demand the larger the price increase.

The market psychology of the export assistance program may have also benefited dairy prices. The market price for cheese stayed slightly above CWT trigger levels during some periods of the programs operation. Further longer term help to producer returns can occur if export assistance helps companies develop new longer term markets for U.S. dairy products. The USDEC involvement in export assistance may prove helpful in developing new markets for U.S. dairy products over the long term. Brown's analysis suggests that the 80 million pounds of dairy products that received export assistance in 2008 increased U.S. all milk prices by about $0.10 per cwt in that year.

Endnotes

[1] Initially, CWT also included a milk production reduction incentive program that, like the Milk Diversion Program, paid producers for cutting production below a base level. This program was used only once since there was limited interest with only 514 bids submitted and 77 bids accepted for the program in 2003.

Mandatory Milk Supply Management

The dairy industry works within a market economy governed by the laws of supply and demand. This means that market forces interact within the confines of dairy market regulations to influence the level of farm milk prices, milk production and milk and dairy product consumption. When milk production increases faster than consumption, the laws of supply and demand imply that the market price of milk will fall. As prices fall, some dairy farmers may leave the dairy industry. Simultaneously, consumption increases as wholesale and retail prices of milk and dairy products slowly decrease. These forces continue until a milk price is determined that balances milk production and consumption, plus any quantity purchased by the existing federal dairy price support program.

Since the mid-1990's, support prices established under the federal price support program have been at a level that provides a very limited safety net to farm milk prices. The result has been increased volatility of farm milk prices. When farm milk prices are relatively high expansions and new entrants increase the size of the nation's dairy herd and total milk production, putting downward pressure on farm milk prices. Falling farm milk prices lead to unfavorable producer returns, causing some producers to exit dairying and reducing cow numbers and milk production. Dairy producers struggle with managing the risk associated with these volatile milk prices. When milk prices are low dairy producers are under financial stress and experience loss of equity in their operation. When milk prices improve it takes a period of time to recover and build back lost equity. These ups and downs have turned attention to some type of supply management program that will reduce price volatility and prevent the very low milk prices that cause costly disinvestment.

Public policy issues

Supply management can be defined as a national program that regulates the level of milk production to match the demand for milk and dairy products at an acceptable farm milk price level. Supply programs may be either voluntary or mandatory. Voluntary supply management, like the Milk Diversion and Whole-Herd Buyout programs of the mid-1980's, typically offer a carrot to encourage participation. Mandatory supply management uses a stick—penalties for failing to adhere to production limits. Mandatory supply management programs for dairy in the U.S. have long been discussed and debated, but have never come close to being adopted. But with increased milk price volatility and a sustained period of very low prices, interest in adopting some type of mandatory supply management program has increased.

On the surface, a mandatory supply management program may look rather simple. Some central authority calculates the anticipated level of consumption at a specified milk price and then makes sure the amount of milk marketed matches consumption at this price. However, implementing such a program within a dairy industry comprised of about 70,000 commercial dairy farmers would be a formidable endeavor. In particular, with differences in milk production costs among regions of the U.S. and among individual farmers within a region, deciding on an appropriate farm milk price target would be contentious. And determining the amount of milk production that matches domestic consumption and export sales at the target price would be an enormous challenge.

Because the goal of mandatory supply management is to restrict milk production to maintain farm milk prices above where they would otherwise be, the right to deliver milk to the market becomes a valuable possession. Some method must be developed to allocate these rights to current or would-be dairy producers. As domestic consumption and/or dairy exports grow, questions emerge regarding how this growth should be allocated between current producers and new entrants to the industry. Should these market rights, defined as a base or quota milk volume, be held by individual dairy producers or owned by the government and allocated through a government agency? Should the marketing right be freely transferable from one dairy producer to another or should the right be tied to the dairy farm? Should the marketing right be on volume of milk or volume of milk components marketed?

Mandatory supply management programs can have structural consequences. The implementation of mandatory supply management by allocating bases/quotas to existing dairy producers has the effect of stabilizing the current human and physical capital base, technology practices, and location of milk production. The tendency of mandatory supply management programs is to freeze the structure of dairy farms and regional milk production. How bases/quota is transferred determines how quickly this structure may change. If bases/quotas are freely transferable and not tied to a specific dairy facility, structural changes would be quicker than those tied to a facility or region of the U.S.

History of milk supply management

Mandatory milk supply management programs have been widely discussed and several related bills have been introduced in Congress. None of these bills has passed. Voluntary supply management programs have been implemented, but only temporarily. The Milk Diversion Program operated from January 1, 1984 through May 31, 1985. Under this program dairy producers who voluntarily reduced their milk marketings from the previous years by 10 to 30 percent were paid $10 per hundredweight for the reduced marketings. Then from April 1, 1986 through August 31, 1987 the Dairy Termination program was in effect. Dairy farmers submitted bids for agreeing to slaughter or export their entire herd of milk cows and replacement heifers and to remain out of dairying for the next five years.

The depressed milk prices experienced in 2009 again motivated industry support for some type of milk supply management program. Proposals for both voluntary and mandatory programs are being discussed, with some proposals drafted into bill form and introduced to Congress. Whether there will be sufficient Congressional support and support by dairy farmers to put a supply management program in place is uncertain. In the past, dairy farmer interest in supply management has dwindled if milk prices improve during Congressional debate on supply management proposals.

Concerns and issues with mandatory supply management

Maintaining a milk price and/or reducing price volatility different from what normal market forces would dictate requires careful management of milk supply. A number of decisions need to be made by a central authority, most likely the US Department of Agriculture with the possibility of input from an industry advisory committee. Concerns and issues that need to be considered include the following:

• ***Facilitating change:*** Dairy markets need to be allowed to evolve and change. Successful supply management programs need to contain a mechanism to allow for milk production capacity to adjust as domestic consumption and dairy exports change. USDA must forecast the amount of milk production needed for domestic consumption and exports at least annually and adjust quotas accordingly. In addition, the target milk price under the program needs to be adjusted from time to time to reflect changes in milk production costs.

• ***Transferability:*** The need to transfer bases and quotas arises when supply controls are in place for more than a year or two as some producers exit the industry, some want to expand milk production and others want to enter the industry. The options for transfer include letting existing dairy producers sell and transfer their base and quota to the highest bidder, perhaps through an organized auction market, having the bases and quota owned and controlled by the government, or a combination of these two options. Allowing dairy producers to be free to sell and transfer bases and quotas could lead to a concentration of allowable milk production among a small number of relatively large dairy operations and making it extremely difficult for new producers to enter dairying. Politics is likely to enter into a system where the government controls all transfers. A combination of these options could allow producers to transfer a portion of their base and quota with the government controlling and transferring the remaining portion to other dairy producers and to new producers.

Quotas used by some countries also restrict geographic transfers. For example, the EU prohibits the transfer of quotas between countries. Similarly, Canada restricts transfer between provinces. Such restrictions prevent milk production to move to areas of growing demand or lower milk production cost

• ***Capitalization of quota values:*** Because supply management programs are designed to elevate milk prices or keep them from falling, the first dairy producers to receive quota "rights to produce" stand to receive a significant windfall gain. If quotas are allowed to be transferred, their value will eventually rise to the value of benefits accruing over time. This is true whether quotas are tied to farms, cows or just pieces of paper. This capitalization makes it difficult for new producers to purchase enough quota to enter dairying and increases the cost of dairy expansion by existing producers. Only a government-owned and controlled quota transfer system could eliminate or reduce this capitalization issue. It is doubtful that this much government control would be acceptable to dairy producers.

• ***The penalty for over quota production:*** To ensure the mandatory supply management holds milk production to the level necessary to achieve a higher milk price, there needs to be a penalty for producing and marketing milk in excess of quota. This most likely would involve a two-tier pricing system that has a relatively high price for quota milk and a low milk price for over quota milk that is below the variable cost of production. But with significant differences in milk production costs among individual dairy producers and regions of the U.S., getting a consensus on what is an acceptable price for quota milk and the penalty for over quota milk may be difficult.

• ***Demand impacts:*** If supply management increases average farm milk prices, then, average prices for milk and dairy products to consumers will also be higher. While the demand for milk and dairy products is inelastic, consumers do respond to prices and higher prices mean lower consumption of milk and dairy products. The decision on the level of farm milk price to maintain must take into consideration the impact on consumption.

• ***Imports and exports:*** The decision on the level of farm milk prices to maintain under supply management also needs to take into account the impact on dairy imports and dairy exports. A farm price that is too high may attract additional imports or require tightened import restrictions. U.S. dairy products could become less competitive in international markets, reducing export potential.

Endnotes

[1]Wholesale and retail prices don't necessarily change by the relative same amount as the farm milk price changes.

Federal Milk Marketing Orders

This paper is lengthier than the other papers in this series because the issues are more complicated. Federal milk marketing orders have evolved over 75 years. Over that time, there have been numerous changes in pricing rules and other regulations to conform to changes in the dairy industry. Changes in federal orders have frequently been controversial, often because of their disparate regional effects.

We begin this paper with a general discussion of how federal orders work. We then move to some aspects of orders that have generated recent controversy: methods of setting minimum prices for milk used for manufacturing and for moving other milk prices; level and regional pattern of Class I milk prices; number of classes and dairy products within classes; and regulations related to pooling.

We stress at the outset that our description of federal milk marketing order pricing is simplified and abbreviated. Readers looking for more detail should refer to:

Jesse, Ed, and Bob Cropp, Basic Milk Pricing Concepts for Dairy Farmers, Bul. No. A3379, Cooperative Extension, University of Wisconsin-Extension, Sept. 2008.

Milk Pricing Under Federal Milk Marketing Orders

Federal milk marketing orders regulate the pricing of about 65 percent of the Grade A milk produced in the United States.[1] Most of the remaining Grade A milk is regulated by state marketing orders, the largest of which is California's state order that prices about 21 percent of U.S milk. Federal orders require milk plants, called handlers, to pay no less than specified minimum prices for milk and milk components according to how their milk receipts are used; that is, what products they make. This is called classified pricing. Producers—who are not regulated under orders—are guaranteed minimum prices that represent weighted average values of the handler prices. This is called market-wide pooling.

Classified pricing

Federal orders define four classes of milk, from highest to lowest value in most cases:

1. Class I milk is used for beverage products. These products include whole, low-fat and skim milk, chocolate and other flavored milk, liquid buttermilk and eggnog.

2. Class II milk is used for soft manufactured products like ice cream and other frozen desserts, cottage cheese and cream products.

3. Class III milk is used for manufacture hard cheeses and cream cheese.

4. Class IV milk is used to make butter and dry milk products, principally nonfat dry milk.

USDA announces monthly minimum handler pay prices for each of the four classes of milk, according to a predefined schedule. Monthly prices for Classes III, Class IV, and the butterfat portion of Class II are announced on the Friday on or before the 5th of the month following the month to which they apply. For example, March 2010 prices were announced on Friday, April 2.

Based on the argument that Class I milk products and most Class II milk products move through the marketing system within a few days of processing, the minimum Class I price and the minimum skim milk price for Class II are announced earlier than the Class III and IV prices. They are announced by USDA on the Friday on or before the 23rd of the month before the month to which they apply. This "early warning" is designed to allow processors to alter price sheets to retailers and other distributors before the new prices become effective. For example, the March 2010 prices were announced on Friday, February 19.

The following table details the Class price announcement dates for the month of March 2010.

The Class prices are based on product price formulas that relate milk component values to: (1) the wholesale prices of dairy products manufactured from the milk components, (2) the yield of the finished product in terms of the milk components used to make them, and (3) assumed manufacturing costs, or make allowances. The volume of components per 100 pounds

USDA Announced Class Prices for March 2010

February 2010

Sun.	Mon	Tues.	Wed.	Thurs.	Fri.	Sat.
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	**19***	20
21	22	23	24	25	26	27
28						

***Class I price and Class II skim milk price announced**

April 2010

Sun.	Mon.	Tues.	Wed.	Thurs.	Fri.	Sat.
				1	**2***	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	

***Class III and IV prices and Class II butterfat price announced**

of milk at standard composition is then multiplied by the component values to derive the Class III and Class IV prices per hundredweight. The formula-based procedure for setting minimum class prices was implemented January 2000.

Formulas tie all federal order milk prices directly and mechanically to wholesale prices for four dairy products: Grade AA butter, cheddar cheese, nonfat dry milk and dry whey. The wholesale prices used in the formulas are collected from sellers of these products and reported weekly by the National Agricultural Statistics Service (NASS). Reported prices are for products that have been priced and shipped. Prices based on long term contracts—that is, sales for which the selling price was set (and not adjusted) 30 or more days before the transaction was completed—are not included.

Details of the current pricing formulas for the four milk classes follow.

Class IV price

The Class IV price is linked to the values of nonfat milk solids and butterfat. Nonfat solids make up nonfat dry milk, and butterfat is the principal constituent of butter. Thus, the Class IV price is determined through formulas tying butterfat and nonfat solids prices to butter and nonfat dry milk prices.

Class IV Butterfat Price/lb =

(NASS monthly AA butter price/lb - 0.1202) X 1.20

The value, 0.1202, is the butter "make allowance," USDA's estimate of the cost of manufacturing a pound of butter. The value, 1.20, is the assumed pounds of butter made from one pound of butterfat.

Class IV Nonfat Solids Price/lb =

(NASS monthly nonfat dry milk price/lb - 0.1570) X 0.99

The nonfat dry milk make allowance is $0.1570 and the assumed yield of nonfat dry milk per pound of nonfat milk solids is 0.99.

Class IV Skim Milk Price/cwt =

9.0 X Nonfat Solids Price/lb

The assumption here is that 100 pounds of skim milk contains 9.0 pounds of nonfat milk solids.

Class IV Price/cwt =

3.5 X Butterfat Price/lb + 0.965 X Class IV Skim Milk Price/cwt

The Class IV price per hundredweight is the combined value of 3.5 pounds of butterfat and 96.5 pounds of skim milk.

Class III Price

The Class III price is the value per hundredweight of milk represented by the value of butterfat in butter and in cheese, the value of protein in cheese and the value of other (nonfat, non-protein) solids in whey.[2] Accordingly, three related product price formulas link the butterfat price to butter prices, the protein price to cheese and butterfat prices, and the other solids price to dry whey prices. The Class III Butterfat Price/lb is the same as that derived in the Class IV price formula.

Class III Other Solids Price/lb =

(NASS monthly dry whey price/lb – 0.1956) X 1.03

The dry whey make allowance is about 4 cents per pound higher than the make allowance for nonfat dry milk in the Class IV formula. The assumed yield of dry whey per pound of other solids is 0.4 pounds more than the yield of nonfat dry milk per pound of nonfat milk solids.

Class III Protein Price/lb =

(NASS monthly cheese price/lb – 0.1682) X 1.383 + {[(NASS monthly cheese price/lb – 0.1682) X 1.572] – 0.9X butterfat price/lb} X 1.17

The first part of this complex equation is the net value of protein in cheese-making (cheese price less make allowance times pounds of cheese per pound of protein. The NASS cheese price is a weighted average price for 40-pound blocks and 500-pound barrels of cheddar cheese with weights based on relative sales. The 500-pound barrel price is adjusted to represent 38 percent moisture content and 3 cents is added to reflect a lower assumed make cost for barrel versus block cheddar cheese.

The second part of the protein price equation attempts to account for the value of butterfat in cheese in excess of the value of butterfat in butter. It recognizes that protein has value in cheese over and above its direct contribution to the cheese itself. That added value is attributable to the fact that the casein in protein allows retention of butterfat in cheese. In other words, cheese cannot be made from protein by itself. The 1.572 factor in the second part of the equation is the assumed pounds of cheese made from one pound of butterfat, holding everything else constant.

Class III Skim Milk Price/cwt =

3.1 X protein price + 5.9 X other solids price

The composition of skim milk is assumed to be 3.1 percent true protein and 5.9 percent other nonfat/nonprotein solids.

Class III Price/cwt =

3.5 X Butterfat price/lb + 0.965 X Class III skim milk price/cwt

The Class III price formula accounts for all of the value of a hundredweight of milk testing 3.5 percent butterfat, 2.99 percent true protein (3.1 X 0.965) and 5.69 percent other solids (5.9 X 0.965) that is used to make cheese and whey.

Class II Price

Class I and Class II skim milk component values are advanced-priced. The pricing formulas are exactly the same as used for Class III and Class IV component values, but the wholesale prices used in the formulas are from a different and shorter time period. Advanced wholesale product prices are for the first two weeks of the month previous to the month to which the Class I and Class II skim milk price apply.

The Class II skim milk price per hundredweight is derived as follows:

Class II Skim Milk Price/cwt =

Advanced Class IV skim milk price/cwt + $0.70

The advanced Class IV skim milk price calculation is identical to that shown for the Class IV skim milk price except that the NASS advanced nonfat dry milk prices are used rather than the monthly prices.

Class II Butterfat Price/lb =

Class III/IV butterfat price + $0.007

Class II butterfat is NOT advanced-priced. It is the monthly Class III/IV butterfat price per pound plus 1/100 times the per hundredweight differential added to the Class II skim milk price. This equalizes the added value (over Class IV) of Class II skim milk and butterfat.

Class II Price/cwt =

3.5 X Class II butterfat price/lb + 0.965 X Class II advanced skim milk price/cwt

That is, the Class II price consists of the combined value of 3.5 pounds of butterfat and 96.5 pounds of skim milk.

Class I Price

Both the skim milk and butterfat portions of the Class I price are advanced priced and related pricing formulas use NASS advanced (2-week) wholesale product prices instead of the monthly NASS prices used in Class III and Class IV formulas.

Class I Skim Milk Price/cwt =

Higher of Advanced Class III or advanced Class IV skim milk price/cwt + Class I differential

Class I Butterfat Price/lb =

Advanced Class III/IV Butterfat Price/lb + Class I differential/100

The "mover" of Class I skim milk prices is the higher of the advanced Class IV or Class III skim milk price. Class I differentials are specified for each county within a federal milk marketing order marketing area. In general, differentials within orders decrease with distance from the major consumption location within the order marketing area. Differentials range from a low of $1.60 per hundredweight for some North Dakota counties to a high of $6.00 for some Florida counties.

Pooling

Pooling is accomplished under federal orders by obligating each regulated handler to account for milk receipts according to how the milk was utilized within each of the four classes. Handlers pay into or draw from a producer settlement fund depending on the value of their milk receipts priced at order minimum prices relative to the market-wide average value (often called uniform price or blend price). Basically, a Class I bottler would pay into the pool the difference between the higher-valued Class I milk and the market-wide average value. A Class III handler (e.g., a cheese plant—called a supply plant under the order) would draw out of the pool the difference between the market-wide average price and the lower Class III price. Each handler (the exception being dairy cooperatives) is obligated to pay producers no less than the federal order market-wide uniform price.

A handler's obligation under the pooling concept is as follows:

Class I obligation =
Class I skim milk price at location[3] X skim milk pounds
+ Class I butterfat price at location X butterfat pounds

Class II obligation =
Class II nonfat solids price X nonfat solids pounds
+ Class II butterfat price X butterfat pounds

Class III obligation =
Protein price X protein pounds
+ Other solids price X other solids pounds
+ Class III/IV Butterfat price X butterfat pounds

Class IV obligation =
Nonfat solids price X nonfat solids pounds
+ Class III/IV Butterfat price X butterfat pounds

The following items are deducted from the gross value of each handler's milk based on the obligation's noted above to derive the "net" handler obligation to the pool:

- Producer price differential (for orders using multiple component pricing)
- Butterfat, Protein and Other Solids value at minimum component prices
- Producer location adjustment
- Somatic cell count adjustment value (in some orders)

If the results of subtracting these deductions from gross milk value is positive (which is normally the case for a Class I handler), the handler pays the difference into the producer settlement fund. If the result is negative (as it normally would be for a Class III handler), the handler draws the difference from the fund.

The *producer price differential* (often abbreviated, PPD) applies to the federal orders that pay producers on the basis of milk components marketed—pounds of butterfat, protein and other solids.[4] For these orders the handler is obligated to pay producers the Class III values per pound of butterfat, protein and other solids marketed by the producer. The PPD is a measure of how much the average market-wide value of handler receipts exceeds the average value if all milk were priced at Class III.

The PPD can be approximated by adding the differences between the Class III price and the Class I, Class II and Class IV prices multiplied by the respective percent utilization of milk in the entire pool as Class I, II and IV. For example, in January 2010 the Class III price was $14.50. An estimate of the PPD in January 2010 for the Upper Midwest order would be calculated as follow

($16.83 Class I - $14.50) X 13.0% Class I = $0.3029

($15.22 Class II - $14.50) X 2.6% Class II = $0.0187

($13.85 Class IV - $14.50) X 2.0% Class IV = ($0.0130)

January PPD = $0.3086

The actual PPD will differ from this sum due to other adjustments in the order pool including transportation credits, assembly credits and producer milk somatic cell count adjustment.

The *producer location adjustment* accounts for differences in the Class I differential at the receiving plant (plant where milk is processed) and the differential at the location of the supply plant (plant that supplies raw milk) for interplant milk shipments.

The *somatic cell value* relates to price adjustments for quality at the producer level for milk used in Class II, III and IV. Quality is measured by somatic cell count of producer milk relative to a base level of 350,000 cells per ml. Since somatic cell count affects cheese yield, a rate per 1,000 cell count above or below the base is derived by multiplying the cheese price used in the protein price formula by 0.0005.[5]

Handlers' producer settlement fund payments may be adjusted by transportation credits and assembly credits. Transportation credits apply to actual shipments of milk for Class I use from supply plants to distributing plants to partially defray the cost of moving the milk to the Class I market. Distributing plants are primarily engaged in processing packaged fluid milk products. Supply plants are primarily engaged in manufacturing dairy products, shipping milk to distributing plants on an "as needed" basis and to meet minimum shipping requirements under the applicable order. Assembly credits are paid to pool plants (distributing plants, supply plants, and cooperatives) on producer milk that is used for Class I purposes. Assembly credits provide an additional incentive to "give up" milk for Class I use that may otherwise be destined for manufacturing. Transportation and assembly credits are only paid to handlers on actual movements of milk to Class I use and are subtracted from the total pool proceeds in the process of calculating the PPD. In other words, the total Class I value is reduced by the amount of these credits.

The producer settlement fund accounting is illustrated in the table below for two handlers using actual Upper Midwest Order January 2010 component prices, Class I differential and PPD. Both handlers have January milk receipts of 200,000,000 pounds of milk with a milk composition of 3.7 percent butterfat, 3.08 percent protein and 5.7 percent other solids.

Illustration of Producer Settlement Fund Obligations

Class of milk, deductions and milk components		*Rate per pound*	*Handler 1*		*Handler 2*	
			Pounds	*Value*	*Pounds*	*Value*
Class I:	Skim milk	$0.1162	128,050,000	$14,879,410	3,940,000	$457,828
	Butterfat	$1.5874	1,950,000	$3,095,430	600,000	$952,440
Class II:	Nonfat solids	$1.1689	2,724,000	$3,184,084	908,000	$1,061,361
	Butterfat	$1.4475	3,990,000	$5,775,525	1,330,000	$1,925,175
Class III:	Protein	$2.7916	616,000	$1,719,626	4,312,000	$12,037,379
	Other solids	$0.1946	1,140,000	$221,844	7,980,000	$1,552,908
	Butterfat	$1.4405	740,000	$1,065,970	5,180,000	$7,461,790
Class IV:	Nonfat solids	$1.0148	1,880,000	$1,907,824	940,000	$953,912
	Butterfat	$1.4405	720,000	$1,037,160	290,000	$417,745
Total value for Handler				**$32,886,873**		**$26,820,538**
Less: deductions from the pool						
	•PPD	$0.0026	200,000,000	$520,000	200,000,000	$520,000
	•Protein value	$2.7916	6,160,000	$17,196,256	6,160,00	$17,196,256
	•Other solids value	$0.1946	11,400,000	$2,218,440	11,400,000	$2,218,440
	•Butterfat value	$1.4405	7,400,000	$10,659,700	7,400,000	$10,659,700
Total deductions				**$30,594,396**		**$30,594,396**
Net to/from the pool				**$2,292,477**		**($3,773,858)**

Handler 1 has milk utilization of 65 percent Class I, 15 percent Class II, 10 percent Class III and 10 percent Class IV. Handler 2 has milk utilization of 20 percent Class I, 5 percent Class II, 70 percent Class III and 5 percent Class IV. Both Handlers receive milk that has an average somatic cell count of 350,000, so the somatic cell adjustment is zero.

Handler 1, primarily a bottling plant, has a positive net pool obligation of $2,292,477 and pays that amount into the producer settlement fund. Handler 2, primarily a cheese plant, has a negative pool obligation of ($3,773,858) and draws that amount from the producer settlement fund.[a]

The Class I price and the Class II skim milk price are announced about 10 days before the first of the month to which they apply whereas Class III and Class IV prices are announced a few days after the first of the month to which they apply. Because of this roughly six week time difference, the Class III price occasionally ends up higher than the Class I price when there is a large and rapid increase in either the Class III or Class IV price. This "price inversion" results in a negative PPD and reverses the normal pool obligations of distributing plants and supply plants—Class III handlers pay into the fund and Class I handlers draw from the fund. To avoid making producer settlement fund payments, many supply plants "depooled" (became unregulated plants) in months when the PPD was negative, causing considerable market disruption. Recent USDA decisions have tightened rules for pooling and de-pooling.

Producer prices

With federal order pooling, producers receive a common price for their milk regardless of how their milk is used. Minimum pay prices to producers will differ among plants within an order only according to milk composition, milk quality (in orders with a somatic cell count adjustment), and the location of the receiving plant.

In the six orders using multiple component pricing, handlers must pay producers at least the following gross amount:

Individual Producer Total Gross Milk Payment, Multiple Component Pricing Orders =

Pounds of butterfat marketed X the butterfat price per pound

+ Pounds of protein marketed X the protein price per pound

+ Pounds of other solids marketed X the other solids price per pound

+ Producer price differential X hundredweights of milk marketed

+/- Somatic cell adjustment per hundredweight of milk marketed (if applicable)

In the four federal orders that use fat/skim milk pricing, handlers must pay producers at least the following gross amount:

Individual Producer Total Gross Milk Payment, Fat/Skim Orders =

Hundredweights of skim milk marketed X uniform skim milk price

+ Pounds of butterfat marketed X uniform butterfat price

+/- Hundredweights of milk marketed X plant location adjustment

The uniform skim milk price is the weighted average skim milk price from each of the four classes of milk as calculated from the formulas detailed earlier. The uniform butterfat price is the weighted average butterfat price from the four classes of milk as calculated from the formulas. The plant location adjustment may be positive or negative depending upon the location of the milk plant.

Summary

Ten federal milk marketing orders regulate the pricing of about 65 percent of the Grade A milk marketed by producers in the United States. Six of these orders pay producers on the basis of milk components marketed—butterfat, protein and other solids—and four pay producers using fat/skim milk pricing. In both forms of payment, milk component, skim milk, and standardized whole milk values are determined from formulas that link these values directly to wholesale prices for four dairy products: Grade AA butter, cheddar cheese, nonfat dry milk and dry whey. Wholesale prices used in the formulas are collected from sellers and reported weekly by the National Agricultural Statistics Service (NASS). Based on these pricing formulas, USDA announces monthly minimum handler pay prices for four use classes of milk. Handlers are obligated to a federal order pool for the value of the milk they received based on use class and class prices. In turn, regulated handlers (except dairy cooperatives) are required to pay producers no less than the announced federal order prices for milk and milk components.

Setting and Moving Class Prices

Historical review

During the 1940's and 1950's, individual federal milk marketing orders used several different methods to establish minimum class prices. Most orders then had three classes: Class III (which included all milk used to make nonperishable manufactured dairy products), Class II (perishable or fresh products) and Class I (beverage milk). Besides serving as the minimum price for milk used for manufacturing, the Class III price often served as the base price for Class II and Class I prices.

Economic formulas were used in most orders to determine the base price. These formulas included factors that reflected general economic conditions such as inflation, wholesale prices, and wage rates; supply conditions such as feed costs, prices received for all farm products, farm wage rates, and stock levels of dairy products; and demand conditions such as Class I sales, inflation rate, and consumer income. These factors were weighted to determine an index for making monthly adjustments in the base price. Other orders used selling prices of dairy products such as butter and cheese in product formulas to calculate the base price. Because different methods were used to set minimum prices for milk used to make manufactured dairy products, prices varied considerably among federal orders.

By the early 1960's, this uncoordinated pricing system began to exhibit problems. Improved transportation systems meant that nonfat dry milk, butter and cheese could be economically transported across the country. Using a host of different economic index formulas or product formulas resulted in serious price alignment problems. Midwest manufacturing plants complained that "surplus" Grade A milk not needed for Class I purposes was being priced lower in the Northeast, placing them at a competitive disadvantage in selling their manufactured dairy products in what was increasingly a national market.

The need for uniformity and consistency in federal milk order pricing provisions was emphasized through a series of federal order hearings. USDA concluded that in order to achieve competitive equity, surplus milk had to be priced uniformly among orders and these prices had to be aligned with competitive pay prices being paid for the majority of the unregulated manufacturing grade milk (Grade B) in the United States. USDA determined that these objectives could best be achieved by using the reported Minnesota-Wisconsin Grade B milk price (M-W price) as the uniform Class III price. Most of the milk produced in Minnesota and Wisconsin was Grade B and these two states accounted for the majority of U.S production of Grade B milk. Manufacturing plants in these two states competed aggressively for Grade B milk supplies. Further, since Minnesota and Wisconsin represented the major reserve supply area for Grade A milk for Class I use, national milk supply and demand conditions were reflected in the M-W price.

To achieve orderly marketing, USDA deemed it necessary to tie federal order Class II and Class I prices to the Class III price in a consistent fashion across orders. So not only did the M-W price become the common price for Grade A milk used for manufactured dairy products, it also became the mover of both Class II and Class I prices. The M-W price was first used for setting minimum prices paid by regulated milk plants (handlers) in the Chicago Regional marketing order in 1961 and was gradually adopted by other federal orders during the remainder of the 1960's.

The M-W price was computed by the National Agricultural Statistics Service (NASS). It was reported on or before the 5th of each month and applied to Grade B milk delivered during the previous month. Derivation of the M-W price involved a two-stage process involving two different surveys of manufacturing milk plants that purchased Grade B milk in Minnesota and Wisconsin. In the first stage, base month prices were estimated from a summary of monthly reports from a sample of manufacturing milk plants located in the two states. The plants reported after the end of the month to which the base month estimate applied. Hence the base month price was after-the-fact. It represented an estimate of what plants actually paid for Grade B milk. The base month price was reported by NASS by the fifth of the month two months after the month to which it applied. For example, the base price for a September M-W would be released on or before October 5, and represent the estimated plant pay prices for August.

In the second stage of the M-W price derivation process, NASS surveyed a sub-sample of Minnesota and Wisconsin Grade B plants. These plants reported actual pay prices for the first half of the month and estimated pay prices for the second half of the month to which the M-W price applied. NASS used this information to calculate an estimate of the change in the Grade B prices from the base month to the current month. The change in price was added to (subtracted from) the base month price to create the M-W price.

By the late 1980's, the M-W price had become an increasingly unreliable indicator of national supply and demand conditions for milk used for manufacturing for several reasons. Competition for Grade B milk in Minnesota and Wisconsin had substantially diminished with steady declines in Grade B milk production and the number of plants buying Grade B milk. Total milk production in both states had also fallen, resulting in excess manufacturing plant capacity and the use of various competitive plant premiums and farm-to-plant hauling subsidies in an attempt to keep plants full. Multiple component pricing was becoming more common. And the Upper Midwest region (primarily Minnesota and Wisconsin) was no longer the only area having reserve Grade A milk supplies.

A federal order hearing was held in 1992 to explore alternatives to the M-W price. Proposals for other competitive pay prices and well as product price formulas were offered. USDA recommended that the M-W price be replaced by the Basic Formula Price (BFP). The BFP retained the base-month price from the M-W price, but replaced the change in the base-month price with a change in value of manufactured products generated by a product price formula. Specifically, the base month change was the weighted percentage change in butter, nonfat dry milk, dry buttermilk and cheese prices. The prices used in the product price formula were monthly average prices as reported by Dairy Market News and the weights were based on milk use in Minnesota and Wisconsin. The BFP went into effect on June 1, 1995.

Federal order reform was later mandated by the Federal Agriculture Improvement and Reform Act of 1996. Among other things the Act required USDA to conduct a study on replacing the BFP. The study analyzed several alternatives including another competitive pay price series (NASS at this time was collecting and reporting A/B competitive pay prices), economic formulas and product price formulas.

USDA ultimately recommended using product price formulas that included make allowances and product yield factors to calculate the minimum monthly prices for Class III and Class IV. These formulas replaced the BFP in January 2000. While the make allowances and yield factors have changed over time, product price formulas as described earlier continue to be used today.

Shortly after their adoption, USDA called a hearing to consider adjustments to the Class III and Class IV product price formulas to conform to a Congressional mandate. Resulting amendments were minor except for a proposed separation of Class III and Class IV butterfat prices, which was enjoined by a federal court before implemented. In Late 2001, USDA issued a recommended decision to address the injunction. The department scrapped the separate butterfat classes and made some smaller changes in the formulas that became effective two years later.

USDA held another hearing in 2007 to address concerns of manufacturing milk plants that make allowances were not reflecting increased energy-related costs. Based on this hearing, higher make allowances were implemented July 1, 2008.

Product price formula Issues

Do Class III/IV prices reflect national supply and demand conditions and plant operating costs for manufacturing use milk? When federal milk orders used competitive pay prices (the M-W price and the BFP), minimum class prices were tied to competitively-determined prices paid by milk plants for manufacturing milk. There was a certain sense of confidence associated with that linkage, as competition for the milk supply tended to dictate plant margins, profitability and viability. Efficient plants making the right products attracted milk away from plants that were less-efficient or making products with weak demand. This confidence has waned since 2000 when federal orders implemented product price formulas. Formulas derive milk component values and milk prices through mathematical equations that employ assumed yields and manufacturing costs. Milk plants differ significantly with respect to manufacturing costs and efficiency. Manufacturing costs can quickly change with changes in energy, labor and other costs. The fixed manufacturing costs in the formulas can only change through a lengthy administrative process. Plants cannot offset higher manufacturing costs by increasing their selling price of cheese, butter or nonfat dry milk—any price increases are immediately reflected in higher NASS product prices and elevate minimum pay prices for Class III and Class IV milk through the formulas.

Do formulas use the right dairy products? Cheddar cheese, butter, nonfat dry milk and dry whey prices are used in the current product price formulas.

Do the prices of these products accurately reflect the value of milk for Class III and Class IV uses? Cheddar cheese only represents 32 percent of total cheese production. Not all cheese plants process whey or make and sell dry whey. Increasingly larger volumes of whey are being processed into value-added products such as whey protein concentrates and whey protein isolates. The prices of these value-added products don't necessarily move in concert with dry whey prices. Dry whey is used to derive the other solids price in the Class III formula. When dry whey prices increased dramatically in 2007, a higher other solids price was responsible for a large part of the elevated Class III price. As a result, many cheese plants experienced unfavorable operating margins. A similar situation is occurring with nonfat dry milk. During 2007-2008 the U.S. experienced expanding exports of skim milk powder. Skim milk powder has a different composition than nonfat dry milk and prices are influenced by different factors. But nonfat dry milk is used to derive the nonfat solids price in the Class IV formula.

Are product prices representative? Product price formulas require reliable and representative market prices for dairy products in order to derive accurate component values. Butter and cheese prices are tied strongly to wholesale prices on the Chicago Mercantile Exchange (CME). But largely because of concerns over the thinness of the CME cheese and butter markets (few traders and a small percentage of the dairy product actually traded), prices reported by NASS are used instead. NASS collects actual sales prices from reporting plants, but does not include contract sales with prices longer than 30 days.

Despite criticism of the CME butter and cheese markets, the industry uses CME prices as formal or informal references in establishing actual selling prices for the vast majority of transactions. This raises important questions. Do CME prices accurately reflect broad market conditions or are they subject to manipulation? Should the prices in forward pricing contracts be included in NASS reporting? Since NASS reported prices lag CME and actual selling prices, would using CME prices in formulas yield Class III and Class IV values more responsive to rapidly-changing market conditions? Would some other reported prices—such as futures market prices—better reflect dairy product values?

Alternatives to current product price formulas

The inherent problems and issues with the current product price formulas have spurred interest in exploring a different means for establishing minimum Class III and Class IV prices and moving prices for Class II and Class III. Some alternatives to consider include:

• ***Amend current product price formulas:*** Consideration could be given to including other products in the formulas, such mozzarella cheese and whey protein concentrates. However, these products are not as standardized as is cheddar cheese or dry whey. Also, manufacturing cost could be adjusted more quickly by indexing input costs such as energy and labor in the formulas. But the issue of differences in costs and efficiencies among plants remains.

• ***Use economic index formulas:***: As noted earlier, economic index formulas were widely used in setting minimum federal order prices during the 1940's and 1950's. Economic formulas can consider a large number of factors reflecting general economic conditions and supply and demand for milk and dairy products. But assigning appropriate weights to factors is an issue and it is uncertain whether prices resulting from economic formulas would adequately reflect dairy product market conditions and allow these markets to clear.

• ***Include milk production costs when setting prices:*** Dairy producers argue that federal order prices ought to reflect the cost to produce milk. Changing federal order prices to reflect changes in milk production costs would reduce the price risk now faced by dairy producers. This could very well spur expanded milk production beyond market needs and increase government cost under the dairy products price support program, or necessitate some type of government supply management. Further, milk production costs vary considerably among dairy producers within and across regions. Using an average cost of production would favor low cost producers and regions and could still be judged inadequate by producers in high cost regions.

• ***Return to a competitive pay price:*** With practically all of the nation's milk production Grade A, there is not enough Grade B milk to base a competitive pay price. Not all Grade A milk is regulated under orders, but unregulated Grade A milk may not be produced in areas of strong plant competition for milk. Areas where most of the regulated Grade A milk is used to make manufactured dairy products and sufficient plant competition exist could be considered for determining a competitive Grade A pay price. Regulated manufacturing milk plants could be exempted from paying minimum Class III and Class IV prices. The actual pay price by these exempt plants could then be used as the competitive pay prices for setting the minimum Class III and Class IV prices and moving Class I and Class II. To be feasible, this option would need to include some provision for exempt manufacturing plants to share in the federal order pool.

• ***Pool differentials/no minimum Class III and Class IV price:*** Under this option there would be no established monthly minimum plant pay prices for Class III and Class IV milk. Milk plants would pay whatever market competition dictated and report Class III and Class IV milk volumes to the federal order pool. Milk plants with Class I and Class II milk would pay into the federal order pool the respective Class I and Class II differentials on Class I and Class II milk volumes. The sum of this Class I and Class II differential revenue would be divided by the total volume of milk in the pool to determine a market wide uniform Class I/II value per hundredweight to be paid to dairy producers. Under competition the low cost and more efficient plants would most likely drive actual pay prices. Without announced minimum prices for Class I and Class II milk, dairy cooperatives could find it more difficult to negotiate over order premiums. The cost of raw milk to competing Class I bottlers could also differ among bottlers.

• ***Set prices through Federal order hearings:*** Federal order prices could be determined by having USDA periodically hold hearings and issue minimum prices based on the hearing record. Hearings could be time consuming and costly for regulated handlers. Further, unless hearings were held frequently, established minimum prices could become quickly out of date.

Setting Class I differentials

Historical review

The following criteria have been used in the past to establish Class I differentials:

• The additional cost of meeting Grade A (versus Grade B) standards.[7]

• Costs of transporting milk from areas of production to areas of consumption.

• Cost of producing milk in the supply area.

• Supply and demand for milk, including the cost of alternative supplies.

Class I differentials are set for each federal order and aligned between orders. Within a market area differentials decrease with distance from a major consumption location. This is to partially account for the cost of moving milk to the consumption location. Alignment of Class I differentials between federal orders was intended to assure orderly movement of milk from reserve areas to deficit areas when needed.

By the early 1960's it was recognized that improved transportation and packaging technology had made markets for manufacturing dairy products national in scope. Federal orders were gradually amended to use the same minimum price for manufacturing use milk—Class III—in all orders and to use the Class III price to move the Class I price. The Minnesota-Wisconsin (M-W) Grade B price series was initially adopted to serve this purpose.

Over time, Class I differentials were set to establish Eau Claire, Wisconsin, as a single basing point to align Class I prices among orders east of the Rocky Mountains. In the 1960s, Wisconsin and Minnesota were the principal source of reserve Grade A milk when need to provide supplemental milk for fluid use in other markets. Class I differentials increased about 15 cents per hundredweight per 100 miles with distance from Eau Claire, which was roughly equivalent to hauling costs for bulk milk shipments. These differentials remained unchanged from 1968 to 1985 despite increases in transportation costs. The rationale for keeping differentials constant was that Federal order prices were minimum prices, and dairy cooperatives could negotiate premiums to cover the added cost of transporting milk. Further, less and less reserve Grade A milk from the Upper Midwest was needed to supply distant markets.

In 1985, Congress passed legislation that increased differentials for federal order markets distant from the Upper Midwest. By the late 1980s, milk production in the traditional dairy states like Minnesota and Wisconsin was stabilizing or declining while milk production in some other states with much higher Class I differentials, for example Texas, was increasing. Reserve supplies of milk for Class I use outside of the Upper Midwest were also increasing.

The Upper Midwest charged that higher Class I differentials were encouraging expanded milk production not needed for Class I. The excess milk was being allocated to manufactured dairy products, lowering market prices and producer milk prices in areas where the majority of milk was used to make manufactured dairy products. In 1990, USDA held a national federal order hearing to review Class I pricing. USDA's decision was to retain existing Class I differentials. A suit challenging the legality of Class I differentials was filed by the Minnesota Milk Producers Association in early 1990. The suit was ultimately dismissed in 1999 after several appeals, reversals, and remands.

The Federal Agricultural Improvement and Reform Act of 1996 mandated federal order reform including a review of the structure of Class I differentials. After extensive study, USDA issued a final rule for a much flatter Class I price structure. The final rule was approved by producers in an August 1999 referendum. However, before the modified price surface could be implemented, Congress intervened, passing legislation that required USDA to adopt a price surface more similar to the status quo.

A federal order hearing was held in May 2007 to consider proposals to raise Class I differentials in three deficit federal orders—Florida, Southeast and Appalachian. Justification for the increases was to attract and allocate Grade A milk to Class I needs. USDA issued an interim final rule granting the proposed increases in March, 2008. These increases changed the alignment of Class prices in adjoining orders, leading to requests for hearings to increase Class I differentials in these orders as well.

Issues with Class I differentials

Existing Class I differentials range from $1.60 per hundredweight in parts of the Upper Midwest order to $6.00 for Miami. Considering the availability of milk supplies nationally and the ability to transport raw milk as well as packaged beverage milk products, the rationale for these differentials can be questioned on several grounds:

• ***Adequacy of milk supplies for Class I needs:*** In 2009, Class I utilization for the 10 existing orders averaged 37 percent with a high of 86 percent for the Florida order to a low of 14 percent for the Upper Midwest order. Only three of the 10 orders—Florida, Appalachian and Southeast—have insufficient local supplies of milk to meet Class I needs year-round. There are considerable seasonal differences in the adequacy of local milk supplies in these three markets, with major shortages in mid-summer and early fall and excess supplies during the winter and spring. But regardless of season, the national supply of Grade A milk to meet fluid needs is more than ample. The issue here is whether the geographical structure of Class I prices should encourage an adequate supply of fluid milk at the local level or at the national level.

• ***Preference for local milk:*** Related to the issue above is whether consumers prefer local milk to milk acquired from distant markets and what cost they are willing to bear to promote local self-sufficiency in fluid milk. Contrary to the early days of federal orders, modern transportation and packaging methods allow raw milk and packaged beverage milk to be transported long distances without negatively affecting milk quality. This calls into question the need to have local milk supplies to assure wholesome fluid milk products. And even if local supplies are judged to be preferable, it is doubtful that Class I differentials in seasonally-deficit milk markets can be increased enough to achieve year-round self-sufficiency without encountering serious inefficiencies. Year-round self-sufficiency would require higher costs to either transport milk out of the market during seasonal surplus periods or to construct and operate manufacturing plants to handle the seasonal surplus locally. Rather than increasing Class I differentials to induce high-cost local production, would obtaining milk from reserve markets be a better option?

• ***Single basing point:*** The Upper Midwest is no longer the major source of reserve Grade A milk. The related question is why Class I differentials should increase with distance from the Upper Midwest to reflect the cost of transporting raw milk that is seldom if ever transported. Should multiple basing points be established to reflect the location of other reserve supplies?

• ***Allocating Grade A supplies to Class I use:*** Grade A milk supplies are more than adequate for Class I needs and Class I differentials result in Class I typically being the highest class price. Nevertheless, Class I needs are not always readily satisfied, even in low Class I utilization markets. Regulated manufacturing plants within in an order market area are often reluctant to give up milk to Class I bottlers. This problem is most serious during summer and fall months, when milk production is seasonally low and manufacturing plants need to build inventory of butter and cheese for fall and early winter sales. Plus operating a plant at significantly less than capacity increases average manufacturing costs. Increasing Class I differentials is not likely to remedy this problem. Other means need to be considered such as imposing shipping requirements on supply plant to meet Class I needs, implementing market administrator "call" provisions to require supply plants to ship milk when needed, providing adequate transportation allowances for transporting milk to bottlers and compensating supply plants for the cost of operating at reduced capacity. Similar means need to be considered for allocating reserve milk supplies to deficit markets.

• ***Negotiated over order premiums***: Federal order prices are minimum prices and not always effective prices. This allows for dairy cooperatives supplying fluid milk plants to negotiate premiums that reflect market conditions and compensate for costs associated with transporting milk, balancing functions and other market wide services. The vast majority of Grade A milk is marketed by dairy cooperatives. The question is, do higher Class I differentials reduce the ability of dairy cooperatives to negotiate premiums, and if so, would raising differentials reduce their ability to perform market-wide services that enhance the ability of federal orders to meet their stated objectives?

Number of Milk Classes

As part of federal milk marketing order reform mandated by the 1996 Farm Bill, federal orders established four uniform classes of milk use. Dairy products within each of the four use classes were defined identically across all federal orders. The appropriateness of this four class system is now being questioned. A key question relates to the relative price elasticity of demand for various dairy products. The assumption that demand for beverage milk is more inelastic that the demand for manufactured dairy products is the basis for price discrimination—setting a higher minimum price for milk assigned to beverage use. Is that assumption still valid? Another issue is what products to use in setting classified prices in pricing formulas. Hundreds of cheese varieties are made today, yet only cheddar cheese is considered in establishing the minimum Class III price. Modern technology allows milk components to be separated into refined components for a variety of uses in milk products and other food products. Some argue that there ought to be more classes to reflect this much broader use of milk and milk components. Others argue that there is already too much difficulty and controversy over how to establish minimum prices for the four classes currently used, and any expansion of classes would only make matters worse. It would be extremely difficult, if not impossible to establish separate classes for all of the possible uses of milk and setting the appropriate minimum pay price for each class. Attempting to do so may be over-regulation of milk pricing. Some are suggesting a better approach may be to return to the two class system, one for beverage use milk and one for milk used for all types of manufactured dairy products including existing Class II products.

Historical review of multiple classes

While it was institutionalized with federal and state milk marketing orders, classified pricing pre-dates orders. In the 1920's, some dairy cooperatives implemented a two class pricing system in an attempt to reduce the seasonal swings in milk prices. A higher price was negotiated for milk used for beverage purposes and a lower price for milk used to manufacturing dairy products, primarily cheese and butter. With beverage milk having a more inelastic demand than manufactured dairy products the average milk price was higher under this two class system than under flat pricing. However, dairy cooperatives lacking sufficient market share of raw milk had limited success in holding all milk plants to a two price system. Dairy cooperatives as well as milk plants in general supported the passage of the Agricultural Marketing Agreement Act of 1937 which authorized federal milk marketing orders.

Initially, federal orders used a two class system, one for beverage use milk (Class I) and another for all manufacturing use milk (Class II), with Class I priced higher than Class II. Factors justifying the higher Class I price were: beverage milk has a more inelastic demand than manufactured dairy products so charging a higher price benefits producers through price discrimination; milk for beverage use must be Grade A, so producers should be compensated for the higher cost to produce Grade A versus Grade B milk; and producers should be compensated for the higher cost of transporting Grade A milk to city bottling plants rather than to the corner creamery or cheese factory.

Later, a third class was added for milk used to manufacture soft products such as ice cream, cream products, cottage cheese and condensed milk products. This was justified on grounds that soft products were more perishable than other manufactured dairy products. Until the early 1990s, most federal orders used the three class system with Class I being beverage milk products, Class II soft manufactured products, and Class III cheese, butter and nonfat dry milk.

The three class system work fairly well for more than 30 years. But by 1993, there was agitation in some federal orders to include a fourth class—Class III-A—for milk used to make butter and nonfat dry milk. Proponents argued that butter-powder plants could not afford to pay as much for milk as cheese plants because of chronically lower market returns for butter and nonfat dry milk. In addition, dairy cooperatives provided a market-wide service of balancing the Class I milk supply by operating butter-powder plants to absorb milk on days that bottlers did not operate and to adjust for seasonal milk supply-demand imbalances. This balancing service benefited all producers but at a cost to members of the cooperatives because the butter-powder plants had to operate at widely-fluctuating levels of full capacity. Class III-A was deemed a way for all producers within the federal order to share balancing costs. Federal order reform effective January 1, 2000 continued the four class system with Class IV replacing Class III-A.

During most of the time the federal order three class system was in place, the monthly minimum Class III price and the mover of the Class I and Class II prices were set using a competitive pay price—the Minnesota-Wisconsin Manufacturing Grade Milk Price, or M-W. The M-W was calculated by USDA as an average of Grade B producer milk prices paid by butter-powder and cheese plants located in the two states. Under this system plant competition helped to assure that milk used in Class III moved to its highest and best use. If cheese generated higher returns that did butter-powder production, more milk would be allocated to cheese and vice versa. This changed with the 1993 implementation of a fourth class, Class III-A in some orders. With two classes for manufacturing use milk, Class III and Class III-A, coupled with market-wide pooling there was less incentive for manufacturing milk plants to allocate milk to the highest and best use. For example, from 1993 to 1995 U.S. milk production grew 3.1 percent. But nonfat dry milk production grew by 29 percent and government stocks of nonfat dry milk under the federal dairy prices support program increased by 419 percent.

Federal order reform in 2000 implemented the four class system for all federal milk marketing orders. Further the competitive pay price series for setting the minimum Class III and Class IV prices and movers of Class II and Class I was replaced with product price formulas having fixed make allowances and product yields. Product price formulas appear to have further reduced the incentive to move milk between Class III and Class IV. Even though butter-powder prices may be depressed relative to cheese prices, there is little incentive to allocate more milk to cheese as long as butter-powder plants are profitable with the fixed make allowances.

Issues with the four class system

Enhancing dairy producer revenue: Classified pricing is price discrimination that is assumed to enhance dairy producer revenue. In order for price discrimination to benefit producers, the price elasticity of demand for the dairy products in the different classes of milk must be different and the price for the class containing the products with the most inelastic demand must be higher. Historical studies documented that beverage milk products in Class I had a more inelastic demand than manufactured products like butter and cheese. Thus producer revenue would be enhanced with Class I having the highest minimum price. While beverage milk demand may still be more inelastic than, say, demand for cheese, it may be less inelastic today and the differences in elasticity between beverage milk and cheese may also be less.[8] Elasticity values need to be frequently re-evaluated to ensure that relative federal order prices benefit producers.

It is questionable whether having a separate Class II for soft manufactured products adds much to producer revenue. Class II is priced just $0.70 per hundredweight above an advanced Class IV price. For 2009, Class II utilizations ranged from a low of 4 percent for the Upper Midwest Order to a high of 20 percent for the Northeast Order with a weighted average of 12 percent for all 10 orders.

Improving dairy price stability: One objective of federal milk marketing orders is to help stabilize producer milk prices. However, having three separate classes for manufactured products along with using market-wide pooling and product price formulas with fixed make allowances and yields and may actually add to price instability. Separate classes for milk used for manufacturing may also slow the recovery from low producer pay prices. Because of fixed manufacturing allowances, there is little incentive for some plants to allocate milk quickly to the highest and best use. Product price formulas may hinder the ability and incentive of manufacturing milk plants to attract more milk during periods of higher product prices. For example, when cheese prices strengthen relative to butter and nonfat dry milk prices the product price formula uses the higher cheese price resulting in a higher cost of milk to the cheese plant with the net effect of no improvement in plant margin. Likewise the butter-powder plant can optimize plant margins by operating at near full plant capacity and therefore has little incentive to release milk to a cheese plant.

Effectiveness of the federal dairy product price support program: Having one manufacturing class for butter and nonfat dry milk and another for cheese may lessen the effectiveness of the Dairy Product Price Support Program discussed earlier. For example, with product price formulas the cheese plant has a fixed make allowance (plant margin) regardless of the price of cheese. And with market-wide pooling the cheese plant is able to compete with the butter-powder plant for raw milk. The combining of Class III and IV into one manufacturing class may increase the competition for milk used for butter and nonfat dry milk versus cheese, thus making the dairy product support program more effective. The CCC purchase price for cheese may return the cheese plant a better margin than the market price for cheese, enabling the plant to better compete with a butter-powder plant for raw milk.

Is a separate Class IV needed for balancing? The argument in 1993 for establishing a Class III-A for butter and nonfat dry milk was partly one of compensating dairy cooperatives for balancing the Class I market. Compared to making cheese, surplus milk can more readily be manufactured into nonfat dry milk for longer term storage. There is a cost to dairy cooperatives to perform this balancing function yet all dairy producers within the given federal order market benefit. With a separate Class III-A and now Class IV, all producers within the federal order market share in the cost of this balancing. However, a better alternative than having two separate classes for hard manufactured products may be for the federal order to provide market-wide service payments out of the federal order pool to compensate dairy cooperatives for balancing. Dairy cooperatives also can and do negotiate over order premiums. These premiums are in part compensation for balancing and other services.

Establishing appropriate minimum class prices: If milk is to be effectively allocated to its highest and best use, having appropriate minimum class prices is critical. As noted above, the method of establishing minimum prices for Class III and Class IV has been controversial. With more manufacturing classes, problems could be amplified.

To illustrate, consider the calculation of the Class III price. The Class III price is the sum of three milk component values using USDA-NASS monthly average product prices in the product price formulas: (1) the butterfat price per pound based on the Grade AA butter price; (2) the protein price per pound based on cheddar cheese 40-pound block and barrel prices and the Grade AA butter price; (3) the other solids price based on the price of dry whey. Many questions can be raised about this method of deriving a minimum Class III price. Protein is based solely on the price of cheddar cheese, but hundreds of cheese varieties are made. The other solids price is based solely on the dry whey price, yet many cheese plants don't make dry whey. In addition, modern technology allows for the separation and fractionation of milk components into various milk proteins and protein isolates having different uses and values. Consequently, expanding the number of manufacturing classes to reflect this multitude of uses and attempting to develop appropriate product price formulas for each class would be a seemingly impossible task. Furthermore, additional manufacturing classes would not assure milk is better-allocated to the highest and best use.

Combining all milk used to make manufactured dairy products into one class does not make establishing an appropriate minimum price for the combined class easy. One approach may be to use a weighted average of several product price formulas. A better approach to consider would be replacing product price formulas with a competitive pay price series derived from a survey of actual raw milk pay prices from milk plants manufacturing a wide array of dairy products.

Dairy product innovation: Some argue that the existing four class system in federal marketing orders curtails dairy product innovation. This issue pertains both to how milk is classified as Class I and the three classes for milk used for manufactured products. For example, innovators may be reluctant to use milk proteins for a new beverage product if the new product will be classified as Class I. This could make the product more costly than using vegetable proteins as an alternative. Deriving a minimum pay price for each separate manufacturing use of milk may have similar effect, especially if the correct milk products or milk components are not considered. Milk component values do not always move together. For example, in 2007 the price of dry whey increased substantially relative to prices for whey protein concentrates. Since only dry whey is used in the Class III calculation, milk plants making whey protein concentrates were at a competitive disadvantage to those making dry whey. Perhaps this problem could be minimized by a change in the Class III product price formula. But federal milk marketing orders disincentives to dairy product innovation can best be eliminated by having one manufacturing milk class and using some type of competitive pay price to set the minimum class price.

Pooling

Pooling issues have been frequent topics of discussion, especially since federal order reform was implemented in January 2000. Particularly controversial are depooling and distant pooling, both of which affect federal order producer prices. Numerous questions have been raised related to what is pooling, which producers are eligible to share in federal order pools, what is a pool milk plant, how do regulated manufacturing milk plants decide to pool or depool, and how does pooling affect producer pay prices, in particular the producer price differential (PPD) and the uniform price.

The terms pool, pooled and pooling have several meanings within federal orders, which leads to some confusion. Pooling refers to both milk and money. A federal order milk pool refers to the amount of milk eligible to share in the federal order money pool. A federal order money pool is the amount of money generated by applying minimum federal order Class prices to the amount of milk used in each Class within an order.

Each federal order has a marketing area. A marketing area is defined as a geographical area where fluid milk plants compete for sales of Class I milk.[9] The marketing area is not where milk is produced; it is where fluid milk is sold. Pooling involves the association of both locally produced milk (milk produced within the market area) and more distant milk with pool plants.

Three types of milk handlers can be designated pool plants under an order:

1) Distributing plants: Plants that process, package and sell beverage milk products within the designated marketing area. Distributing plants may procure milk directly from producers or obtain milk from supply plants and cooperatives.

2) Supply plants: Plants that supply raw Grade A milk to distributing plants. These are manufacturing milk plants, like cheese plants, that procure milk directly from producers or obtain milk from cooperatives. While engaged primarily in manufacturing, supply plants help assure an adequate supply of milk for fluid purposes by carrying a fluid milk reserves. Supply plants also provide a balancing service by manufacturing milk that is not needed for fluid purposes on days when bottling plants are not operating and handling seasonal surpluses.

3) Dairy cooperatives: Some dairy cooperatives bottle milk and others have manufacturing facilities. Other cooperatives are involved in exclusively in representing their members in negotiations with proprietary firms. Dairy cooperatives, like other handlers are obligated to the federal order pool for the established minimum prices. But, cooperatives are not obligated to pay their member-producers the order minimum producer prices. Cooperatives often "reblend" the proceeds from milk sales across two or more federal order markets and pay their members prices in different regions that reflect different competitive conditions.

Whether or not a milk plant or dairy cooperative is a pool plant, i.e., a regulated handler under a specific federal order, hinges on whether the plant meets the order's performance requirements. Performance requirements for distributing plants are different from those applying to supply plants and cooperatives. For distributing plants, performance requirements pertain to the percentage of the plant's packaged milk that is distributed within the marketing area. If the distributing plant meets the required minimum distribution percentage under the order, it is pooled—there is no choice in the matter. Pooling is required because federal orders assure that all fluid milk handlers have the same minimum cost of raw Grade A milk to prevent one handler from gaining a competitive advantage over another in processing and selling packaged milk within the market area.

For supply plants and dairy cooperatives, performance requirements are called shipping requirements, and relate to the percentage of their milk receipts that must be shipped to a distributing plants. But, unlike distributing plants, supply plants and cooperatives can decide whether they wish to meet the shipping requirements or not. The minimum shipping percentages required of supply plants or cooperatives vary by federal milk order. Shipping requirements depend upon the local supply of milk in relation to Class I milk needs. In federal milk orders with relatively high Class I utilization, like the Southeast, Appalachian and Florida orders, the shipping requirements are higher than orders with relatively low Class I utilization, like the Upper Midwest order.

Shipping requirements also may vary by months of the year. In the South and Southeast milk production is very seasonal, with production dropping off substantially during summer and fall to the point that locally produced milk is short of meeting Class I needs and some distant milk must be purchased by distributing plants. Shipping requirements are higher during those months.

The incentive for supply plants and dairy cooperatives to meet shipping requirements and become pooled under a given order is sharing in the order's money pool. Each regulated handler is obligated to pay the established monthly minimum prices for the four classes of milk according to their milk receipts for the month, which makes up the federal order money pool. The federal order money pool is divided by the federal order milk pool to derive a weighted average value of milk for the entire order, called uniform price. All pool handlers within the order pay producers this same uniform price.

Producers affiliated with pooled handlers individually receive this uniform price (adjusted for milk composition and quality), regardless of how their milk handler uses the producers' milk (i.e., to which Class their milk is assigned. This is possible through the use of a producer settlement fund. The federal order market administrator calculates the weighted average value of milk for each pooled plant, applying the minimum class prices to the volume of milk used by the handler in each class. If a handler's weighted average milk value is greater than the uniform price for the entire order (usually a Class I bottler), then the handler will pay the difference into a producer settlement fund, that is the difference multiplied by the handler's producer deliveries for the month. If the handler's weighted average milk value is less than the uniform price for the entire order (usually a manufacturing plant such as a cheese plant), then the handler draws out of the producer settlement fund the difference times its producer deliveries.

Eligibility to receive this pool draw is the primary reason that cheese plants seek pool status under the order. These plants are interested in making cheese, not supplying milk for Class I use. But their limited commitment to service the Class I market and the associated pool draw provides them with revenue to pay their producers beyond what they receive from selling cheese and whey.

Issues with pooling

Major pooling issues concern what milk can or must be pooled, both locally produced milk and distant milk, and depooling.

Pooling locally produced milk. A major objective of federal milk marketing orders is to assure consumers of an adequate supply of Grade A milk for beverage use. When federal orders were initially implemented, the majority of milk produced was Grade B, which was not eligible for use in packaged fluid milk products. Grade A milk received a premium above Grade B. Through time, the differences between Grade B and Grade A standards narrowed. In the 1950's, the movement from can-shipped milk to bulk milk tanks on the farm often required modernization of the milk house which helped Grade B producers to meet Grade A standards. With premiums paid for Grade A milk, the narrowing of Grade B and Grade A standards and conversion to bulk tanks, more and more of the milk production became Grade A. Today, 97 percent of nation's milk production is Grade A and eligible to be pooled under a federal milk order. But, of the 10 existing federal orders only three—the Appalachian, Southeast and Florida orders—have Class I utilization of 65 percent or higher with an average of 37 percent across all 10 orders. In six of the federal orders Class III utilization exceeds or is close to the Class I utilization. In general there is more Grade A milk pooled under federal orders than what is required to meet Class I needs and having a reasonable Grade A reserve. As more and more Grade A milk became pooled under a federal order the Class I utilization declined lowering the uniform price paid to producers associated with a regulated handler.

Producers under federal milk marketing orders are dairy farmers who are eligible to share in federal order money pool. To be designed as a producer under an order a percentage of the producer's milk must be delivered to an order distributing pool plant. As more Grade A milk became pooled under a federal milk order, both the performance requirements and shipping requirements were lowered since a smaller percentage of producers' Grade A milk was required to meet Class I needs. Today, with almost all milk Grade A, this required delivery percentage has been lowered to the point where low Class I utilization federal milk orders like the Upper Midwest require that just one day per year of a producer's milk production be delivered to an order pool distributing plant to meet qualification requirements. This is often called "touching base". After touching base, the pool plant may thereafter divert the producer's milk to a non-pool plant (i.e., a milk plant that is not regulated by the order) and the producer continues to remain eligible to share in the federal order money pool.

Unrestricted pooling is inefficient in that it involves expensive transportation of milk simply to meet order performance standards. But at the same time, unrestricted pooling is equitable in the sense of allowing any Grade A milk plant to become a pool plant. The question becomes whether all manufacturing milk plants purchasing Grade A milk from producers should be eligible to pool under a federal milk order. If not, then what criteria should be used to establish pooling eligibility—location of potential supply plants relative to distributing plants, plant size, products manufactured? Whatever criteria is used, efficiency gains would come at the expense of equity losses.

Producer-Handler Exemptions. Another local pooling issue relates to the treatment of producer-handlers, dairy producers who process and sell packaged fluid milk. Federal orders have historically not required producer handlers to account to the pool for Class I sales provided that all of their sales come from milk produced on the farm.

Until recently, producer-handlers were mostly dairy farmers with on-farm sales or limited local distribution. Hence, their exemption had little impact on the size of the money pool for the markets in which they operated. However, some larger producer-handlers began to show up, some with herds holding thousands of cows. Class I sales from these operations displaced large volumes of sales from regulated distributing plants, significantly cutting market Class I utilization and producer revenue. Large sales of packaged fluid milk products in California by an Arizona producer-handler exempt under the Arizona-Las Vegas order led Congress to pass a law in 2006 (PL 109-215) that forced regulation of the operation. At about the same time, USDA issued a final rule that set a 3 million pound per month limit for exemption of producer-handlers in the Arizona-Las Vegas and Pacific Northwest orders. And in March 2010, USDA extended the limit to all federal orders.

At issue here is what constitutes closing a loophole that allows evasion of legitimate federal order payments and results in unfair competition versus imposing unfair restrictions on dairy farmers' entrepreneurialism. The USDA cap still exempts producer-handlers with dairy herds smaller than about 1,500 cows, a large majority of existing dairy farms. And most farms with herds larger than the cap are not and have no interest in becoming a producer-handler. Hence, the cap would appear to be minimally restrictive.

Pooling distant milk. Dairy cooperatives often pool milk under more than one federal milk order. Distant pooling—pooling milk under orders outside their area of procurement—is advantageous to a cooperative if the difference in the PPDs between the two orders is more than enough to offset the hauling costs necessary to meet the order's touch base producer qualification standard. With the one-time touch base producer qualification provision of the Upper Midwest order, it was economically advantageous for dairy cooperatives and other plants located well outside the order marketing area to affiliate producers and their milk and pool on the Upper Midwest order. During the 2000 – 2003 period, cooperatives operating cheese plants as far away as Idaho pooled some of their member-producer milk on the Upper Midwest order. Once the one day touch base qualification was met, the milk volume from these producers was priced under the Upper Midwest order even though no actual shipments subsequently occurred.

The pool qualification of the distant milk could be through an Upper Midwest distributing plant. It could also be through a supply plant or dairy cooperative that had sufficient "cushion" in meeting the shipping requirements of the Upper Midwest order—that is, a pool plant that shipped more than the minimum required shipping percentage to a distributing plant. The plant that qualified the distant milk would receive a fee for providing qualification.

The effect of distant pooling is to reduce the value of the PPD in the receiving market. This occurs because the milk pool is increased more than the money pool. In 2003, distant milk from Idaho equaled 10.6 percent of total producer receipts in the Upper Midwest order. The Western order was terminated effective April 1, 2004. This raised concern that even more Idaho milk would be pooled on the Upper Midwest order. Upper Midwest dairy cooperatives requested a federal order hearing to tighten pooling requirements. The Central and Mideast orders followed with hearings in response to large quantities of milk from Minnesota and Wisconsin being pooled on these orders, reducing Class I utilization and their PPD.

As a result of these hearings, federal orders were amended to tighten pooling requirements. This was primarily accomplished by requiring that pooled milk could not be diverted for manufacturing to non-pool plants located outside of the marketing area. While this does not prohibit the pooling of distant milk on the order, it substantially weakens the incentive to do so because more distant milk would incur transportation costs.

Depooling: Since Class I milk and Class II skim milk are advanced priced, elapse about six weeks between the time these prices are announced and when the Class III and Class IV prices are announced. If the price of cheese during that six week period increases enough to raise the Class III price by more than the federal order Class I differential, then the Class III price will exceed the Class I price. This yields a negative PPD. Pooled cheese plants, if staying pooled, would pay into the producer settlement fund the difference between their higher weighted average milk value and the uniform price for the order rather than drawing from the producer settlement fund. But when this happens, many cheese plants can and do elect to depool from the order, effectively becoming an unregulated plant for the month. This causes higher volume milk receipts in the order to decline, making the negative PPD even more negative. Taking the higher-priced Class III milk out of the milk pool substantially reduces the money pool and the weighted average value of the milk that remains pooled—the lower priced Class I milk is now a greater percentage of the smaller pooled milk volume. The largest recorded negative PPD in the Upper Midwest order was $4.11 in April 2004. The two-week average cheese price used in deriving the April 2004 Class I skim milk price was $1.4582 per pound. The four-week average cheese price used in deriving the Class III price was $2.0520 per pound. So between the times the Class I price was announced and the Class III price announced, the cheese price increased $0.5938 per pound. This resulted in the April 2004 Class I price (announced on March 19th) of $15.44 per hundredweight and the April Class III price (announced on April 30th) of $19.66 per hundredweight. Because of this price inversion, most of the Class III milk on the Upper Midwest order was depooled as cheese plants avoided producer settlement fund payments.

While negative PPDs have periodically occurred since then, they have not been as large. For the Upper Midwest order negative PDDs occurred one month during 2005, one month during 2007, and 5 months during 2008. These negative PPDs ranged from $0.04 to $0.46 per hundredweight.

While there is still an incentive for cheese plants to depool when PPDs are negative, federal order amendments have reduced the incentive. Some amendments prohibited "in and out" pooling. If a pool plant (cheese plant) decides to depool during one month, they can no longer re-pool the following month, but rather have to stay depooled for a period of time. The Upper Midwest order used a different approach. It limits pooled milk in any month to a specified percentage of pooled milk in the previous month. So if a plant depooled in one month, it could only partially repool in the subsequent months.

A possible effect of restricting depooling is that cheese plants might decide to permanently disaffiliate from the order. In that case, the reserve supply of Grade A milk for Class I use would shrink and shipping requirements for remaining pooled supply plants and cooperatives would need to be increased.

Restricting depooling deals with the symptoms of the problem rather than the cause. The problem is price inversion caused by the combination of volatile cheese prices and advanced Class I pricing. Federal orders cannot address cheese price volatility, but they could be altered to eliminate advanced Class I pricing. If advanced pricing is retained and product price formulas continue to be used to derive the Class I mover, then using CME cheese prices rather than announced NASS cheese prices would reduce the likelihood of price inversion. NASS prices are highly correlated with CME prices lagged about two weeks. The California milk pricing system uses CME prices for butter and cheese in its pricing formulas. Resistance to using CME prices in federal order formulas would come from those concerned about the thinness of the CME spot markets.

Endnotes

[1] About 3 percent of U.S. milk production is Grade B, which can only be used for manufactured dairy products. Grade B milk is not covered by Federal orders. Subsequent reference to "milk" is Grade A milk.

[2] Other solids are milk solids other than protein and butterfat and consist primarily of lactose.

[3] The term, "at location," means where the plant is situated within the marketing area of the order; that is, the Class I price applying to the county where the plant is located.

[4] Four federal orders—Appalachia, Arizona, Florida and Southeast—pay producers under fat/skim milk pricing.

[5] Of the six federal milk marketing orders that pay producers on the basis of milk components, four—Midest, Upper Midwest, Central, and Southwest—apply a somatic cell count adjustment.

[6] The pool does not balance because the combined utilization if the two handlers does not match utilization of milk as reflected by the producer price differential.

[7] Grade A and Grade B quality standards are currently nearly identical. The small amount of remaining Grade B milk comes mainly from producers who are unable to meet physical standards such as cooling requirements (e.g., Amish farmers who do not use mechanical refrigeration) or well location, or from producers who ship their milk to cheese factories that are not regulated under federal orders and are indifferent with respect to grade as long as the milk meets quality standards

[8] Some recent studies have estimated price elasticities of demand for manufactured dairy products lower (in absolute value) than the price elasticity of demand for fluid milk products. See, for example Chouinard, Hayley H., David E. Davis, Jeffrey T. LaFrance, and Jeffrey M. Perloff, Milk Marketing Order Winners and Losers. Applied Economics Perspectives and Policy 32 (1), Spring 2010.

[9] With modern transportation and packaging it sis difficult to determine where one market ends and another starts. In general, a fluid milk plant is regulated by the order in which it has the largest percentage of its fluid milk sales.

U.S. Dairy Trade Policy

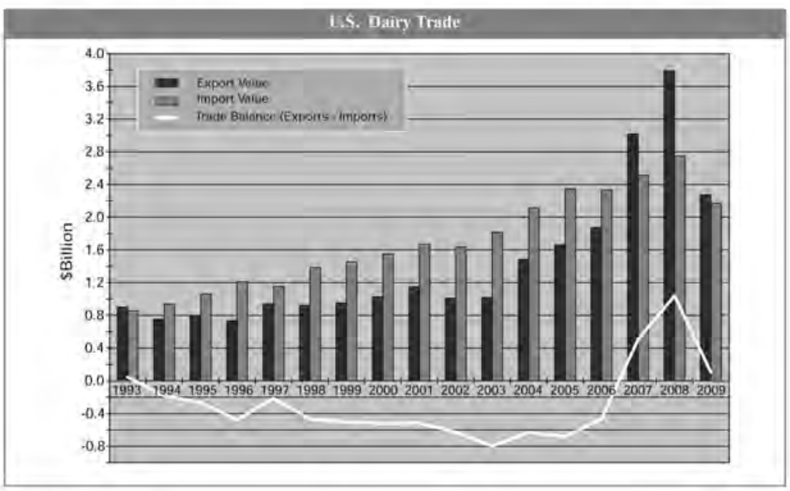
Exports of dairy products have come to represent an important market for U.S. dairy farmers. In 2008, the milk equivalent of exports represented nearly 11 percent of U.S. milk production. Large exports in 2007 and 2008 were a major factor underlying high farm-level milk prices in those years, and the drop in exports in 2009 was a major reason milk prices collapsed. This recent export experience demonstrates the opportunities afforded by serving export markets but also the potential price volatility in those markets.

The U.S. has been a net exporter of dairy products for many years on a volume basis but usually a net importer on a value basis until 2007. This discrepancy is due to differences in the composition of exports and imports. U.S. imports are largely in the form of higher-valued cheese, milk protein concentrate and casein products while the bulk of U.S. dairy exports are lower-valued nonfat dry milk and whey products. Milk protein concentrate imports have generated vociferous complaints from dairy farmers because they are not subject to tariff rate quotas and substitute for domestic milk protein in a large number of dairy and food manufacturing applications.

As a member of the World Trade Organization (WTO) the United States is subject to rules and restrictions relating to market access, export subsidies, and domestic agricultural programs that may distort world trade. A new world trade pact—the Doha WTO Round—has been in the process of negotiation since 2001. While negotiations are currently stalled, progress to date suggests that a completed round will yield more dairy trade opportunities for the United States but, at the same time, provide more open access to dairy imports and limit options available for supporting milk prices and dairy farmer income.

Historical Review[1]

U.S. dairy export value was essentially stagnant from 1993 through 2003 at about $1 billion. Over the same period, the value of dairy imports about doubled, resulting in an increasing dairy trade deficit measured by value. Export growth exceeded import growth from 2004 through 2006, narrowing the trade gap, and in 2007, the U.S. became a large net exporter of dairy products. The trade surplus was even larger in 2008 before collapsing world markets sharply cut the value of both imports and exports in 2009.



The U.S. exports a wide variety of dairy products, but three—nonfat dry milk/skim milk powder, dry whey products and cheese—accounted for about 70 percent of total export value in 2009.

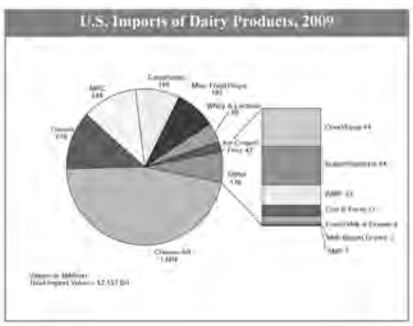
U.S. dairy products were shipped to 153 countries in 2009. The biggest customers are next door. Mexico is our largest foreign market, and its share of total exports has grown steadily since implementation of the North American Free Trade Agreement (NAFTA) in 1995. Canada accounted for 16.5 percent of 2009 dairy export value. Other important buyers are East Asia (primarily Japan, China and Korea) and six Southeast Asian countries.

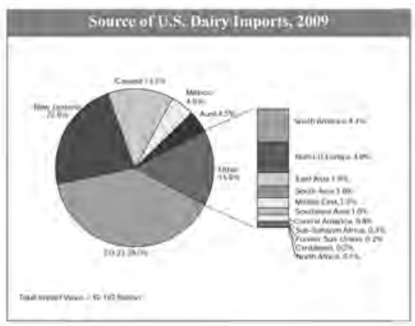
U.S. imports of dairy products are also diverse, but cheese has long been the largest import item. Cheese accounted for 43 percent of 2009 dairy import value. Concentrated milk protein imports followed cheese in importance with, a combined 30 percent of import value.

The U.S. imported dairy products from 88 countries in 2009. Imports were dominated by the EU (principally cheese) Oceania, Canada and Mexico. Italy, France and the Netherlands accounted for about 60 percent of the value of imports from the EU.


U.S. Exports of Dairy Products, 2009


Destination of U.S. Dairy Exports, 2009


U.S. Imports of Dairy Products, 2009


Source of U.S. Dairy Imports, 2009

Dairy Trade Issues

World Trade Organization Issues

The current WTO round was formally initiated with a declaration in November 2001 during a ministerial meeting held in Doha, Qatar. The agricultural negotiations had started months earlier under the Agreement on Agriculture. Since the Doha declaration, ministerials have been held in Cancun in 2003, Geneva in 2004 and Hong Kong in 2005.

There are three "pillars" included in the WTO agricultural negotiations:

• ***Market Access.*** Prior to the Uruguay Round Agricultural Agreement (URAA) many agricultural product imports were restricted by quotas or other types of non-tariff instruments. The Uruguay round converted all non-tariff barriers into tariff equivalents in a process called "tariffication." This process attempted to create a tariff that would leave the ratio of the internal price to world price unchanged from what existed under the non-tariff instrument. Besides the conversion of non-tariff barriers, the URAA ensured that access to markets did not decline under tariffication by the introduction of tariff-rate quotas (TRQs) that had a lower in-quota tariff rate. The tariffs established under the URAA were then cut on average by 36 percent (at least 15 percent for each product) over five years (1995-2000) for developed countries and by 24 percent (at least 10 percent for each product) over ten years (1995-2004) for developing countries. Least developed countries were not required to make tariff cuts under the URAA. There were special safeguard provisions in the URAA that allowed governments to take action in cases of rapidly declining prices or surges in imports. The URAA set the stage for future trade rounds to deal more easily with market access issues since market access became increasingly transparent with non-tariff barriers removed.

Although agricultural products are now only protected by tariffs in most cases, many tariffs remain at levels that are high enough to prevent meaningful market access. The numerous proposals on market access reform under the Doha round have called for further reductions in tariffs in an effort to achieve greater progress in expanding agricultural trade. Early in the Doha round, some countries proposed that cuts in tariffs should not be from the URAA bound rates but from applied tariff rates, the rate countries actually impose on goods. In many cases, the applied rates are well below their respective bound rates, so there is no additional market access opportunity until the bound rate is reduced to below the applied rate. There are many other issues related to tariff reductions that range from domestic food security to tariff escalation that occurs in an attempt to protect processing industries. There have been many different proposals offered to cut tariffs. They all differ in the degree in which they attempt to equalize tariffs over time. The Swiss formula, for example, provides for a narrow range of final tariffs and a maximum final tariff rate. The latest Doha proposals have looked at bands that cut the largest tariffs by the largest percentage and smaller tariffs by a smaller percentage in an attempt to harmonize rates. Further market access issues identified in the Doha round include tariff quotas, tariff quota administration, special safeguards and state trading enterprises.

Under most Doha proposals, additional market access for most U.S. dairy product markets will occur. This additional access will tend to lower U.S. prices. Perhaps more important will be reductions in U.S. tariffs that will allow products like butter to flow more easily into the U.S. when domestic prices are high relative to world prices. This will tend to cut the extreme peaks in U.S. prices that have characterized butter markets over the past few years as tariffs have been high enough to essentially keep over-TRQ imports from entering the U.S.

There is considerable evidence that additional global market access achieved by a successful Doha round agreement would increase world dairy prices to levels closer to current U.S. prices. This would minimize the negative effects of expanded market access to the U.S. dairy sector and could even cause U.S. milk prices to increase because of expanded export opportunities could outweigh additional market access.

• ***Export Subsidies.*** Existing WTO rules prohibit export subsidies on agricultural products unless they are specified in a country's commitment list. Subsidies on eligible products were required to be cut from base period (1986-1990) levels in both volume and value terms. Developed countries were required to cut the value by 36 percent and the volume by 24 percent in equal increments over the 1995 to 2000 period. Developing countries were required to cut the value by 24 percent and the volume by 14 percent in equal increments over the 1995 to 2004 period. Least developed countries were not required to make any cuts. There are 25 WTO members who are able to use export subsidies, but only for products on their commitment lists.

An interim agreement in the Doha round of WTO negotiations calls for the elimination of all export subsidies, including export credit programs, by 2013. Subsequent proposals have sought a large cut in export subsidies early in the agreement period, followed by an adjustment period before elimination of all subsidies. Other proposals would allow greater flexibility in the use of export subsidies for developing countries. Smaller developing countries who import much of their food are seeking less aggressive cuts to subsidies, fearing that large reductions could affect food costs for their consumers. Although there is general agreement to continue to promote food aid for humanitarian purposes, there are concerns about how to properly discipline food aid so that it is not used by countries to primarily rid themselves of burdensome surpluses. The role of state trading enterprises and differences that exist relative to private companies is also a point of contention under the export subsidy debate.

Proposals under consideration would make the Dairy Export Incentive Program (DEIP) less important to the U.S. dairy industry. Current levels of dairy products that can be exported under the DEIP are: butter and butteroil, 21,097 metric tons; skim milk powder, 68,201 metric tons; and cheese, 3,030 metric tons. Annual DEIP commitments begin on a July 1 year. With further cuts in allowable DEIP exports, the Commodity Credit Corporation (CCC) would likely purchase more nonfat dry milk during periods of surplus production.

The larger issue under the export subsidy pillar for the U.S. dairy industry is not the reduction in the DEIP, but the likely effect on dairy product prices of fewer subsidized exports from other countries. World dairy prices should rise as a result of cutting export subsidies. Analysis conducted by FAPRI examining the U.S. proposal of October 2005 suggested that the cut in EU subsidized exports would be large enough to increase world dairy prices to U.S. levels. This would limit the downside negative effects of changes in U.S. domestic support and market access for dairy products. Without export subsidy reductions, the U.S. proposal would be negative for the U.S. dairy industry.

• ***Domestic support.*** The main issue surrounding domestic support programs is their tendency to stimulate domestic production. This can squeeze out imports and provide motivation for a country to use export subsidies to move excess product offshore, lowering world prices. The WTO Uruguay Round made a distinction between domestic support policies that stimulate production and distort trade and programs that have only minimal effects on trade. This categorization resulted in the creation of colored "boxes" to represent the different types of domestic support. Using a traffic light analogy, the green box is used for domestic support that has minimal trade effects and can be used freely. Examples of programs that fall into this category are: research, infrastructure and payments to farmers that do not stimulate production. Domestic support that has a direct effect on production and trade was put into an amber box and was to be cut under existing WTO rules. Payments made to farmers that required limiting production to be eligible were defined to fall within the blue box and did not require reductions. Rules were put in place that countries must use to calculate a value of the total domestic support each country provides producers that includes direct support, input subsidies and revenue transfers from consumers to producers. This calculation became a country's aggregate measure of support (AMS). Each country had to calculate its base period (1986-1998) AMS and agree to make cuts from that base period level. Developed countries had to cut their AMS by 20 percent over the 1995-2000 period while developing countries had to cut their AMS by 13 percent over the 1995-2004 period. For the U.S., the base period AMS was $23.9 billion and the required 20 percent URAA reduction resulted in an AMS ceiling in 2000 of $19.1 billion. There are 34 WTO members who have commitments to reduce amber box spending in the URAA. The remaining WTO members must keep domestic support within 5 percent of the value of production (10 percent for developing countries).

There have been several proposals in the Doha round for reforms to domestic support. In nearly all cases, the proposals have focused on further reductions or outright elimination of amber box spending. A U.S. proposal called for a 60 percent cut in domestic support which results in an AMS ceiling for the United States below $8 billion. Other issues continue to be debated regarding matters like de minimis rules and further refinement of both the green and blue box definitions. Some countries worry about box shifting as countries reduce amber box spending but offset that decline with green box or blue box spending.

The AMS calculation for just the dairy price support program in the Uruguay Round was more than $4.5 billion. The prospect of Doha Round-related cuts in amber box spending was the primary reason that the method of supporting milk prices was altered in the 2008 Farm Bill (see paper on the Dairy Product Price Support Program).

The Northeast Interstate Dairy Compact was included in the U.S. domestic support notifications and suggests that new compact-like programs will also fall into the amber box. The Milk Income Loss Contract (MILC) program is also included in the U.S. AMS notifications beginning in 2002. In 2002, the dairy AMS level jumped to $6.3 billion with the addition of MILC spending.

MPC Imports

Milk Protein Concentrate (MPC) is a non-fat, high-protein milk powder that is made by ultrafiltration and drying of skim milk. It has similar uses to nonfat dry milk (NDM), which is typically produced by spray-drying skim milk, but has a higher protein content—40 to 90 percent compared to 34 to 36 percent for NDM. Because of its higher protein and correspondingly lower lactose relative to NDM, the use of MPC to "standardize" cheese milk (optimize the fat-to-casein ratio) enhances both the economics and the technical efficiency of cheesemaking. MPC can only be used in making cheeses and cheese foods that do not have a U.S. Food and Drug Administration (FDA) standard of identity. But MPC is also an ingredient in a wide array of other food products such as frozen deserts, bakery and confectionery products, sports and nutrition drinks and bars (energy bars), and nutrition supplements.

Until recently, there was no MPC produced in the United States, and production remains limited because of a lack of incentives. The Dairy Product Price Support Program sets an intervention price for NDM that generally makes it more profitable to manufacture NDM than MPC. There is only a token tariff (0.17 cents per pound) on imported MPC. Consequently, as the demand for MPC has increased because of its functionality and low price per unit of protein relative to NDM, U.S. imports have also increased. The U.S. imported less than 10 million pounds of MPC in the early 1990's. Imports in 2005 were 172 million pounds valued at $223 million, comprising nearly 10 percent of the total value of U.S. dairy imports. Since then, imports have receded, partly in response to growing domestic production. In 2009, MPC import volume was 114 million pounds while domestic production was 92 million pounds.

To the extent that they substitute for each other, imported MPC has caused displacement of domestically-produced NDM. Displacement is hard to measure because of the lack of hard evidence on substitutability in many applications, especially newer products that have always used MPC. UW research estimated that the maximum displacement ranged from 80 to 430 million pounds of NDM annually between 1997 and 2002. Government purchases of NDM exceeded its estimated displacement by MPC in each of these years. In other words, the government would have purchased NDM under the support program even if there had been no MPC imports. Consequently, the producer price effect was minimal. Large U.S. exports of NDM in response to strong world market prices starting in 2004 resulted in no government purchases, and expanded MPC imports were used to supplement NDM supplies.

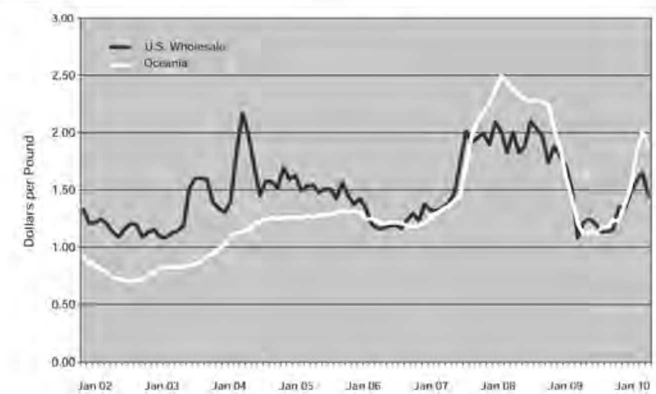
Under WTO rules, the U.S. has limited flexibility in applying new tariffs and must compensate countries that would be penalized by expanding tariffs beyond what were agreed to under the Uruguay round. The nature of compensation is subject to negotiation. It could be a cash settlement for lost exports. More likely, it would involve raising tariff-rate quotas or lowering the over-quota tariff on other dairy products the country exported to the U.S. This would probably be cheese, which is a major export item for most countries that export MPC to the U.S.

Future Role of the United States in International Dairy Trade

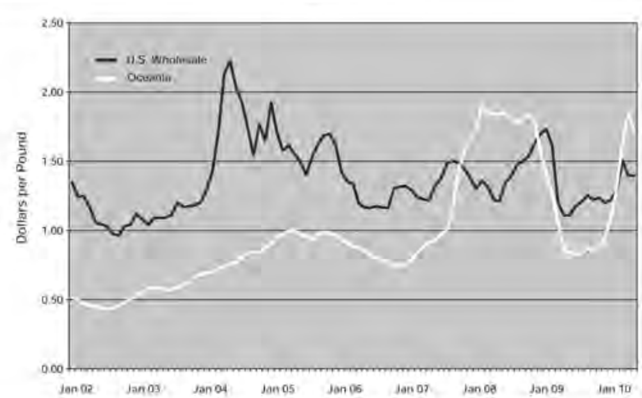
The United States substantially increased its role in world dairy markets over the last decade, but it is uncertain whether that will continue. Despite growth in exports, international sales remain an auxiliary enterprise for most U.S. dairy companies. Dairy farmers in the United States are ambivalent about expanded global trade, focusing their attention more on restricting U.S. imports than on increasing exports. Both milk producers and manufacturers are apprehensive about the price volatility associated with world markets.

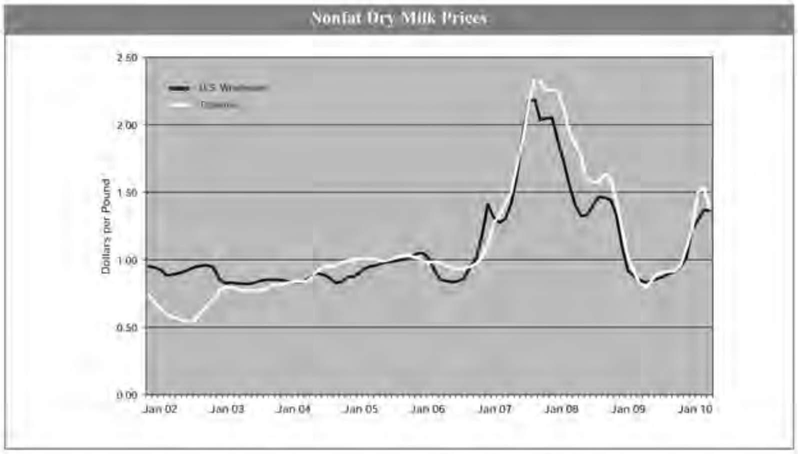
The graphs of cheese, butter and nonfat dry milk prices below highlight the role that the U.S. has played in global dairy markets. In the early 2000s, domestic dairy product prices remained above world prices as a result of large import tariffs and the dairy price support program. With the rapid increase in world dairy prices that began during 2007, the U.S. found itself in a competitive position and willing to commercially ship product into world markets. The question the dairy industry must decide is one of leaving current domestic programs intact and only using world markets when prices rise above domestic prices plus transportation or adjusting programs to the point that the U.S. becomes consistent suppliers

Cheese Prices



Butter Prices





to other countries even in periods of low world prices.

Becoming consistent suppliers may allow for much large markets to be built than would be the case of using world markets to move products only when global prices are high. This is not a simple question to answer and depends greatly on the global outlook for dairy demand.

One issue that must be included in deciding this strategy is exchange rates. The U.S. dollar has depreciated against many currencies for much of the 2000s which has made U.S. products cheaper in other countries' currencies. Although most experts do not expect the U.S. dollar to strengthen in the next decade, if it were to strengthen it could jeopardize the U.S. position in world dairy markets.

A New View Regarding Choices for the U.S. Industry

The Innovation Center for U.S. Dairy (IC) recently commissioned a major study to sort through U.S. dairy trade challenges and opportunities. A task force consisting of IC board members actively engaged in dairy exports was named to direct the study and Bain & Company was contracted to conduct interviews with a broad range of dairy sector stakeholders and perform other analyses. The related report, entitled, The Impact of Globalization on the U.S. Dairy Industry: Threats, Opportunities, and Implications, was released October 2009.

IC traced the following likely future scenario with respect to world dairy trade and implications for the U.S.:

• World demand for dairy products will grow rapidly, primarily as a result of strong economic growth in East and Southeast Asia, the Middle East, and Northern Africa. Internal milk production in these countries cannot keep pace with increased demand.

• The resulting net demand growth will exceed the potential milk supply growth in traditional low-cost dairy exporting countries (New Zealand and Australia) despite higher world prices, resulting in a "latent demand gap" forecast at 7 billion pounds milk equivalent by 2013.

• The U.S. has the opportunity not only to help fill this global demand gap, but also to benefit from displacing imports with internal sources of product.

• To fully exploit this opportunity, U.S. exporters would need to be consistent suppliers of high-quality products in the form demanded by importers. Federal dairy policy changes would be necessary as well.

• The window of opportunity afforded by the latent demand gap may be limited if non-traditional dairy exporters—notably Brazil and Ukraine—successfully deal with existing constraints to expanded production. But by committing to exports now, U.S. firms may be able to thwart this new competition.

IC identified four strategic options for the U.S. to pursue: Fortress USA, the status quo, consistent exporter status, and global dairy player.

The Fortress USA option—exclusive focus on the domestic market—was deemed infeasible because it would require higher trade barriers and some form of supply control to match domestic supply with demand at acceptable farm-level milk prices. Restricting market access would violate existing WTO commitments and a completed Doha round agreement will likely further expand market access. Adoption of a strong form of supply control was considered a political long shot.

Maintaining the status quo is the easiest option because no changes are necessary and industry stakeholders have become comfortable operating within the current system. But the status quo would marginalize the U.S. role in world markets and run the risk of increasing dairy imports and displacement of dairy ingredients by non-dairy substitutes.

The global dairy player option would essentially adopt the strategy employed by export-oriented countries like New Zealand and Ireland, where major dairy companies (e.g., Fonterra in New Zealand, and Glanbia in Ireland) focus almost exclusively on export sales. These companies have developed extensive trading relationships with importing countries and have established elaborate networks of joint ventures and direct foreign investments to source supplies outside their headquarter countries. While seen as a possible longer-term goal, the IC concluded that seeking global player status was premature.

The recommended IC option for the U.S. dairy industry was the consistent exporter status. This would involve an industry commitment to enhance dairy companies' trading skills and to manufacture products aligned with foreign buyers' needs. It would also require altering federal programs and regulations that impede dairy exports and improving tools to manage price risk.

More specifically, achieving consistent exporter status would require that importers perceive the U.S as a consistently reliable supplier of consistently high-quality dairy products manufactured to their specifications and meeting the changing demands of their consumers. Whether U.S. dairy companies are willing to commit to the related changes in their business practices is not clear. Even if they were, the presence of the Dairy Product Price Support program stands in the way of the U.S. being perceived as a reliable supplier, since the Commodity Credit Corporation may periodically represent a more lucrative sales outlet for NDM, butter, and cheese than foreign buyers. The IC report also suggested that existing FDA standards of identity could also stand in way of U.S. companies being able to make the right products to meet export demand.

Recognizing the potential risks associated with world market price volatility, the IC report recommended strengthening price risk management tools available to dairy farmers and manufacturers. While it did not identify methods of doing this, the report was critical of the Federal Milk Marketing Order system for increasing price volatility by limiting the development of forward contracting and use of dairy futures markets.

It is important to point out that the Innovation Center globalization task force members represented major cooperative and proprietary manufacturers of cheese, butter and NDM, which, along with whey products derived from cheese production, are the principal U.S. dairy export items. Whether dairy farmers would have come up with the same conclusions and recommendations is an open question.

Regardless of the feasibility or the overall dairy industry acceptance of the IC strategy, the report provides a useful starting point for discussing the future U.S. role in international dairy trade and how to support that role.

Endnotes

[1] Trade data for the charts here are drawn from the USDA-FAS Global Agricultural Trade System.

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