

**IMPLEMENTATION OF THE 2002 FARM
BILL AND THE AGRICULTURAL
ASSISTANCE ACT OF 2003**

HEARING
BEFORE THE
SUBCOMMITTEE ON
GENERAL FARM COMMODITIES
AND RISK MANAGEMENT
OF THE
COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES
ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

APRIL 10, 2003

Serial No. 108-2



Printed for the use of the Committee on Agriculture
agriculture.house.gov

U.S. GOVERNMENT PRINTING OFFICE

86-770 PDF

WASHINGTON : 2003

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512-1800; DC area (202) 512-1800
Fax: (202) 512-2250 Mail: Stop SSOP, Washington, DC 20402-0001

COMMITTEE ON AGRICULTURE

BOB GOODLATTE, Virginia, *Chairman*

LARRY COMBEST, Texas	CHARLES W. STENHOLM, Texas, <i>Ranking Minority Member</i>
JOHN A. BOEHNER, Ohio	COLLIN C. PETERSON, Minnesota
<i>Vice Chairman</i>	CALVIN M. DOOLEY, California
RICHARD W. POMBO, California	TIM HOLDEN, Pennsylvania
NICK SMITH, Michigan	BENNIE G. THOMPSON, Mississippi
TERRY EVERETT, Alabama	MIKE MCINTYRE, North Carolina
FRANK D. LUCAS, Oklahoma	BOB ETHERIDGE, North Carolina
JERRY MORAN, Kansas	BARON P. HILL, Indiana
WILLIAM L. JENKINS, Tennessee	JOE BACA, California
GIL GUTKNECHT, Minnesota	RICK LARSEN, Washington
DOUG OSE, California	MIKE ROSS, Arkansas
ROBIN HAYES, North Carolina	ANÍBAL ACEVEDO-VILÁ, Puerto Rico
CHARLES W. "CHIP" PICKERING, Mississippi	ED CASE, Hawaii
TIMOTHY V. JOHNSON, Illinois	RODNEY ALEXANDER, Louisiana
TOM OSBORNE, Nebraska	FRANK W. BALLANCE, JR., NORTH CAROLINA
MIKE PENCE, Indiana	DENNIS A. CARDOZA, California
DENNIS R. REHBERG, Montana	DAVID SCOTT, Georgia
SAM GRAVES, Missouri	JIM MARSHALL, Georgia
ADAM H. PUTNAM, Florida	EARL POMEROY, North Dakota
WILLIAM J. JANKLOW, South Dakota	LEONARD L. BOSWELL, Iowa
MAX BURNS, Georgia	KEN LUCAS, Kentucky
JO BONNER, Alabama	MIKE THOMPSON, California
MIKE ROGERS, Alabama	MARK UDALL, Colorado
STEVE KING, Iowa	RICK LARSEN, Washington
CHRIS CHOCOLA, Indiana	LINCOLN DAVIS, Tennessee
MARILYN N. MUSGRAVE, Colorado	
DEVIN NUNES, California	

PROFESSIONAL STAFF

WILLIAM E. O'CONNER, JR., *Staff Director*
KEVIN KRAMP, *Chief Counsel*
STEPHEN HATERIUS, *Minority Staff Director*
ELYSE BAUER, *Communications Director*

SUBCOMMITTEE ON GENERAL FARM COMMODITIES AND RISK MANAGEMENT

JERRY MORAN, Kansas, *Chairman*

LARRY COMBEST, Texas	COLLIN C. PETERSON, Minnesota <i>Ranking Minority Member</i>
JOHN A. BOEHNER, Ohio	BENNIE G. THOMPSON, Mississippi
NICK SMITH, Michigan	RODNEY ALEXANDER, Louisiana
<i>Vice Chairman</i>	MIKE ROSS, Arkansas
TERRY EVERETT, Alabama	CALVIN M. DOOLEY, California
FRANK D. LUCAS, Oklahoma	EARL POMEROY, North Dakota
WILLIAM L. JENKINS, Tennessee	LEONARD L. BOSWELL, Iowa
CHARLES W. "CHIP" PICKERING, Mississippi	BOB ETHERIDGE, North Carolina
TIMOTHY V. JOHNSON, Illinois	BARON P. HILL, Indiana
MIKE PENCE, Indiana	ED CASE, Hawaii
DENNIS R. REHBERG, Montana	DENNIS A. CARDOZA, California
SAM GRAVES, Missouri	JIM MARSHALL, Georgia
MAX BURNS, Georgia	RICK LARSEN, Washington
CHRIS CHOCOLA, Indiana	LINCOLN DAVIS, Tennessee
MARILYN N. MUSGRAVE, Colorado	

CONTENTS

	Page
Burns, Hon. Max, a Representative in Congress from the State of Georgia, prepared statement	3
Moran, Hon. Jerry, a Representative in Congress from the State of Kansas, opening statement	1
Peterson, Hon. Collin C., a Representative in Congress from the State of Minnesota, opening statement	2
Smith, Hon. Nick, a Representative in Congress from the State of Michigan, prepared statement	3

WITNESS

Penn, J.B., Under Secretary, Farm and Foreign Agricultural Services, U.S. Department of Agriculture	4
Prepared statement	28

Accompanied by:

Davidson, Ross, Administrator, Risk Managment Agency, U.S. Department
of Agriculture
Little, James, Administrator, Farm Service Agency, U.S. Department of
Agriculture
Terpstra, Ellen, Administrator, Foreign Agricultural Service, U.S. Depart-
ment of Agriculture

IMPLEMENTATION OF THE 2002 FARM BILL AND THE AGRICULTURAL ASSISTANCE ACT OF 2003

THURSDAY, APRIL 10, 2003

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GENERAL FARM COMMODITIES
AND RISK MANAGEMENT
COMMITTEE ON AGRICULTURE,
Washington, DC

The subcommittee met, pursuant to call, at 10:01 a.m., in room 1300 of the Longworth House Office Building, Hon. Jerry Moran (chairman of the subcommittee) presiding.

Present: Representatives Smith, Jenkins, Johnson, Rehberg, Chocola, Peterson, Alexander, Dooley, Pomeroy, Boswell, Etheridge, Larsen, Davis, and Stenholm [ex officio].

Also present: Representative Ballance.

Staff present: Jon Hixson, subcommittee staff director; Alan Mackey, Craig Jagger, Elyse Bauer, Ryan Weston, Kellie Rogers, Callista Gingrich, clerk; Anne Simmons, and John Haugen.

OPENING STATEMENT OF HON. JERRY MORAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

Mr. MORAN. The subcommittee will come to order. I would like to thank our witnesses for being here today and I appreciate the time and willingness that you are exhibiting by joining this subcommittee and its members to talk about a number of important issues. I appreciate the colleagues joining us here today and I look forward to having a good hearing and discussion about a couple of topics that are near and dear to us and our constituents, implementation of the 2002 farm bill, followed by a discussion about the implementation of disaster assistance that Congress finally agreed to earlier this year.

The 2002 farm bill made some major changes to Federal farm programs. Principally, the bill retained the Direct Payments and Market Loan Programs of the past bill, Freedom to Farm, but added another decoupled Counter-cyclical Program. The bill has allowed producers to update their bases and yields for the first time in 15 years, and that includes that partial update of yields for the new Counter-cyclical Program.

In many parts of the country, sign-up went relatively smoothly and assistance was delivered as needed. In other sections of the country, sign-up proved to be a bit more difficult and producers and

local FSA employees struggled with the challenges of new farm programs.

In addition to the new farm bill, this past year was characterized as one of the driest years on record with the drought monitor noting the unfortunate spread of dry conditions across the country. It was this historically disastrous weather that ultimately led to the second topic of our hearing, the implementation of the 2003 disaster assistance provisions. With new drought assistance announcements as recently as 48 hours ago, USDA continues to implement the program that we authorized in Congress, the Omnibus Appropriations Act of 2003, and other programs under its continuing authorities.

The combination of these two situations, the farm bill implementation and disaster assistance, has created questions for producers and greatly increased the workload at USDA. As we near the end of the farm bill sign-up, and in the middle of disaster implementation, I thought this would be a good time for us to review how congressional intent matches with program implementation.

And again, I am delighted that the Under Secretary and his colleagues would join us today, and I look forward to hearing their testimony, and I would yield to my good friend, the gentleman from Minnesota, Mr. Peterson.

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

Mr. PETERSON. Thank you, Mr. Chairman, and thank you for calling this hearing. We think this is timely, and some of us thought maybe we should have had some hearings last year on implementation, but this will be helpful. And I want to first of all congratulate you on your first hearing as the chairman of the General Farm Commodities Subcommittee, and I am glad to be serving as your ranking member. We appreciate the chance to hear from USDA, how they think that the implementation of the farm bill has gone to date.

I also want to say that I appreciate Mr. Little coming up to my district last year. We had some significant water problems, and he came out and spent some time and saw what a mess we had up there. We are, of course, very appreciative that the Congress finally got the disaster program through.

And one of the things that I am interested in, just as I understand, things are progressing along pretty well, but I am interested in how soon things will happen after the sign-up starts and so forth, so we can get—I get questions every day, calls coming into my office from people, because as you know, Mr. Little, it is a serious problem out there and people are hoping that this can be expedited as soon as possible.

And one of the other things that I am interested in is I keep getting—this isn't the jurisdiction of this committee, but I keep getting feedback from the FSA county offices that they are having a lot of problems keeping up with all of the work that we put on them. And one of the things I am wondering is if the amount of money that we made available for temporary help is going to be adequate to get through the disaster, and the sign-up, and all that sort of thing.

So we look forward to hearing from our witnesses today, and Mr. Chairman, again, thank you for calling this hearing. We expect great things out of this subcommittee for the farmers and ranchers of America. I know that you will be doing everything you can to make good things happen.

Mr. MORAN. I thank the gentleman from Minnesota and indicate my great desire to work with him and the members of this subcommittee on behalf of American farmers and ranchers and the topics that are in jurisdiction of our subcommittee.

If there are any statements from Members, the Chair would accept them at this time.

PREPARED STATEMENT OF HON. NICK SMITH, A REPRESENTATIVE IN CONGRESS FROM
THE STATE OF MICHIGAN

I thank chairman Moran for holding this hearing on the implementation of the 2002 farm bill and the Agriculture Assistance Act of 2003. With the passage of the farm bill last spring and the disaster relief this past February, staff at local FSA offices have been working diligently to implement these measures and get farmers enrolled. By allowing producers to update bases and yields in several ways in order to maximize the benefits they receive from these farm programs, it is of no surprise that communicating program changes to farmers, validating production records, and getting farmers signed up in a timely fashion has taken a lot of work. As a farmer, ASCS State Chairman, and a Deputy Administrator for Farm Programs here in Washington, I know that we have a lot of dedicated employees that have devoted extra time and effort to the task.

From talking to state and local FSA officials, it has become evident that one of the major delays in getting producers enrolled is that it is not easy for farmers to decide the programs and options best for them. Hopefully, from this hearing we will be able to identify some creative methods that USDA can utilize to streamline and cut the costs of finishing sign-up and implementing the disaster program.

In Michigan, it has been brought to my attention that part of the lag in the sign-up has been the result of difficulties encountered in proving soybean yields. I have proposed that the USDA look into the potential for utilizing the well-established corn-to-soybean yield relationship in the Corn Belt states in order to calculate expected soybean yields from known corn yields. Agricultural economists at Michigan State University have done a study on this issue and show that over the last several decades the corn-to-soybean yield ratio within the Corn Belt is consistently 3:1 over any 3-year period. It has been estimated by the MSU economists that utilizing such a shortcut could potentially reduce the staff time spent on determining soybean yields by approximately 30 percent, which would greatly expedite the enrollment process. I am also interested in the CRP program sign-up for the new acres and provisions for wetlands as well. I believe that there may be other common-sense, cost-effective methods that the USDA should explore to more efficiently implement current and future farm programs.

PREPARED STATEMENT OF HON. MAX BURNS, A REPRESENTATIVE IN CONGRESS FROM
THE STATE OF GEORGIA

The implementation of the farm bill and the recently-passed disaster assistance package is vital to the success of production agriculture in this nation. While we certainly trust our administration, oversight is necessary to ensure that these bills are implemented in the way Congress intended. I thank Secretary Veneman and the staff of U.S. Department of Agriculture for their tireless efforts in implementing these programs, and I am especially appreciative of the county office staff working to administer these programs.

Unfortunately, I was unable to attend the General Farm Commodities and Risk Management Subcommittee hearing today. As a member of the Education and the Workforce Committee, it was necessary for me to attend the markup of H.R. 1350, the Improving Results for Children with Disabilities Act. This bill is important in educating special-needs children of my district, and my vote was needed on this bill. Due to the scheduling conflict of the hearing in this committee and the markup in the other committee, I was unable to attend this important hearing.

I look forward to reading the records of today's proceedings in order to gain a better understanding of the issues facing implementation of both the farm bill and the recently-passed disaster assistance package.

Mr. Chairman, thank you for holding this oversight hearing, and thank you for allowing me the opportunity to explain my absence.

Mr. MORAN. I am delighted that the Under Secretary has chosen to join us, and we welcome the Honorable J. B. Penn to the table. Mr. Penn is accompanied by Mr. James Little, the Administrator of the Farm Service Agency; Mr. Ross Davidson, the Administrator of the Risk Management Agency; and Ms. Ellen Terpstra, the Administrator of the Foreign Agricultural Service. Mr. Under Secretary, at your pleasure, please begin.

STATEMENT OF J. B. PENN, UNDER SECRETARY, FARM AND FOREIGN AGRICULTURAL SERVICES, U.S. DEPARTMENT OF AGRICULTURE

Mr. PENN. Thank you, Mr. Chairman. We certainly appreciate the opportunity to be with you today and the opportunity to inform the subcommittee of the progress in implementing the 2002 farm bill and the Disaster Assistance Act. With your permission, I have a longer statement which I will submit for the record, which provides a complete status report on implementation of those two bills, and I will just give a brief overview of the process thus far and the results that have been achieved. And then, of course, we would be pleased to try to respond to any questions that you have.

Mr. MORAN. Thank you, Mr. Under Secretary. Your testimony will be made a part of the record.

Mr. PENN. Thank you very much. As you indicated, we have the three administrators for the agencies that are involved in implementation of this legislation, and behind us we have the real experts, the people who know all of the answers, and we have them available as resources to draw upon today.

Let me begin with a few general observations about the farm bill. As all of you know, the farm bill was more than 2 years in the making. It was enacted in May 2002. That is the latest in the year that any farm bill has ever been enacted and still made applicable to the year in which it was enacted. And at the time that occurred, of course, we were still in the final year, implementing the final year of the 1996 farm bill.

The 2002 act is far different from the 1996 farm bill. It is far more comprehensive, much more complex, and as the chairman noted, it gives producers the opportunity for the first time in 15 years to update bases and yields to reflect their more recent cropping patterns on their farms. This is the first opportunity for updating, and as all of us know, agriculture is a very dynamic industry. Many changes have occurred on the farms and in the market place.

The new law requires more involvement of producers. It requires the assembly of more information, more analysis, more choices, and consequently, more decisions. This is a very comprehensive bill that affects all of USDA, virtually, everything we do there, even though today our focus is on the farm and commodity and trade portions of the bill. And the bill also increased total funding for agriculture by over 75 percent for the life of the bill. It added several new programs and it very significantly modified other programs.

Clearly, implementation of this bill was quite a challenge for us, as the chairman noted. First of all, it required the largest training

program in the history of the Farm Service Agency. FSA has 2,400 field offices and some 18,000 people who are involved in the implementation of the programs. So this bill was so new and so different that we had, again, the most extensive training program that we have ever had to get people ready to implement this.

It also required taking into account the enormous diversity in agriculture today. The conditions all across the country are widely different, as you know, in terms of farm size, crops grown, cropping practices, marketing practices, landlord-tenant arrangements, farm constitutions, and the like. And in the preparation of the handbooks that go to the field, to the personnel there, all of these situations have to be addressed. So that was a very complex and very time consuming task as well.

This bill also required development of enormous amounts of new software. We are trying to utilize all of the information technology that is available to us to the maximum extent possible. We are looking to the future as we develop these programs, to try to make as many of them internet friendly as is possible, to make them user friendly. We are also utilizing the President's EGOV initiative to build a foundation for moving as quickly as possible to the time when the farmers business with the USDA field agencies can be conducted almost entirely electronically. So this was not a situation in which we could merely go back and fine tune existing software. We had to, basically, start from scratch, develop new software, and to try to do it not only for the moment, but also, to look ahead through the 7-year life of the bill.

This bill required extensive internal cooperation within the Department of Agriculture, and also across the administration, especially, with the OMB. Because of the timing issues, immediately after the farm bill was signed, Secretary Veneman established a farm bill Working Group within USDA to oversee the development of the required rules and regulations and to facilitate their drafting and their movement through the regulatory maze. In short, their job was to minimize the bureaucratic red tape, keep all the policy officials fully informed of the progress, and when the policy officials were needed to weigh in, to ask them to do so.

This enabled us to move to final rules in many cases and to expedite the dates for beginning sign-up and for getting the benefits flowing to the farmers. We are using the same approach, I might add, for implementing the disaster assistance package.

This bill also required significant outreach and education efforts. The Farm Service Agency staff conducted, literally, hundreds and hundreds of town hall meetings all across the States, and they did this often times in cooperation with the land grant universities, the State Departments of Agriculture, the farm organizations, commodity groups. Many of these were conducted after hours, on weekends, to try to make sure that everybody was fully informed of the provisions of the law.

We also utilized new technology in launching a website. We did that immediately. We put all the provisions of the law, we included these frequently asked questions, we kept that updated. As new issues arose and we developed new information, we put that on the web. And this new technology is catching on. We have averaged some 2,000 visits a day to that website, so we have probably ex-

ceeded a million visits to the website during the course of the implementation of this bill. And with the new disaster assistance package, we note that we are getting some 1,500 visits a day already to examine the provisions there.

And then Congressman Peterson noted the financial resources that are involved in this. As soon as the law became clear enough that we could evaluate it, we did a workload assessment. We estimated that we would need \$110 million in new resources to implement this bill and we would need 2,200 additional staff in which to do that. The farm bill itself provided us about \$50 million for implementation, and then subsequently, there was \$70 million added to the appropriations act. \$10 million of that was for implementation of the disaster assistance package. So we are very much pleased with the amounts. We appreciate the cooperation of the Congress in providing the needed budgetary support for this huge task.

We immediately began hiring temporary personnel last year. We added 1,000 temporary employees, and this year we plan to add 1,200 more, and that will put us through the implementation of the farm bill, implementation of the disaster assistance package, and then after that, we can begin reducing the numbers once again.

Now, that was the activity that went into it. Let me just very quickly note some of the results to date. On direct and counter-cyclical payments, the sign-up for that program began October 1, last year, and producers were, as the chairman noted, given several options involving their crop acreage basis and their yields upon which the payments are based. These bases had been established many years ago, some of them tracing back through the mid-1980's, and this was the first time that producers could update them and they could update them to reflect what had transpired in 1998 through 2001. But of course, doing this required producers to assemble significant amounts of information about their farming operations, to analyze all of the options that were before them, and to decide what would be in their best interest for the next 7 years.

Now, it is this sign-up for the direct and counter-cyclical payments and updating bases and yields that has been watched so carefully and so closely over the past several months. The April deadline has now passed, and as of today, of our 2.1 million farms, 77 percent have completed the updating of their bases and yields. Another 7 percent have completed the process. They have made the selections, but they have paperwork pending. They need to get another signature here or there, but we know what they are going to do. And there are 4 percent of our producers that still have to be accommodated by the county offices, and these are the producers who went in before the April 1 deadline, placed their name on a register, and they now have appointments to be worked through the remainder of the process. And then the remainder of the farms, some 12 percent or so we think, elected the default option. So within just a very short period of time, this entire task will be behind us and we think we will have done the most difficult part of the enrollment in the 2002 farm bill.

Now, to direct payments, these payments were continued in this farm bill, and for 2002 and 2003, we have now made \$2.3 billion in payments. For the counter-cyclical payments program, as you

know, that provides payments when market prices fall below a predetermined target price. That program is applicable because of market conditions only for peanuts, cotton, and rice this year, and to date, we have paid some \$960 million in payments under that program.

Now, the Peanut Program was very significantly changed; perhaps, the most significant change since the 1930's. It introduced a Marketing Loan Program such as we have for the other commodities. It made those producers eligible for direct and counter-cyclical payments and it provided for a buyout of the marketing quota. And that buyout is now, essentially, completed. The Congress allocated \$1.3 billion for that. We have now paid out \$1.2 billion. So we are, basically, done with that. And we have also made \$120 million in counter-cyclical payments to peanut producers.

Now, the Congress also included in this farm bill a new program for dairy producers called the Milk Income Loss Contract Program. That has proven to be a very popular program. The sign-up for that has been enormous. We have had a lot of people come into the county offices that have never been there before, which added to the amount of traffic going through. Thus far, we have paid \$1.3 billion in payments under that program.

And now for conservation programs, the new law added 80 percent increase in funding for conservation programs with much of that to be on working lands. It also expanded the conservation reserve program from 36.4 million acres to 39.2 million acres, and the plans are underway for a new general sign-up of the conservation reserve program, and we are going to announce those dates very soon.

Mr. Chairman, there is much more on the farm bill to report, but these are the highlights. So in the interest of time, let me give you a very brief overview of the disaster assistance package.

Now, this disaster assistance package for 2003 was signed into law on February 20. It is applicable to the 2001 or 2002 droughts, and it requires producers to have a loss of more than 35 percent to qualify. It provides three major components of assistance: crop assistance, which was scored at about \$2.1 billion; livestock assistance, scored at \$365 million; and miscellaneous provisions for various segments of agriculture, and that was scored at \$635 million.

Secretary Veneman has announced the sign-up for the Tobacco Program. That actually began on March 17. That will provide \$54 million in assistance. She has announced sign-up for the for the Expanded Livestock Compensation Program. That begins on April 1, and that program includes the counties that have been designated as drought or disaster counties that were not included in the livestock program that was run last year. That had 2,150 counties in it. We anticipate that this adds about another 700 counties, and so that sign-up will begin on April 1.

Now, last week, the Secretary announced details in the starting date for the Crop Disaster Program. That sign-up will begin on June 6 and that will reimburse producers for qualifying losses in 2001 or 2002. The program also contains a limit on the benefits to individual producers, and that limit would only be reached by producers by who have crop insurance. Thus, the particular challenge

that has been given to us is to try to minimize the penalty on producers who participated in the Crop Insurance Program.

Now, a formula has been devised which we think minimizes that penalty, and that is used to calculate producers' benefits. It is rather complex. There has been a lot of discussion about it. I will just state that the formula notes that the sum of the value of the crop that was harvested, the disaster payment, and the crop insurance payment, can't exceed 95 percent of the value that would have been expected had there been no loss. Now, there is a lot of subjectivity in all of this, we understand, and so we have, as I said before, done our best to devise a formula that minimizes the penalty on producers who have purchased crop insurance because the idea is to encourage participation in that program. And I would note that what we have decided upon is consistent with most of the recommendations from the producer groups that we have worked with.

The remainder of the disaster assistance package is \$60 million in hurricane loss for sugarcane growers, and we expect to make that available through cooperatives this month. \$50 million for cottonseed program; we expect to start the sign-up for that on May 1, just as soon as the ginning season ends for the last season. And we are working closely with the sugar beet industry to expedite the \$60 million in assistance that was provided there. The sign-up for that will begin in June.

Now, the remaining part is the \$250 million for the Livestock Assistance Program. That reimburses producers for grazing losses, but that program is a bit more difficult to administer because it has to consider by statute the benefits that have already been received under the cattle feed program and the livestock compensation program, so we can't start it until we get through with that.

Well, Mr. Chairman, that completes my review of the results and highlights, and we believe that we have a story of pretty solid achievement to tell. I think most objective observers would agree that the men and women in USDA, in the field offices and in Washington, have done an admirable job in implementing some highly complex legislation in a relatively short period of time. We certainly appreciate that. We appreciate the cooperation and the patience of all the producers who have gone through the FSA offices. And we certainly appreciated the support and continued involvement of the Congress, of the congressional committees, the Agriculture Committee staff throughout this process. They have been most helpful.

We know you have many questions and we are pleased to try to respond. Thank you, sir.

[The prepared statement of Mr. Penn appears at the conclusion of the hearing.]

Mr. MORAN. Mr. Under Secretary, thank you very much. I have expressed my gratitude to you for being present today to take the questions of our subcommittee members, but let me also express my gratitude to you, and Secretary Veneman, and all the employees at USDA, as you worked your way through what you described accurately as a very complex piece of legislation. And particularly, our employees out in the county offices, what a tremendous burden they have in almost every circumstance, have worked doubly hard to make good things happen on behalf of American farmers.

A couple of questions. Particularly, initially, when shortly after the farm bill was passed and implementation began, the two most common things I heard back home, questions of me, one I think is a success story in the way USDA handled it, that dealing with the power of attorney. A lot of my farmers were asking why do I have to go get a new power of attorney from my landlord. And the other one deals with—it is an ongoing question about the use of crop insurance records for purposes of establishing production. And kind of depending upon who I talked to in that regard, a slightly different answer or consequences to the use of those records. If you would explain to me kind of the story on both of those, I would be grateful.

Mr. PENN. Well, let me try, and as I noted earlier, we do have all of the resident experts here, so I would ask them to add as they see fit.

On the use of records, we have the Crop Insurance Program and the farm programs, and under both programs, producers can make certain representations in order to establish production or yield history. And in most cases, that certification is taken at face value, but it is understood that the records exist somewhere to back up the representations that the producers are making. And so in the interest of time and efficiency, we do conduct audits to make sure that the process is running as it should be run.

So when we start administering the farm bill, a lot of people ask, well, can we use the crop insurance representations, and the answer is yes, of course, we will accept those. But they are subject to the same audit, and we try to audit about 10 percent of the people, much like the income tax folks, I guess. But the point is that there must be records somewhere that back up the acreage and production representations. But as long as one program accepts the information, it is acceptable for the other.

Mr. MORAN. Mr. Under Secretary, on the power of attorney?

Mr. PENN. On the power of attorney, yes, thank you. We last required a power of attorney for the 1996 farm bill, and as you know, that was by comparison a relatively simple farm bill. And then we get the 2002 act and it is much more complex, and it has a lot of new programs and a lot of new features that were not included in the 1996 bill, that were not even contemplated at that time. Updated acreage bases and yields for the first time in 15 years is one. The new Milk Program, the major changes in the Peanut Program, all of these changes were significant enough we thought to require a new power of attorney, so that both land owners and farm operators would be able to make the decisions that were in their best interest. So for that reason, we ask that everybody get a new power of attorney.

We realize in some cases with multiple landlords that that caused quite a bit of problem, but we think it just made good business sense, that this bill was so significant, the changes were so enormous, and that they were going to last for 7 years, that it was just good business sense to do this.

Mr. MORAN. Mr. Under Secretary, it is my understanding that if the farmer, the tenant farmer, had a power of attorney, a durable power of attorney, from his or her landowner and could no longer because of incapacitation of the landowner could not get a new

power of attorney, USDA has accepted that durable power of attorney, which I think would be appropriate under State law, and that was a solution to a problem that I think was necessary, and I appreciate USDA resolving that in that manner.

The other issue that is prevalent for me is the ability to update irrigated acres, and I would be interested in knowing—at least, when I thought we passed the new farm bill, I thought if you were irrigating but you had a dry land base or yield, you had the opportunity to update that. That has not turned out to be the case and is that an issue of law? Did the farm bill not allow that or this is a USDA decision?

Mr. PENN. Mr. Chairman, after you brought that to my attention, of course, we did some very extensive examination of that, and that is a prohibition that is in the statute. And you state the case very correctly, that you can't update to get higher yields from irrigation, and that is precluded by the statute. It would require a change in the legislation to be able to do that.

Mr. MORAN. Thank you, Mr. Under Secretary. I would turn to the gentleman from Minnesota.

Mr. PETERSON. Thank you, Mr. Chairman. First of all, on the disaster, I want to commend you. There was some concern up in my way about the way it was originally being looked at and the changes that were made I think were appropriate. We appreciate what you did in that regard.

My question is the sign-ups, I guess, the 6th of June, do you have any idea if somebody comes in, and all the stuff is together, and the county can deal with it shortly, how soon they might get their checks, do you have any guess on that?

Mr. PENN. I am sorry. I didn't understand the question.

Mr. PETERSON. If a producer comes in and signs up on June 6 for the disaster, and he has got all his ducks in order, do you have any idea how soon he might get a check?

Mr. PENN. Just a matter of days, because we are trying to complete the development of the software now to try to have that ready, so as soon as we get the information and process it very quickly with the new software, the check should be in a matter of days.

Mr. PETERSON. So you don't have to wait until everybody is done. It is going to be by individual producer?

Mr. PENN. No.

Mr. PETERSON. I also have a number of counties that are showing only 65 percent signed up as of April 1. I don't know how many people are on this list. They appear to be counties where there probably are people opting in for the old base. I don't know that for a fact, but my question is if somebody misses this thing, didn't get on the list and just screwed up and did want to update, is there any appeal process or any way that they can correct that if they just screwed up?

Mr. PENN. I don't know. We will ask Mr. Little to give us a definitive answer on that, but I just can't imagine how anybody in rural America could have missed this farm bill. I mean, we have since last October 1 been publicizing the bill, the provisions, the need to sign up, the options available. We have put calculators on the website. We have done everything possible to inform people, and if

people simply couldn't get an appointment, as I noted, in the county office by April 1, we have said, come and tell us your good intentions and we will make sure you get an appointment as soon after April 1 as possible. I can't imagine, but perhaps there is an appeal process.

Mr. LITTLE. Well, in total so far in Minnesota, we have about 92 percent have either been into the office and made their selections, or either on the register, or have gotten all their paperwork—I mean, have made their selection but not got all the forms together. We really don't believe, like Dr. Penn said, that they have been missed. They do have the opportunity to take the default and there is an appeal process. They are able to come back in and pay \$100 to have an appeal, but in Minnesota, I think they have done a very good job of getting everybody.

Mr. PETERSON. Yes, overall. It is just I got a couple of counties, some of them being way up north where they listen to Canadian television and radio.

Mr. PENN. That would explain that.

Mr. PETERSON. They may not know, but anyway, my other question is not directly related to the topic today, but I have a lot of CRP in my area, and I understand you said you are going to announce shortly the sign-up. But it does have an effect on what my folks are going to do in a lot of these counties as to whether there is going to be an ability to sign up for a new CRP in terms of what they decide to do for the direct counter-cyclical payments. Is this CRP sign-up going to be announced before the June 2 sign-up deal so that they are going to know?

Mr. PENN. Yes.

Mr. PETERSON. OK. And again, on the CRP, I have got counties that are up on this 25 percent limit, and my question is the continuous and prep programs, do they count against that 25 percent limit?

Mr. PENN. Jim.

Mr. LITTLE. Yes, sir, they do. They do also have the opportunity to come in and ask for a waiver.

Mr. PETERSON. OK. That is what I was wondering. Is there any flexibility on that?

Mr. LITTLE. There is flexibility in exceptional circumstances. If they come in and have some fairly significant issues, we can exceed the 25 percent, but they are exceptional circumstances.

Mr. PETERSON. And just lastly, this is also not our jurisdiction, but as serving last year on the Livestock Subcommittee ranking member, I have got a lot of folks out there that have got these middle sized areas that are still pretty upset about the way the milk program was put together, and I think they have a valid complaint in terms of the way they got treated compared to big producers that could select in 1 month. They got caught in the middle on this thing, and some of these guys are having a hard time, and I don't know at this point of anything—I guess you guys did the best you could, but I think they got a short end of the stick, some of these guys that have between 300 and 800 cows, as compared to how the smaller producers were treated and the large producers that can have the whole \$2.4 million in 1 month. So for whatever that is worth, I keep hearing about that. Thank you.

Mr. MORAN. Thank you, Mr. Peterson. The vice chairman of the subcommittee, the gentleman from Michigan.

Mr. SMITH. Mr. Chairman, thanks. Well, first of all, as an old ASCS State chairman and working in Washington, my compliments to the Washington staff and the State staff, but probably, mostly, all of our workers in those county and local offices, for a heck of a burden in going through this process. And we are probably not done yet. What is the status on employment? Are we under-employed, are the part-time's accommodating the need, where are we?

Mr. PENN. I will ask Mr. Little, the manager of that, to explain directly.

Mr. LITTLE. I believe the additional part-time staffing that Dr. Penn referred to in his opening remarks have enabled us to get the job done. We put in about 1,000 staff over the last year, beginning the fourth quarter in 2002 and for the full year for 2003. The farm bill itself provided for about the 1,000 staff. Then the disaster bill provided for an additional 70 million, that included 10 million for the disaster bill, 60 million for the farm bill. So with the temporary staffing, it is not the perfect solution, but we believe it has helped do a lot of the additional processing.

Mr. SMITH. In Michigan, we had a lot of reconstitution of soybean yields, so a letter I sent over to the Department was a study by Michigan State University of the whole Corn Belt on a fairly consistent relationship between corn and soybeans, and I never was quite sure—did that require a change in law or does the Department have the flexibility of making decisions like assigning soybean yields with the permission of the producer as a percentage of the corn yield?

Mr. PENN. Well, you mentioned that to me once before, and we looked into the possibility. I think in some cases we do have the authority at the Department to do that, or it can be given to the county committees.

Mr. SMITH. Will CRP—will we open up all of the 3-point whatever million acres of additional CRP? Has a decision made on how much of the extra CRP land authorized by law will be opened up for bid?

Mr. PENN. No. That decision has not been made yet, but we will try to enroll as much as we can given the various constraints. We do want to keep some flexibility for the crop programs that was mentioned and for the continuous sign-up. So we will try to enroll as much as the budget allows, taking into account those factors.

Mr. SMITH. Is there some reason or what would be the position of the Department on changing the law that now says CRP land that was in before 1995 and in for at least 5 years, a producer on certain land can withdraw that land from CRP within 60 days, and just the tremendous changes that we are seeing in weather, I wonder if that flexibility might not be a good thing to have for CRP land that was put in after 1995. Any thoughts?

Mr. PENN. Well, we had given some thought to what kinds of flexibility we might have with the CRP because of the drought conditions, and we are looking at all of those things at this point, but I can't tell you about that specifically.

Mr. SMITH. I think it would take a change, and at least the law now says, specifically, that the CRP before 1995 would be flexible.

Mr. PENN. It could well, but we are trying to examine what flexibility we have, especially, to take account of the drought conditions.

Mr. SMITH. Mr. Davidson, when we originally put in the language for risk management, at least my thought was different ways to reduce risk of giving farmers maybe better predictions on what the cost of their inputs were going to be as far as maybe contracting ahead for inputs as well as making it easier for farmers to contract their output. And so some concerns about the way that the contract for crops and, certainly, a lot of concerns that I guess we are going to get into, Mr. Chairman, on where we go on possibly changing and, hopefully, improving the insurance program. And one of the concerns of Michigan was expanding the insurance to more crops.

Mr. DAVIDSON. I would very much like to visit with you and get more details on what you are thinking, but we are doing a lot to try to expand to a broad range of crops. I totally agree with you that risk management is more than just how you sell your crop. It is also how you manage the inputs and—

Mr. SMITH. We are going to have some hearings on that, on insurance.

Mr. MORAN. Mr. Smith, I would imagine that we will see a lot of Mr. Davidson with our subcommittee. We will focus a lot of attention and effort in regard to a variety of crop insurance issues.

The gentleman from Texas. We are delighted to have the ranking member of the full committee join us, Mr. Stenholm.

Mr. STENHOLM. Thank you, Mr. Chairman. Mr. Under Secretary, welcome, and welcome to all of you at the table. Let me say I, personally, appreciate very much the recent activity that you and everyone at the table have taken regarding the Secretary's directive to improve the efficiency and reliability of the risk management program. The chairman has stated, and I, certainly, am very interested in future questions along this, but I appreciate the activities and what has happened to this point.

Mr. Little, I would encourage you to go back and read the law a little more carefully as it pertains to your part of the agency and then keep working, keep plugging. Everything is going to be fine.

Two specific questions to something related to my district. I had an organic cotton producer that chose to comply with the boll weevil control program and not plant cotton since he could not produce organic cotton and spray it. He chose to comply with that, and yet, under the regulations for preventive planning, so far he has to receive a zero in that year in which he voluntarily do what we routinely give consideration for, preventive planning. Mr. Little, I would ask you to take a look at that regulation and see if we really intend to punish a neighbor for doing what his neighbors and he agreed to do in order to protect them. Take a look at that particular instance, because I don't think it is fair at all, one producer.

Mr. LITTLE. Yes, sir.

Mr. STENHOLM. And then second, in regard to CRP, how you will treat land that has already exited CRP or will be leaving CRP in future years, and the expectation of landowners and operators to

enroll their acreage in the DCP program? Have you finalized the procedures for how you will treat these acres as yet?

Mr. LITTLE. We are getting ready to issue those regulations in the very near future. As Dr. Penn mentioned, we are in the process of announcing the dates, and those regulations will be out very shortly.

Mr. STENHOLM. Good. Mr. Penn, on March 6, 2003, this committee received from USDA a copy of an ERS report to Congress entitled, "Foreign Program Payments and the Economic Viability of Production of Agriculture." This report focused on the Texas rice industry and was required by section 10904 of the 2002 farm bill, a provision of the bill that I authored. However, the report does not include the recommendations required by section 10904(c) nor does it address all of the matters required under the section. When can the committee expect USDA to provide the committee with the recommendations and other information that is required by law but that were not included in the March 6 report?

Mr. PENN. Well, I have to tell you, Congressman Stenholm, I have read the report and we have done quite a bit of agonizing about how to handle that. As you noted, the report was sent to the Economic Research Service, and they did, I think, a very commendable economic analysis. But the report went back through the system on the research side, and the research people thought it wasn't appropriate for them to provide recommendations so the report was sent to the Hill, back to you, without recommendations. So now it has been brought to my attention that we do need to provide some recommendations and that the policy folks need to get together and sit down and do that. So we will try to do that as soon as we possibly can. This is a very difficult issue. I have met with all of the people, we have had hearings. You know the history of it very well. I am not sure that we are going to have any innovative or any new thoughts that are going to be the silver bullet that is going to please everybody, but we will take a look at it and we will try to provide some recommendations as the law requires just as quickly as we can.

Mr. STENHOLM. Don't give up on finding that silver bullet too quickly.

Mr. PENN. I have agonized over that a lot. I don't see it, but we will keep looking.

Mr. STENHOLM. Well, I have to say we haven't found it either, but we are going to keep looking with you. We were hoping you would.

Finally, you mentioned in your statement that \$1.2 billion in payments have already been paid on the quota buyout. Does this indicate nearly all quota owners elected to receive the buyout as a lump sum rather than the 5-year payout?

Mr. PENN. It does. I think the estimate was that \$1.3 billion would be required to pay everybody and the quota holders have elected to take the payment immediately. As you know, it could have been spread over 5 years. So we paid out \$1.2 billion of the \$1.3 billion, so that is virtually all of them.

Mr. STENHOLM. Thank you. Thank you, Mr. Chairman.

Mr. MORAN. The gentleman from Montana, Mr. Rehberg.

Mr. REHBERG. Thank you, Mr. Chairman. We don't need to go through my arguments against CRP again, but I want to point out something that I think is kind of unfair that I think is existing out in the marketplace at this time with CRP and haying and grazing. My neighbor—I will make this personal. This is not an exact example, but let us just say my neighbor has CRP and I have livestock. Well, he is in competition with me when he opens up that ground for haying or grazing, which we do for disaster purposes, and that is fine. Let us say then I don't have enough grass and so I pay his 25 percent loss or payment. He turns around to the program then and gets repaid. So there is an instance out there that is occurring where he is getting 125 percent on his CRP, and me, as the livestock owner, is out of luck. Has the Department recognized this problem and are you trying to do anything about that?

Mr. PENN. I think we have recognized it, and it is another instance where no good deed goes unpunished. There are a lot of producers that have livestock that are suffering from drought and need extra assistance, and we have tried to use the program flexibilities that we have to provide extra assistance. But as you note, in some cases, it can be misused. We are aware of this situation but I, frankly, don't know what we can do in terms of the authority that we have to correct it.

Mr. REHBERG. I would like to think you could make the financial assistance follow the livestock as opposed to follow the CRP. The CRP was set aside for a particular purpose and it wasn't to receive additional benefit from another segment of the agricultural community during times of disaster.

Mr. PENN. OK. We can examine that.

Mr. REHBERG. I would hope that you would look into that because it is particularly concerning to those of us who aren't purely grains or aren't purely livestock but have combinations in farms and ranches that are neighboring that have this particular problem.

You know, I ran into a statistician one time. He would define a situation, he would say, you know, if your head is in the refrigerator and your feet are in the oven, on average, you feel pretty good. Well, that is kind of what is happening to us on disaster payments as well in Montana. I understand you are using the national average price. The problem is for those of us who live in remote areas of this country, we are captive shippers. We have had a lawsuit going on forever having to do with grain shipping, and we have terminal problems, and we have lines shutting down. Why can't you look at the regional price or the State price as opposed to making us all equal, because we are not the same as Kansas, and Nebraska, and Minnesota.

We are kind of at the end of everything. We are a long way from barges and certainly a long way from the terminals out in Seattle. And our transportation costs ended up being more, so while we sell our wheat at a higher price at the State level, you are hurting us by requiring a national average price on disaster assistance. So it might look like we are making more, but we are not in the end. And it seems like you would have the ability to fine tune that disaster payment a little bit.

Mr. PENN. Well, Congressman, as we go through these programs, we are always finding something new, and this is the first time that in these kind of programs where the use of a State price versus a national average price has been a major factor. I agree with your arguments. I mean, in the case of wheat and in the case of Montana, there are some particular circumstances there that make the case just as you state. But there are other considerations. As you know, the legislation requires that no producer receive more than 95 percent, and so if we use State prices all across, I am told that the cap wouldn't affect anybody, that there would not be any cap, so we would have another case like you were describing earlier, where some people would get a lot more benefit than was intended.

And I am also told that we use national prices to be consistent with crop insurance. The same conditions that you mentioned apply for crop insurance, we have different situations in different localities all across the country, yet, we use one price for the crop insurance policies. And so we try to make these disaster programs follow as closely to the crop insurance program as we can, so I understand those are the reasons going in that we use the national price rather than the State price.

Mr. REHBERG. And thank you for your earlier comments about crop insurance, and I appreciate Mr. Peterson's comments as well, thanking you for trying to make the formula work and be fair. I guess I wish I had paid better attention to my ag econ classes in college, because you almost have to be an economist to understand what is going on. Specifically, can you tell me that there is no penalty for the price of the crop insurance in the ultimate payment? I understand that there shouldn't be, but I am not following this very well. Maybe I can sit down with some of your folks later on and you could explain to me just exactly how they are not penalized for purchasing crop insurance. Because it seems like I am told that they are not supposed to be penalized for the actual price of the crop insurance, but I am not following that.

Mr. PENN. OK. We would be happy to do that.

Mr. REHBERG. And I can tell you my producers in Montana are not. I am getting calls daily from grain growers that are pretty upset about it, and if they don't understand it, then there is something wrong, because they are all smarter than I am on this kind of thing. Thank you, Mr. Chairman.

Mr. MORAN. Thank you, Mr. Rehberg. The gentleman from California, Mr. Dooley.

Mr. DOOLEY. Thank you, Mr. Chairman, and thank you all for coming out to testify. I guess in your testimony, Secretary Penn, you talked about the milk income loss contract program and the fact that we have already extended \$1.3 billion in payments on that, which when we did our baseline on that, we projected over the entire life of the program that we would only spend 963 million. And here we are hardly even a year into this program, and we have already exceeded our 4-year totals. How did we miss this projection by this amount?

Mr. PENN. That is a very good question. My understanding is, with respect to the numbers first, is that the CBO score for this program, for the 4-year life of the program, was \$1.6 billion, and

we have, as you correctly noted, already expended \$1.3 billion. I think unofficial estimates now would suggest this program is going to cost more than \$4 billion over the 4-year life. So it is going to cost a multiple, several times of what it was originally estimated to cost. The reasoning for that, I think, is simply that milk prices have been far lower than were used in the projections to determine the cost of the bill. The milk prices have been lower, the gap has been wider, therefore, the payments have been higher.

Mr. DOOLEY. What has been happening with the production? Are we seeing any decline in production as a response to the lower prices in the marketplace?

Mr. PENN. No, we are not, and some analysts would suggest that that is partly a consequence of the program. We are operating—I don't want to get into dairy policy. I am not an expert here and you can get in a quagmire very fast, but just on the principle of it, for dairy, we are operating both a payments program and a price support program; not a marketing loan program, but a true price support program. So the payments, on the one hand, put the foot on the gas pedal and encourage production. And that production then, of course, pushes down price. That requires USDA to buy more products off the market and to store them in order to maintain the—

Mr. DOOLEY. What has been happening in the last year in terms of the support price and the purchases of butter, and powder, and other milk products?

Mr. PENN. Well, the support price, \$9.90 a hundredweight, has remained the same. But with the additional production, of course, the prices have moved lower for all products and our purchases have increased, nonfat dry milk, cheese, butter, the quantities that we—

Mr. DOOLEY. How much powder do we have in storage now that the Government owns? Do you know?

Mr. PENN. At this moment, we have 1.1 billion pounds of nonfat dry milk in storage.

Mr. DOOLEY. What is the annual production of powder? Do you know?

Mr. PENN. We consume—I don't know the production, but we consume on a commercial basis about 750 million pounds each year.

Mr. DOOLEY. So we have well over—we have at least 160 percent of consumption in service owned by the Government now of powder alone?

Mr. PENN. That is right.

Mr. DOOLEY. Do we have much butter in storage?

Mr. PENN. Not nearly of the same proportion. We are accumulating butter now, but we don't have nearly that amount.

Mr. DOOLEY. Well, if one steps back, it looks like—and we are trying to do analysis and maybe a little bit of a retrospective of this policy that we put in place. We now have taxpayers who are spending \$1.3 billion in about a year in terms of payments to producers. We are seeing, actually, milk production not responding to market prices. In fact, production is increasing so taxpayers are also spending additional money to purchase powder, which we now have over a year-and-a-half supply of power on hand. I guess, you know, how

would you evaluate, you know, the efficacy of a program that is putting taxpayers on the hook for billions of dollars and sending a message to producers to keep producing more, you know. Should we be making a change in this program?

Mr. PENN. Well, I think one of the fundamental principles of all of these programs should be that we make them as market oriented as possible, that we have producers respond to market signals. And the way this particular set of programs is configured, masks the market signals that producers receive.

Mr. DOOLEY. Will the Department or the administration be offering suggestions on how we might be able to modify this program?

Mr. PENN. I think we could, but these programs are the product of the Congress, as you well know, and if we are asked, I think we would have some ideas and suggestions for how we might make some modifications.

Mr. DOOLEY. Well, you can be assured I will be asking for some suggestions on that.

Mr. PENN. Thank you, Congressman.

Mr. MORAN. A different subcommittee, Mr. Dooley. The gentleman from North Dakota, Mr. Pomeroy.

Mr. POMEROY. I thank the chairman. You are aware the House passed budget would direct about \$19 billion to be taken from the future funding of the U.S. Department of Agriculture, Dr. Penn. Will it be possible to continue out into the future, funding a farm program with those kinds of cuts coming down on USDA?

Mr. PENN. I think so. It depends on the amount of reduction in any given year, but as I noted in my remarks, the 2002 farm bill increases spending, the funding allocation to Agriculture, by over 75 percent. So this would be a substantial reduction, but I think the programs could be reconfigured in a way that that could be managed.

Mr. POMEROY. Specifically, the price level of support under the existing program will have to be significantly reduced. Is that where you get the reductions in the Farm Program?

Mr. PENN. Well, \$19.1 billion spread over—how many years was that—I don't remember.

Mr. POMEROY. It depends. The actual budget would say 10, but then there is, I understand, a letter that says, well, we will crunch it into the last few years of the 10 years.

Mr. PENN. Yes. Again, it depends on the amount of reduction in any given year. There is some flexibility to adjust some of these programs. Others are structured sets that they can't be changed very easily. So it would depend on the amount of reduction that was required in any given year, and then we would have to see if we could factor down the programs to make it fit.

Mr. POMEROY. Right. And again, Dr. Penn, factoring down, basically, means lower levels of price support. Is that correct?

Mr. PENN. Well, it could mean lower levels of direct payments. It could mean alterations in the target prices under the counter-cyclical program. It could mean lower levels for the marketing loan program.

Mr. POMEROY. Bottom line, less support for our farmers, it sounds like. I appreciate the efforts you have made to bring on line the new farm bill. I will tell you about one area where in the High

Plains we had a little frustration working with the Department. This was in the areas of getting an appropriate loan rate set for several crops important to North Dakota. The crambe, which you proposed eliminating a loan rate for. Low loan rates for flax; in fact, commodity killer levels for flax. Split the oil and confectionery sunflower rates in a way that actually would have very substantial impact on oil seed production.

After repeated efforts to work with the Secretary to get these addressed, and what was amazing to us is we spelled out in the manager's discussion that was passed as part of the bill, it wasn't part of the text of the law, but the report language. It gave very specific direction in terms of how this should have been applied in the first place. Now, after nothing but fruitless efforts in our dialogue, but with the planting season approaching, we put the changes into the omnibus package and legislated what shouldn't have had to be legislated. I would hope as we continue to work on issues, we are not going to have to micromanage by statute things that might be administratively taken care of.

About the disaster bill, let me ask you how you are coming on the quality loss support within the disaster bill for this recently passed one.

Mr. PENN. OK. I am going to ask Mr. Little to respond to that.

Mr. LITTLE. That is the program that we will be announcing—I mean, we will start sign-up on June 6, so I mean, it is part of the package that we will be starting to implement right away.

Mr. POMEROY. Terrific. Will implementation be along the lines of what was finally resolved for the 2001 Disaster package?

Mr. LITTLE. It will be similar to that, yes, sir.

Mr. POMEROY. I would point that out as something very important to us because the initial effort at constructing the 2001 Disaster package conformed to, basically, crop insurance payouts. But crop insurance, basically, measures production in terms of bushels and does not, unless you are dealing with a price protection in a particular type of insurance coverage, did not capture the reduced value paid to our farmers at the elevator because of the disease discount. So the initial formulation of USDA was not acceptable. Now, working with RMA, this was a case of a successful outcome. I, certainly, don't mean to imply that there aren't successful outcomes, and we do have now a quality loss provision that does respond to the real loss of farmers uncompensated by insurance but covered at the elevator. I think that if you stay on the track of this previous disaster bill in addressing the quality loss, we will be along the line of pretty good shape.

Mr. LITTLE. Yes, sir.

Mr. POMEROY. Is that in your intention?

Mr. LITTLE. I will be honest. We don't have the regulations ready for publication yet. We are still establishing some of the policy, but it was my understanding that the quality loss would be similar to the last one that we did.

Mr. POMEROY. Thank you very much. Thank you, Mr. Chairman. I yield back.

Mr. MORAN. You are very welcome. The gentleman from North Carolina, Mr. Etheridge.

Mr. ETHERIDGE. Thank you, Mr. Chairman. Thank you for this meeting today. Mr. Under Secretary, I am going to be pretty specific with some of my questions, and if you don't have the answers, I can just take them in writing later if we can get them.

The Department is delivering disaster assistance the Congress passed last year, and I am going to make it a little more specific to North Carolina, because those are the issues that I hear about. North Dakota might have theirs, and Kansas, but I was dealing specifically with the—and you talked earlier about, I believe it was FSA, the 1,000 staff have been added. My question is pretty specific, though, to North Carolina.

How much money has been allocated? Can you give us a breakdown on how much has been spent, how many additional personnel have been hired or temporary people have been allocated, and how much of that is committed to equipment, or do those local offices have the option to do either or, because I continually get complaints.

As you know, North Carolina is different than a lot of other States because of the multitude of having to come into the office, make the complaints, and for the planning that is now getting ready to go. And also, while I am asking that question, let me go additional of if they can't have the discretion, it can be temporary or otherwise, is that the discretion of the local office, is it set at the State office, or is it set in Washington?

Mr. PENN. Well, you are right. The questions are very detailed and very specific responses. We will give you a written response to those, but Mr. Little can comment on the management aspect.

Mr. LITTLE. I can, first of all, tell you that we paid out about \$214 million so far in total for North Carolina. As far as the staffing goes, we are pretty much limited. Except on a case by case basis, we can provide additional permanent staffing. Our people in Washington, DC work with the State Director, Mr. Weatherly, in justifying additional permanent staffing. The majority of the staffing that we are—

Mr. ETHERIDGE. No. My question—permanent is one part; temporary is the big issue. I think most of them are just looking for temporary staff to get through the tough times.

Mr. LITTLE. The flexibility is within the State office and the State office works with the counties in getting it allocated to the individual counties.

Mr. ETHERIDGE. OK. If you will just give me that in writing, that will be helpful.

Mr. LITTLE. Yes, sir. We will do that.

Mr. ETHERIDGE. All right. There is also a great deal of concern, and you maybe can help with this, Mr. Little, as relates to sign-up on crop disaster assistance programs. It will be in June?

Mr. LITTLE. Yes, sir.

Mr. ETHERIDGE. Plus the farmers are filling out crop reports for the deadline of June 30, so they have got a heavy load coming for a lot of these offices. My question is can this deadline, or do you anticipate this deadline if they get into trouble being able to extend it or give them additional time to get through it, because there are unique problems in North Carolina as relates to this?

Mr. LITTLE. I am not real sure about the June 30 deadline.

Mr. ETHERIDGE. You will research that and get back to me?

Mr. LITTLE. Yes.

Mr. ETHERIDGE. That will be fine. My next one is for Mr. Davidson. I am glad you are here today. Thank you.

Mr. DAVIDSON. Thank you.

Mr. ETHERIDGE. I am glad to know you are going to be coming back joining us. Last month, several of my colleagues joined me in writing in asking about the possibility of RMA allowing peanut growers who insure their contract peanuts at prices equal to contract prices. I have not had a response from that yet. I anticipate it is coming.

Mr. LITTLE. Yes, sir.

Mr. ETHERIDGE. However, the CEO of the North Carolina Peanut Growers Association has received a response to the very same question, so I am glad you have gotten that response to him. I assume mine will be forthcoming. But in your response to him, you said the peanut crop insurance program insures peanuts and RMA's best estimate of the projected season average price. If that is the case, OK, that is the case, and you may want to research this one, too, before you answer.

Mr. LITTLE. OK.

Mr. ETHERIDGE. Why do North Carolina farmers have to insure their peanuts at, say, 17.75 cents, when they contract the peanuts at 25 cents, which would mean the market average is going to be 25 cents, which means—now, someone said earlier, it may have been Mr. Penn or someone, that as we are talking about a national issue, this is a classic example of a farmer, of a group of farmers, a whole State, being penalized at following regulations. So what are the possibilities if you aren't now doing it? I know we can't go back in the past, but we certainly ought to be able to look forward for RMA to be able to provide the availability of having crop insurance for contracts for 2004 crops. This year it really would have been their contract issue.

Mr. DAVIDSON. You are right. We will need to look into the details of that, but I do know in dealing with the price elections, that we do have some of the same problems of averages, regional averages and State averages not really matching local prices because they get swallowed up in the averages, but I will be happy to look at that.

Mr. ETHERIDGE. If you review that, and if I get that in writing, I would certainly appreciate it.

Mr. DAVIDSON. Yes.

Mr. ETHERIDGE. Thank you, sir. Thank you, Mr. Chairman.

Mr. MORAN. You are welcome, Mr. Etheridge. We are also joined by a member of the full committee, Mr. Ballance, also of the State of North Carolina. Mr. Ballance, we would be glad to give you the opportunity to ask questions of our witnesses.

Mr. BALLANCE. Mr. Chairman, I appreciate the opportunity, but I will decline. I am glad to be here and listen.

Mr. MORAN. Thank you very much. Mr. Johnson.

Mr. JOHNSON. Mr. Chairman, I appreciate your convening this meeting and these esteemed guests, and you are to be commended in your role, and I am here to listen and educate myself as well.

Mr. MORAN. I thank you, Mr. Johnson. Thank you, Mr. Ballance, for joining us. I think we have a few more minutes. It is anticipated that the House will have votes sometime starting between 11:15 and 11:30, and let me see if the Members who remain have any additional questions. I do that because I do, and let me see if anybody wants to join me.

Reconstitution has been an issue, and you just might bring the subcommittee up to date on where we are on allowing farmers to reconstitute their farms.

Mr. PENN. OK. Jim.

Mr. LITTLE. OK. Actually, the software is going out today, so we can reopen it up for the 2003 crop year.

Mr. MORAN. We scheduled our hearing today so you would have the opportunity to tell us that.

Mr. LITTLE. Every time I go to the field, that is one of the first questions, the first thing they complain about, is not being able to reconstitute, so they should be able to do it today.

Mr. MORAN. Very good. You have mentioned an additional CRP sign-up, and I was intrigued by the suggestion that that sign-up will be announced prior to June. Any comments on the opportunity to hay and graze existing CRP grass?

Mr. PENN. Well, first on the sign-up, as you know, as we have discussed here all morning, we have been working very hard to get producers through the local offices, and now we have got the disaster assistance package producers have to come in, so we are trying to take into account the workload, and the traffic flow, and all of those things in determining when is the most appropriate time for another general sign-up. We are looking at weather conditions now. The Secretary announced earlier this week that she has established a drought monitoring council, and we are going to try to be as proactive as we can and look at the weather conditions to try to take steps to make available emergency haying and grazing as soon as we can so that we get the maximum benefit, the producers who are still suffering from multiple year drought.

Mr. MORAN. Thank you, Mr. Under Secretary. With Ms. Terpstra here, I wouldn't want her to feel neglected, and a couple of questions in regard to the trade area. Mr. Under Secretary, in your testimony, you talk about additional funding for purposes of exports. How are those dollars going to be spent? Do we have a game plan?

Ms. TERPSTRA. We have a number of programs that were included in the farm bill that we have moved ahead to implement. One that I think you mentioned in your testimony is the Task program for fruits and vegetables, which was a brand new program allocated at \$2 million. That we implemented for the last fiscal year and will move ahead this year. There is also increases in funding in there for our market access program, as well as continuing the market, the Foreign Market Development program. Those are all going through the application process right now and we expect those funds to be allocated to our cooperator groups in a timely manner in the coming months.

Mr. MORAN. During the discussions of the prior and following passage of the farm bill, there was suggestions that the farm bill might cause difficulties in our agreements under WTO. Any evidence that that is or will become the case?

Mr. PENN. Well, let me just offer some remarks, and Ms. Terpstra can add to them. As you know, our farm policy had been on a trend toward less government involvement and less spending since 1985. And so the world had sort of taken account of this, that we were on a downward trend. And then the 2002 farm bill increases the amount of funding for our farm sector, which causes the trend to reverse and begin to rise a bit. And the world took note of this and we were very severely criticized because we increased spending for agriculture. But we very quickly pointed out in every board that we could find around the world that we were still well within our limits, that we were not in violation of the WTO, that we didn't intend to violate any of the previous agreements. And I think that we have pointed out how inequitable the situation is in that even though we have increased our spending, it is still far less than the European Union, it is still far less than the Japanese, and so we have tried to make the point that we want to support our producers to the fullest extent that we can and still stay within the confines of the previous agreements. At the same time, on the trade front, we have said that we are quite willing to reduce our domestic support if the rest of the world will do the same and if the rest of the world will provide the same access to their markets that we are giving people to our markets in food and agriculture.

So the short answer is that I think we have overcome that criticism and I think we now have some good explanation of that in the international community.

Mr. MORAN. I think that is a good explanation, and it reminds me that even in Congress the farm bill is from time to time critiqued as spending more money on farmers, and with market conditions in many instances that has not been the case. And it is not a story that, in my opinion, we have told often enough. Mr. Peterson.

Mr. PETERSON. Thank you, Mr. Chairman. I just want to point out that, theoretically, we were on the route to less spending, but we have to remember those last couple of years before the farm bill, we spent a heck of a lot of money trying to keep everything afloat, a lot more than we have ever spent before, I think, in the history of the farm program. So you could argue we are actually spending less with the new farm bill than what was happening.

Mr. PENN. I have made those arguments from time to time.

Mr. PETERSON. Can you tell me, Mr. Penn, where the regulations for the CCC bio-energy program are in the process?

Mr. PENN. I can. The regulations right this minute are at the Office of Management and Budget, and we are having discussions with them almost on a daily basis now to try to expedite their consideration and to be able to publish the regulations.

Mr. PETERSON. Do you have any idea when that will happen?

Mr. PENN. Well, I would rather predict the weather than predict what OMB is going to do, but I think it will be fairly soon. We have a good relationship with them and we are working closely with them to move these forward.

Mr. PETERSON. And back to CRP again, I assume if you are going to have the sign-up, that there is not going to be opportunity for extension of CRP, where in the past, when the contracts have come

to the end, some years we have allowed a 1-year extension. I assume that is not going to be the case if you are going to have a sign-up.

Mr. PENN. That is right. If we can get the timing to work out, then we wouldn't have an extension. But if it doesn't work, we may have to have a 1-year extension.

Mr. PETERSON. OK. So we will just have to see how that goes.

Mr. PENN. Yes, sir.

Mr. PETERSON. This isn't related to this committee either, but where are you at with the regulations on the Conservation Security Program? How long is that all going to take?

Mr. PENN. Well, as you know, the Conservation Security Program was not defined to the same extent in the farm bill as some of the other programs, as Congressman Pomeroy mentioned. So more latitude was given to the Department to try to develop the specific program details, and so we are very aware of the need to get that done quickly. And since it is applicable to 2003, we are now focusing on that. There was a Federal regulation published asking for comment. We received a considerable amount of comment. That deadline was extended for an additional 20 days, and I can't remember the exact dates, but I think that closes along about now, so I assume that all of the comments that have been received over the period will now be evaluated and they will move to issuing the regulation just as quickly as they possibly can. They are very aware of the interest.

Mr. PETERSON. Do you have any estimate of when that regulation will become—

Mr. PENN. No. That is in another missionary and I am really afraid to commit my colleagues to something. I can't say, but it is a matter of weeks.

Mr. PETERSON. And then when the regulation is put forward, there is a comment period at that point again for 60 days or something?

Mr. PENN. No, I don't think so. I think it will be the final—I am sorry. It is. This is a proposed rule so there will be another—

Mr. PETERSON. Another comment period, so we are a ways away from actual sign-up?

Mr. PENN. Yes.

Mr. PETERSON. Well, it sounds like it is not going to happen this fiscal year probably.

Mr. PENN. Well, I think the intention is to try to get it this fiscal year.

Mr. PETERSON. Before September 30?

Mr. PENN. I think that is the intention, yes, sir.

Mr. PETERSON. OK. Thank you, Mr. Chairman.

Mr. MORAN. Thank you, Mr. Peterson. The gentleman from Michigan.

Mr. SMITH. Thank you, Mr. Chairman. As we go into trade negotiations and we talk about reducing subsidies, it seems reasonable that we should be very well informed in what crops would the farmers in the United States have a competitive advantage in terms of knowing what the cost of production is for each crop in the United States compared to what the cost of production is for those crops that go in export competition with us in other coun-

tries. My impression is we don't have a lot of detail on that. Is that right or wrong?

Mr. PENN. Congressman, you and I have had a lot of correspondence on this very topic, and we have tried at your urging to pull together and synthesize the available information that we have, not only from USDA but from the land grant universities, and the institutes, and think tanks, and elsewhere. I think we do have a considerable amount of information on our cost of production up to the farm gate. We have a considerable amount of information on cost of production in many of our competitor countries up to the farm gate. I think one of the areas in which we are still lacking is the cost of moving that product from the farm gate into an export position or to the ultimate consumer. And I think we are probably better suited in the United States in that regard than a lot of other places. A lot of other people may be good producers, such as Brazil and Argentina, for instance, on certain crops that we also produce, but their infrastructure is not developed so their costs of movement are much higher than ours. And it is these kind of comparisons that I think we need to focus on to do a much better job.

Mr. SMITH. With your permission, Mr. Chairman, would you make what information you have available on where we stand in terms of cost production with other countries that are competitors in the export market on our major commercial crops?

Mr. PENN. Yes, sir. We will be happy to provide you the information.

Mr. SMITH. As you know, Senator Grassley and I think that million dollar payments to farmers probably aren't the best policy for a Federal Government program. And so when we talk about maybe cutting down, would the Department have a position on, say, limiting price support payments to whatever, \$0.5 million, but including certificates within that limitation?

Mr. PENN. Well, Congressman, as you know, the farm bill included a requirement for payment limits commission, and we have the chairman of that commission with us here, Dr. Collins, the Chief Economist for the Department. But he and his commission are right in the middle of those deliberations at this point.

Mr. SMITH. Of course, the direction of the farm bill didn't talk about whether the Federal Government—whether it is good policy or not for the Federal Government to do that. As I recall, it said, specifically, what is the effect on the local economy and what is the effect on total agriculture production. It just seems, I mean, as far as I am concerned, it is reasonable to have whatever the limit is, \$0.5 million.

But in that regard, I am also concerned, Mr. Little, with the hoops that we make farmers jump through to make their partners, or their wives or husbands, their spouses, as a second eligible producer according to the payment limitations. It seems to me that we make farmers jump through a lot of hoops, and so they pretend that the spouse invests money and then later they pay it back. It seems reasonable, and I would suggest that almost every spouse, in most cases wives, are an integral part of that farm operation and just, if nothing else, in terms of keeping the sanity of their spouse to keep farming.

I would like you to look at some of those regulations because it seems to me we go further than we should in terms of allowing that spouse the eligibility to come within as a second producer.

Mr. LITTLE. Yes, sir.

Mr. SMITH. Thank you, Mr. Chairman.

Mr. MORAN. You are welcome, Mr. Smith. The gentleman from Washington, Mr. Larsen.

Mr. LARSEN. Thank you, Mr. Chairman, and I want to thank the panel for coming up to the Hill today to help us understand the implementation of the farm bill. Just one note, I am working out in my April recess to get over to Spokane, Washington, which is on the other side of my State, but where the regional office of FSA is located, to sit down with your people there just to say hello and get a feel from the regional office about what they need in terms of help. And also, obviously, communicate what I am hearing from farmers in my area and around the State as well, and I am looking forward to that, and we are sorting it out, and I appreciate the co-operation from FSA on that very much.

I have a question about a program where we have been talking hundreds of millions of dollars and billions of dollars here. I want to ask a few questions about a fairly relatively small program in terms of dollar amount but a relatively important program for many of the farmers in my district. There is a lot of diversity in my district in terms of farming a lot of specialty crops. And I note in your written testimony about the Technical Assistance for Specialty Crops and noted that there are 18 organizations that have received funding, and I was wondering if you could provide some specifics on that.

And also, with regard to implementation, what kinds of projects, how the success of that is going to be measured. And also, it is maybe too early to answer the question, but is \$2 million a year enough of an economy to scale to really make this program work. If it isn't, where do we go from there? If it isn't, then do we work with MAP and FMDP to get specialty crop farmers more involved with that or where do we go from here? It might be too early to answer that. It might be 3 years before you can answer that, but can you give me some of your initial thoughts on those questions?

Mr. PENN. We can provide you some detailed information as to the kinds of projects and the number of organizations and all that, but Ms. Terpstra oversees that program, as you know, and is quite prepared to give you some initial impressions.

Mr. LARSEN. I appreciate that.

Ms. TERPSTRA. Thank you. This was a program that we allocated the first awards for in October, and those projects are ongoing this year. We are now going through, actually, coming out with the final regulation. We did the initial part under an interim regulation and will be soliciting for this year's group of proposals very shortly. It is one that we want to—we think it fills a very important need. There is certainly a lot of technical issues; particularly, sanitary issues that this very directly will help us eliminate trade barriers or move towards eliminating the trade barriers that are caused.

So I think we would like to look at how the first year's project have been implemented, what their effect has been, and then look

at what we will be receiving this year for applications. I think if it is true as it was last year, we will get a far greater number of applications than we will be able to meet with the current ceiling of \$2 million for this program every year. So I think we would look forward to working with you as we see how the first year's program goes and what the applications are for the second year.

Mr. LARSEN. How do you—well, I don't believe that we put in the farm bill, specifically, a requirement that you study tasks and report back, I don't recall, but I assume that you will do something along those lines. Is that something you do internally? Do you do it with IG, do you do with, you know, DOs? I guess we would make a DO request.

Ms. TERPSTRA. Right.

Mr. LARSEN. Is that something you do internally?

Ms. TERPSTRA. Well, we will be happy to come meet with the committee, and talk with you as well, in terms of how it is working and look for suggestions for improvement.

Mr. LARSEN. OK. Well, I appreciate that. Again, you know, small in dollar amount relative to some of the other numbers we have been talking about, but very important to, obviously, a very large group of farmers in this country as a whole, and certainly the folks in my district. So I would appreciate the attention that you can give to it. I am certainly paying attention to it because I know farmers in my district are very interested in seeing something like this happen. I appreciate that. Thank you.

Mr. MORAN. Mr. Larsen, thank you. Mr. Peterson.

Mr. PETERSON. Yes. Excuse me, Mr. Chairman. I guess there is one more thing that we need to go over here. I hate to prolong this, but since it has been a number of years since we had producers file these acreage reports—apparently, we got them in 1996 and now we are putting them back in place. And I guess I understood you to say that June 30 is going to be the deadline or something. How do you intend to get the word out to these producers about this requirement, because they haven't had to do this? Do you have any sense of the timing, whether the timing is going to put additional burdens there for these offices that are trying to do the regular sign-up, trying to do the disaster, you know, and then go to June 30 and have the State and county offices staff trained on how to do this process so it is kind of an update on how that is all doing?

Mr. PENN. Well, this is a return to a previous requirement, as you note. We have had a series of deadlines. April 1 for updating bases and yields, June 2 is the deadline for producers to sign their contracts so that they can receive the benefits, and then there is the deadline for these acreage reports, and I think these deadlines vary by State, by region, and depending on the crop. So we are going to begin publicizing this through our normal procedures and make sure that everybody is aware of the deadlines. And we have had a lot of discussions about the best way to do this and the penalties that may or may not be involved. So we have been focusing on this, but frankly, our attention at this point has been to get everybody signed up by April 1 and get the contract signed by June 2. So now we turn our attention to that.

Mr. PETERSON. Has there been any publicity put out, or when they go into the office to do this initial base update, are they being told at that time that this is a requirement, do you know?

Mr. LITTLE. Yes, sir. It has been referenced in our newsletters, but we do have some flexibility in extending those dates.

Mr. PETERSON. But you don't know if they have actually been telling them, well, this requirement is going to there again so you should—

Mr. LITTLE. Yes, sir, it has. They have been notified, yes.

Mr. PETERSON. Thank you.

Mr. MORAN. Mr. Peterson, thank you. Mr. Under Secretary, any concluding remarks?

Mr. PENN. No, sir. Again, we appreciate the opportunity to come and give you a status report. And as I said on these two pieces of legislation, we think that we have got a good story to tell, but we know there are always ways in which we can improve these things, and we do appreciate your working with us, and we value your suggestions and guidance and that of the staff. And if you have ways in which we can improve what we are doing, we are certainly eager to hear about it. And we would look forward to another opportunity to come back and give you another progress report later in the year.

Mr. MORAN. Mr. Under Secretary, thank you for making this hearing possible in your schedule. I appreciate your colleagues joining you, and we look forward to working with you to take care of farmers and ranchers of America.

Without objection, the record of today's hearing will remain open for 10 days to receive additional material and supplementary written responses from the witnesses to any questions posed by a member of the panel. The hearing of the Subcommittee on General Farm Commodities and Risk Management is adjourned.

[Whereupon, at 11:33 a.m., the subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

STATEMENT OF J.B. PENN

Mr. Chairman and members of the committee, thank you for the opportunity to be here today to discuss the implementation of the Farm Security and Rural Investment Act of 2002 (2002 farm bill) and to provide an update on our efforts to implement the Agricultural Assistance Act of 2003. My remarks will focus mainly on the portions of the legislation that are the responsibility of the Farm and Foreign Agricultural Service (FFAS) mission area. I have with me today the Administrators from the three agencies in the mission area: the Risk Management Agency; the Foreign Agricultural Service; and the Farm Service Agency.

The 2002 farm bill made significant changes to agricultural policy and the benefit delivery system. The bill contains 10 titles in all, including commodities, conservation, agricultural trade and food aid, and farm credit, each of which is the primary responsibility of the FFAS mission area.

The programs and services of the FFAS mission area are central to the Department of Agriculture's efforts to meet the challenges of the 21st century and enhance economic opportunities for our Nation's farmers, ranchers, producers, food processors, transporters, exporters, and the entire food chain. The wide range of services provided by the mission area is to help the future economic health of American agriculture. These include the safety net programs of price and income supports for producers; credit assistance for our Nation's most needy farmers and ranchers; risk management tools that help producers manage the natural and market risks of farming; and trade expansion which helps develop new markets for the output of our farms and food system.

FARM BILL IMPLEMENTATION

On May 13, 2002, the 2002 farm bill was signed into law by President George W. Bush, the latest that any farm bill legislation has ever been signed into law and made applicable to the same crop year. But, while the legislation was being developed, USDA had already begun the process of ensuring timely and efficient implementation of this complex legislation. The Secretary immediately established a senior level task force to coordinate and monitor across mission areas and ensure the bill's efficient and timely implementation. Our efforts over these last 10½ months have been dedicated to meeting Congress's and the farm community's expectations.

The Farm Service Agency (FSA) has the lead role in delivering farm program assistance. Before the law was completed, our employees spent countless hours working closely with Members and their staff to assist in developing the bill's provisions to ensure our understanding of the Congressional intent. Once the implementation process began, we continued our interaction with the Congress, and with the many stakeholders to ensure fair and equitable regulations consistent with the tenets of the law.

How well we have succeeded in our efforts, of course, is for others to decide. However, we believe we have compiled an impressive record of accomplishments which I wish to review briefly with you today. The complicated mainstay of the legislation—the Direct Payments and Counter-Cyclical Payments Programs—are now in place with benefits available to producers. Farmers were given the option, for the first time in many years, to update the production history on their farms. They could choose to update their planted acreage bases and their crop yields to reflect the most recent four years (1998–2001). This aspect of the new law was substantially completed on April 1. Some 2.1 million farms were eligible. Signup began within 5 months (October 2002) and payments within 6 months from enactment of the legislation. About 77 percent of the producers elected to update their base and yield selections. The final step is for producers to sign their annual contracts indicating the options selected and compliance with all the regulations. This must be completed by June 2, and 61 percent already have completed their contracts.

The complexity of the program and the heavy workload in many county offices made it impossible for some producers to complete base and yield selections by the April 1 deadline. However, this number is less than 6 percent and we have accommodated them by scheduling meetings to complete this process within the next few weeks. This will enable all producers to enroll and complete contracts by June 2. Some 20 percent of producers elected to not update and will continue their historical bases and yields authorized under the 1996 Farm Federal Agriculture Improvement and Reform Act of 1996.

Producers who have completed their contracts have received direct payments totaling \$2.7 billion and counter-cyclical payments of \$1 billion. (Counter-cyclical payments, available only for crops whose market prices are less than the target price established in the law, are currently being made for cotton, rice, and peanuts.)

The 2002 law farm bill included a new program, the Milk Income Loss Contract Program—known as MILC. It is designed to compensate for low milk prices and is in addition to the traditional price support program. This has been a very popular program and attracted many producers to FSA offices for the first time ever, another important aspect of the FSA workload. Since last September, FSA has made nearly \$1.3 billion in payments to dairy producers under this program.

The new 2002 farm bill also made the most significant changes to the peanut program since it was established in the 1930's. It introduced the marketing loan program, nearly identical to other commodity marketing loan programs; made peanut producers eligible for both direct and counter-cyclical payments and provided for payments as a result of the termination a buy-out of the long-established marketing quota program. Under the quota buyout provisions, producers received a total of 55 cents per pound of quota either in a lump sum or in five annual payments of 11 cents per pound. The buy-out is essentially completed with over \$1.2 billion in payments already made, along with more than \$120 million in counter-cyclical payments. Producers were required by March 31 to assign historical peanut bases and yields to a specific farm.

The new farm act also continued the traditional commodity marketing assistance loan programs enacted earlier. These programs enable producers of certain commodities to obtain loans from FSA the Commodity Credit Corporation (CCC) while maintaining beneficial interest until they sell the commodity and repay the loans or forfeit the commodity and liquidate the loan. This program was expanded in the 2002 act to include pulse crops, wool, and mohair.

The Conservation Title of the 2002 farm bill expands funding more than ever before, an 80 percent increase over the life of the bill, largely focused on working

lands. It expands the Conservation Reserve Program (CRP) from the existing 36.4 million acres to 39.2 million acres. Last October, the FSA paid over \$1.6 billion in annual rental payments for land already enrolled in CRP. We now are working on a revised CRP rule, and we expect to promulgate the rule in the near future. In addition, we have entered into five Conservation Reserve Enhancement Program (CREP) agreements in partnership with Nebraska, Florida, Montana, West Virginia, and Ohio since the beginning of last year. CREP agreements represent joint undertakings by the Federal Government, States, and other stakeholders to address specific conservation objectives tailored for particular geographic areas. This program has been extremely beneficial in improving the water quality in our rivers and waterways and exemplifies the environmental improvement that can be achieved by a partnership among the Federal Government, States and private entities.

Mr. Chairman, since the 2002 farm bill was enacted less than a year ago, more than \$7.5 billion in benefits already have been distributed to our farmers and ranchers. The programs just described thus contribute importantly to the safety net now available to our farmers and ranchers. We are well pleased with the progress and manner in which this new law has been implemented.

We have updated thousands of lines of software code, and updated and published a record number of program regulations. We have utilized the new technology now available. For the first time ever, we have made extensive use of the Internet. This has enabled us to keep farmers and ranchers, as well as our employees in the field, fully informed about the new programs and provisions. We constantly updated the farm bill Frequently Asked Questions (FAQ) page, which has been visited literally thousands of times. Moreover, the new technology also enabled providing producers with highly useful tools to aid their decision-making such as the online Base and Yield Analyzer developed in conjunction with Texas A&M University.

The Department consulted extensively during implementation with the Congress and with stakeholders. We listened to all concerns and, wherever possible and practicable, established regulations and procedures that would meet producers' needs and satisfy the intent of the law, as well. For example, when we discovered that the requirements for establishing ownership control of farming operations was causing undue difficulty for farmers to enroll in our programs, we made adjustments.

Throughout, we have tried to implement all provisions as quickly and as efficiently as possible. The 2002 farm bill established new national loan rates for nearly all of the program crops and included loan rates for some new crops. In all cases, we have announced the requisite loan rates earlier than ever to enable farmers more time to make planting decisions. We also attempted to respond to producer concerns about geographic and other inequities and have made many adjustments.

The 2002 farm bill also requires the Secretary to develop a comprehensive management information management system for the Farm Service Agency and the Risk Management Agency. We have established an interagency working group and are moving expeditiously to meet this requirement. We are striving for an environment that requires data entry only once, eliminates redundant processes and reconciles similar data, while improving efficiency and timeliness of program delivery and overall cost.

Implementation of the 2002 law also involved the largest personnel training initiative in FSA's history. Education and outreach efforts were critical to the efficient implementation of the new and complex programs. FSA employees conducted literally hundreds of town hall meetings, many after business hours and on weekends. Many field offices partnered with farmer organizations, State Departments of Agriculture, conservation districts, and Land Grant, Historically Black and Hispanic Educational Institutions in conducting educational events. The Department also has conducted more than 10 major outreach briefings, mostly at Land Grant Institutions, intended to reach small and disadvantaged producers throughout the country. These concerted efforts are to ensure that all farmers and ranchers are well informed about the new programs and how best to access the benefits available to them.

The new law farm bill also established a commission to examine the effects of limitations on direct payments, counter-cyclical payments, loan-deficiency payments, and marketing loan gains by producers and other entities. Commission members were appointed by the Congressional Agricultural Committees and the Secretary of Agriculture and include farmers, academics, and commodity group representatives. FSA and other USDA personnel are providing extensive input/background information, including overviews and analysis of current payment limit rules and farm program operation. The Commission has met four times since January, and is expected to issue a report by the end of the summer.

Throughout the implementation effort, USDA has focused on customer service and a commitment to ensuring that all customers are treated equally and with dignity.

FSA's new Office of Minority and Socially Disadvantaged Farmers and Ranchers and a toll-free help line have made it easy for all farmers to obtain assistance without ever having to enter a county office. As of March 28, 570 inquiries had been received, and I am pleased to say that all of them have been acted upon. Also, I am pleased to report that a mandated report on FSA's County Committee structure has already been completed and in the Departmental clearance process. This report will be a valuable tool in ensuring that the Agency's grassroots structure is open to all producers, particularly to minorities, and that all are equitably represented in county committee operations.

The 2002 farm bill also established a new USDA position, Assistant Secretary of Civil Rights. President Bush's nominee Vernon Parker was confirmed by the Senate on March 27, and was sworn in on April 1 by Secretary Veneman. I am pleased to note that FSA already is engaged with Secretary Parker to address our civil rights challenges proactively and cooperatively.

EXPORT MARKETS

The 2002 farm bill also recognizes the importance of export markets to the vitality of the U.S. farm and food sector. The law reauthorized and in some cases modified longstanding programs such as Public Law 480, short- and intermediate-term export credit guarantees, the Supplier Credit Guarantee Programs, the Export Enhancement Program, the Dairy Export Incentive Program, the Market Access Program, and the Foreign Market Development Cooperator Program.

Let me highlight just two changes in existing programs. Both of our longstanding market development programs, the Market Access Program (MAP) and the Foreign Market Development Cooperator Program, received funding increases. Annual MAP funding, which had previously been set at \$90 million, increases each year rises each year to \$200 million in by 2006 and 2007 up from \$90 million a year. On August 12, USDA allocated the additional \$10 million in made available for by fiscal year 2002 funding.

The new law increases funding for the Foreign Market Development Program to \$34.5 million in 2006 through 2007, up from \$27.5 million previously.

On November 30, 2001, USDA has announced the fiscal year 2002 program level of \$33.5 million, allocated among 24 U.S. trade organizations.

The 2002 bill farm bill also authorized a new food aid effort activity, the McGovern-Dole International Food for Education and Child Nutrition Program, and a new market development program, Technical Assistance for Specialty Crops (TASC).

The McGovern-Dole International Food for Education and Child Nutrition Program replaces the pilot Global Food for Education initiative operated for the past three two fiscal years. This adds a fourth food aid authority to the existing P.L. 480, section 416(b), and Food for Progress. The new program is designed to encourage education and deliver food to improve nutrition for preschoolers, school children, mothers, and infants in impoverished regions. The McGovern-Dole program is authorized from fiscal year 2003 through fiscal year 2007. For fiscal year 2003, \$100 million in CCC funding is authorized to carry out the program provided for fiscal year 2003. Funding in subsequent years will be authorized made available through congressional appropriations, and the President's fiscal year 2004 budget requests funding of \$50 million for the program.

On March 26, USDA invited public comments on a proposed rule to implement the new program. Comments are due by April 25. We will then immediately evaluate the comments, prepare and publish a final rule, and begin accepting proposals for school feeding projects. We anticipate implementing about 15 school feeding projects this year that will provide 250,000 tons of U.S. commodities to needy children around the world.

The new Technical Assistance for Specialty Crops (TASC) program was established to address unique barriers that prohibit or threaten exports of U.S. fruits, vegetables, and other specialty crops. The legislation calls for \$2 million in CCC resources to be provided each fiscal year through 2007 to assist organizations in removing, resolving, or mitigating phytosanitary or related technical barriers to specialty crops. These crops include all cultivated plants and their products produced in the United States except wheat, feed grains, oilseeds, cotton, rice, peanuts, sugar and tobacco.

On October 1, 2002, USDA announced allocations of \$2 million in fiscal year 2002 TASC funding to 18 organizations for projects to help address current or potential barriers that hinder trade in specialty crops. The fiscal year 2003 TASC program will be announced in the near future.

DISASTER ASSISTANCE

As I mentioned, Mr. Chairman, the during 2002, some of the Nation's agricultural lands were afflicted by drought conditions. As of April 7, 2003, the Federal Crop Insurance Program had paid indemnities of nearly \$4 billion for losses incurred during the 2002 crop year. farm bill was designed to provide a safety net for our Nation's farmers and ranchers and minimize reliance on ad hoc emergency assistance. In addition, oOver the last year, USDA has utilized its resources to address the most severe drought situations in specific areas of the United States. For example, early last year USDA authorized emergency haying and grazing on selected Conservation Reserve Program (CRP) acres and, subsequently, authorized grazing on certain lands through December. Last year's swift action on drought also led to the very popular Cattle Feed Program which utilized surplus non-fat dry milk stocks to provide ranchers in Nebraska, Wyoming, Colorado, and South Dakota some \$150 million in feed relief. USDA also developed the Livestock Compensation Program (LCP), which provided \$854 million to producers in 1,825 declared disaster areas due to drought by the Secretary of Agriculture. The Agricultural Assistance Act of 2003 (part of the 2003 Consolidated Appropriations Resolution, 2003, Public Law 108-7, enacted on February 20, 2003) extends that programLCP to counties receiving disaster designation due to drought after September 19. Additionally, counties requested for a Presidential or Secretarial primary designation and that had been given disaster designation for any reason from January 1, 2001 through February 20, 2003 and subsequently approved are eligible.

Unfortunately, the drought persists into this year in some parts of the country, particularly the northern plains and northwest States. Secretary Veneman has established a senior level Drought Coordinating Council composed of nearly every mission area to closely monitor conditions and to develop timely responses using the existing authorities and resources of the Department as may be required.

The Risk Management Agency (RMA) is helping producers and lenders understand that producers qualify for drought coverage under crop insurance, including prevented planting. The agency has been working to encourage producers to ensure that their coverage is adequate to cover any losses that may be associated with the drought. RMA is also working with insurance companies to ensure consistency and equitable administration of crop insurance in drought-affected areas.

RMA has expanded insurance programs into many counties that have been affected by drought. An additional premium subsidy is being provided through the Agricultural Management Assistance (AMA) program for statutorily designated States, including Utah, Wyoming, and Nevada, which are three of the most severely drought-affected States.

As indicated, the Agriculture Assistance Act of 2003, contained in the 2003 Omnibus Appropriations Act enacted on February 20, 2003, provided resources for areas afflicted by drought in 2001 and 2002. Immediately upon signature by President Bush on February 20, 2003, FSA began implementing the new provisions. Utilizing the approach effectively used in the farm bill implementation, the same senior level group assumed responsibility for coordinating and monitoring the new provisions to ensure efficient and timely delivery of benefits.

USDA immediately launched a website <http://www.disaster.fsa.usda.gov>, giving producers a single location for accessing program details and answers to frequent questions, as well as for submitting suggestions for program implementation. Secretary Veneman also has held two radio press conferences to announce new disaster assistance information as soon as it is available. These efforts are intended to minimize confusion and enable producers to plan their operations using the additional assistance. We understand the importance of getting this information and the disaster assistance to farmers and ranchers as quickly as possible.

Despite the heavy workload in FSA county offices still conducting farm bill signup, we began implementing the new disaster assistance provisions far earlier than previous disaster packages, which took 5 months to begin for the 1999 and 2000 crops. In fact, signup for two of the programs has already begun—the Tobacco Payment Program (TOPP) on March 17, providing direct payments to quota owners and tobacco producers beginning in late May, and the expanded Livestock Compensation Program (LCP) on April 1.

Secretary Veneman announced on March 28 the parameters of the other disaster assistance programs. Signup for the Crop Disaster Assistance Program will begin on June 6 with payments following expected shortly thereafter. FSA now is preparing the regulations and developing new software required for issuing payments. Eligibility for this program requires producers to have purchased crop insurance or Noninsured Assistance Program coverage or to agree to purchase insurance for the next two years. (Any payments received must be refunded if a producer fails to com-

ply). FSA and RMA are working closely in the deployment of this program to get benefits to farmers and ranchers as quickly as possible.

The legislation 2003 act requires disaster payments to be calculated using the same a similar formula to that used for thefor the program administered for the 2000 crop year. Rules are not published, but we plan that Ccrop losses for 2001 and 2002 will be calculated using the price election for Actual Production History crop insurance policies (also known as MPCCI, Multi-peril Crop Insurance) or, if that price is not available, the olympic average of applicable market prices. The years 1996 through 2000 will be used to calculate the average, excluding the high and low prices and averaging the remaining three years. Crop disaster payments are also subject to a formula statutory restriction which states that the sum of (1) the value of the crop not lost (i.e., harvested), (2) the disaster payment, and (3) any crop insurance payment cannot exceed 95 percent of the value of the crop had there been no loss. Crop disaster payments eligibility will be reduced if the 95 percent limitation is exceeded. The crop not lost and determination of the 95 percent cap will be valued at the higher of either the Actual Production History price election or the NASS season-average price. We hope that this limitation, so construed, The intention is to provide assistance in a way that will not not discourage producers from purchasing insurance above the basic coverage levels in future years.

To expedite program implementation, FSA is drafting a single regulation to implement all components of the the 2003 act, including popcorn, crambe, and sesame seed programs; and the Livestock Assistance Program., and the sugar beet disaster assistance. Some of the statutory changes being implemented are, by the terms of the legislation, not effective until October 1, 2003 or are effective only beginning with the 2003 crop. Loan Deficiency Payments for crambe and sesame will be made for the 2003 crop. Popcorn producers will may, depending on the terms of the final rule, receive direct payments for both the 2002 and 2003 crops after October 1 based on 1998–2001 acreage history. The draft final rule for the 2002 crops is in the clearance process.

The Livestock Assistance Program (LAP) will reimburse producers for \$250 million in grazing losses and signup will begin this summer. This program is more complex to administer since payments producers already received under the Cattle Feed Program and the Livestock Compensation Program must be deducted. Therefore, the Livestock Compensation Program must, as a practical matter, be concluded before LAP payments can be made.

We have been working closely with all the producer groups in implementing these programs. We have received the recommendations of the sugar beet industry for the \$60 million assistance package that begins in June. Likewise, we have received recommendations for the cottonseed assistance of \$50 million provided in the new legislation. Cottonseed signup is being coordinated with the end of last season's ginning season and payments will be made in the summer.

Producers enrolled in the CRP are permitted to hay and/or graze livestock on enrolled land under certain natural disaster conditions but have their payments reduced. In doing so, the producers' CRP payments are reduced. The assessments now are to be refunded to producers under the 2003 act. In 2002, this practice haying and grazing was authorized for 1,825 counties nationwide, and payments were reduced by \$16.4 million. Notices have been issued and county offices will begin making the refunds as soon as possible.

The remaining Disaster Assistance provisions involve cooperation of USDA and specific States or commodity sectors. The Department is working closely with representatives of the Louisiana sugarcane industry to expedite benefits for losses from last year's hurricane losses. Agreement has been concluded between USDA and the Texas Commissioner of Agriculture for a grant to producers who lost access to water in the Rio Grande River, and the \$10 million payment has been delivered. And, the New Mexico Herbicide Loss Assistance Program which compensates producers for losses resulting from Federal agency pesticide misapplications will be delegated to the State to administerhandled in accordance with the provisions of the law.

Mr. Chairman, this concludes my status report on implementation of the 2002 farm bill and the disaster assistance package. From this report, it is clear that much as been accomplished in a short time. We have worked diligently to implement the new legislation as efficiently and quickly as possible.

Mr. Chairman, I would be pleased to respond to your questions.