

**IOWA AND NEBRASKA VIEWS ON
FEDERAL AGRICULTURE AND RURAL
POLICIES: THE 2007 FARM BILL**

FIELD HEARING
BEFORE THE
**COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY**
UNITED STATES SENATE

ONE HUNDRED TENTH CONGRESS
FIRST SESSION

APRIL 14, 2007

Printed for the use of the
Committee on Agriculture, Nutrition, and Forestry



Available via the World Wide Web: <http://www.agriculture.senate.gov>

U.S. GOVERNMENT PRINTING OFFICE

35-049 PDF

WASHINGTON : 2007

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, NUTRITION, AND FORESTRY

TOM HARKIN, Iowa, *Chairman*

PATRICK J. LEAHY, Vermont

KENT CONRAD, North Dakota

MAX BAUCUS, Montana

BLANCHE L. LINCOLN, Arkansas

DEBBIE A. STABENOW, Michigan

E. BENJAMIN NELSON, Nebraska

KEN SALAZAR, Colorado

SHERROD BROWN, Ohio

ROBERT P. CASEY, Jr., Pennsylvania

AMY KLOBUCHAR, Minnesota

SAXBY CHAMBLISS, Georgia

RICHARD G. LUGAR, Indiana

THAD COCHRAN, Mississippi

MITCH McCONNELL, Kentucky

PAT ROBERTS, Kansas

LINDSEY GRAHAM, South Carolina

NORM COLEMAN, Minnesota

MICHEAL D. CRAPO, Idaho

JOHN THUNE, South Dakota

CHARLES E. GRASSLEY, Iowa

MARK HALVERSON, *Majority Staff Director*

ROBERT E. STURM, *Chief Clerk*

MARTHA SCOTT POINDEXTER, *Minority Staff Director*

VERNIE HUBERT, *Minority General Counsel*

(II)

CONTENTS

	Page
FIELD HEARING(S):	
Iowa and Nebraska Views on Federal Agriculture and Rural Policies: The 2007 Farm Bill	1

Saturday, April 14, 2007

STATEMENTS PRESENTED BY SENATORS

Harkin, Hon. Tom, a U.S. Senator from Iowa, Chairman, Committee on Agriculture, Nutrition and Forestry	2
Nelson, Hon. E. Benjamin, a U.S. Senator from Nebraska	4

Panel I

Bailey, Varel, American Farmland Trust, Anita, Iowa	6
Houghtaling, Debra, Executive Director, Grow Iowa Foundation, Greenfield, Iowa	8
Killpack, Steve, Neola, Iowa	10
Petersen, Chris, Clear Lake, Iowa, on behalf of the Iowa Farmers Union	12
Schuitteman, Matt, Sioux Center, Iowa on behalf of the Iowa Farm Bureau Federation	13

Panel II

Crabtree, John, Center for Rural Affairs, Lyons, Nebraska	28
Sand, Duane, Iowa Natural Heritage Foundation, Des Moines, Iowa	24
Schwarz, Tom, Bertrand, Nebraska	26
Stroburg, Jeffrey, CEO and Chairman, Renewable Energy Group, Inc., Ral- ston, Iowa	30
Wintersteen, Wendy, Dean, College of Agriculture, Director, Iowa Agriculture and Home Economics Experiment Station, Iowa State University, Ames Iowa	23

APPENDIX

PREPARED STATEMENTS:	
Bailey, Varel	44
Crabtree, John	49
Houghtaling, Debra	54
Killpack, Steve	58
Petersen, Chris	61
Sand, Duane	65
Schuitteman, Matt	67
Schwarz, Tom	72
Stroburg, Jeffrey	75
Wintersteen, Wendy	79
DOCUMENT(S) SUBMITTED FOR THE RECORD:	
Nelson, Hon. Benjamin E.:	
“Federal Crop Insurance—An Indispensable Program Executive Sum- mary”	84
American Wildlife Conservation Partners, prepared statement	90
Association of Fish and Wildlife Agencies, prepared statement	93

IV

	Page
“Iowa Department of Natural Resources 2007 Farm Bill Recommendations” ...	102
“Background for Proposal to Simply CSP and Address Wildlife Resources Consistently Between States”	109

**IOWA AND NEBRASKA VIEWS ON
FEDERAL AGRICULTURE AND RURAL
POLICIES: THE 2007 FARM BILL**

Saturday, April 14, 2007

U.S. SENATE,
COMMITTEE ON AGRICULTURE,
NUTRITION, AND FORESTRY,
Council Bluffs, Iowa

The Committee met, pursuant to notice, at 9:30 a.m., in the Art Center Auditorium, Iowa Western Community College, Hon. Tom Harkin, Chairman of the Committee, presiding.

Present or submitting a statement: Senators Harkin and Nelson
Chairman HARKIN. The Senate on Agriculture and Nutrition and Forestry Committee will come to order. And I just want to thank Mr. Dan Kinney, the president of Iowa Western Community College for having us here, and I will yield to him the floor.

Mr. KINNEY. Welcome to our campus. Again, it is not the first time. We are proud to have you back here this morning. And we are pleased to have all of you here this morning, and we are pleased to hold this hearing in the art center. It has a lot of great capabilities for lighting and sound, and so it should really facilitate the hearing this morning.

We are very proud of this building. This building was free. This building was built entirely by contributions from individuals, corporations and foundations. In fact, when you are out in the lobby, if you look at that stone wall, all of those names on the wall are donors that provided the funding to build this building. And certainly for an institution it is always a lot easier to acquire a building in that manner and certainly helpful to the institution.

We are pleased to have you here on a great Saturday morning, and I am sure you will have a great hearing. And so thank you for coming. And, senator, thank you.

Chairman HARKIN. Thank you very much for having us. I recognize a few people that are here in the audience, our mayor, Tom Hanifan. I did not say hi to Tom earlier. Our mayor, thank you very much, of Council Bluffs is here. Mel Housers is one of our Pottawattamie County supervisors, again, I did not get a chance to see anybody here. Mel is here. Sarah Brown of Senator Chuck Hagel's office is here, Sarah Brown. And also Donna Barry in the Council Bluffs office of Senator Grassley is here. Any other elected officials that I missed? Anybody want to run for office that—

Thank you all for being here. We will get right into our hearing. I have a small opening statement, and I will yield to my friend and colleague, Senator Nelson, and then we will have our panels.

STATEMENT OF HON. TOM HARKIN, A U.S. SENATOR FROM IOWA, CHAIRMAN, COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

Chairman HARKIN. At the outset I just want to say to all of you that I have read every single one of the testimonies thoroughly. And I am going to ask that you kind of keep your comments to five or 7 minutes. Just highlight the points you want highlighted so we can get into a discussion on that. Your statements will be made a part of the record in their entirety. I am hopeful we can move this along well enough so that after our two panels, one of the things I always like to do before when I was chair and am chair again is to have an open mic session. So if any of you have things you want to say or questions you want to ask for the record, we will have an open mic after this so you can have your opportunity to do so within whatever time constraints we have coming up to the noon hour.

With that, I just again say it is a real honor to be here to hold this field hearing of the Senate Committee. Again, I want to thank our good friend and neighbor and very valuable member of our committee, Senator Ben Nelson for being here with us today.

Let me just say on this new Farm Bill—farm bills are broad, very broad because they encompass a lot of things. People think of a farm bill as only pertaining to farms. Obviously that is a big part of it. Now we are thinking about food, fiber, energy, rural development, conservation, trade, food assistance, nutrition programs. Covers—just covers the gamut of everything, and now with our new mission in agriculture, providing energy and renewable energy for America, this is a whole new era—new area for agriculture that started in the last farm bill in 2002.

I would always like to say that our core mission is to promote profitability and income and economic opportunities in agriculture and rural communities. If we do not have profitability, if we do not have income, not much else matters very much. So we have to have that as sort of our core mission. But in doing that, we have to ask the question, is the best way to do this in the future to continue to do what we have done in the past, is that the best way or do we need to change?

Agriculture is changing rapidly.

Some of the testimonies that I have read of some of you emphasize how rapidly the face of agriculture is changing in America. That is why we have periodic farm bills, every 5 years, six or seven, usually five or 6-year farm bills. That is because agriculture changes, and we have to change our policies, programs and things to look ahead, not so much back, but to look ahead.

Tom Schwarz who is on our panel, I do not know Mr. Schwarz, but he raised the issue in his testimony, I will hear from him, he wondered if it was time for a fundamental shift in farm programs. He asked the question, is it time not to have farm programs based on what you produce and how much you produce, but on how you produce it. Interesting concept. For example, take direct payments,

direct payments have gotten a lot of notoriety of late based on base acres. Sometimes those base acres are not even being used to produce anything. They are to produce what was produced in the past, and yet the direct payments continue to go out. Is it wise to continue this policy of direct payments that you get a payment—a government check no matter how much you make? No matter how much money you make, you still get a government check. Is that—can we still afford to do that, or should we take some, most or all of the \$26 billion that we will be spending over the next 5 years in direct payments and shift some, most, all, however much, to things like conservation or wild life habitat, rural development or incentives, incentives for farmers to start growing bioenergy crops and biomass crops and things like that for the future of biomass and energy production. So these are questions that we need to ask.

We need to help younger, beginning farmers find and develop new marketing avenues, new income opportunities. We have twice as many farmers over the age of 60 as we have under the age of 35. Well, something has got to happen here. With land prices and rentals what they are, it is pretty tough. So how do we provide these new economic opportunities for younger people? Maybe part of that is rural development, new economic growth and entrepreneurship and maybe off farm jobs to allow them to get started. So again, we need to start thinking ahead how we do that.

And last, we need a sound safety net. We all recognize, all of us who are engaged in agriculture, I think even our urban cousins recognize that agriculture is not like any other business because the vagaries of wind, weather, pestilence and trade and all kinds of things, agriculture is just not like any other business. And there has always been, and there continues to be today, a strong national base of support for some form of a safety net for agriculture. It is the people want to have that safety net there, and it is strong. So we just have to think about how we do that safety net and how we fashion it.

Last, I just want to say about conservation, again, tying into income base, but also think about conserving our water and our water resources in this country, cleaning up our streams and waterways, providing some benefits to the rest of society on how we—on how we farm. Conservation Security Program and EQIP, I will be asking questions about how those operate, should they be combined for example. A green revolution, bio based crops, more and more are going to be asking our farmers to produce crops that can be used for bio based materials. Everything from hydraulic fluid to clothing as a matter of fact. Companies making socks out of cornstarch right now, different things like that. All these plastic bottles can be made now from biodegradable material now. So more and more we will be moving in that direction.

Last, nutrition programs we cannot forget are the pride, I think, of America. And that is that we have provided our people with the most abundant, best, cheapest food anywhere in the world. We have school-based breakfast and lunch programs so no child should go hungry in America today. We have food stamp programs. I do not know what it is in Nebraska, but in Iowa every year the food stamp programs bring about \$244 million a year into the State. So

on the one hand, it helps make sure the people of low income get nutrition. On the other hand, it helps make sure our agribusiness entities also are able to get a part of that action. So the whole thing works together. We just got to keep focused on nutrition, how we provide better nutrition to our kids in school, how do we expand the food stamp program to get better nutrition to people who use food stamps, getting them into farmers markets, for example and beginning to buy fresh fruits and vegetables and meats and things like that that some of our farmers are using in our farmers markets.

So again, we have tried some experiments in that, and they worked well. And we are going to be looking at perhaps expanding those kinds of things in the present farm bill. So that is just sort of an overview of all the different facets that we have to wrestle with in the next few months. And we need your input, we need your suggestions, your advice. That is why we are having these hearings. You are out here, you see what is happening, and we need the kind of input that you are giving us so we can try to do our best and fashion a Farm Bill that looks ahead five, 10 years down the pipe and makes whatever changes need to be done to do so.

With that, I again will turn to my very good friend, and I mean that most sincerely, except that he is a better shot than I am. He gets better things than I do when we hunt together, but a great friend, a great Midwestern leader in rural and agriculture matters, former Governor of the State of Nebraska, and I am proud that he is a member of our senate agriculture committee, Senator Ben Nelson.

**STATEMENT OF HON. E. BENJAMIN NELSON, A U.S. SENATOR
FROM NEBRASKA**

Senator NELSON. Thank you very much, Chairman Harkin. That introduction was the kind my father would have enjoyed, but my mother would believe. So I appreciate it a great deal. And thank you for holding this hearing here today so we can hear from Iowans and Nebraskans about their views about the Federal agricultural and rural policies that we will be meeting to understand as we craft the 2007 Farm Bill.

Senator Harkin has heard me say this so many times, so many times he may be tired of hearing it, but I am going to say it one more time. I would like to rename the farm bill the Food and Fuel Security Act of 2007.

What I am talking about is more than just a name change, it is one of those changes in thinking that you address. And that is that our agricultural economy is no longer just about food production, it is also about fuel security as well as we look at the opportunities that are there, particularly since the last farm bill was drafted. And most importantly, the title change reflects the need for policies that balance the two so that our efforts for one do not jeopardize our goals for the other. The livestock industry is more than slightly nervous about the use of—the amount of corn being used and potentially what it could be in terms of volume for biofuels.

So I start with food security because it is long been the focus of our agriculture policy. We talk about it in terms of farm programs,

but our goal has always been to be able to produce the food we need to eat because it is about being sure we are independent when it comes to our food needs. Being able to domestically produce the food Americans need is a vital national interest and it is a security interest as well, because if you love importing 65 percent of your oil, let me tell you, you will love importing 65 percent of your food. So that is why it is about being able to have food security and fuel security as well. And you mention other efforts, feed, fiber, that we need to keep in mind as well. And that is why we need to ensure that our food security is taken care of as we go into new areas.

I agree with you on the need of a safety net. We need an effective safety net for our farmers and ranchers so that they can make a living from farming. So it is not just a good way of life, it is a way to earn a living as well.

And conservation, we need smart and effective conservation policies, which I think you were so instrumental in creating in the last farm bill and working with others to see that it will be in this bill and we are going to have to continue to spend time on that.

When it comes to natural disasters and drought, which are words that Midwestern farmers are all familiar with, not only do we need to protect and preserve the resources nature has provided, but we also need to make sure we help producers survive the problems and disasters that nature throws their way.

In Nebraska this mostly means drought, Drought David, as I call it. I found if you give a drought a name, maybe it will have the same status as a hurricane. Because otherwise it is hard for people to focus on what a drought is. But unfortunately, the southwestern part of Nebraska and parts of the western part of the State as well, Drought David is celebrating an eighth birthday. That continued drought situation is not something the Federal Crop Insurance Program has been able to deal with effectively, and so we need to have some effective way of putting aside some money for the inevitable. It is not always going to be in Nebraska or Iowa, it can be in the southeastern part of our country as well. We are going to have drought. We are going to have these conditions. Actuarially you can determine what it should be. Even though we cannot necessarily predict where it will occur, we can predict what the needs are.

When it comes to competition, the trend toward consolidation in agriculture today is unsettling, particularly in the livestock sector, and it raises concerns about competition and the impact on producers. Nebraskans in particular are very concerned because our corporate farming ban, I-300, has been ruled unconstitutional by the Supreme Court. And I support the Chairman's efforts to include a competition title and want to work with him to get sound policies in there that will improve competition in a way that benefits everybody, producers, consumers and rural communities.

Which leads me to the second component of the new farm bill, fuel security. There is a lot of interest these days, and this farm bill needs to include wise policies that continue to grow the industry so that we can substantially improve our energy security including:

Diversification. Right now almost all of our ethanol comes from corn, which is great for corn growers in both Nebraska and Iowa, but it raises concerns for livestock producers as I mentioned, those

that use corn to produce food products. In the long run diversification will include finding cellulosic ethanol produced from biomass, which every corner of the country can produce. But cellulosic is not here yet and may not be for a few years, so we need to encourage feedstock diversification now through crops like sorghum and sweet sorghums and others as well.

The next generation of biofuels is upon us and we need to look at producing the next generation of biofuels from the ag perspective. In all the talk about cellulosic ethanol I am nervous that I do not hear anyone talking about how we produce the biomass we need for cellulosic. We need to figure out how to plant, grow, harvest, transport and store biomass, whether from field or forest wastes or dedicated energy crops.

Finally, innovation. We also need to get creative about producing a wide range of biofuels. For example, I am working on a bill that will encourage the production of biogas, a natural gas substitute made from anaerobic digestion of animal wastes. I think there is great potential to turn wastes into energy sources, and we should creatively explore all of the possibilities.

I want to mention rural development as well. There is great potential for rural development through biofuels, and we all know that food and feed production has long been a staple and a rural economic driver. We need to make sure we take advantage of the potential that biofuel production presents to many of our rural communities right now while ensuring that farmers, ranchers and rural businesses continue to benefit from our farm policies.

I believe that our witnesses here today will provide great insight into the issues facing our producers and rural communities, and I hope we can incorporate their concerns and ideas as much as possible.

So that is what we are here to discuss. And I am anxious to hear from our friends from Iowa and Nebraska.

Once again, Chairman Harkin, I want to thank you for scheduling and chairing this hearing and for all your work on agriculture all the years you have been involved.

Chairman HARKIN. Thank you very much, Senator Nelson. Now we will turn to our panels. And as I said if you keep—we have got a light system here. And then we will try to keep it within some limits here. But first I will just introduce Mr. Bailey, Varel Bailey, American Farmland Trust. Mr. Bailey and his son operate corn, soybean, grass, beef, cattle, hog and sheep operation in Anita, Iowa. He has been an agricultural policy consultant for American Farmland Trust. He has been involved in agricultural policymaking and Farm Bill debate since the 1970's. I can vouch for that. This is my 32nd year on the ag committee. And since 1975 I have had the benefit of Varel's input into all of our farm bills. So it is good to see you again, Varel. Please proceed, and I will just go on down the line.

**STATEMENT OF VAREL BAILEY, AMERICAN FARMLAND TRUST,
ANITA, IOWA**

Mr. BAILEY. Senator Harkin, Senator Nelson, thank you for having me appear today. Let me just hit the high points. I actually appear today with four hats on. One is that of a farmer that you men-

tioned. The second as an ag policy consultant for American Farmland Trust. The third is a policy work being involved in policy for almost 35 years. And fourth is a taxpayer. And from all of those points of view, when I look at the opportunities here, I maintain that this Farm Bill should create pivotal change. We only have this opportunity it seems once every 20, 25 years to actually make significant change in farm policy. And it seems to me the stars are lined up right now with the budget restrictions and the prices and everything else, it is time to make that change.

Now I am only going to read a couple sentences out of my testimony, but there is a couple of them that I think are really important. In this dynamic environment, and I am talking about the changes you referred to, Senator Harkin, for Congress to set commodity loans, target prices in the Farm Bill really ignores reality. We have no idea what those prices are going to be in the next few years. Further, based on our experience to date on the suits filed against the U.S. cotton program, the corn program and others, government warehousing schemes, marketing loans, loan deficiency payments and cyclical payments are going to be eliminated.

To perpetuate these programs under the guise of increasing bargaining leverage in the WTO instead holds these negotiations hostage and ignores the opportunities to significantly improve taxpayers' investment in the food, fiber and fuel industry.

To me those are really critical things and really strong drivers for change. The rest of my testimony has to do with conservation and the commodity title.

I would put the conservation program part of the title first, not because it is necessarily more important, but I think that both of them need to be further integrated. Back in 1985, Senator, we started the integration with the CRP and conservation compliance and those kinds of things. It is time to take another look at how we integrate the conservation program with the rest of the Farm Bill.

In my testimony I talk about how important this is on working lands because most of the lands that are sensitive to erosion and other degradation are actually working farm and ranch lands. We need to improve the effectiveness of these programs with cooperative efforts.

We have something like this in Anita, Iowa. We have Lake Anita State Park, with pristine water. Why is it that way? Really it was not because we had a government program. We farmers banded together and decided we were going to protect that lake and protect that park. And so what we need to do is kind of take what we did there and integrate programs together with block grants and mechanisms where various agencies and various entities can work together to solve these conservation problems.

We need to actually start a new program I think, and that is a loan guarantee program. This would be an interest rate buy down program. Three out of four farmers that have applied for conservation assistance in the last few years have been turned down because of insufficient money. In those cases we need to figure out a way for government to take a few dollars and leverage it into a lot of program. I think a loan guarantee program would go a long way to do this.

The second change we need to do better targeting. Now, USDA in the CRP program has really worked on the environmental benefits index and those kinds of rating systems. We need to take another look at those mechanisms. Again, sharpen the money we are investing in conservation to solve really serious and critical problems.

One of the things that really came out with the CSP program is that we need to improve technical assistance. NRCS is overworked. We really have not in the time that we have been working on this, been effective in fully implementing the technical service provided program. We need to take another look at that.

The commodity program—I see my red light is on, and so I will just simply say we recommend as part of this, the hole in the safety net is that we need to move to a revenue assurance program. The one AFT is recommending was developed by Ohio State University. This is modeled right after crop insurance. It is transparent. Farmers understand it. It is easy. It would be easy to administer and implement. And it integrates with crop insurance as well. It does not pay twice if there is a loss. It just pays once. When I put on my taxpayer hat there is a savings since it provides an opportunity to lift systemic risk off the crop insurance industry. I do not know how many billion dollars would be saved, but we are thinking there is probably \$2 billion or \$3 billion there that could actually be brought into the Farm Bill budget by lifting that responsibility of systemic risk off crop insurance.

With those things let me wrap up and simply say that we hear what you have mentioned about direct payments. My job as a—working in Farmland Trust is to build coalitions between farm organizations and environmental organizations. When I start talking about direct payments and the environment, believe me, it is very sensitive. And so all I can say today is we would really like to continue to work with you and the committee on mechanisms that make sense in transitioning the direct payment mechanism into other mechanisms in the Farm Bill. Thank you.

[The prepared statement of Mr. Bailey can be found on page 44 in the appendix.]

Chairman HARKIN. Thanks very much for a very precise and concise statement. Lot of things we will follow up in the question period.

Next is Debra Houghtaling, executive director of the Grow Iowa Foundation. Grow Iowa was established by the Southwest Iowa Coalition, that covers about 185,000 rural people in Southwest Iowa. It operates a wide variety of loan approvals from various sources, including USDA. The Southwest Iowa Coalition is one of the first economic development groups that really started to work on a regional basis. My notes says it was started by Austin Turner; is that right? I knew Austin very well. Thank you very much. Debra, thanks for being here. And again, your statement is made part of the record, and, please, proceed.

**STATEMENT OF DEBRA HOUGHTALING, EXECUTIVE
DIRECTOR, GROW IOWA FOUNDATION, GREENFIELD, IOWA**

Ms. HOUGHTALING. Thank you, Senator Harkin, Senator Nelson, for this opportunity to address ways in which the rural develop-

ment portion of the farm bill can help create vibrant rural communities.

As you said, I am the director of Grow Iowa Foundation, which over the past 11 years has invested over \$5.4 million back into rural southwest Iowa.

My comments today are going to focus really on three areas in which I believe will help create these vibrant rural communities. The first one is fostering regional collaboration, the second is promoting entrepreneurship, and then the last one is sparking private investment.

Regarding fostering regional collaboration, as you mentioned, the Southwest Iowa Coalition really figured regional collaboration out before it was more of a buzz word, and that was out of necessity. Small isolated rural communities really individually do not have a lot of power and access to resources, but if they band together through an organization like Southwest Iowa Coalition a constituency of almost 200,000 has a much larger voice.

I would like to talk about the proposed rural collaborative investment program for the new Farm Bill. I think it is an important step in fostering regional collaboration. A couple of the most important parts about that proposal is that it allows regions to define themselves, define the greatest needs that they have, and also help define their own solutions. It is not a cookie cutter, one-size-fits-all across the United States. I would like to recommend that—that it be—that the regional organizations be open and collaborative. I think that is one of the things that has allowed the Southwest Iowa Coalition to really succeed over the last 16 years is that everyone can have a voice.

I think there is a danger in picking winners in a program like this that grant too much power to a single purpose entity.

The second area I would like to talk about is promoting entrepreneurship. Rural people have always been entrepreneurial. But economic develop strategies have spent way too much focus on recruiting big industry and manufacturing into rural communities. And it is time to really focus on home-grown companies that have more of a commitment to the local community.

The opportunities have never been better for rural entrepreneurship. Technological advances and e-commerce industry allows somebody who lives in Greenfield, Iowa to access global markets and employment opportunities that used to be only available to them in major urban markets.

Because of the need for rural entrepreneurship, Grow Iowa has joined forces with the Southwest Iowa Coalition, the Wallace Foundation, Iowa State University Extension and Southwestern Community College to form the Rural Development Resource Center, which is going to provide entrepreneurial technical assistance and market avenues for people within a 22-county region in Southwest Iowa.

Also speaking about entrepreneurship, it is important to talk about access to capital. Rural development has been a huge provider of access to capital through it is rural development programs. Grow Iowa has accessed over \$2 million involving loan fund money through rural development. The area that is missing, however, is loans to very small businesses, which is why I would like to pro-

pose a micro-enterprise program. It focuses on small capital and it also has a component that allows for technical assistance and capacity building grants, which are critical to help small businesses succeed.

The last area is sparking private investments. Government sources cannot be the only financial lifelines for rural communities, which is why we need to look at different ways of private investment. That could be rural philanthropy, equity venture capital, financial leverage. My two asks in the area are the first to really encourage through rural development programs the creation of community foundations and endowments that focus on entrepreneurial and economic development programs. My second ask is Grow Iowa is a certified community development financial institution. Across the United States they have an incredible record of leveraging \$27 for every dollar investment. So my ask is really to specifically add CDFIs as an eligible applicant for rural development programs.

So I thank you for letting me talk about rural development.

[The prepared statement of Ms. Houghtaling can be found on page 54 in the appendix.]

Chairman HARKIN. Thank you very much, Debra. When you were talking about entrepreneurship and micro-enterprise, you are talking to this guy right here. So I am sure he will have more to say about that. He is our leader in that area.

Next we will turn to Steve Killpack. Mr. Killpack farms 700 acres of corn and soybeans with his father on their family farm near Neola, Iowa. Recent graduate of Western Iowa Community College. Thanks for being here. Please proceed.

STATEMENT OF STEVE KILLPACK, NEOLA, IOWA

Mr. KILLPACK. Thank you, Senator Harkin, Senator Nelson, for letting me speak today. Kind of as I go down here today I looked out across the landscape, and I kind of realized that our farming operations today, although they are economically viable, their sustainability is very limited. And kind of my hope and my goal is that through certain programs, such as the Conservation Security Program, that we will be able to protect our air, our soil and our water. I believe that farmers and ranchers who actively practice conservation should be supported to continue promoting conservation. And I think the CSP program was an important step in that direction to show that as a nation we care about our resources and that we want our farmers to care about them also.

In my viewpoint it is always difficult to look and to see that as farmers we should be stewards of the land. And we have this great gift and this opportunity to farm and to make a living, but that we do not always strive to take care of our resources. The soil is really one of these resources that cannot be built up or, you know, it is been altered a lot over the last 100, 150 years that we have been farming.

My hope is that through the CSP program we can divert funding to focus on sustainable farming practices to support clean air, clean water and profitable soil systems.

I think that direct payments and counter cyclical payments as well as loan deficiency payments do not always promote the best conservation minded practices. Direct payments often support

farming, you know, like you said in your opening, about as many base acres as possible. And I think that if we could divert some of that funding, all of that funding into the—a program similar to the CSP program that we could really promote the real idea of conservation and what that means. And I really truly believe that if you fund the CSP program and continue to support that that farmers are going to benefit from it. They are going to have added income, and the public is going to benefit from it from increased water quality, air quality and soil quality as well as increased wildlife habitat.

One of the main problems I see with the CSP program right now is that there is very little information available to producers on what they need to do to be enrolled. And I would hope that the goal of the CSP program is that all producers potentially have the ability to enroll in that program. I do not feel right now at this time that there is enough education and enough information put forth into developing that programming.

So that is kind of one of my hopes is that through the CSP program, the support of our government, we will be able to secure a future for many more generations of farmers.

And I would also like to stress the importance of maintaining wildlife habitat, promoting habitat restoration programs. The CRP program has always been a beneficial one to the habitat. I do not always feel the way the CRP has been implemented it was more soil conservation as compared to habitat preservation. Not all of those systems are sustainable ecosystems. They are just there to fill the need of soil conservation.

And my last point that I would like to make is that as a small family farm I look to see that we are going to have to change our operation drastically to maintain our economic viability. And I believe that is fine, that business is changed, and we are a business. And I would hope that in the new Farm Bill there potentially would be some support for small business niche agricultural markets, specialty crops, and not through direct subsidy payments, but through market assistance programs in developing local markets in the area. And I think there is opportunity to continue growing with organic and locally grown food type industries. And I feel that we should continue to improve our economy by supporting these changes.

I think there is a lot of opportunity to make a difference right now. We do not have a—we do not always have the opportunity to make changes, but I think with this Farm Bill we can potentially make a big impact on the future of farmers. So thank you.

[The prepared statement of Mr. Killpack can be found on page 58 in the appendix.]

Chairman HARKIN. Thank you very much. I really appreciate your testimony, and we will have more questions for you I am sure.

Next we will go to Chris Peterson, president of Iowa Farmers Union and a family farm operation from Clear Lake, Iowa.

**STATEMENT OF CHRIS PETERSEN, CLEAR LAKE, IOWA, ON
BEHALF OF THE IOWA FARMERS UNION**

Mr. PETERSEN. Thank you, Senator Harkin and Senator Nelson. I hope I measure up to what the other participants have said so far. Lot of good testimony.

I am a small independent family farmer and I am a firm believer in the independent localized family farm structure. I believe hands down we can raise a better, safer, higher quality product than anybody else in this country. And I think farm bills should be centered around that.

And somebody mentioned I-300, I think it was you, Senator, and you know, the packer ban was struck down in Iowa, I-300, struck down in South Dakota. I think there is lots of bad things going on in agriculture and there is a bunch of things we need to do if we are serious about revitalizing rural America. One of the top things on my list is a full competition title. It is time, we need this. Farmers are being compromised, transparency in the market place.

I was one of the guys that paid the price and lost hogs 3 years ago, 3,000 head failed to finish. I suffered severe financial consequences out of that deal. And there is a few thousand—a lot of thousands of our independent pork producers went through the same thing. And also because of that and the monopoly, even the contract growers now are, you know, their contracts are not the best in the world due to lack of oversight and reform. They have been marginalized. The guy wants to contract to raise livestock, fine, but I believe they should get a decent price and return for their labor. And mandatory price reporting is another very interesting thing that needs to be redone.

Also I would hope that anti-trust and USDA and them start enforcing anti-trust laws and packer and stockyard laws. They are not working, revamp them and address the 21st century standards. Again, anti-trust and competition titles is one of my main things. We need to revitalize capitalism out here. It is not being done.

And conservation, setting here looking at this water quality. Clean water is an amazing thing. We need a lot more of it on the countryside. And how you do that, number of ways. I believe the commodity title and the conservation title need to be tied together.

Farmers are good stewards, stewards of the land. They needs credits and incentives to participate in conservation programs. I believe it is critical that conservation and tillage practices need to be tied into what commodity payments come out here.

And moving right into the commodity program, I am a firm believer in price payments and price caps. It is about time that the taxpayers were—the issues of taxpayers were addressed.

Also in the commodity title I look at three entity loopholes in the generic certificates. I look at that as a farmer as legitimate bank robbery. These loopholes need to be closed, and these certificates need to be done away with.

Also we need a Farm Bill that will put a floor on the grain. It seemed like over the years the processors and the industrial livestock factories are getting lots of cheap grain. They were saying—a Tufts University paper just released entitled “Industrial Livestock Factory Gains from Low Cost Feed Prices 1997 to 2005,” documents how commercialized hog operations have saved \$8.5 billion

in feed costs. The boiler industry saved \$11.25 billion. Smithfield alone saved \$2.6 billion in feed costs over this period of time.

We need common sense in these farms bills. We need to quit—and the intent is well, keeping the family farmers on the land, but we need to quit subsidizing agribusiness to the extreme of this example. And a lot of—with Smithfield and the other integrators, what this does is give them an edge to compete against the independent family farmers raising livestock or cattle or whatever.

Energy, very important. And I emphasize throughout this Farm Bill, we got to get back to localized ownership in the energy and all that.

Also rural economic development, we need—we need rural economic development out here that—which is managed localized foods, getting small businesses revitalized. This is all very, very important to the survival of family farms in rural America and the return of the benefit to the consumers and the taxpayers of this country. Thank you.

[The prepared statement of Mr. Petersen can be found on page 61 in the appendix.]

Chairman HARKIN. Thank you, Mr. Petersen.

Next we will turn to Matt Schuitteman. I think I pronounced that right. Fifth generation farmer from Sioux Center, Iowa where he grows corn, soybeans and hogs with his father and grandfather. Mr. Schuitteman will provide some thoughts on the Farm Bill from the perspective of the Iowa Farm Bureau Federation; is that correct?

Mr. SCHUITTEMAN. That is correct.

Chairman HARKIN. Thank you very much, Mr. Schuitteman.

**STATEMENT OF MATT SCHUITTEMAN, SIOUX CENTER, IOWA
ON BEHALF OF THE IOWA FARM BUREAU FEDERATION**

Mr. SCHUITTEMAN. Thank you, Senator Harkin and Senator Nelson, it is an honor to be here. And I am from Sioux County, Iowa.

And as my grandpa is 81 years old we are living through the issue of farm succession and turning over a fairly large family business. So this discussion has always been pretty helpful for me during this time. There has been several good points made.

I do want to touch a little bit to start with on safety net. I would say regardless of what you think about where the direct payments and the counter-cyclicals and the loan program fit in, they have done a good job at least in our situation of smoothing out our ebbs and flows of our farm income.

What I would also say from the standpoint of a young farmer is for the young farmer, access to capital is, aside from access to land, is probably our biggest issue. What this program has done is provided a nice source of capital at the beginning of the year and cash-flow for the young farmer so he can go out and build a viable operation. Because of that I would ask that the majority of 2002 commodity title be preserved and that those concepts be maintained that were set forth by that 2002 bill.

There is also been quite a bit of discussion here about conservation programs. And Senator Harkin, you introduced the CSP program in 2002, and that was a program that those of us in Iowa were looking forward to utilizing. Unfortunately the funding, ex-

cuse me, the funding fell a little short of what we were hoping for. I think it was Mr. Bailey that mentioned that demand for those conservation programs has exceeded the supply of funds every year. And so we would like for efficiencies to be obtained in those programs so that more people could have access to those dollars.

I think a good example of that type of efficiency could be regarding CRP. We have seen in general that farm CRP signup, in particular in southern Iowa, has been damaging to rural economy. I think the debate here is not necessarily about the ability to grow row crops on those acres as much as it is the ability to generate economic activity from those acres. Whether that economic activity be a cow/calf grazing operation or whether it be a cellulosic ethanol from switch grass production, I think there is a tremendous amount of opportunity there, and it does not necessarily have to come from row crops.

What we could really—we have seen how livestock dollars can turn over several times in a community. But receiving a government check does not necessarily turn over that much in the community. So it could have a major impact on our rural economics.

Our farmers need those opportunities. Anytime we can increase the lands available for our young farmer, young farmers will position themselves to take over that opportunity. In particular we are talking about a cow/calf operation, very much a position for a young farmer to get a start. And by diverting some of those CRP dollars, maybe even taking some of the CRP dollars and diverting them toward say a buffer strip program, I have got some figures here that says if we took one-half of the funding from current general CRP signup we could install 33-foot buffer strips of Iowa's creeks and streams. I think that would be a major environmental impact, and I think it would be a good thing.

I talked a little bit about the energy title. Obviously ethanol, especially corn-based ethanol, has had a big impact. I myself am an investor in a local plant and have reaped the benefits of that investment and have appreciated the opportunity that it provided. Biofuels have had a major impact. And Senator Nelson, I was happy to hear your thoughts on biogas. Sioux County is the proposed home of a biogas facility. So we are looking forward to see if that can come along and look forward to your thoughts on that as well.

The energy efficiency grant programs have been utilized well. I know of several farmers in Iowa who have gotten those grants to update vent systems, dryer systems and have saved significant energy while doing them.

One thing I would ask with this Farm Bill is that any issues regarding animal husbandry be left out of this Farm Bill. I do not feel like it is an appropriate avenue to address those issues. Farmers are the best judge of a healthy happy animal and we would like those decisions to stay with the farmer.

With that, I see the yellow light is on. I want to thank you again for the opportunity. I was thinking on the way down, the good book says to whom much has been given, much will be expected. I think in this part of the country we have been given much as far as natural resources. And I would hope that government can be a partner

in helping us fulfill our potential and not a restrictor. So I thank you and look forward to your questions.

[The prepared statement of Mr. Schuitteman can be found on page 67 in the appendix.]

Chairman HARKIN. Thank you very, very much. We will start a round of questioning. I will try to just limit myself to 5 minutes or so, something like that.

Mr. Schuitteman, I will start with you since you were last and work back. In your testimony, I read your testimony last evening, about—talked about taking funds from commodities. Heard you mention that now about weakening the safety net.

I really think we need to follow-up on this because I think it is kind of fundamental to our Farm Bill discussion and how we do this. Is there maybe—again, because of WTO, we are going to have to reduce our counter-cyclical program. We know that. So maybe a smaller counter-cyclical program, but in conjunction with crop insurance and conservation payments and rural development initiatives and energy incentives for growing cellulosic crops that you mentioned, maybe if you put all of those in a package it could be a part of an overall safety net for farmers. In other words, shifting it out of just—out of the direct payment and the counter-cyclical, which is what we have now, but broadening it out and putting that in this kind of package of things that would be—would provide a safety net.

So I guess my question is, if we were able, I want to make it very clear because I think some people misunderstood some of the things we said in the past, I am not saying that we are going to take \$26 billion out of direct payments and give it to the Department of Justice or Commerce or something like that. I am just saying we are going to leave that in agriculture, but is there a better way of allocating that money. So if we were able to shift funds away from things like direct payments and into these other areas like counter-cyclical supports, which we have enough room for under WTO, conservation payments, again with all the things I have heard here, got to have better technical assistance.

Mr. Bailey came with this new concept that I had not thought about before, some kind of loan guarantee-type programs, may leverage more than what he have. Again, renewable energy incentive payments to farmers to be growing cellulosic crops on some of this CRP ground that contracts are going to come up anyway. Again, would that be a more balanced kind of a farm policy, again, putting that money out there in that way? Just asking for your thoughts on that.

Mr. SCHUITTEMAN. I think like you said there is a variety of ways to go about this. And a couple points I would bring up, I talked about the capital needs of the young farmer and how this Farm Bill, you know, was able to provide some cash up front. Your thoughts on the safety net are good. For instance, on our farm in 1998 it cost us about \$280 an acre to grow a crop of corn. This year it is going to cost us about \$454.

Chairman HARKIN. Energy price increases and stuff.

Mr. SCHUITTEMAN. Anything tied to energy and land are the two drivers and some other technology costs, so you know, our safety net of the 2002 bill has kind of fallen behind a little bit. There are

ways to make that up, like you say, in crop insurance. But it is good to hear you say that we are not going to weaken that. Just so we do not weaken that safety net. And you know, from the young farmer perspective, as long as they have access to capital.

Chairman HARKIN. I am just asking questions, is there a better way of doing it than what we have done in the past? I do not know. For example, Mr. Killpack here mentioned in his testimony, he did not quite say it, but I read it in your testimony, in that direct payments get allocated to land prices and get allocated to the land so rental rates reflect that so a young farmer wanting to rent that land pays higher rental rates, if that is put into other things, it might ease the ever-increasing rental rates that young people have to pay to get a foothold. I do not know if you had any thoughts on that, Mr. Killpack, or not. You mentioned that in your testimony.

Mr. KILLPACK. I think that at least from my perspective that the direct payment typically is a guarantee that you can put that much toward a rental rate of land. And I kind of felt that if you could divert some of those funds into a program that would be more of an incentive based, you are going to guarantee some type of income for doing or promoting your stewardship of the land that would benefit both the farmer and the public in terms of, you know, improving conservation, water quality, things like that. And I just think that the funds can just be channeled in different ways. Not to eliminate any of that funding, but to channel it down a different route to promote conservation as well as the farmers' viability through that.

Chairman HARKIN. Mr. Bailey, did you have something you wanted to—any of you just jump in, just raise your hand.

Mr. BAILEY. My comment is this, and obviously you know I worked with wheat growers, barley growers, sorghum growers like that. And part of the sensitivity of messing around with the direct payments, and I will kind of represent Senator Nelson's Western Nebraska wheat guys, with declining yields and droughts and everything, the direct payment is the only thing that these guys have seen. And so if you start out by saying we are going to start changing direct payments, I need to tell you the red flags go up all over the place in wheat country, parts of cotton country and those areas. So you are on the right track, Senator, that the direct payment thing long term is not politically sustainable.

Ken Cook and the environmental working group and all these people are building a case that long term we are going to lose direct payments one way or the other, OK. So what needs to be done now is that a package you are talking about needs to be developed so that the wheat guys that are getting nailed all the time because of the environment and everything do not lose everything. The package is rebuilt in a way that plugs the hole in the safety net and the package basically becomes a better investment by the taxpayers and America.

I cannot—I cannot lay out the package right now other than to assure you we are working on it. But if you lead off too early by saying we are going to mess around with direct payments, the lobbyists on K Street just come unglued that represent agricultural interest. So we need to really concentrate on that package.

Chairman HARKIN. They have been hearing me say that for some time. So I know where—get a little unglued and stuff, but I still submit whatever benefits, and there have been benefits to direct payments in the past. I have no doubt about that. I look back, so I have seen it. But with what we are seeing now, what is happening now, something—we have got to change some of this stuff. With that—I thought I used up my time, but my green light does not seem to go off or something like that.

I just wanted to say, Mr. Petersen, we will have a competition title again. As you know I put one in the last farm bill when I was chairman and it did not succeed. I think there is more support for it now. I think there is broader support for that. And we will have something in there akin to a bill that is got strong bipartisan support now, and that, of course, we will have to work on, but it is there.

Debra Houghtaling, the one question I have about it is what—just tell me what made it possible for the Southwest Iowa Coalition and the Grow Iowa Foundation to work to get a large number of communities together? This is—that is touchy work when you do that, you know, to get different communities, they all have their wants and things. How did you put them all together?

Ms. HOUGHTALING. Well, the most important is self-interest, is that they understand that a community of 2,000 cannot accomplish nearly as much as bringing together a larger group. There is multiple examples, enterprise, zone legislation, a State prison in Clarinda where it might have only affected one of the communities, or might have only affected half of the communities within Southwest Iowa, but the larger group of counties and communities all supported, you know, the different—doing lobbying and what have you for different ideas that benefited someone else. And that is a completely—that kind of turns the normal economic paradigm on its head. Where you are six miles away and I am going to compete with you for absolutely everything, where you are 100 miles away from something bigger, let's work together so we can access more for not just me but all of us.

Chairman HARKIN. Thank you very much. And now my light is on. I will turn to my colleague, Senator Nelson.

Senator NELSON. Thank you, Mr. Chairman, I hope I do not get a fast count.

Ms. Houghtaling, it is Houghtaling where I am from in Nebraska, you made reference to the importance of rural entrepreneurship programs, and the program we have had in Nebraska has been very successful. I will just give a few of the numbers to provide a base. We began by providing micro-enterprise developments and were able to lend almost \$7 million to provide training and technical assistance to 15,000 businesses. And this is over a 10-year period. And in 2006, the last year that we have got, each dollar of State funding for this program leveraged over 12 from other sources, and it helped us create or save 7,500 jobs at a cost of \$43.30 per job, which in terms of investment is a pretty small number comparatively speaking.

You mentioned that the kind of assistance that you are looking for would come from two sources, one is from private sources, foundations and private groups, and the other from the government. Do

you have any idea of what it might take in terms of dollars over, let's say, a 5-year period of the Farm Bill to be able to have this kind of program be viable throughout the rural parts of our country? We think about it in terms of Nebraska and Iowa with the particular bills here, but if we are going to do it on a nationwide basis, do you have any thoughts about what it might take?

Ms. HOUGHTALING. You know, any number I would throw out would just be a wild guess. I mean, I think the thing that is interesting is that Nebraska is one of the very few rural places that has really been able to do micro-enterprise well. I am on an Iowa statewide group that is looking at the Nebraska model and trying to figure out what can we import into Iowa to make that successful. I would probably start to—to get that number I would probably start to take a look at the money that is gone into Nebraska and aggregate from there, you know, because there is a lot of more populated rural states certainly than Nebraska or Iowa. But I think that needs to be a starting block to take a look at where it is been successful, and there are not a lot of places where it is been as successful as Nebraska.

Senator NELSON. Mr. Chairman, since we are in a business where virtue cannot be its only reward, I have to point out that that was a program we put in place while I was Governor. I do not want to take full credit, I just want the record to reflect that happened. So I think the point is well made.

If you can take a best practice approach and try to model that which is what we have done in our bill, then other States could begin to look at what they could do and try to replicate it as best they can or take the best pieces of it for their State and then expand it, because obviously, you are right, when you said earlier that one size does not fit all. And we have to be able to have a pattern, but to become creative as well.

Mr. Killpack, you mentioned in your testimony that you think that CSP should be the focus—a focus of the farm bill. And, of course, we are facing some pretty tight budgetary issues. If you were going to make CSP a greater focus, maybe you could help me understand what you would—if it is going to be the major focus and we have a limited amount of money, can you be specific as to the kind of programs it might crowd out? You do not have to make winners and losers here. I just wonder what you think what program is less effective than CSP if we are going to make that a bigger focus.

Mr. KILLPACK. Well, in terms of making farmers profitable I do not really know if you could cut out one program. But in terms of maintaining our natural resources, I think that should be the top priority, and funds can be allocated from, you know, direct payment, loan deficiency payments, counter-cyclical payments into the CSP program to make it a viable program. Because I think that—when that came out I was really excited. The potential that was there to kind of allow the producers to be conservation minded because it is hard to—you know, me as a young farmer do you allocate this land to conservation practice, or do you farm it? And in my viewpoint I always think in terms of the spoiler first. That is just my belief. I would rather have the soil be here for the next

generation for my kids to be able to farm, and I think that is where our focus needs to be.

Where the funds come from I, you know, I have a few ideas, but I hope that that is something that you can figure out and know that the priority needs to be at sustaining our natural resources, because once they are gone, it does not really matter if we have got any other commodity programs or anything like that. I mean, hands down that is the one thing that should have priority is maintaining our natural resources.

Senator NELSON. I certainly agree with you, Mr. Schuitteman. Do you have any further thoughts about what is less valuable as part of it, what is most valuable, more valuable, sort of a prioritization because that is what we are going to be faced with.

Mr. SCHUITTEMAN. I would say generally CRP signup would be something to look at, and more targeted CRP rather than the whole farm. Just to give you an example, as Mr. Killpack was talking about how we might use some of those funds. On our farm we have begun using strip tillage for our row crops. It is a system that is more efficient in fertilizer use, and it is a system that is great for the soil. The equipment is specialized and can be expensive. So any funding we could get through a CSP or EQIP would help us get over the hump. And I think there is probably dollars better spent there versus some of our general CRP signups.

Senator NELSON. The CRP program was the forerunner of where we may be heading and now we are more targeted in a more effective use of CRP, which means there may be fewer acres ultimately in CRP or more, but just make sure at the point of deciding if this will qualify that if there is a better higher use for switch grass or for other such strips as you are saying so that we do not—we do not put all of our resources into one program, it may be—give us the best return; is that fair to say?

Mr. SCHUITTEMAN. When you look at conservation it is not just a terrace or buffer strip. You got to look at it as a production system. And any way we can produce our production systems is going to have a bigger impact than, like you said, the forerunners that we have had in place to date.

Senator NELSON. Going to have to be careful because all CRP levels are going to be mad at me for even suggesting something like that. We are really not talking about necessarily shrinking it. What we are talking about is making sure we got the best use. And I would imagine those in production agriculture are interested in a better use as well, particularly if they can get a rate of return for switch grass or for other purposes. Perhaps they have not even thought of the aspect of grazing, I do not know.

Mr. BAILEY. I think we need to approach the CSP issue from both sides. One side is maybe we ought to take a look at restructuring CSP and cutting it maybe into two pieces. CSP when it was outlined was to reward good stewardship at one level and also provide an incentive on the other level. When you write the regulations, write the rules, administer it and apply it out, it is difficult to put a program together that does both. So one way to think about that would be to take the CSP and split it into a stewardship program. Really talking about a green payments program here that is pretty universally available to everyone in production agri-

culture. The other piece, this is my word, so do not give it to anyone else, but the other one is to build a super EQIP where it is an application—program application thing where you can let multiple producers come in and everything, but take EQIP and retarget it and really apply money back effectively that way.

Now the other side of the question, where are you going to get the money to do this. It is really kind of only three pots of money that I can see right now. Reduce payments might pick you up half a million dollars, whatever. The second one has to do with—by going to a revenue assurance there is probably \$2 billion to \$3 billion that can be pulled in from the crop insurance subsidy and no loss to the safety net when the thing is integrated properly.

The other one is the one Senator Harkin is talking about is direct payments. Is there a way to make the sale to make the program such that people understand that any money coming out of direct payments going into the land stewardship program is a good deal for producers and a good deal for taxpayers? That is the part of the crafting that I think is going to be difficult, but those to me are kind of the three opportunities we have got.

Chairman HARKIN. Thank you, Mr. Bailey. If I might just pick up on that, Varel. I think you may have a good suggestion there. And that is to somehow take—we have got to change CSP because—we have not had the funding and, of course, they took the money out for disaster payments. I just want to assure all of you that is not going to happen again.

In 2003 the first time ever in the history of our agricultural legislation, first time ever, we took money out of agriculture to pay for disaster, never happened before. Well, I raised a fit about it, and then in early 2004 I got the money put back. Then in late 2004 they took it back out again. So lost two, won one. We are still one behind. But I think we just got to have a understanding of those in Congress and in the White House, no matter who it is, that a disaster is a disaster. It is paid for by everyone. We did not go to the people in New Orleans who suffered from Katrina, and said, OK, we are going to put billions of dollars in it, but we are taking out of it your highway money, we are going to take it out of your education money and your foods stamps and all that. We do not say those kind of things, or when a tornado hits and wrecks a town, we do not say, now we are going to take it out of this. No, we treat disasters as such, and we provide for that out of general revenue.

I think it was a terrible mistake to do in 2003 and 2004 and it has really put us somewhat behind. Whether we can get that money back or not, I do not know. I am still trying, \$2.8 billion. \$2.8 billion stretched out is a good sum of money. Anyway, that is just one thing.

I am just saying that the CSP has been damaged, and then they put in all this—I will say this, Secretary Johanns ran around the country having these hearings all last year and came back, and we met with him on numerous occasions, and one of the things we heard all over the country, whether it is Idaho, Montana or Nebraska or Iowa or Missouri, he heard about CSP. Farmers got it. They understood it. As he said to me, he said they were both happy and mad. They liked the concept of the program and mad it is not working.

So we are trying to—we are going to get off that watershed program. That watershed basis was never, ever intended in our legislation. We are going to make it a national program. In his proposal Secretary Johanns has asked for about five times more money than what we have been spending on it. So I think generally now we are going to make this thing work better.

Now what you have proposed, Mr. Bailey, is something that I think deserves further elaboration and looking at. And that is to, as you say, two kinds of things, green payment, a super EQIP, maybe folding EQIP into this, making it sort of a seamless kind of a program where you could come for your one time thing on EQIP, which would be a waterway or whatever it might be, and then while you are there doing that you could just be forwarded right into an analyzed CSP-type payment. So I think that merits a lot of consideration.

But the second thing is then, getting back to the CRP thing. Again, I am going to ask you to comment on what I am about to say. Seems that CRP, you have got like three general pots. On one side you have got the gullies and the ravines and the really bad places that are CRP that should not be farmed, and we can bid those back in.

Senator NELSON. Highly erodible.

Chairman HARKIN. Highly erodible, and not productive at all really. So you could probably get those back in. Then on the other end of the spectrum some of the land that is as about as flat as this table, and that land is going to come out. As you know, some farmers wanted to get out early and Secretary Johanns recently announced he was not going to permit that because of the additional corn acreage coming in. But that land is going to come out. I mean, when the contracts are up there is no way we have enough money to bid that back in. So that—in between that, in between that you got the land that is erodible, it is hilly, it can be row cropped, it is not very productive, but if you have got \$3.50, \$4 corn you do not have to be really very productive to make money on that. But it is very erodible.

So what do you do with those contracts when they come up in the next three, four, 5 years? Well, perhaps here is where we blend this kind of thing. Maybe you can say to a farmer, OK, you are coming out, I know because of crop prices you are thinking about taking it out of CRP and farming it. But what if we were to give you a 10-year contract and we reduce your CRP payment down a third of what it was, but then we will give you a CSP payment and EQIP, fold you into EQIP and CSP, and then you can grow certain specified crops that are conserving in nature, like switch grass, alfalfa for hay, or even do grazing or something like that in which you could get an economic benefit. You can go ahead and market this as long as do you it in a conserving manner, and that is what the CSP payment is for. Make sure you do conserve soil and water and you have wildlife habitat. Then it might induce them to come in because, you know, crop prices are variable. But if you can see ahead 10 years, I got the CRP, I get CSP, I get the EQIP payment, and I can grow something that I can market, that might then keep that CRP land in some kind of conservation use, but still an economic benefit so we are not hurting rural communities by just

keeping it out of production. Any comments on that kind of thing? Chris?

Mr. PETERSEN. Yeah, I think that idea would be very worth pursuing because we want to grow energy crops or a small independent family with some farmer with some cattle or a little bit of hay ground, whatever. I see lots of opportunities there.

Chairman HARKIN. We know we can do rotational grazing without destroying the land. We know that. Anything else, observations on that at all?

Mr. BAILEY. Just a comment, Senator. I have been working with Congressman Cane over the last couple of years talking about CRP, like kind of a mechanism something like you are talking about here. I think the key point of all of these things is the details, and farmers are quick. You ticked off on your fingers the different things we are going to do.

And a farmer in a matter of minutes will figure out which is the best option for him. So the key here is that as you make up the smorgasbord that, again it makes sense environmentally, it makes sense economically for the producer and makes sense for the taxpayers. So, yeah, I think we are on the right track here. Increased flexibility, and in a lot of ways empowers the producer to come to the agency and say, these are the things I want to do, and I have already done an environmental index on it, because I have got it on my PC or whatever, so this is the way it lays out. And at that point then it is kind of almost a bidding process the producer applies on that land rather than just going to the agency and the agency goes down through the checklist and says, well, this is now its source, you know. So I think you are on right track.

Chairman HARKIN. If you have got any more thoughts, suggestions on this super EQIP, I would sure like to know them. I think that I would like to explore this some more. I do not know enough about it, but I would like to explore it some more.

Senator NELSON. I think my questions are pretty well answered.

Chairman HARKIN. I want to thank you all very much and we will have our second panel come up. We will take a short 5-minute break here before we have our second panel, and I also wanted to introduce Eric Steiner. I did not mention Eric.

[Recess.]

Chairman HARKIN. The meeting will resume its sitting and now we have our second panel.

The same pertains here, that your statements will be made a part of the record in their entirety. I can assure you I read every one of them yesterday, last evening and this morning, and will be made a part of the record in their entirety, and ask if you just sum it up in five, 7 minutes, something like that so we can get into a discussion with you.

First we want to welcome Dr. Wendy Wintersteen, the Dean of the College of Agriculture at my alma mater, Iowa State. Also serves as a director of Iowa Agriculture and Home Economics Experiment Station at Iowa State. An entomologist by training, and as a faculty member her research interest focuses on the development assessment of pest management strategies, and a great job of leading the best ag school anywhere in the nation. Dr. Wintersteen, welcome. Please proceed.

STATEMENT OF WENDY WINTERSTEEN, DEAN, COLLEGE OF AGRICULTURE, DIRECTOR, IOWA AGRICULTURE AND HOME ECONOMICS EXPERIMENT STATION, IOWA STATE UNIVERSITY, AMES IOWA

Ms. WINTERSTEEN. Thank you so much. I really appreciate those remarks, especially given that we are so close to Nebraska. We have a great partnership with all of the land grant universities in the Nation and it really is that partnership that has allowed agricultural research and extension to serve the Nation and all the needs that agriculture provides.

Recently one of our distinguished professors, Dr. Wally Huffman, did a study with some of his colleagues at Yale University, not a land grant university, but nonetheless, a good university. I think back over the last 30 years the rate of return to agricultural research investment was a 50 percent annual return. I promise you there has been nothing else that has returned that kind of investment, except maybe the investment in some of our biofuel plants this past year.

So I am here today to speak, to strongly urge Congress to increase its investment in research to support agriculture and to increase support for extension programs that go hand-in-hand with those research programs.

The USDA is the primary spending agency for agricultural research. It spends about \$2.6 billion a year in research and its extension. Unfortunately over the last 30 years that investment has been flat. At the same time the National Institute of Health has received a 882 percent increase in funding. And we have literally been flat lined, which becomes an issue of the health of agriculture in this nation.

At the same time that our numbers have declined in terms of research dollars, our faculty has expanded their portfolio, and they are doing more and more to do the research on the relationship between food and disease in humans, to look at obesity, to use animals as models to solve critical issues in muscle and bone health in humans.

So I would argue for an increased level of funding to support this important program and an increased amount of coordination between the USDA agencies that worked together with their land grant university partners and with the private sector in our commodity wars and various farmer organization to really serve agriculture.

We would ask the question, is it possible to think differently about establishing some national research centers of excellence that would address our primary commodity issues and also address key issue facing agriculture or opportunities. Could we do something where we would have a center for excellence in soybean research and extension programs? Could we have a national center of research and extension excellence related to advanced renewable fuels and biobased products? Could we really finally establish an upper Mississippi basin nutrient management environment center that would coordinate research and extension information across the States that are truly faced with a critical issue on water quality? Can we take the enormous knowledge that we are gaining from genomics and put together translational and functional

genomic centers to allow agriculture to take advantage of what we have learned both for livestock and crop production?

There is a need for this increased partnership and a need to support it with increased funding. And at the same time it is critically important that our land grant university programs through Hatch and the Smith-Lever Acts retain their support for formula funds. It is the heart of how the system works. It is what brings our ability to address local problems and federally critical issues. And we do it because we have the infrastructure in place. Without those formula funds we would not be able to do it. And I would think it is that infrastructure through research and extension that allows us to address, again, local issues, rural issues, issues relating to economic and rural development.

And I just want to mention one program today that is about communities, about extension, a little separate from ag research, but that is our New Horizons program that is working with community leaders in rural Iowa to really address problems related to poverty. That is what can be done with the infrastructure of formula funds and that is how we can leverage additional State dollars in that partnership.

So clearly the opportunity is tremendous. Agriculture right now is faced with a—really a revolution of rapid change. And it is time that we begin to address that through this increased funding opportunity. Thank you.

[The prepared statement of Ms. Wintersteen can be found on page 79 in the appendix.]

Chairman HARKIN. Thank you very much, Dean Wintersteen. I will want to follow up on this idea of centers of excellence with you and see how many—what the university—how many we are thinking about, or are some existing now.

Now we turn to Duane Sand with the Iowa Heritage Foundation, and the environmental consultant for Norwalk, Iowa, my neighborhood. Most of his work for the Iowa National Heritage Foundation coordinates work on the state appropriations Federal farm policy and model watershed projects. I can tell you Mr. Sand has many years of experience working with clean water and sustainable ag coalitions at both the State and national levels. Mr. Sand, welcome.

**STATEMENT OF DUANE SAND, IOWA NATURAL HERITAGE
FOUNDATION, DES MOINES, IOWA**

Mr. SAND. Thank you, Senator. I am honored to be called your neighbor, thank you. Thank you for the chance to share our priorities and ideas that as you take on the very tough challenges of writing a Farm Bill with the budget constraints you have.

I will start off by saying our top priority is with the Conservation Security Program. As the Nation rapidly moves forward implementing a renewable fuels policy we are seeing additional challenges to soil and water and wildlife conservation that come along with that, and we need a comprehensive program like CSP for working lands as the means to deal with these additional challenges. This year I think is the time to start looking at transitioning direct payments into green payments if for no other reason than the inflationary impact on land values that direct payments have in the currently economy.

We also encourage the use of commodity payment limits as a means to come up with some additional money for conservation. And as you look to the future I think it is important to see the Conservation Security Program as a key infrastructure as the Nation takes on its challenges on climate change and global warming.

Eventually I think the Nation will get to a point of using carbon taxes or trading of carbon credits. And it is that infrastructure Conservation Security Program that can make a billion acres of private lands the key to solving a good part of our climate change issues and mitigating those problems.

A big concern of ours right now is the conservation reserve program and it being priced out of the land market in the corn belt. The tremendous success of the corn belt with ethanol is affecting land values and the baseline increase for CRP will not come close to keeping acres in the corn belt. Iowa is the No. 1 among the States in using CRP. Nebraska has been No. 10. And I see nothing but a migration of those acres in contract to other regions unless we make some changes.

A few ideas we have, one is that since contracts are likely to be written at below market values would be good to have a uniform discount for all regions, so all farmers and all regions compete equitably on the general signups and the partial field enrollments.

We believe that the conservation reserve enhancement program is a major asset on a highlighted CRP, and that piece should have 100 percent reimbursement because that is the one piece that is highly targeted based on a professional natural resource plans' priority of the States and so we urge more support for the enhancement program.

Along that line we would hope that you could direct the Secretary of Agriculture to put additional emphasis on very flexible conservation enhancement programs into the corn belt states that are going to be missing out because we have been so successful at renewable fuels, to give us sort of a baseline based on the historic use so there is a flexible way to get more revenue back into the States to keep CRP active and not have that be an inadvertent victim of our renewable fuel successes.

We also think there is a potential under the PAYGO approach that if USDA were to start targeting those economically marginal lands that were costing the taxpayers money to keep in production and to offer a transitional contract that converts them to an economic use, such as grazing, forestry, biofuels, biomass, that—and then takes the full credit for the savings, the savings on the disaster payments, crop insurance subsidies, commodity subsidies and that gets attributed as part of CRP under PAYGO, then we would have some for actually expanding the operation authorization for CRP. But that obviously takes a targeted effort in our agency at USDA.

A final point is the shortfall in technical assistance and conservation incentives is going to be real problematic as cellulosic ethanol becomes commercially viable and spreads across the nation. We believe that there should be a conservation compliance requirement that if an ethanol plant is getting a subsidy that she should take on the responsibility of updating conservation plans and in creating a market incentive at their plant through price or procurement

purposes so that the farmers that follow the conservation plans get a reward as these new biomass markets are created. An example, just in Iowa in Emmetsburg, with that first plant we need to be updating 300,000 to 500,000 acres of conservation plans to be ready when that market opens. That would take five additional staff at NRCS, and they are losing 45 staff this year. That is why we need a compliance requirement to shift that to the private sector.

Thank you.

[The prepared statement of Mr. Sand can be found on page 65 in the appendix.]

Chairman HARKIN. Thank you very much. I do not know that I understand that. I hope we get into that question.

I will yield to my friend for purposes of introduction of our next witness.

Senator NELSON. First, I want to thank Tom Schwarz from Bertrand, Nebraska for coming here. We have worked together on water issues over a lot of years. Tom is an alfalfa, corn, wheat and soybean farmer from Bertrand who has a lot of experience dealing with water issues in Nebraska. He will be talking about water issues and the conservation title from a producer's perspective. Tom has a great perspective on both farming and water issues. He is a graduate of University of Nebraska-Lincoln with a degree in general agriculture. And he is also a graduate of University of Nebraska Lied Program. He has been on the Nebraska State Water Policy Task Force since its inception, and he is a former director of the Central Nebraska Public Power and Irrigation District.

Additionally, Tom was one of the founders of Nebraska Water Users, a statewide organization that supports water users and advocates on their behalf. Finally, Tom is the author of "A Farmers' Guide to Water Rights". So some great expertise in water and farming issues. I look forward to hearing his testimony here today.

It is my understanding that Tom is joined by his wife Linda and his daughter Becky who is a student at the University of Nebraska in political science and that she worked with him to help shorten his comments so that we could get done in time to go see the Nebraska spring game in Lincoln. Tom, thank you and welcome.

STATEMENT OF TOM SCHWARZ, BERTRAND, NEBRASKA

Mr. SCHWARZ. Thank you, Senator Nelson, and thank you, Senator Harkin, for the invitation to be here. As the Senator said, I have closely followed water issues in Nebraska over the last 27 years. Senator Nelson and I worked together on the FERC re-licensing of the Lake McConahagy projects of Nebraska Public Power District and Central Nebraska Public Power. That Nebraska plan that then Governor Nelson developed eventually became the three-state cooperative agreement which led to the settling of that re-licensing.

Current programs in the farm bill have proven remarkably flexible in dealing with water quantity issues. CREP, EQIP and CSP all are proving to be valuable tools in helping develop water quality, water quantity and in habitat. In Nebraska, the USDA in partnership with farmers and the State are saving large volumes of water in the Platte, Blue and Republican basins. These have been really glowing examples of how to bring Federal, State and local

money together to achieve a common goal. These programs continue to face new challenges, but they also provide a platform to achieve far more in the future.

One of the biggest issues facing CREP, EQIP and CSP is payment limitation. I have personally favored lowering the payment limit, realizing that if we do this, large operations may have little incentive to participate. If large operations are to continue receiving large payments, perhaps we should develop a two-tier limit where there would be far lower production payments but much higher limit for conservations payments.

Senator Harkin said, I feel it may be time to make a fundamental shift in our farm programs. We have a window of opportunity today with high cash grain prices to stop paying operators based on the volume of grain produced and start paying on production methods. If farmers' payments were tied to their ability to reduce consumptive use of water, they would likely make that a goal. Breaking out highly erodible land could be discouraged and payments could be reduced or eliminated as a penalty for this practice. Both of those examples would at the same time save water and benefit the natural environment. An investment of this kind in farm programs might be widely supported by both rural and urban America.

Conservation can also be a double-edge sword. One man's conservation can take another's water supply. When doing an analysis of a conservation project we need to quantify the impact of the conservation practice to stream flow and require an offset if the practice depletes the flow of the stream. If such an offset were too costly in a certain area, then perhaps this conservation measure should not be done in this particular location. At this time we do not have the capability to do this. Additional research to allow this type of analysis would be very helpful.

Cropping patterns can also impact consumptive use in a river basin. We cannot tell farmers what to plant, but it might be appropriate to provide incentives to those who chose to plant crops that will lower the consumptive use of water.

I would highly encourage you to support research into crops that save water and other potential conservation practices that may lower consumptive uses of water.

Among conservations programs EQIP has proven to be the most useful in dealing with water quantity issues. One suggestion for this program would be to allow longer contracts similar to CREP. By lengthening contracts we could accomplish greater water savings and reduce the administrative workload on NRCS.

The CREP program has also been used to reduce water use in Nebraska. One problem we encountered with CREP was the acreage cap for counties. I would suggest that we consider allowing NRCS to exceed the cap in counties where the hydrologic system is over appropriated. By definition we cannot sustain current levels of development in those areas, so a cap really serves no purpose.

CSP has the potential to be the most powerful conservation program of all, but it lacks the funding necessary to make it successful and due to its complicated nature, farmers are reluctant to pursue it.

Speaking as a farm operator, if it takes days off work for me to understand a program and to comply with its requirements, I am going to be reluctant to participate. It appears to me that the administrative requirements of this program are great enough that I am not going to be able to comply without doing some harm to other parts of my operation.

If I look at CSP with regard to water quantity issues, I see a number of possibilities. Riparian management could be used to benefit water quality, water quantity and restoring habitat to a more natural State. Invasive vegetation is a nationwide problem in our rivers, and CSP could be used to assist in this area. Native vegetation can also cause water problems if it occurs in river beds and causes flooding. These kinds of issues could all be addressed in CSP.

Thank you for the opportunity to be here and share my thoughts with you.

[The prepared statement of Mr. Schwarz can be found on page 72 in the appendix.]

Chairman HARKIN. Now we turn to you John Crabtree, development and outreach officer for the center for Rural Affairs in Lyons, Nebraska. He is involved with his family's corn and soybean farm near Dougherty, Iowa. Welcome.

**STATEMENT OF JOHN CRABTREE, CENTER FOR RURAL
AFFAIRS, LYONS, NEBRASKA**

Mr. CRABTREE. Thank you, Chairman and Senator Nelson. I just wanted to say I really appreciate testifying in this part of the committee. I was born in Iowa, grew up in Iowa, lived there for 35 years. The only thing that got me to leave was a job in Nebraska at the center for Rural Affairs. So this is really a great panel to speak to. I must confess particularly Dr. Wintersteen here, I was a University of Iowa grad, though, sorry.

Chairman HARKIN. Cannot win them all.

Mr. CRABTREE. The 2007 Farm Bill presents an opportunity, and certainly this is true of all farm bills. However, the continued consolidation and concentration in agriculture, both at the level of production and in processing, calls for a farm bill debate that closely examines and ultimately addresses fundamental structural issues and long-term investments in rural America.

Today you heard and as we go forward in this debate you will hear a lot of stories about the chronic economic problems that we face in many rural communities. And it is important to consider chronic economic challenges in the drafting and debate of the Farm Bill. But we should, however, recognize there is hope and there are solutions to some of the challenges we face.

Senator Nelson and others testifying mentioned small scale entrepreneurship as a proven strategy to revitalize rural communities. It can create genuine opportunities across rural American with the support of a modest investment by the Federal Government.

The importance of small entrepreneurship is particularly profound in the most rural areas. The Center for Rural Affairs' analysis of economic conditions in farm and ranch counties of Iowa, Kansas, Minnesota, Nebraska, North Dakota and South Dakota

found that nearly 60 percent of job growth in the 1990's in farm and ranch counties in those States came from people creating their own job by starting a small non-farm business. The small entrepreneurship is the one development strategy that consistently works in these communities.

We strongly support Senator Nelson's proposed rural entrepreneur and micro-enterprise assistance program because it would tap into the rural development potential of small entrepreneurship. The program was modeled after a provision in the Senate version of the 2002 Farm Bill, which was not in the conference report, and also a program initiated by Senator Nelson in his previous job as Governor of Nebraska. As the Senator pointed out, it works. Nearly \$7 million lent. Nearly \$7 millions lent over the last then years. 15,000 businesses assisted in rural Nebraska, \$12 leverage to each dollar spent. And at \$330 per job I must point out that the center for Rural Affairs does not support micro-enterprise development and entrepreneurship because we are nostalgic for a mainstream of yesteryear.

This is in truth the heaviest hitter in rural economic development. This is where jobs are created. And at that cost and at 50 to 70 percent depending on where you go across the country, that level of job creation, this is where rubber meets the road in rural economic development.

In talking about entrepreneurship I think we also must come to recognize that beginning farmers and ranchers are entrepreneurs as well. The future of agriculture, indeed much of the future of our rural communities, depends on the ability of new family farmers and ranchers to get started. And if beginning farmers cannot get started, if there is no future in farming, then the current policy is not working. The cost of land, either renting or purchasing land is the most significant barrier to entry for beginning farmers and ranchers. And land costs weigh heavily on the success of or failure of many established small and mid-sized operations as well.

There was not the original intent of the Federal farm programs to become the driving force behind consolidation. Virtually unlimited farm program payments are used by mega-farms to drive their smaller neighbors out of business.

Now although securing payment limits may be the most difficult thing we try to do in this farm bill, it is also the most important. In fact, without real limits farm programs work against us.

Just a couple things quickly to point out that while it may be difficult, the solutions are elegant. It is simple. First and foremost, close the loopholes and make current paper limits real. Limits should be limits regardless of how farms are organized. With direct attribution of farm payments to a real person and a definition for actively engaged that involves dirt under the fingernails farm programs can work.

We urge you to say no to any Farm Bill that lacks meaningful and effective payment limits because rural American cannot afford another Farm Bill that undermines family farming.

Last, I just want to touch on livestock competition issues because in many rural areas the livestock that are raised there are only a few or even one packer or processor for a given livestock species that buys from the farmers and ranchers. At the same time there

is been a dramatic increase in the use of production marketing contracts. Currently fully 89 percent of hogs are either owned outright or tightly controlled through various contracting devices. Many farmers and ranchers face price discrimination and severely limited market access as a result. Congress should not let another farm bill go by without making changes in the Packers and Stockyard Act and the Fair Practices Act that are necessary to breathe some life and competition back into livestock markets.

Just a couple of things real quick. Prohibit packers from owning livestock, define undue preferences and establish that producers need not prove anti-competitive injury to an entire sector relating to packers and stockyard cases.

I want to end with this: It really does come down to a question of—in a nation if packers and processors own the control over livestock, what need is there for farmers and ranchers? And I think if we are going to hold up the farm as being a solution to some of the challenges of rural America, then we need to do some of the things that you and Senator Harkin and others have tried to do in the Competitive Fair Agricultural Market Act, with S. 305, the prohibition of packers owning livestock. Need to make these things into a competition title in the Farm Bill and make it part of our future. Thank you.

[The prepared statement of Mr. Crabtree can be found on page 49 in the appendix.]

Chairman HARKIN. Thank you very much, Mr. Crabtree.

Now we will tour to Mr. Stroburg, CEO and president of the Renewable Energy Group in Ralston, Iowa. REG owns three biodiesel refineries located in Ralston and Wall Lake, Iowa and Glenville, Minnesota with a total production capacity of 72 million gallons per year. Current biodiesel production capacity in Iowa is about 140 million gallons per year. So Mr. Stroburg, welcome. Please proceed.

**STATEMENT OF JEFFREY STROBURG, CEO AND CHAIRMAN,
RENEWABLE ENERGY GROUP, INC., RALSTON, IOWA**

Mr. STROBURG. Thank you, Senator Harkin, and thank you, Senator Nelson. Really appreciate the opportunity to come talk to you about biodiesel and the biodiesel industry. Renewable Energy Group is a roll up of all the biodiesel activities that West Central Cooperative have been involved in since 1996. And we build bodies of plants and build them for third parties as well as for ourselves. And we also market the biodiesel coming out of those plants.

The number of people that have invested in REG biodiesel plants in Iowa exceeds 3,000. So there is more than 3,000 individual investors. Matt Schuiteman, who has talked about investing in an ethanol plant, there are 3,000 mostly rural farming investors who invested in these plants.

The biodiesel industry provides opportunities for rural development. It also provides opportunities for jobs in rural communities. These are skilled jobs. These are skilled jobs that quite often require a 4-year degree or even an advanced degree, so it is—biodiesel is a great rural development opportunity.

One of the threats that we have for the growth and development of biodiesel as an enhancement to our overall national energy complex is an item called renewable diesel, and this is a non-ester re-

newable fuel where an existing petroleum refinery can take animal fat or vegetable fat and run it through the existing refinery and call it renewable diesel. It is not biodiesel by definition. It is a non-ester diesel, and yet the department treasury has determined that they can get all the benefits of that legislation has—provides for biodiesel.

This is a real threat to the growth of the biodiesel industry. It is not what was intended by the legislators when they passed the incentives for biodiesel. It does nothing for rural communities. It does nothing for rural development. And maybe most important, it does nothing to expand our ability to produce more diesel fuel in the United States.

When we build a biodiesel plant we expand the production capacity of diesel fuel in the United States. It is been decades since a petroleum refinery has been built. So when we run vegetable oil through the existing refinery we do nothing to expand our ability to produce more diesel fuel in the United States.

Recently, I credit this first to Boston, they announced they believed their analysis—believe that there would be a diesel crunch about midsummer. And the reason is not because there is not enough crude oil. The reason is there is not going to be enough refining capacity. We need a policy that encourages the growth of refining capacity in the United States.

So we do believe that we need to deal with this issue of renewable diesel, and we need to make sure the definition of biodiesel tracks with what was the intent of the legislation.

We have had a lot discussion about ethanol today. And so I—a great honor to be able to talk about biodiesel. There are differences in ethanol and biodiesel. Biodiesel is a much younger industry. We have not had the opportunity to get this far along in the development curve as ethanol. Biodiesel is also not as well understood by its users as ethanol is now. And because of that we think we need—we need to make a distinction between the consumer awareness and the policy that is going to be required to promote biodiesel. We are in a different stage than ethanol. We do—we do believe that we need to increase the support for programs that target biodiesel and biodiesel awareness among consumers as well as handlers.

The handling of biodiesel is an extremely important issue if we are going to maintain the quality of fuel in the overall fuel system.

Renewable Energy Group also supports the research title outlined in Title VIII of the Farm Bill. This provides for \$500 million of mandatory funding over the next 10 years. And we think this is going to be extremely important so that we have a collaboration between Federal and university scientific experts which will ultimately make bioenergy most cost effective.

Feed stock supply is also an important issue for our industry. Senator Nelson talked about feed stock diversification. And we believe and experts believe that biodiesel can be made from many different feed stocks.

Senator Nelson, just think about the drought area that Drought David is causing in Southwest Nebraska and think about maybe putting algae ponds in Southwest Nebraska. They need sunlight. They do not need high quality water. It can even be brackish water

to grow algae. Algae in the future we believe will be a great source of oil for biodiesel.

There are other plants that we believe could grow in more areas where traditional feed oil plants cannot be grown. Colorado is looking at mustard, and we think there is many yet-to-be-discovered seeds that were not useful in the food chain but might be very useful in the biodiesel area.

So we do appreciate the opportunity to talk about biodiesel.

One other item I would like to touch on is just the support to increase the transport of biodiesel in pipelines. It is been done in Europe, and we need to have incentives that help us encourage the pipeline industry in the United States to move biodiesel through pipelines.

Thank you.

[The prepared statement of Mr. Stroburg can be found on page 75 in the appendix.]

Chairman HARKIN. Thank you very much, Jeff. Thought I would just switch it here since I went first, I will try to give my colleague, Senator Nelson, the opening line for questions.

Senator NELSON. Mr. Stroburg, let me just begin with you. Clearly going to a crop that does not have any food value but does have value for alternative energy is, I think, probably consistent with what we have been saying, instead of taking land out of production where it could be used for other purposes, as Senator Harkin said, with perhaps a lower payment from the government but with the expectation that if you get into this business of producing this crop, algae, or moving from corn to sweet sorghum, making some change that will simply add to our fuel capacity is very important. I do not know about algae, but I suspect since we have—we can raise salmon in Nebraska, we might find a way to grow algae as well.

But what are your thoughts about what you could do to create the incentive, encouragement and get reality of having these alternative crops develop to go to creating more biodiesel fuel.

Mr. STROBURG. One of the first steps is to have the land grant universities of the United States, particularly the two greatest ones, Iowa State University and University of Nebraska, do basic research on that. There are—there are plant species out there that have not been commercialized that our farming community is not used to raising that move through the university system and eventually become commercialized. That will happen as long as we continue to support the research and support on the other hand, the biodiesel use, because there is nothing greater than consumer demand. And if we have consumer demand it will get pulled through clear from the university clear to the end users' tank.

Senator NELSON. I agree with that.

Mr. Schwarz, because of your interest in water you have looked at a lot of different ways of conserving consumptive use. And I still get—we grew up in the same particular area. Bertrand is not that far from McCook where I grew up, probably what, about 65 miles. And with all the salt cedar and other kinds of weeds and growth that is coming up in the Republican River Valley right along the river bed, it is changed the whole structure, and there is a great water demand for those non-crop weeds and growth.

I saw that there is—there was a pilot program of using goats. I cannot make this up, I am sure. But using goats down in certain areas that will eat those plants but would not touch the grass for grazing cattle and other livestock. I am not going to ask you how many goats it is going take to clear that, but I imagine Becky could figure it out pretty soon with her background.

What are your thoughts about what we do in the Farm Bill to eliminate that kind of growth that, for water purposes, that would help increase water availability going down the Republican River, going into Kansas, to take some of the pressure off Southwest Nebraska where otherwise, if it isn't Drought David that will so negatively impact the economy, then the lack of having—or having crop land taken out of production or turn to dry land will otherwise adversely affect it? Do you have any thoughts about that.

Mr. SCHWARZ. We are working in the legislature right now to pass a bill that will begin to depress invasive species issues and over vegetation of our rivers. Nebraska has kind of a unique situation right now where a lot of the country is really concerned about maintaining and growing stands of trees. We have, because of an endangered species issue, a need to remove a lot of vegetation from our rivers to benefit those endangered species. Of course, salt cedar is a major water user and also is counter to our ability to protect those endangered species. So this bill, the idea is to eliminate these species to the greatest extent practical on these river beds.

There are different ways to deal with these species, and of course, one is to use chemical application and then mechanical or non-traditional goats. Central Public Power did an experiment on Jeffrey Island near Lexington and that area as I recall is about 1,000 acres, and I believe they brought in about 1,000 goats. And it was quite a sight to see. These goats will literally climb up the salt cedar bushes, they are really not a tree to look at them, and they will eat the vegetation off and they prefer eating weeds. They prefer eating salt cedar rather than the grass. They literally will leave the grass to the last to eat. But there is not that quite much demand for goats in the market.

So if we are going to control the salt cedar problems we have in Nebraska, it is questionable if we could put enough goats out there to get the job done, so probably with some kind of a mix.

So we are going to use traditional controls. We need, and it takes a lot of money no matter how you do this, and what we are trying to do is utilize the EQIP program to leverage State money to get the job done and the EQIP program right now works perfectly for this. So that is another case where we have got a product out there that is working and we can utilize it to do a better job.

Senator NELSON. Congressman Osman and I at the end of the year get some more CREP money and EQIP money to be able to do that.

And Dr. Wintersteen, as we get better with our conservation practices to—with strips and other grass growth might protect the erodible acres, the good news is we do that. The bad news is then there is less water necessarily flowing into rivers, streams and other sources to go into the State of Kansas, which puts us in—the better we get on conservation sometimes the harder it is for us to make those compliance requirements.

But I appreciate very much your comments, Tom, and continued to work. If there is something we can do, obviously let us know. Thank you.

Chairman HARKIN. Goats, have you ever tried to buy goat cheese, it is expensive. Not kidding you. Went to the store, to Safeway in Virginia to buy some cheese. All the goat cheese from France, you have to look hard to find any from the United States. Maybe there is a market there. I do not know. I am just kidding you.

I want to talk to Dr. Wintersteen about formula funds. Now formula funds I understand what they do. I understand how they operate. Questions have been raised that some of the formulas have been relayed down into 1800's, and we continue to operate on that basis. Some have said that we should take a look at these formulas. Formulas were laid down at the time when a land grant college served a defined area. The land grant college in Iowa served the needs of the Iowa agriculture. The land grant college in Georgia served Georgia. The land grant college in Texas served—that is how they were developed. And there was good reason for it at the time. But it seems to me now, Iowa State is doing research on things that are applicable to Georgia or Texas and they are doing research that is applicable on us. I am just wondering, is there a need to re-examine how those formula funds are allocated?

Ms. WINTERSTEEN. I like the formula funds. I like the way they are now. We benefit greatly. And I just—I think this is my opportunity. I think it is critically important to understand that if you look at the formula, the States that are big in agriculture, Senator Harkin, are the ones that benefit the most from those formula funds. And they are marked clearly in the infrastructure, in the budget of the College of Ag at Iowa State, at the University of Nebraska. If our formula funds would go away, if the Federal Government, which are about \$5 million, the number of faculty that I would not have the salaries to pay them would be pretty significant. So we have it embedded in our budget, they are operationalized. It would be extraordinarily difficult to move away.

Chairman HARKIN. I am talking—I am talking about the review process that goes into the application for formula funds.

Ms. WINTERSTEEN. We would certainly be happy to participate in the review, but again, we like the number we have right now.

Chairman HARKIN. I mean, I understand that, of course. It is the same thing about a lot of things, is it time to look at them and think about a different kind of review process. I just say, questions are being asked about it. I think they are legitimate questions. If something has been operating the same way since the 1800's you have to ask the question, is it really meeting the needs of today or what we are looking at down the pipe or is it just a system there.

Ms. WINTERSTEEN. And I would argue we can document for you the outcomes of these formula funds that we would be able to share that demonstrated impact, and again, Wally Huffman's research that is shown that 50 percent annualized return on formula funds is an extraordinary response.

Chairman HARKIN. Again, the essence of my question is should these funds, could these funds, these formula funds benefit from an additional review process to insure they go to areas of study where

they are most needed, looking ahead at what we are trying to do in agriculture in the future.

Ms. WINTERSTEEN. And I would state that within certainly the College of Agriculture at Iowa State University we work with our State holder groups. We ask them for their priority needs and we focus on those using the dollars to address the local needs. So to me, the review, if it is done, Senator Harkin, is a review that should be done at a local level because this again is a partnership between the State and the Federal Government. The formula funds and Iowa that come in at the \$5 million level approximately leverages the States' investment to the experiment station of \$31 million.

Chairman HARKIN. I hate to interrupt, but maybe a change in the review process to think about more of this money ought to be going to biomass research or biodiesel research or to the kind of thing Senator Nelson just brought up, maybe Iowa State would do better under that kind of a review process. I do not know necessarily it would do worse. Might be it might do better. So I just ask that and I ask you because you are so involved in this because we do want to do more money in research. We do have to do more in research. It is a shame what is happened to ag research in this country. And—but we also have a reality to face, and that is we have a really limited budget. So the question then becomes—gets to be, well, is there a better reallocation or better way of reallocating the moneys that we have to look at the needs of agriculture in the future. That is really the essence. And we will be doing that. So I welcome, you know, your input into that as we move ahead. Of course, we will be hearing from land grant schools from around the country of course on that issue.

Mr. Sand, I do not know if you heard what Mr. Bailey said, he raised an interesting point about a super EQIP and maybe—I am going to get more information from you on that, but how would you see transitioning the CSP into the role of being the primary working land program, which you talked about, and how would it work with the existing EQIP program? Is there some way of melding those two?

Mr. SAND. I really appreciated your concept that you explained in terms of using EQIP as getting the primary practices on the land to make people eligible for CSP and to turn that into a seamless process from making land eligible and then actually moving people into the full one tier at a time kind of improvement. So we have a continuous improvement process.

I think one of the weaknesses of EQIP is the you have been able to access it one practice by one practice, which has been more of a Band-Aid approach. CSP is—its advantage is hopefully engaging more people in the conservation process, which is critical. But it is engaging them in a continuous improvement process, which is where we really have to be for environmental protection. And obviously the big question is money because farmers have been readily available to sign up for CSP and been favorable about participating.

Chairman HARKIN. I think there is a lot of support if we get off this watershed basis we have been on and make it broader based. Also, as you know, most of the money in CSP has been going for tier three. Well, that was never our intention. Our intention was

to reward the best obviously as an example, but to start getting other people in at tier one and then moving them up the ladder. And so we will be looking at that and how we modify that in the next Farm Bill also. So I am—Mr. Schwarz and others are interested in that area, any suggestions and advice you have on that, I am open for too. How do we get—focus more on tier one, getting more people into tier one? Tier one, obviously that is cheapest. And you get more people involved then you graduate them up to two or three, that type of thing. But the idea of using EQIP as the basis for getting them in and getting them the initial, you know, practice and then moving them on through CSP. Anything you have got on that I would sure appreciate that in the future.

I need more information, and I think maybe I will have to lean on Senator Nelson for this, on what you said, Mr. Schwarz, about tying payments to reducing consumptive use of water. I am not certain how that would work.

Mr. SCHWARZ. Well, there are practices we can use that will reduce the consumptive use of water. Anytime we can lower the evaporation losses that we take on a piece of ground or through approved crop genetics, we can lower the transpiration losses we take on that ground. You know, we have got high hopes today that with research that is also underway and nearing fruition that we are going to have corn varieties that will use maybe as much as a third less water in the process of growing it. You know, if we can make conversions to those kinds of crops I think it is going to benefit us all in the long run.

Chairman HARKIN. Thank you very much. Last one I have, Mr. Stroburg, moving biodiesel through pipelines. By the way, Senator Nelson just showed me the ruling that came out of the IRS just the other day I guess, right, on this? So obviously this is something we are going to have to look at, this renewable diesel thing. But question, biodiesel through pipelines does not have the same problem as ethanol; is that right?

Mr. STROBURG. That is right, they are moving biodiesel in pipelines in Europe and have for years.

Chairman HARKIN. Just want to make that clear.

I want to thank the panel very much, unless somebody has one last thing they wanted to add or point to me before I move on.

Mr. SCHWARZ. I guess one comment I would like to make is it is important in our farm program, we have got to be able to develop a farm program obviously that is acceptable to farmers, but it is just as important that we have the ability to go to that cab driver in Chicago and explain why we are taking X dollars of his Federal tax money to go into these farm programs. We have to show him that we are benefiting the environment with that investment that he is making. We are helping to lower his energy costs through the development of these energy sources we have talked about here today, and that we are providing some security that his food supply is going to be there in the long term, it is going to be safe and he is not going to be dependent on outside countries for that food supply.

Chairman HARKIN. Very good summation. I want to thank the second panel.

Now we have some time, I am going to open it up for an open mic. Panel, you do not have to sit there if you do not want. You can leave if you would like. But I would like to open it up for at last a few minutes here. We have some time for open mic.

This is an official hearing of the Agriculture Committee, so I ask that you mention your name, where you are from and if your name is not Nelson or Smith, you might want to spell it out for the benefit of the recorder who is here.

Mr. Sturm has the mic and if you will just come down there and make a concise statement, I would sure appreciate it.

Mr. CAMPBELL. John Campbell, AGP, Omaha. Senator Nelson came all the way across the river, and I am going to be brief because as soon as I leave here I am going to be headed up to Valentine for spring turkey hunting.

Senator Harkin, my written testimony, which I hope you will put in the record, is really aimed at trying to help you head the direction you are trying to go. And having my first Farm Bill in 1980 I can tell you I never thought I would have said that, but there is a huge convergence of thinking out here in the country, which you are not going to hear from inside the beltway. But out here there is a lot of convergence. And the direction you are trying to take us involves changing the momentum. In order to do that, in order to keep from just doing the status quo, you have to burst some myths. There is a lot of myths out there where there is factual research that can help you along this path.

What my comments focus on today are primarily the CRP, but all of these things weave together. So very briefly right now today there is this debate about food versus fuel. We are using about 15 million acres for bioenergy. At the turn of the century we used 90 million acres. That is a DOE figure. That is because we used hay and grain to power horses and mules and oxen and those life machines that did our work. Well, so there really is not much of a conflict here. But the real conflict is not between food and fuel, but it is wildlife.

As you said, CRP is going to fall victim to the market place if we do not do something different. And the key is getting people inside the beltway to think about what we can do different. And in order to do that we have to explode some myths.

One of the myths is that CRP has been really beneficial for erosion. It has not been. The facts are that most of the ground is western high plains ground that was enrolled because of wind erosion. That is not the most damaging erosion. Heat and real erosion from water is the most damaging.

If you look at the facts, farmers through conservation compliance and farming practices have brought more acres into tolerance, the T level, on their own outside of the CRP than have ever been accomplished by CRP. And it is even more striking if you figure, as you know, out in western Nebraska one person's soil erosion is another person's top soil. It is totally different. We were trying to get the most ground in the CRP for the cheapest dollars so we enrolled as quickly as possible. So that has not been great.

Chairman HARKIN. Can you sum up, please? We have got a lot of people and I have to move on.

Mr. CAMPBELL. Two other things, pheasant hunting, which I know is dear to your heart, Senator Nelson, is on the decline, hunting is on the decline. Pheasant counts are down from the time when the CRP was established. The CRP has not been good for pheasant and it has not been good for hunting, and you know the reasons why. We need to redistribute that in the kind of programs that are more widespread and less concentrated. Duck populations, the same is true of duck populations, has not been helpful, actually we are back to 1955 levels.

Chairman HARKIN. Mr. Campbell, thank you. I have got your thing, I am going to read it, believe me.

Mr. ANDREWS. David Andrews from the National Conference in Des Moines. My question concerns the relationship between the WTO or international trade. There is a trade section in the Farm Bill and rural development. If—I think the WTO is not frozen in stone, that there are openings in terms of the development agenda to special differential treatment developing the country's products to geographic indicators, to special products, there is an opening to the potential for global agriculture that respects a greater diversity than the current WTO seems to do.

And in the United States, the Farm Bill can assist in further diversifying and localizing by removing road blocks to local food procurement, to enabling meat inspection to go forward that will allow State inspection that goes across State borders. Why shouldn't Council Bluffs have the opportunity to have meat produced here in Iowa go over to Omaha and satisfy those markets? And there is some question at the USDA level on food procurement rules. Why cannot we have the Department of Defense purchase local foods where this is a opportunity? Can we remove some of the obstacles to local and regional food systems and also move the WTO to appreciate that phenomenon too? Thank you.

Senator NELSON. I sit on the Armed Services Committee, and we have from time to time inquired as to why the Department of Defense or Pentagon does not take domestic products for food, and we do not have a satisfactory answer yet. But we are going to persist at it. And I do not know the WTO implications, but obviously have to be considered once we are there, but you are absolutely right. There ought to be—we do put requirements on the Pentagon to have U.S. made products that they buy, creates big problem because some of the internal working parts come from other parts of the country, but it is the problem you have with food grown here and we ought to have a priority. We have not given up on it. It is just the Pentagon is a very difficult place to change the culture.

Mr. SWANSON. Harold Swanson, professor of the College of Ag, started the ag department in 1970, ran it for 25 years, got about 5,600 farmers out there that carry our brand and know how to farm. And that picks up on what was said, that we have got two times as many farmers over 60 than they have under 35. And the problem, if you are going to farm, get some training, that is what I always told my people. And we—our graduates are very, very successful. And if we are going to—the problem is there is no requirement, educational requirement to get into farming. And when you look at—I remember the statistics back then, only 10 percent of people who started farming back in the 1970's and 1980's had any

training for their work. And I do not know that it is any better than now. So the thing that I would like to see directly for in the Farm Bill would maybe with FMHA loans or PCA or even the credit, private credit to offer those few years in farming some very substantial discounts on the interest rates being a way of helping. And another thing is any way that we can encourage people to get some training for farming, because if once you get into a community college program like ours here at the universities, it changes the whole attitude of what it takes to get started farming. And it requires just one tremendous amount of information and risk taking. And so any way that could be put in there to help that, that would be very appreciated. Thank you.

Chairman HARKIN. Thank you.

Mr. BARRY. Morning. My name is Tim Barry. I am from Council Bluffs. Thank you for coming here today and hearing issues about the Farm Bill. I was born and raised in a little town north of here, Pisgah, Iowa, and my brother still farms the family farm up there. I have been in the seed industry about 30 years. I am also on the Iowa Seed Association Board. And agriculture is not only my business, but it is also my passion. I also work with the Chamber here at our Ag Committee, and I am on the extension council here in Pott County. That is what I wanted to speak with you about today as far as support of extension.

Dr. Wintersteen talked about from the Iowa State view, and I am talking about from the grass roots. Extension does so many things for communities. It brings youth 4-H and some of the youth programs, and this is so important to our communities. Also it is a network that is already set and up and is in practice as far as what they do. We have experts as far as regional experts that talk about and support some of the bases of agriculture around our States. And it is also a system that is across the Nation too, through the land grant colleges. So I guess from my standpoint as an extension council member, a grass roots type of person, I guess I hope when you go to the farm plan and you look at funds for extension and some of the issues in that regard, no matter how you do it, I think it is something that helps our whole rural community and should be part of the farm plan and do appreciate your time here today, gentlemen. Thank you.

Chairman HARKIN. I can assure you that extension service is alive and will continue to be under this Farm Bill. I can assure you of that.

Mr. LUCKEY. Bill Luckey from Columbus, Nebraska, Pork producer in Platte County. We have hogs, my son has a cow/calf operation. We have a small feed lot also. And we built a 2,000-head finisher to bring one of our sons back into the operation. So as far as entrepreneurship that is one of the things we did, we took advantage of an opportunity and brought one of our sons back. However, we have two more sons that might want to come back, so I do not know what we are going to go to in order to get them back.

I am speaking today on behalf of pork producers. And we just want to emphasize how some of the structural changes are always occurring in agriculture. It is particularly in the hog industry. You know, we are not the same as what we were 20, 30, 50 years ago.

There is definitely a change. As a Farm Bill goes, we are going to have to change also.

But you stated that we are going to have a competitive title in the Farm Bill. We want you to be extremely careful in implementing that portion of the Farm Bill because it seems like in so many situations we try to legislate to certain issues, and we end up hurting some of the people that we want to protect in the long run. So we just want to make sure that you look at the consequences of all the legislature front to back so you make sure you are helping the ones you really want to help and not harming them. Thank you for having us.

Chairman HARKIN. Thank you very much. Appreciate that.

Mr. ZYLSTRA. Good morning. My name is Roger Zylstra, and I am a grain and livestock farmer from Lynnville, Iowa. I am also a director with the Iowa Corn Growers Association and I thank you for this opportunity.

The Iowa Corn Growers has been working for a couple years to identify some of the challenges with the Farm Bill and there is four improvements that we would like to see.

We would like to see a revenue based commodity title, an option for part of the direct payment targeted to farm and family investments, a stronger conservation title and rural trade organization friendly.

And you might ask why change the Farm Bill? The Farm Bill is an investment in strengthening our economy. Congress must make investments in programs that will enable the U.S. to keep its edge in productivity, innovation, food security and renewable fuels. This investment will increase the value of farm programs, market orientation and tax dollar efficiency. Thank you.

Chairman HARKIN. You said four things, revenue issue based, and then I got the stronger conservation. What was No. 2?

Mr. ZYLSTRA. No. 2 is an option for part of the direct payment targeted to farm and family investments.

Chairman HARKIN. OK.

Mr. ZYLSTRA. Part of that money maybe could be used to invest in biodiesel, renewable fuels or conservation, just any of those things.

Chairman HARKIN. What was No. 4?

Mr. ZYLSTRA. No. 4, we think it needs to be World Trade Organization friendly.

Chairman HARKIN. Well, we have to do that. People say to me, do not pay any attention to WTO. Sometimes I would like not to, but the fact is the Constitution of the United States explicitly says that all treaties are the supreme law of the land. So once we sign a treaty, it is the supreme law of the land. And we did it, for better or worse, sign the WTO, so we are part of that. So we have to be cognizant of it. It is the supreme law of the land, and we have to operate under its purview. So we have to be cognizant of it when we do develop our Farm Bill, absolutely. Thank you.

Ms. BRAHMS. My name is Donna Brahms and I am representing the bee keepers of the United States. I am the president of Iowa Honey Producers, and I am also a member of the American Honey Producers and American Bee Federation.

As you are no doubt aware there is a new and unexplained condition known as Colony Collapse Disorder and it is wreaking havoc in the nation's bee colonies. We are losing alarming rates of bee colonies in the United States. Some bee keepers have lost upwards of 90 percent of their colonies. And America's bee keepers and their bees are an indispensable pillar of the United States agriculture. Without honey bees we would lose one-third of the food that we are used to eating. Every third bite is attributable to a honey bee. If we do not have honey bees, we are not going to be able to continue with food as we have it now.

I am—Iowa State does no research on honey bees. There is no school in the State of Iowa that is helping bee keepers. Not just—I am here mainly to make sure that the research is continued for the ARS, honey bee research labs, there is four of them in the United States. We need to make sure that they continue getting their research, and we would also like to ask that implementation of the crop insurance program for bee keepers that Congress authorized in 2002 is put in place. And I would like to thank you for signing the letter that Senator Baucus from Montana formed to send to the Secretary of Agriculture. So, thank you.

Chairman HARKIN. I am sure glad you are here. I am aware of this, so is Senator Nelson. I do not know if you wanted to respond at all, Senator Nelson.

Senator NELSON. Obviously the honey bee industry is an important part of agriculture and the USDA needs to focus on this right away. I mean it is critical, the problem is more than imminent, it is upon us, and we have to react to it. And we would like to obviously get some research, private or public, to know what to do to stem the problem.

Chairman HARKIN. I can assure you, we have—we are aware of this, and we are pushing USDA to find the solutions through the different centers that you mentioned, the four ARS stations—ARS stations that are doing research on this. And it is—it could be a devastating problem. I do not know if Dean Wintersteen, if you have anything to add to that.

Ms. WINTERSTEEN. I would agree that it is a crisis in agriculture nationwide, and it is an unexplained issue, and clearly ARS leads the way in addressing this issue through their established program.

Chairman HARKIN. I am really glad you brought that up. I am remiss in not mentioning it. Because it is a very important factor in agriculture. It is hit us hard just in the last few months. Thank you.

Mr. BECKMAN. I am Doug Beckman from Mills County. I am an ex-teacher and farmer from that area for a long time. I am just glad to hear that there seems to be a lot of interest in rural development, maintaining a part in the ag program. And I think Iowa, the Midwest in general, is on the verge of a huge undertaking and it is coming up in the near future if policies and legislation allow it to happen with development of biomass and biofuels and bioproducts that could be developed. And I think they could get something done in our smaller rural communities.

One of the things that is concerning me a little bit, I know you mentioned that you think ag research money should be increased

and I would like to see our universities stay involved in that research, especially along these new technologies. If private business takes over that, I am sure they are going to end up owning a lot of intellectual properties that are not going to be available if the university had no part in developing it. So it is a way of keeping the public involved using our tax moneys I believe, that they can all benefit rather than a few private individuals maybe benefiting in the long run. Thank you.

Chairman HARKIN. Very interesting concept I thought. Thank you.

This is the time for us to move on. I have another hearing in Sioux City this afternoon. Again, I want to thank all of our panelists for your testimony, for coming a great distance, and thank all of those who just added their comments here at the end here.

As you can see, ag policy is very complex, interwoven with so many aspects of our daily lives. We have a tremendous job ahead of us. We have a tight budget situation confronting us. I only wish I had—I wish we had the baseline money to operate on this year as we did in 2002, and we do not. We are fighting to get more. And I could not ask for a stronger ally and stronger friend for rural America and agriculture than we have got it Senator Ben Nelson, and I want to thank you for again being here today and being such a great member of our Ag Committee.

Senator NELSON. Thank you, Mr. Chairman. It is been a pleasure and a very enlightening experience to be here today. And I appreciate your scheduling this and calling it here in Council Bluffs.

Chairman HARKIN. Thank you very much, Ben. And we will keep the record open to receive statements, et cetera, 5 days. If anybody has statements and stuff, they can submit it to us, we will keep it open for 5 days. Again, we thank you all and have a safe travel home, and the Senate Agriculture Committee will stand adjourned.

[Whereupon, at 12:17 p.m., the Committee was adjourned.]

A P P E N D I X

APRIL 14, 2007

STATEMENT BY VAREL G. BAILEY
before the
United States Senate
Committee on Agriculture, Nutrition and Forestry
“Iowa and Nebraska Views on Federal Agriculture and Rural Policies
the 2007 Farm Bill”
April 14 2007

Good morning, Mr. Chairman and Members of the committee I am pleased to speak before you today. I appear today in four roles. First, my son and I operate a corn, soybean, grass, beef cattle, hog and sheep operation at Anita, Iowa. Second, I work as an agriculture policy consultant for American Farmland Trust. Third, I have been involved in farm bill debates since the late '70's. Fourth, I am a taxpayer. In my role as farmer, I am looking for public policy that helps to buffer my farm from the wild market and weather gyrations, protects fair markets and provides infrastructure that creates new technology to keep my farm competitive in the world market. In my consultant role, I am looking for strong leadership in Congress and the Administration that seizes the opportunity to write a Farm Bill for the future, not the past. In my role as a policy wonk, I find that the opportunity to significantly improve farm policy only happens about every twenty-five years. The current political, budget and market environment provide that opportunity. In my taxpayer role, I am looking for a wise investment of my taxes.

My long term agriculture policy experience, my forty years of farming experience and my participation in the American Farmland Trust policy program the last two years makes me believe that the 2007 Farm Bill should be a pivotal policy improvement. The current Farm Bill is seriously outdated to protect and improve agriculture and rural America in the future.

The rate of change in farm country is unprecedented. Renewable energy, globalization, the internet, global electronic markets, genetic engineering, WTO, GPS and consumer empowerment are a few items that are driving change in agriculture at warp speed. Let me be more specific. In this dynamic environment, for Congress to set commodity loan and target prices in the farm bill ignores reality. Further, based on our experience to date on the suits filed against the U.S. cotton program and corn program, government warehousing schemes, marketing loans, loan deficiency payments, and counter cyclical payments are going to be eliminated. To perpetuate these programs under the guise of increasing bargaining leverage in the WTO, instead, hold the negotiations hostage and ignores an opportunity to significantly improve the taxpayers investment in the food, fiber and fuel industry. That investment should provide a platform of programs that is more than a safety net or disaster relief but a platform that continuously improves agriculture and rural America.

I will discuss two Farm Bill titles: Conservation and Commodity.

Conservation

Continuous improvement of conservation programs is critical for the long term future of agriculture. Nearly half the land in America is working land—farms and ranches. The use of

this land to produce food, fiber and energy has an enormous impact on the natural and human environment. Most farmers are good stewards—they want to leave the land better for their children and grandchildren than when they got it from their parents and grandparents—frankly producers are want to do more to conserve and protect their land and resources, but they need help. Voluntary, incentive-based conservation programs for farmers and ranchers are therefore the key to cleaner water, improved air quality, expanded wildlife habitat and protected farmland for future generations. American Farmland Trust and I propose a combination of improvements.

Increase the investment in working lands conservation programs.

The nation must invest more resources in conservation so that we deliver the benefits of healthy land to all Americans. There is a significant backlog of needs reported by USDA and producers. During the last several years, three out of four farmers and ranchers have been turned away when applying for financial assistance for conservation programs. Increasingly, many are simply not bothering to apply due to the lack of funds and the confusing and often redundant application process

Improve effectiveness with cooperative conservation partnerships and competitive grants. We can revolutionize how conservation happens on the ground by establishing a competitive grants program that promotes multi-producer, cross-jurisdiction collaborative efforts to better focus conservation assistance resources to critical natural resource concerns. Cooperative conservation partnerships will improve the effectiveness of existing conservation programs by focusing conservation implementation efforts—getting the *right practices*, in the *right places*, at the *right time*—and by attaining critical mass—getting enough producers doing the right things in a particular place so that their *collective effort* is enough to improve environmental quality.

Increase implementation through a conservation loan guarantee program. The 2007 Farm Bill should create a conservation loan guarantee program to help farmers and ranchers finance conservation measures on their lands. Loan guarantees, which would reduce the effective interest rate for producer borrowers, provide a highly leveraged way by for federal dollars to boost implementation of conservation practices. The program would complement and not compete with private financial markets such as the Farm Credit system.

This new program fills a void in the current system for producers unable to qualify for cost-share assistance whether it be lack of cost sharing dollars, different needs compared to current year's conservation priorities, or because the producer would exceed the cost-share caps. Loan guarantees for bonafide conservation measures would enable amortization of costs over time, even for the producers own share of costs in the event financial assistance is available from USDA.

Redefine conservation programs to target environmental improvements at the least cost.

Existing conservation programs must be refined to improve cost effectiveness and environmental performance, thereby producing more environmental benefits for each dollar invested. For example, in the Environmental Quality Incentives Program (EQIP), priority should be given to offers with the most efficient means of producing the intended

environmental benefits. Priority also should go to projects that comprehensively treat resource concerns and achieve advanced levels of management.

Improve technical assistance. USDA staff resources are stretched to the limit by the growing workload for applying conservation systems. The increased use of competitively bid, third party technical services providers (TSPs) can help address these needs. Use of multi-year agreements with TSPs will help stabilize technical assistance for producers

Simplify assistance for producers. The current onerous paperwork process—involving multiple forms, redundant entries of information and confusing program regulations and multi-agency conflicts take away from the land management activities of farmers and ranchers. Advanced technology and streamlining of the process could save manpower, improve accuracy and simplify the process for producers.

Commodity

The 2007 Farm Bill is an opportunity to repair a hole in the farm safety net. Existing commodity programs are narrowly focused on supporting prices, not revenues, and as such, large numbers of producers have fallen through the safety net. Let me be more specific, in situations when yields are low but prices are high, the current programs do not make payments even though they are needed. Thus, in years of drought or flood, while a farmer might have a significant drop in the yields; if prices remain high, a serious drop in revenue for a farmer is not covered by the program. I'm sure that many producers in western Nebraska who have experienced year after year of drought can attest to this major hole in the safety net. Proof positive of this gap in the safety net is the repeated requests and need for ad hoc disaster assistance—if the safety net were working well these problems would not occur.

Farm policy always has had a role in helping provide a safety net of steady, reliable income assistance when disaster hits and tools to manage risk. In order to fix the hole in the safety net, it should target revenue (price multiplied by yield). The government would provide a per acre payment based on projected national revenue, which would be forecast each year before planting. After harvest, government payments are made to farmers based on the difference between the actual national average revenue and the earlier projected revenue. Under such a system, the government covers nationwide drops in revenue due to natural disasters and/or price fluctuations during the course of the growing season based on actual market conditions. By removing these market-wide risks, we can also gain tremendous efficiencies in the crop insurance sector—the result of which will be lower taxpayer costs and reduced producer premiums on individual insurance coverage. Producers can protect themselves against individual/local risk through crop insurance and the government will protect against global or national risk via a government payment. Creating such a system will build upon experiences we have learned and provide greater protection to producers

Example of Average National Revenue Deficiency**(Government) Payment: Corn**

USDA Expected U.S. Yield: 150.0 bushels/acre

Planting RMA Price: \$3.00/bushel

Expected or Target U.S. Revenue: \$450/acre

Realized U.S. Yield (October): 160.0 bushels/acre

Harvest Insurance Price: \$2.50/bushel

Realized U.S. Revenue: \$400/acre

REVENUE DEFICIENCY PAYMENT = \$50/acre (\$450-\$400)

Individual farm adjustment of the Nat'l Revenue Deficiency

	Farm A	Farm B
Farm yield	130 bu/A	180 bu/A
Local planting price	\$2.70/ bu	\$3.10/ bu
Farm target revenue	\$351/A	\$558/A
Farm adjustment factor	78%	124%
Farm revenue deficiency payment	\$39/A	\$62/A

Examples to Illustrate Integration of National Revenue Deficiency**Payment with Individual Farm Revenue Insurance: Corn**

Farmer's Expected Yield: 140.0 bu./acre

Planting Insurance Price: \$2.90/bushel

Farmer Expected Revenue: \$406/acre (90.2% of Nat'l Revenue)

Farmer Selected Insurance Coverage Level 75%

Farmer's Nat'l Revenue Deficiency Payment: \$45.10/acre (90.2% x \$50)

	Situation 1	Situation 2
Farmer's Realized Yield:	120 bushels	100 bushels
Harvest Insurance Price:	\$2.20/bushel	\$2.20/bushel
Farmer's Realized Revenue:	\$264/acre	\$220/acre
Farmers Revenue Def Pmt	\$45.10	\$45.10
<i>FARMER INSURANCE PAYMENT:</i>	<i>\$0/acre</i>	<i>\$39.40/acre</i>

Calculation - Situation 1: $(\$406 \times 0.75) - \$264 - \$45.10 = -\4.60 (no payment)Calculation - Situation 2: $(\$406 \times 0.75) - \$220 - \$45.10 = \39.40

This concept was developed by Dr. Carl Zulauf and has been taken up by American Farmland Trust as a replacement for the LDP and CCP programs. As you know, a variation of this idea is also being championed by NCGA, and the Administration's Farm Bill proposal has also put forward a revenue-based safety net. We look forward to developing this concept as the Farm Bill debate moves forward.

I wanted to add one final thought, Mr. Chairman. When the 2002 farm bill was signed into law, many in the farming community believed that Conservation Security Program (CSP) had great potential to be a broad based stewardship reward program - a way to support those farmers who are good stewards of the land and to inspire others to reach higher levels of environmental performance. Unfortunately, for a variety of reasons, CSP has not fulfilled that promise. I believe the concept of a rewards program is still valid; and urge the Committee to re-commit itself to finding a workable "green payments" program to reward producers for their stewardship of our nation's natural resources.

Mr. Chairman, I thank you again for this opportunity to appear before this committee and discuss our goals and priorities. I welcome questions and discussion today and in the future.

Statement of John Crabtree
Center for Rural Affairs
Lyons, Nebraska
Senate Agriculture Committee
Council Bluffs, Iowa Field Hearing
April 14, 2007

The 2007 farm bill presents an opportunity. Certainly this is true of all farm bills. However, the continued consolidation and concentration in agriculture, both at the level of production and in processing, call for a farm bill debate that closely examines and ultimately addresses fundamental structural issues and long term investments in rural America.

There are myriad statistics and anecdotes about the chronic economic decline of communities throughout rural America. You have, and will, undoubtedly hear those statistics and stories today and in the future. And it is important to consider the chronic economic challenges that rural America faces during the drafting and debate of the farm bill.

We should, however, also recognize that there is also hope and that there are also solutions to the challenges we face.

Rural Revitalization through Entrepreneurial Development

Small scale entrepreneurship is a proven strategy to revitalize rural communities. It can create genuine opportunity across rural America with the support of a modest investment by the federal government.

As concluded the Kansas City Federal Reserve Bank, “entrepreneurs can generate new economic value for their communities. Entrepreneurs add jobs, raise incomes, create wealth, improve the quality of life of citizens and help rural communities operate in the global economy.”

The importance of small entrepreneurship is particularly profound in the most rural areas. The Center for Rural Affairs’ analysis of economic conditions in the farm and ranch counties of Iowa, Kansas, Minnesota, Nebraska, North Dakota and South Dakota found that nearly 60 percent of job growth in the 1990s came from people creating their own job by starting a small non farm business. Small entrepreneurship is the one development strategy that consistently works in these communities.

We strongly support Senator Ben Nelson’s proposed Rural Entrepreneur and Microenterprise Assistance Program to tap the rural development potential of small entrepreneurship. The Program is modeled after a provision in the Senate version of the

2002 farm bill (but not the conference report) and also a program initiated in Nebraska by then Governor Nelson.

The Nebraska legislation that provides the model for this bill has made it possible for microenterprise development programs to lend \$6,895,324 and provide training and technical assistance to 15,000 businesses over the last ten years. In 2006, each dollar of state funding for this program leveraged over \$12 from other sources. Last year alone it helped create or save 7,500 jobs at a cost of \$330 per job.

Agricultural Entrepreneurship

The next farm bill should also invest in agricultural entrepreneurship.

Some of the greatest opportunities for small and mid-size farms are in high-value markets, made up of consumers willing to pay premium prices for products with unique attributes and food produced in ways they support.

The USDA Value Added Producer Grants Program is the most significant achievement of the rural development title of the 2002 farm bill. It has funded a multitude of farmer and rancher initiatives to increase income, secure new markets, add value to products and link consumers willing to pay a premium for food produced in ways they support with family farmers who have what they want.

The Program should be reauthorized and provided \$60 million annually in mandatory funding. In addition, the program should be improved and refined, including:

- Place an explicit statutory priority on proposals that increase the profitability and viability of small and medium-sized farms and ranches and encourage protection of natural resources. The 2002 farm bill included a statement of intent that such projects be prioritized. But USDA has never implemented that priority. We analyzed the 2001 and 2002 grants awarded under the Program. Over 40% of the funds went to projects that we gave a grade of “F” for relevance to small and mid size farms.
- Set-aside 10-15 percent of program funding for projects concerning beginning and socially disadvantaged farmers and ranchers.
- Allow a small portion of the funds to be used for innovative strategies to strengthen mid size farms other than value added agriculture. For example, a group of mid-size Iowa farmers is exploring creation of a cooperative to share ownership of the most expensive equipment and thereby lower machinery costs to competitive levels. But it takes legal work and research to launch such initiatives.

The Next Generation of Family Farmers and Ranchers

The future of agriculture depends on the ability of new family farmers and ranchers to get started. Providing opportunities for beginning farmers and ranchers is also important for rural communities – the viability of rural businesses, schools, and other community

institutions are all dependent in part on the existence of new farmers and ranchers on the land. The new farm bill should include a comprehensive, multi-title new farmer initiative.

The **Beginning Farmer and Rancher Development Program** should be reauthorized. And the 2007 farm bill should provide \$20 million in mandatory funding by the 2007 farm bill. Originally passed as Section 7405 of the 2002 farm bill, this program was to provide grants to collaborative networks and partnerships to support training, mentoring, linking, education, and planning activities to assist beginning farmers and ranchers. However, the program never received funding.

Escalating land values across the nation have priced most beginning farmers and ranchers out of the market for land, the most valuable commodity in any agricultural operation. The 2002 Farm Bill established the **Beginning Farmer Land Contract** pilot program to allow USDA to provide loan guarantees to sellers who self-finance the sale of land to beginning farmers and ranchers. The 2007 Farm Bill should permanently and nationally implement this provision.

Farm Program Payment Limitations

The cost of land, either renting or purchasing land, is the most significant barrier to entry for beginning farmers and ranchers. And land costs weigh heavily on the success or failure of many established small and mid-sized operations as well.

Although it was not the original intent, federal farm programs have become a driving force behind farm consolidation. Virtually unlimited farm program payments are used by mega-farms to drive their smaller neighbors out of business. This must change. The 2007 farm bill should address this most fundamental, structural problem in farm policy.

The root cause of family farm decline is not insufficient government payments. The root problem is that both markets and federal policy are biased toward bigness. Federal policy reinforces, rather than offsets, economic concentration. Unlimited farm programs are penultimate example. And they are destroying family farming.

That will change only when proponents of payment limits, in Congress and in the countryside, fight as hard for payment limitations as large cotton and rice interests fight against them.

Although securing farm program payment limits may very well be the most difficult undertaking in this farm bill debate, it is also, arguably, the most important. Without real limits, farm programs do not work. In fact, without real limits, farm programs work against us. And there are elegant, albeit politically challenging, solutions.

First, and foremost, close the loopholes and make current paper limits real. The 2007 farm bill should cease the practice by which mega farm increase payments by subdividing on paper into multiple entities. Limits should limits, regardless of how farm

are organized. With direct attribution of farm payments to a real person and a definition for “actively engaged” that requires partners to be truly active and engaged in the farm operation.

We urge you to say no to any farm bill that lacks meaningful and effective payment limits. Rural America cannot afford another farm bill that destroys family farming.

Competition

The structural considerations of farm policy and the 2007 farm bill do not end with commodity programs and payment limits, however. No agricultural sector demonstrates a need for examination of and response to structural considerations more than livestock production, hog production in particular.

In many rural places where livestock are raised there are only a few, or even just one, packer or processor for a given livestock species. This is especially true in the livestock and poultry sectors. At the same time there has been a dramatic increase in the use of production and marketing contracts that further diminish the bargaining power of farmers and ranchers. Currently, fully 89% of hogs are either owned outright by packers or tightly controlled through various contracting devices. Many farmers and ranchers face price discrimination and severely limited market access as a result.

Congress should not let another farm bill go by without making changes in the Packers and Stockyards Act and Agricultural Fair Practices Act that are necessary to breathe some life and competition back into livestock markets.

The Packers and Stockyards Act should be amended to:

- prohibit packer ownership of livestock more than seven days prior to slaughter;
- prohibit use of production contracts that do not fix base prices, with adjustments for quality, grade or other factors outside of packer control, at the point of sale;
- require the Secretary to write regulations defining the statutory term “unreasonable preference or advantage” to ensure that small and mid-sized farmers and ranchers are not forced to accept volume based price discrimination;
- establish that producers need not prove anti-competitive injury to an entire market in cases involving unfair or deceptive trade practices which have harmed them individually;
- provide USDA administrative authority to investigate and file complaints against violations of the Act regarding all types of poultry transactions.

The Agricultural Fair Practices Act should be amended to:

- make it unlawful for any firm to refuse to deal with a producer for belonging to or attempting to organize an association of producers or a cooperative;
- prohibit the use of binding mandatory arbitration clauses and restrictions on other legal rights available to farmers and ranchers involved in production and marketing contract disputes;

- expand the prohibition on confidentiality clauses to cover all agricultural marketing and production contracts, not just those for livestock and poultry, and to ensure that farmers and ranchers can share information about the details and terms of contracts with other farmers and producer associations;
- require that contracts include clear disclosure of producer risks. In addition, prohibit premature cancellation of contracts without a showing of good cause and providing for the recapture of producer capital investment, and ban unfair trade practices including “tournament” or “ranking” system payments that are calculated by the packer or processor and result in unpredictable and arbitrary payments.

We support S. 622, the Competitive and Fair Agricultural Markets Act, introduced by Senators Harkin, Baucus, Enzi, Thomas, Dorgan, McCaskill and Feingold.

We believe that this legislation should form the basis of a competition title for the 2007 farm bill.

We support S. 305, introduced by Senators Grassley, Harkin, Enzi and Dorgan, which would prohibit meatpacker ownership of livestock.

And we support S. 221, the Fair Contracts for Growers Act, introduced by Senators Grassley, Feingold, Kohl, Harkin, Hagel, and Leahy.

These bills, viewed in concert, address the majority of the most fundamental concerns that I have raised here regarding livestock market structure.

In the end, it comes down to this. In a nation where packers and processors own and control all of the livestock, what need is there of farmers and ranchers? And what hope can we have for revitalizing family farming, ranching and rural communities, if we have no hope of revitalizing and instilling competition in livestock markets?

Meatpackers claim that vertical integration increases efficiency. That is a lie. Small and mid-sized farms and ranches have demonstrated, time and again, that they can match or beat the cost of production in the packers’ industrial facilities.

Packers use vertical integration and captive supplies to manipulate livestock markets, depressing cattle and hog prices across the board by killing their own when prices are high and turning to independent producers as residual suppliers when prices are low – to the detriment of farmers, ranchers and rural communities.

My father always told me, “Say what you mean, and mean what you say.” If we hope to create a farm bill that can be held up as a solution to some of the challenges that family farmers and ranchers face, then we should all support a federal ban on packer ownership of livestock and a comprehensive competition title in the farm bill... in other words, we should mean what we say.

Written Statement for the Record

Debra J. Houghtaling
Executive Director, Grow Iowa Foundation

Before the United States Senate Committee on Agriculture, Nutrition and Forestry

Field Hearing in Council Bluffs, Iowa

April 14, 2007

GROW IOWA FOUNDATION provides capital for small business, industrial, manufacturing and affordable housing projects within southwest Iowa. Since 1996, Grow Iowa has invested more than \$5.4 million, creating approximately 1100 jobs and 109 housing units.

206 NE Court Drive, PO Box 177, Greenfield, Iowa 50849
641-343-7977 ♦ www.growiowa.org ♦ dhoughtaling@growiowa.org

Thank you Mr. Chairman for this opportunity to address ways in which the Rural Development portion of the 2007 Farm Bill can help create the vibrant rural communities that we all desire.

I am Debra Houghtaling, Executive Director of the Grow Iowa Foundation. Grow Iowa is a nonprofit organization that provides capital for small business, industrial, economic development and affordable housing projects in 21 counties in southwest Iowa through 8 lending/development pools. In its 11-year history, Grow Iowa has invested \$5.4 million back in southwest Iowa -- \$4 million into business and economic development projects and \$1.4 million into affordable housing projects. These investments have leveraged an additional \$17 million of capital invested into our region and helped facilitate the creation/retention of approximately 1100 jobs and 109 housing units.

Grow Iowa was started in 1995 by the Southwest Iowa Coalition, Iowa's oldest regional economic development membership organization, because of the recognition of the importance of having our own financing entity in southwest Iowa. The original seed money came from \$800,000 through the USDA's Intermediary Relending Program (IRP) matched by \$200,000 raised from participating counties. Since that time, Grow Iowa has expanded its capitalization to include grant and loan funds from state and local government, corporate and foundation sources. We continue, however, to enjoy a productive partnership with USDA Rural Development -- Grow Iowa is currently the largest IRP lender in the state of Iowa with three IRP loan pools of \$2.1 million, has received a Rural Business Enterprise Grant, and has been a capacity building grantee for two regional Rural Community Development Initiative grants. In addition, our borrowers access several additional USDA programs.

As we look to crafting the 2007 Farm Bill, I'd like to share with you what has worked in our region, what struggles we have faced and what needs to be done in partnership with the federal government. My comments focus on three key areas that I believe will help create the vital rural communities we all desire: fostering regional collaboration, promoting entrepreneurship and sparking private investment.

Foster regional collaboration. Out of necessity, southwest Iowa seemed to figure out the importance of acting regionally long before it was an economic development buzzword. The Southwest Iowa Coalition (SWICO) was formed in 1991 with the recognition of the fact that the small individual communities dotted across southwest Iowa faced an uphill battle to access resources, economic development tools, and attention. A constituency (exclusive of the Council Bluffs, Iowa metropolis) of almost 185,000 rural residents, however, had much more powerful voice and could play a more active role in defining its future. SWICO currently boasts dues paying members that include city and county governments, chambers, economic development organizations, cooperatives, businesses, banks and individuals. It focuses its work on economic development in a variety of forms and has standing committees that include transportation, housing, technology training, value-added agriculture, lobbying/legislative issues, rural water, workforce development and regional marketing. Although working regionally is critical for rural communities to succeed, there is very little financial support or resources to stimulate collaboration.

What Will Be Important Moving Forward: The proposed Rural Collaborative Investment Program is an important commitment to regional rural competitiveness strategies. RCIP recognizes the lesson that SWICO learned 16 years ago -- rural communities must band together to build new approaches to compete in today's economy and it's most helpful if regions can define themselves, their most urgent needs and possible solutions. One of the keys to SWICO's long-term success is its open and collaborative approach -- the fact that anyone who has

something to contribute can become involved helps to empower local leaders to participate and address local issues. It would be a mistake for RCIP to be “pick winners” by a process that grants too much power and control to a single purpose regional entity rather than a regional approach that allows for the involvement of diverse interests, networks and local leaders.

Promote entrepreneurship. Rural people have always been entrepreneurial, but for too long economic development success in rural regions has rested on recruiting large manufacturing and industrial businesses away from other locations. To reverse the damages wrought by job loss and out migration, rural communities need to focus more attention on homegrown entrepreneurs. Homegrown companies tend to be smaller, are less likely to relocate, and provide a more diversified economic base than towns with a large single employer. We have a perfect opportunity right now to convince young people to stay in rural America or to recruit them, and others, “back home.” Technological advances and the burgeoning e-commerce industry can allow someone in Greenfield, Iowa to access markets and employment opportunities that previously had only been available if they were located in major metropolitan areas. The opportunities are at hand and endless; what is needed are systems that promote and support entrepreneurship as an increasingly important form of economic development in our communities.

Because of the need for training, supporting and financing rural entrepreneurs, Grow Iowa Foundation has joined forces with the Southwest Iowa Coalition, Wallace Foundation for Rural Research and Development, Iowa State University Extension and Southwestern Community College to form the Rural Development Resource Center (RDRC). With a communications hub located in Red Oak, Iowa, the RDRC has mobile specialists that are providing business development consulting one-on-one and in a classroom setting, financial packaging, value-added agriculture services and product to market avenues for both existing and potential business owners within a 22-county service in southwest Iowa.

The RDRC will also serve as a support system to local economic development directors in the region that will reduce or eliminate duplication of effort on their part and will provide them with additional resources and area-specific experts. The combination of technical assistance and marketing channels will help current and prospective entrepreneurs and will help create more economically vibrant communities. Also, as rural regions strive to re-emphasize entrepreneurship, it is increasingly important to focus on young people. A rural community benefits by keeping a young people in the community or recruit back its former residents because they can create their own livelihood. The RDRC has explored ways to create young entrepreneur centers or incubators that would give these young people an environment to create their own income while learning the new opportunities of entrepreneurship in rural communities.

Grow Iowa’s current loan pools are certainly an important component to the region’s entrepreneurial support system. Over half of the businesses that we have financed were startups while another third were business expansions. Although Grow Iowa has achieved a very low loss rate that rivals that of most banks, there is a critical need for additional technical assistance to both potential and current borrowers. Even most of our successful borrowers need assistance with accessing markets, using technology, managing day-to-day operations and expanding their business. Furthermore, most of the capital programs are focused on financing for real estate and equipment financing needs, leaving very little capital available for very small and micro business financing needs or for technology-driven businesses that once needed an urban environment in which to thrive. There is a critical need for microloans which are defined as financing of less than \$35,000 – most banks and even intermediaries shy away from this form of lending because of its time and resource commitment as well as the necessary technical assistance many smaller businesses require to succeed. While access to capital in rural areas is critical and USDA Rural

Development has played a major role in providing capital to intermediaries, there are few technical assistance resources that allow intermediaries to help ensure that the businesses they finance remain successful.

What Will Be Important Moving Forward: The proposed rural microenterprise program ensures access to additional forms of capital needed by prospective and current entrepreneurs. Its addition of technical assistance and capacity building grants will be critical to ensure the success and sustainability of both the financing intermediaries and the ensuring businesses.

Spark private investment. It's an obvious conclusion that government resources – whether they are federal, state or local – cannot be the only financial lifeline for rural communities. Through the 2007 Farm Bill, Rural Development can take key steps to ensure that additional private investment is also helping to improve rural communities. Private investment may come in a variety of forms – community foundations, equity and venture capital, and financial leverage. Rural philanthropy is a critical component for reinvestment into communities that have historically received underinvestment from outside sources. According to Iowa's Community Vitality Center study, there is \$5 billion in wealth that annually transfers through probate. Harnessing a portion of that wealth could make a substantial contribution to rural areas. Rural philanthropy has received renewed attention in Iowa which has a tax credit for grantors as well as a means to invest gambling revenues in mostly rural counties. Rural Development should encourage should encourage community foundations and endowment building for entrepreneurship, economic development, and other areas of community life. This encouragement can be important in helping communities organize themselves and tap their own wealth as it increasing passes to the next generation who may no longer live locally. The burgeoning renewable fuels industry in Iowa and other states also creates an opportunity for additional investment into rural regions. Private investment can also occur through intermediaries such as Grow Iowa which is a US Treasury Department-certified community development financial institution (CDFI) and member of Opportunity Finance Network (OFN), a national CDFI trade association. CDFIs have a history of using their own financing to significantly leverage additional funds into under-invested communities. OFN reports that CDFIs leverage an average of \$27 additional dollars of investment for every one dollar of financing.

What Will Be Important Moving Forward: Through its Rural Development programs, USDA can place an emphasis on sparking private investment through two main channels. 1) Encouragement of community foundations and endowment building for entrepreneurship, economic development and other areas of community life. 2) Because of their history of leveraging additional resources, USDA should specifically add CDFIs as an eligible applicant for its business programs.

Thank you again Mr. Chairman for the opportunity to testify before you today. The future vitality of our rural communities depends upon crafting new Rural Development approaches that meet the current realities and opportunities facing these communities. I would be pleased to answer any questions you have.

Written Statement for the record
Steve Killpack

My name is Steve Killpack. I currently farm 700 acres of corn and soybeans with my father on our family farm in southwest Iowa near Neola. We farm in the rolling loess hills, and we have always been conservation minded, however, over the last four years I have become increasingly aware of our inability to function as a sustainable farm. Soil erosion is prevalent in the loess hills, even under no-till conditions. Our farming operations need to change to support our sensitive soil types. We as producers need to strive for sustainability, to push the learning curve of soil systems, and to understand that we may need to change practices to allow future generations the opportunity to farm. Soil sustainability is at the top of my list, the soil is our livelihood, and it is a resource that must be preserved. As our farm transitions to a sustainable farm I look forward to the future, and to the privilege of calling myself a farmer for many years to come.

The Conservation Security Program should be the focus of the 2007 farm bill, because conservation should be our main priority; to protect our air, soil, and water. I believe that farmers and ranchers who actively practice conservation should be supported to continue promoting conservation. The CSP program is an opportunity to show that we have grown as a nation, and that we care about our resources. It is an opportunity to invest in our future by promoting conservation and to reward farmers and ranchers who have invested their time, money, and hearts into something that they care about. I believe that funding for the Conservation Security Program could potentially be derived by diverting funds from direct and counter cyclical payments as well as loan deficiency payments into the CSP program. I think direct payments promote farming every acre possible while the CSP promotes conservation. Direct payments should be drastically

reduced to limit their impact on farm rental rates and to encourage farmers to focus on conservation. I believe that farmers and ranchers should benefit from the additional income from the CSP program and the public benefits of better water quality, air quality, soil quality and increased wildlife habitat. Part of the funding for the CSP program should be in educating producers how to properly enroll and what they need to do to meet the requirements of the CSP. There is very little information available at this time on what is actually needed to be successfully enrolled into the CSP program. My hope is that through the CSP program and the support of our government, we will be able to secure a future for many more generations of farmers.

Our wildlife is a natural resource and we should strive to promote their existence. Wildlife programs should continue with increased funding in habitat restoration. Reestablishing tall grass prairie should be a top priority in habitat restoration. We should focus on the native flora and fauna to promote a sustainable ecosystem. Stream habitat should also receive increased funding to promote water quality and to protect our precious riparian areas.

Small family farms continue to decline, as with any business, changes occur. However, the opportunity for small family farms to find niche agricultural markets is still available. I believe support should be made available to grow and develop niche markets and specialty crops. Funding, however, should not be from direct subsidy payments but from market assistance programs which develop markets in local areas and promote locally grown food and fiber. The opportunity to sell produce continues to rise as trends in organic and locally grown food increase and I feel we can continue to improve our economy by supporting these changes. I believe we should eat healthy and promote

nutritional quality in our schools by purchasing locally grown produce. Opportunities are everywhere we are only limited by our ability to comprehend them.

In closing, I would like to thank everyone for giving me the opportunity to speak today; it is an important opportunity to stress the true needs of our society and the importance of agriculture for securing our future.

- *"All things are connected. Whatever befalls the earth befalls the sons of the earth. Man did not weave the web of life. He is merely a strand in it. Whatever he does to the web, he does to himself."* - Chief Seattle, 1854

**Testimony of
Chris Peterson
President, Iowa Farmers Union
Before the United States Senate Committee on Agriculture, Nutrition
and Forestry
Council Bluffs, Iowa
April 14, 2007**

Thank you, Senator Harkin for holding this field hearing and providing me the opportunity to testify before you regarding the farm bill and future agricultural policy. My name is Chris Petersen; I serve as the president of Iowa Farmers Union, in addition to my family farm operation outside of Clear Lake, Iowa. I have been involved in production agriculture in varying degrees for 35 years including commodity crops; and a 200 sow farrow to finish operation - presently my wife and I maintain a sustainable 30-sow Berkshire herd; producing approx 700 pigs a year, all of which are sold locally or to niche pork companies. Also, we raise and sell beef to local consumers and raise vegetables for area restaurants, and produce and sell hay commercially.

Over the years I have participated in many components of all farm bills including the last one. As an independent family farmer I speak for all of rural America and its ranchers and producers. First, every politician, taxpayer, environmentalist, consumer, the list goes on and on.....need to realize independent family farmers are far better stewards of the land and animals. Also, in the best interest's national strategic security, homeland security and anti terrorism protection, the environment, rural economic development, food safety and food quality, and now energy independence, the independent localized family farm structured agricultural system has a long proven track record of what has been very successful in America. I emphasis localized ownership needs to be the economic and social theme addressed throughout all the farm bill and agricultural policy. A good farm bill is vital to us as farmers and ranchers.

COMPETITION

As a hog producer, I witness the challenges of an anticompetitive marketplace. I went thru the 1998 price collapse of hog markets as a 3000 hd. farrow to finish producer and paid severe economic consequences. I since have asked elected officials and others why our government then or since has not stepped up to the plate to address these problems!

It was very unfortunate the final version of the 2002 farm bill did not include the competition title that was contained in the Senate's farm bill. Without competitive markets, independent producers like me will continue to be pushed off the land or be turned into low-wage employees on our land by corporate industrialized animal agriculture. It is very evident contract growers of livestock, due to lack of decent contracts and lack of oversight or reform, are being marginalized. I would encourage the committee to include a strong competition title in the next farm bill which should include a ban on packer feeding, reauthorize an improved mandatory price reporting program and get USDA to start doing its job by enforcing the Sherman Anti-Trust Act and the Packers and Stockyards Act and if need be to re-vamp all these laws to 21st century standards to

get these laws to work, be enforced, and to encourage independent family farm structured Agriculture. I feel the addressing of anti-trust, competition, and getting a competition title in the next farm bill is a must to addressing what I see as one of the biggest problems in agriculture.

Conservation programs received more attention and emphasis in the current farm bill. It makes sense to me that producers who are good stewards of the land receive some credit and incentives for participation in conservation programs. More importantly, I believe it is critical that financial resources are made available to producers for past conservation investments and crop rotations, tillage practices, and those producers receive due recognition for not planting the whole farm to crops covered by traditional farm bill commodity programs. I fail to see the logic in promoting increased conservation practices and programs while Congress will not fully fund the Conservation Security Act.

COOL

I have mentioned a few of the programs I participate in, but there is one program authorized in the 2002 farm bill that I have been denied. I am not sure how to convey to you my frustration that the current farm bill mandated country-of-origin labeling (COOL) to be enacted by 2004 and yet continues to be delayed at the behest of packers and processors that have a few members of Congress in their pocket. I am proud of the products that I produce on my farm and want consumers to be able to know where the products they buy in the grocery store come from—whether it is my farm or another proud farmer from the United States or whether it is an imported product. I think the proof is that COOL works with seafood at my local grocery store now carrying a label. Consumers are still buying seafood, retailers are still selling it and fishermen are still catching seafood.

The food purchase choice will still be up to the consumer but at least it will be an informed choice with COOL. Survey after survey shows both consumers and farmers want COOL to be implemented now. I resent the fact that the program to make that happened has been approved but has still not been implemented.

FUTURE FARM BILL SUGGESTIONS

I would like to outline a few issues I think should be included and addressed by future farm bills. We need targeting of subsidies to a certain size of farm with financial caps including non-recourse loans and a strategic grain reserve if needed. The counter-cyclical safety net approach in the current farm bill is a decent idea but I think it's time in the best interests of taxpayers and farmers that the corporate livestock industry, processors, and others pay at least cost of production for feed ingredients. With a Tufts University paper just released entitled "Industrialized Livestock Factories' Gains from Low Feed Prices 1997 – 2005" it documents how industrial/commercialized hog operations have saved 8.5 billion, and the boiler industry sector saved 11.25 billion. Smithfield alone saved 2.6 billion over the period in low feed costs. We can do so much better by utilizing common sense in farm bills like implementing a floor under the price of grain nearest cost of production as possible. Farm bills should benefit family farms and rural America – not

corporate Agri-business which in the end in many instances competes against independent family farm agriculture. Seems like we have a bunch of entities farming the farmer and lobbying the government for cheap grain and farm bills wrote to their benefit!. Country-of-origin labeling needs to be funded and implemented now and not further delayed. Not only should the future farm bill contain an energy title to build upon the progress already made in the arena of renewable fuels, but should also promote exploration of the unlimited potential that exists in alternative sources available to rural areas such as ethanol, bio-diesel wind, thermal, and solar energy with localized ownership participation a must for maximized local rural economic benefit. Harnessing these renewable energy resources and mandating their increased usage is a step in the direction of changing the paradigm of our current petroleum-dependent society.

Conservation incentives should be continued and expanded in the future farm bill. Increasing conservation programs is not only a financial benefit to myself, but rewards society as a whole by improving the environment and maintaining the land. I again emphasize efforts must be made to improve program payment limitations throughout the farm bill if future farm programs are to be targeted to real producers. As examples I list commodity supports, conservation initiatives, and EQIP. The agriculture economy and rural America's economic health is much better off with more producers, not just a handful of huge operations- whether corporate or private as in to many instances is the case currently.

Many rural parts of our country have struggled and continue to struggle due to devastating weather-related disasters. Yearly ad hoc disaster programs have a negative economic impact on the financial security of America's ranchers and farmers. It makes more sense to include a permanent disaster program in the next farm bill that mitigates losses not covered by traditional crop insurance or other programs administered by USDA.

Take a look at the big picture and historical data to quantify the huge negative economic impact on rural America's economy, as a result of non-competitive markets and devaluation of our commodities. Government farm payments do not and should not make up for the loss of our markets, forcing producers to depend on their mailbox as opposed to the marketplace for their living. Currently, we have access to two markets to sell our milk; that is not a competitive market. I had to stop selling hogs to the packers, and quit selling feeder pigs to my neighbors because they had to sell out because the hog market was completely consolidated and fair markets compromised after 1998 price collapse. This is all evidence it's time we implement a rural community revitalization program that fosters rural entrepreneurship and small businesses development to localize food production and consumption, which gives farmers more positive economic options. I also believe a farm bill is a good place to implement a more socially and economically acceptable, responsible, and accountable Ag policy for this country that works for family farmers first while addressing true rural economic development, A clean environment along with rural public health, and food safety and quality issues. We need to re-establish true capitalism in many. The taxpayer / consumer sector of society should demand this.

Again, in closing, we need to re-establish true capitalism in many ways such as enforcing anti trust laws while having a functional in force competition title. We also need local infrastructure development and processing grants and low interest loans to capitalize on keeping money and profits circulating locally as long as possible which reflects on the concept of a better return of investment, labor, and quality of life for family farms and small town rural America! Corporate America and agri-business have been at the federal trough long enough, they are real good at internalizing profits while externalizing costs to get those huge financial returns.

A part of the competition question also involves trade and trade policy. What happens to my market price when our trade surplus turns into a trade deficit? How do I know if producers from importing countries are required to meet the same strict environmental and labor standards? Our current free trade agenda does nothing to level the playing field or provide opportunities for me to make a profit from the market. Trade is a good thing but will not work in the long run if fairness issues such as international food sovereignty issues are not addressed We need to implement fair trade laws now.

As a country, we need to deal with a mounting federal budget deficit. USDA Secretary Mike Johanns says agriculture cannot be excluded from pitching-in. I agree that the federal government needs to stop bleeding red ink, but who decided that rural America and farmers and ranchers have to jeopardize their futures to pay for a mess we did not create? Agricultural spending is less than 1 percent of all federal spending.

I hope some of my suggestions have been helpful. Thank you for this opportunity to testify; I would be happy to answer any questions you might have.

Testimony by Duane Sand
Special Projects Consultant
Iowa Natural Heritage Foundation

Iowa and Nebraska Views on Federal Agriculture and Rural Development Policies:
The 2007 Farm Bill.
Council Bluffs, Iowa
April 14, 2007

A field hearing of the United States Senate
Committee on Agriculture, Nutrition, and Forestry.

Good morning.

Iowa Natural Heritage Foundation, a statewide, non-profit organization was founded in 1979. Our mission is to protect and restore Iowa's land, water and wildlife for future generations. Among our accomplishments of the last 28 years is the direct protection of nearly 100,000 acres at 675 sites in 93 of Iowa's 99 counties plus assistance with thousands of additional acres. Our membership includes nearly 7,000 individuals, families, businesses, and organizations.

We appreciate the difficult choices you must make in balancing Congressional budget restrictions and the needs of a rapidly changing farm economy. Here are several specific ideas that may be helpful:

Conservation Security Program (CSP)

CSP should be the **primary working lands program** within USDA, and **working lands deserve much greater emphasis** because America's renewable fuels policy puts greater pressure on our soil, water, and wildlife resources.

- We urge the **transition of direct payments to green payments**, partly to slow the inflationary impacts of direct payments on land rents and land prices during this period of good commodity prices.
- **Commodity payment limits** should be adopted and savings **targeted to CSP**. This could include lower payment limits on direct payments.
- **Expand NRCS capacity to deliver CSP nationwide**. Rural lands managed under CSP can become a major mechanism to mitigate greenhouse gas emissions. Eventually a carbon tax or a cap and trade policy to address climate change could become the primary funding source for CSP.

Conservation Reserve Program (CRP)

CRP is being priced out of the land market in the cornbelt. Iowa farmers have seen their land more than double in value in the last seven years and will generally expect a similar increase in CRP rents to consider a ten year contract. **Land inflation will essentially cut by half the buying power of the CRP budget in the cornbelt**. CRP contracts will migrate to other areas unless changes are made:

- **Partial field, continuous sign-up practices should be priced like a cost-sharing practice across the nation.** Payments should be limited by the Secretary of Agriculture to 65% to 90% of the local competitive market rent so landowners from all regions have an equitable chance to enroll (provided CRP retains all baseline savings for future use).
- **Only the Conservation Reserve Enhancement Program enrollments should provide 100% of market value,** because these acres are highly targeted to implement specific natural resources plans with prioritized public benefits.
- The Secretary of Agriculture should be directed to **use flexible CREP agreements as the means to maintain CRP acres and funding in cornbelt states.** This is a CRP “hold harmless” policy for the states that have succeeded at biofuels development. The cropping history requirements for CREP land should be dropped in order to cut costs, but permanent conservation easements should be purchased on environmentally targeted lands in order to increase benefits with special CREP initiatives.
- **CRP could be authorized for more acres if a new category of Transition CRP Contracts is created.** The idea is to target the most economically marginal lands where the projected savings of commodity subsidies, direct payments, disaster payments, and risk management agency subsidies are likely to cover the CRP cash payments. **Economic uses for grazing, forestry, native prairie seed production or biomass production would be allowed without economic penalty** to the owner during the 10 year contract. These one time transition contracts for sustainable land uses should be offered only on lands identified and recruited through USDA inter-agency efforts focused on future budget savings and sustainable rural development.

Biomass Energy Policy

USDA technical assistance and conservation incentive baselines will not cover the increased needs as cellulosic ethanol becomes commercially viable. We need private sector businesses to assume these responsibilities before they create a biomass market, especially when federal subsidies are used in building or operating a facility purchasing biomass feedstocks.

- **The Energy Title should include a conservation compliance requirement for receiving biomass subsidies.** Bio refineries should cover the cost of technical assistance for **state-of-the-art conservation plans** that enable an informed decision about biomass harvest from every farm and field where feedstocks are purchased. In addition, these biomass buyers should have a state approved **purchasing and procurement policy that will reward farmers who follow their updated conservation plans.**

Thank you for the opportunity to testify.

Prepared by Duane Sand (dsand@inhf.org, 515-288-1846)

Statement to United States Senate Agriculture Committee
Senator Tom Harkin and Senator Ben Nelson
Council Bluffs, Iowa
April 14, 2007

Good Morning Senators,

My name is Matt Schuitteman. I am a family farmer from Sioux Center, Iowa. I grow corn and soybeans in rotation while producing pork from farrow-to-finish. I farm with my father, Leon, and my grandfather, Art Schitteman. My wife, four children and I are the 5th generation of Schuittemans to farm our land. I currently serve my church congregation as the Chairman of the Deacons and the Iowa Farm Bureau Federation as the state Young Farmer Chairman. Thank you for this opportunity to share my thoughts on the 2007 farm bill.

Senators, there is a lot of optimism in agriculture today. However, despite today's strong commodity prices, one does not have to think very far back to where we came from. Just seven months ago, corn traded for \$2.10 per bushel and soybeans were only \$4.80 per bushel in Sioux County. In recent years, commodity markets often brought the local cash market below income price support thresholds. Without livestock to add value to my crops, the markets offered break-even prices at best. While the current market conditions are a breath of fresh air for those who farm the land and those in the small towns that depend on main-street trade, it is very important to remember that in the long-run, there is no guarantee that the markets will offer today's profit opportunity. Therefore, it is critical that the 2007 farm bill maintain an income safety net to support our farm family food production system in times of low prices. The concepts implemented in the 2002 farm bill, which include; direct payments, a market loan program and counter-cyclical price supports, did a good job of smoothing the ebbs and

flows in my family's income. To be clear, I feel that the 2007 farm bill should include the basic farm program concepts outlined in the 2002 farm bill. It is imperative that financial resources in the commodity title remain in the commodity title. Taking funds from the commodity title to foster new or expanded farm bill programs in any other title would weaken the income safety net that is so important in a world of increasing production costs. New or expanded farm bill programs should be funded with an increase in the budget baseline or offsets somewhere outside of the commodity title.

Conservation programs are important to Iowa farmers. The Conservation Security Program is a concept supported by Iowa farmers, but regrettably, it was funded in a manner that made it very difficult to qualify. As we look toward the 2007 farm bill, I would ask that you expand on those working-land conservation concepts while finding new efficiencies in one of America's most popular conservation programs, the Conservation Reserve Program.

Working-land conservation programs, such as the CSP, offer environmental protections, incentive-driven land stewardship improvements and economic activity in rural communities. One of the most disappointing short-comings of the Conservation Reserve Program is its negative impact on rural economies. Despite the arguments of those who suggest that outdoor recreation replaces the lost economic activity associated with agriculture, the fact is; land engaged in responsible farming or grazing practices does far more to support local, main-street businesses, schools and hospitals than a few weekends of outdoor recreation.

Farmers and ranchers are under more regulatory pressure today than ever before. We all want clean water, but implementing conservation practices to meet the high

demands of the today's regulatory climate are very expensive. State funded cost-share programs provided almost \$19 million in Iowa in fiscal year 2006. As an example of farmers' willingness to put their own money toward conservation improvements, many applications went unfunded due to a lack of public financial resources. In 2004 and 2005, demand for state conservation funds exceeded availability by an average of \$6.5 million per year. The federal government provided nearly \$314 million in conservation funds in Iowa's fiscal year 2006. Nearly \$200 million of this money was distributed through the CRP program. The balance was distributed through the Environmental Quality Incentives Program (EQIP), Wildlife Habitat Incentive Program (WHIP), Conservation Security Program (CSP) and Wetlands Reserve Program (WRP). Yet Iowa still has 213 impaired waterways on the Clean Water Act's 303(d) list. It seems intuitive that we should ask how we can better utilize limited financial resources to achieve environmental improvements.

Iowa has nearly 2 million acres enrolled in the CRP. Over 1.4 million of these acres are enrolled in the "general" CRP. It is time we end the practice of enrolling whole farms in the CRP, unless every acre on the farm is in critical need of conservation measures. Let us assume that one half of Iowa's 1.4 million acres in general CRP contracts eventually expire and do not get reenrolled in the general CRP. These acres would return to no-till or minimum till farming or a cow-calf grazing operation. Then, apply the available financial resources to more site-specific conservation enrollments in the "continuous" conservation reserve program. Trading half of today's general CRP signup and using the same spending authority to rent continuous CRP acres at today's average rental rate, would provide the funds necessary to fully buffer (33 feet on each

side of a creek or stream) over 58,250 miles of Iowa's creeks and streams. This amounts to 81% of Iowa's 71,665 total miles of creeks and streams.

Targeted conservation approaches, such as continuous CRP or working land conservation programs, such as the CSP may not completely solve water quality issues in our state, but one has to wonder how many impaired waterways we could eliminate from the 303(d) list if we just made better use of existing CRP funds. Again, this is just one example of how we might find more efficiency in just one of today's most popular conservation programs.

I believe it is possible to bring land resources back into production so young farmers, like myself, have more opportunities to farm or grow livestock and at the same time, provide economic renewal in rural communities. We can do all of this in a responsible way that preserves wildlife and recreation as well as improve our water resources. All of this might be achieved with no net loss of funds in the conservation reserve program by shifting focus to the continuous signup, or by converting some CRP funds into working land conservation programs.

The energy title of the farm bill is also very important to agriculture. Current energy efficiency and renewable fuel development grants promote energy savings while developing new uses for agricultural commodities. It is important that these programs remain in the 2007 farm bill. At the same time, our livestock and poultry industries could benefit from additional research to find better ways of utilizing distiller's grain solubles. Pork and poultry are limited in their ability to consume renewable fuel byproducts, thus making it more difficult to compete with the high price of corn and soybeans. Agriculture, as a whole, would be much better off if we could solve this problem through

research for the livestock and poultry industry without backing away from renewable fuel incentives that have resulted in market prices that finally offer us the opportunity to make a profit in the free market.

Finally, I will conclude my testimony with one final request. I would ask that you please deny those who would do harm to the livestock industry, from having their agenda implemented in the farm bill. There are several common sense reasons not to legislate a prohibition on horse slaughter, non-ambulatory livestock and the use of gestation stalls in pork production. I hope you recognize how devastating such initiatives would be to the animal agriculture industry. While we oppose these initiatives in any legislative form, it seems particularly inappropriate to implement policies like these in the farm bill.

Farmers use good animal husbandry practices. They are the ones who should decide the best way to care for their animals. Congress should not make these decisions for farmers.

On behalf of myself, my family and Farm Bureau members all across Iowa, it is a great pleasure to be with you this morning, Senator Harkin and Senator Nelson. Thank you for this opportunity to address your panel. I will be glad to answer any questions that you might have.

Water Quantity Policies for the 2007 Farm Bill

My name is Tom Schwarz and I am a farmer from Bertrand NE. Our operation produces alfalfa, corn, wheat, and soybeans. We also have an organic production rotation in place that will put most of our ground in organic crops three of every ten years.

I have closely followed water issues on the state and federal level for twenty seven years. I worked extensively on the Federal Energy Regulatory Commission relicensing of Lake McConahagy and the development of Senator Nelson's Nebraska Plan which in time became the Cooperative Agreement which settled that relicensing.

Current programs in the farm bill have proven remarkably flexible in dealing with water quantity issues. CREP, EQIP, and CSP all are proving to be valuable tools in helping develop water quality, water quantity, and in habitat. In Nebraska, USDA in partnership with farmers and the state are saving large volumes of water in the Platte, Republican, and Blue river basins. These have been glowing examples of bringing federal, state, and local money together to achieve a common goal. These programs continue to face new challenges but also provide a platform to achieve far more in the future.

One of the biggest issues of concern facing CREP, EQIP, and CSP is payment limitation. I have personally favored lowering the payment limit. I realize that if we do this, large operations may have little incentive to participate. If large operations are to continue receiving large payments perhaps we should develop a two tier limit where there would be far lower production payments but a much higher limit for conservation payments.

It may be time to make a fundamental shift in our farm programs. We have a window of opportunity, with high cash grain prices, to stop paying operators based on the volume of grain produced and start paying based how they produce. If farmer's payments were tied to their ability to reduce consumptive use of water, they would likely make that a goal. Breaking out highly erodible land could be discouraged and payments could be reduced or eliminated as a penalty for this practice. Both of these examples would at the same time save water and benefit the natural environment. An investment of this kind in farm programs might be widely supported by both rural and urban America.

Conservation can also be a two edged sword. One mans conservation can take another's water supply. When doing an analysis of a conservation project we need to quantify the impact of the conservation practice to stream

flow and require an offset if the practice depletes the stream. If such an offset were too costly in a certain area, then perhaps this conservation measure should not be done in this particular location. At this time we do not have the capability of doing this. Additional research that would allow this type of analysis would be helpful.

Cropping patterns can also impact consumptive use in a basin. We cannot tell farmers what to plant but it might be appropriate to provide incentives to those who chose to plant crops that will lower consumptive use of water.

I would highly encourage you to support research into crops that save water and other potential conservation practices that may lower consumptive use of water.

Among conservation programs EQIP has proven to be the most useful in dealing with water quantity issues. One suggestion for this program would be to allow longer contracts similar to CREP. By lengthening contracts we could accomplish greater water savings and reduce the administrative work load on NRCS.

The CREP program has also been used to reduce water use in Nebraska. One problem we encountered with CREP was the acreage cap for counties. I would suggest that we consider allowing NRCS to exceed the cap in counties where the hydrologic system is over appropriated. By definition we can not sustain current levels of development in those areas so a cap really serves no purpose.

The Conservation Security Program is one where I am far from an expert. Meetings I have attended on it led me to the following conclusions:

- 1) CSP has the potential to be the most powerful conservation program of all.
- 2) It lacks the funding necessary to make it successful.
- 3) It is complicated to a degree that farmers are reluctant to pursue it.

Speaking as a farm operator, if it takes days or even weeks of work to understand a program and comply with its requirements, I am going to be reluctant to enter it. It appeared to me that the administrative requirements of this program were so great I could not comply without harming other parts of my operation in the process.

If I look at CSP with regard to water quantity issues I see a number of possibilities. Riparian area management could be used to benefit water quality, water quantity and restoring habitat to a more natural state. Invasive vegetation is a nationwide problem in our rivers and CSP could be used to

assist in this area. Native vegetation can also cause water problems if it occurs in river beds and causes flooding. These kinds of issues could be addressed in CSP.

In closing I thank you for the opportunity to be here and share my thoughts with you. I have tried to keep my comments brief and if you or your staff would like more detailed information, I would be happy to provide it.

Tom Schwarz
311 Medina Avenue
Bertrand, NE 68927
308-472-5309
tlschwarz@charter.net

Committee Field Hearing
2007 Farm Bill
Saturday, April 14, 2007

Prepared by Renewable Energy Group, Inc. for Senator Tom Harkin, Iowa
and Senator Ben Nelson, Nebraska

Presented by Jeff Stroburg, CEO and Chairman, Renewable Energy Group, Inc.

About Renewable Energy Group, Inc. and Biodiesel

In the past 36 months, the biodiesel industry has grown by nearly a factor of 10. The State of Iowa sits in the spotlight as the industry leader in production. Renewable Energy Group, Inc. is fostering growth of biodiesel in this state and nationwide with our biodiesel network. Today, our network includes three commercial-scale plants in operation; two in Iowa and one in Minnesota. Within a year, four more Iowa plants will be producing high quality biodiesel which will be marketed by Renewable Energy Group, Inc. Each of these plants utilize between 30 and 60 million gallons per year of soybean oil, animal fats or other vegetable oils to produce between 30 and 60 million gallons per year of biodiesel. Within this network, we help to represent approximately 3,000 Iowa investors who have committed capital to biodiesel production facilities in our network. We take great responsibility in helping to protect their financial interests by marketing high quality biodiesel nationwide. By 2010, Renewable Energy Group, Inc. and our network plants plan for 600 million gallons of biodiesel to be available to this nation's petroleum distributors, fuel retailers and over-the-road diesel consumers.

Our company and our network plants have been able to market fuel to these economically with the help of the federal blender's credit. Today, biodiesel industry leaders can now affirmatively demonstrate that all of the benefits that were put forward as arguments to pass this biodiesel tax credit are being realized. Renewable Energy Group, Inc. network plants are illustrations of that fact. The tax credit has stimulated investment in new plants in Iowa and beyond. Commercial plants offer new skilled jobs and rural development and enhanced energy security by adding biodiesel capacity. The tax credit is fueling our nation's energy supply and, with each step, benefited America's farmers. It is gratifying to be able to show that these were not just arguments to achieve a political goal. All of these things are happening and Renewable Energy Group, Inc. and its network and industry partners are very proud and grateful for this opportunity.

Position on Federal Issues*Renewable Diesel*

Amidst all of the positive news and investment going on in the biodiesel industry today, there is one potential threat that we all fear could, in a few short years, severely undermine the work that has been accomplished within our network and within the entire industry.

That threat is renewable diesel. The threat that the federal Renewable Diesel Credit is incorporated into the same section of federal code as the volumetric biodiesel credit and “shall be treated in the same manner as biodiesel!” could effectively cripple Iowa’s biodiesel industry.

More specifically, certain oil and gas interests are aggressively petitioning the Treasury Department to provide an interpretation of the Energy Policy Act’s renewable diesel provisions (section 1346 of the Act) that would allow them a generous tax credit for mixing biomass in their refineries with their conventional fossil fuel feedstocks.

If refiners are able to take advantage of the volumetric credit of \$1 per gallon for merely blending small amounts of vegetable oil or animal fat into crude oil derivatives and processing the blend in existing petroleum refineries, it would amount to a subsidy of existing petroleum refinery capacity, and not the growing biodiesel industry in Iowa, Nebraska and the rest of the United States. Such a policy would result in the federal government paying the petroleum industry in a way that would disrupt the vegetable oil supply, stifle the biodiesel industry, and stimulate imports.

Other than displacing a small amount imported crude oil, allowing this renewable diesel tax credit would not accomplish any of the energy policy objectives obtained by biodiesel. The policy would not stimulate investment in new plants; it would not increase our nation’s refinery capacity or fuel supply; and would not create new jobs. Indeed, by stifling the growth of bona fide biofuel companies, it would perversely result in a net decrease in our national refinery capacity and rural jobs, without benefiting the U.S. economy or domestic agriculture. And it would take money from U.S. taxpayers and give it to some of the richest private companies in the world, with minimal public policy benefit.

Renewable Energy Group, Inc. is a technology company. We are not opposed to oil refineries using biomass as a feedstock in their conventional processes or improving their technologies to create cleaner burning fuels. But for the government to pay them such a generous subsidy to do so does not

stimulate the kind of innovation, investment, rural development, or domestic agricultural benefit that biodiesel does. As the United States seeks independence from foreign oil, renewable diesel will not add any new capacity or add fuel to the fuel supply. It merely creates a short-term disruption in vegetable oil supply that would evaporate once the subsidy goes away. It would however, provide multi-national oil interests with the tools to lock up the raw material necessary for the continuing momentum of the fledgling biodiesel industry.

Current Farm Bill Proposals Supported

As Renewable Energy Group, Inc. examined current proposals for the Farm Bill, we found extensive support for renewable energy including ethanol and biodiesel. Although both industries are vital to our independence from foreign oil, they are different. Today, biodiesel is a young industry with specific needs to aid industry growth and product utilization. Today, consumer awareness and acceptance of biodiesel is not at the same level as ethanol. Each industry has specific needs for feedstock procurement and process technology. Agriculture producers today can ship corn directly to an ethanol facility for processing, while the biodiesel industry depends on crush facilities to supply our feedstock. The oils utilized by a biodiesel facility must meet quality standards before they enter the production process to ensure high quality finished biodiesel. This production process involves a series of reactions created by a catalyst while ethanol involves fermentation and distillation. Commercialization of biodiesel technology is needed today as the industry researches new feedstocks and works to meet consumer demand. Ethanol and biodiesel are stored and handled differently in their finished stages as are diesel and gasoline. Biodiesel can be used in any diesel engine without modification in blends from B2 to B100 (pure biodiesel).

Renewable Energy Group, Inc. proposes increased support for programs which target biodiesel consumers relating to biodiesel utilization. In addition, our industry continues to seek support for engine testing and further emissions and performance testing which can be utilized in this education process.

Renewable Energy Group, Inc. supports the Research Title outlined in Chapter IX of the Farm Bill which authorizes \$500 million in mandatory funding over 10 years for the creation of a Bioenergy and Bioproducts Research Initiative to facilitate collaboration between Federal and university scientific experts and ultimately make bioenergy production more cost-effective. Biodiesel will be more readily accepted in today's marketplace if it can be produced more efficiently, thus decreasing cost of production.

Feedstock Supply

In order to make large volumes of high quality biodiesel available to the transportation industry, the issue of the availability of economic feedstocks must be addressed. Today, feedstock procurement and transportation account for approximately 80 percent of the total cost of biodiesel production. The transportation industry is driven by economics. Renewable Energy Group, Inc. supports renewal of the Federal Blenders Tax Credit and the clarification of the renewable diesel vocabulary.

In today's industry, the selling price of biodiesel is often above that of blending incentive economics (when combining production and transportation costs and including a profit margin). Biodiesel can be produced from many domestically produced vegetable oils and animal fats, however the industry responds primarily to soybean oil pricing. Until a pricing structure is instituted which allows for a margin from a diversified pool of feedstocks, these inputs will remain a key economic challenge.

Infrastructure

Renewable Energy Group, Inc. sees the cost of infrastructure as a priority in the development of biodiesel use in the transportation industry. We support actions which place a high priority on activities which facilitate the installation of biodiesel storage facilities for transportation fleets. Renewable Energy Group, Inc. believes investment in distribution infrastructure is necessary to make biodiesel available to the transportation industry. Capital investment for biodiesel storage at petroleum terminals is needed. In addition, biodiesel infrastructure is needed at petroleum retail locations and truck stops that provide fuel for the transportation industry. To maximize biodiesel transportation efficiencies and reduce biodiesel movement costs; capital investment, financial incentives, or legislative regulatory incentives are needed to encourage transport of biodiesel fuel blends through the petroleum pipeline and terminal system. This will serve to improve biodiesel fuel transportation costs and the product would realize the cost effective product movement that diesel fuel receives.

IOWA STATE UNIVERSITY
OF SCIENCE AND TECHNOLOGY

College of Agriculture
Experiment Station
138 Curtiss Hall
Ames, Iowa 50011-1050
515 294-2518
FAX 515 294-6800

**Testimony of Wendy Wintersteen, Dean of the College of Agriculture
at Iowa State University
"Iowa and Nebraska Views on Federal Agriculture and Rural Policies:
the 2007 Farm Bill,"
U.S. Senate Committee on Agriculture, Nutrition and Forestry Field Hearing
Council Bluffs, Iowa, April 14, 2007**

Thank you for this opportunity to speak at this important hearing. In July 2005, the College of Agriculture at Iowa State University held a summit on "New Directions in Federal Farm Policy: Issues for the 2007 Farm Bill" to solicit input from Iowans on what should be included in the 2007 Farm Bill. The summit was an important opportunity for listening to a wide range of perspectives and values on Farm Bill issues. Every single American should care about what goes into the new bill. It is policy affecting food, feed, fiber, fuel, health and nutrition, the environment and the economy.

In that light, I want to speak today on an issue that should inform every aspect of the Farm Bill: investment in research.

Next week, Iowa State University and the College of Agriculture will kick off a year-long celebration of its 150th anniversary and our proud history of agricultural excellence in research and education. Iowa State graduates like George Washington Carver, Henry A. Wallace, Raymond Baker, Roswell Garst and others used their agricultural education to feed a hungry world and transform society.

A distinguished professor in economics at Iowa State University, Wallace Huffman, working with his colleagues in economics at Yale University, found that, over the last 30 years, the rate of return to society from publicly funded agricultural research is about 50 percent — that's a 50 percent real rate of return annually. Dr. Huffman's latest studies continue to show that this rate of return for the benefit of society remains very high.

Funding for agricultural research generates a rich dividend to the American public: Affordable and healthy food, new technologies to enhance conservation efforts and the sustainability of agriculture, a globally competitive food production system and economic growth in many industries and rural communities.

Yet serious and long-standing challenges exist. The growing global population taxes our land resources for both food and fuel. There are concerns about the potential risks of climate change to our agricultural systems. There is a tremendous need to increase energy production through the production of biomass. There are environmental quality issues that must be addressed through new technologies and innovations. There are risks from new plant and animal diseases and insect pests.

I strongly urge Congress to consider the need for much greater funding for agricultural science, including basic and applied research, extension and education, over the life of the Farm Bill to ensure our nation's competitiveness in agriculture and the ability to meet society's needs.

The USDA research, extension and education programs receive \$2.676 billion per year in funding. This is the single largest source of support for agricultural research. Unfortunately, this funding has been flat for almost 35 years. During the same time, federal research support for the National Institutes of Health and related medical research funding increased by almost 882 percent, to a budget of almost \$30 billion. It's significant to note that scientists in the nation's colleges of agriculture are addressing many of these human health-related issues, such as the connection between health and food and using animals as models to investigate the alleviation of chronic human diseases. Clearly, the issues addressed through agricultural research funding have greatly expanded while the funding has flat-lined.

Recent evidence shows that the rate of growth in agricultural productivity may be declining, relative to previous decades. The last thing we want is a situation that threatens the competitive edge of U.S. agriculture in a global economy. Science is the lifeblood of agriculture. It's what will keep us at the forefront in this increasingly flat world of ours.

As part of increased funding, coordination must be strengthened and improved among the USDA's agencies, the states and their multi-state collaborations in research, education and extension programs, stakeholder groups and other federal or state science agencies. Is it possible to enhance these partnerships through new public/private partnerships that establish research centers of excellence on our important agricultural commodities and issues? For example, can we build on the innovative model demonstrated by the U.S. Pork Centers of Excellence at Iowa State University that brings together 25 land-grant universities to address the research, education and extension needs of the U.S. swine industry? Can we do the same to address the critical needs in corn, soybean and egg production? Should a national center on advanced renewable fuels and biobased products center be established to develop integrated approaches to utilization of biorenewable resources — via both biochemical and thermochemical platforms? Is it possible to establish centers that address environmental issues? Could an Upper Mississippi Basin Nutrient Management Environmental Center be established to coordinate research and information on water quality — and be a national center of expertise on Midwestern agricultural nutrient management, providing an objective and scientific resource for policy-makers, commodity groups, and individual producers alike? Could we establish a national center focused on translating the enormous advances in biotechnology and genomics into crop and animal improvement — to apply powerful biotechnological tools to develop important economic traits in plants and animals and to discover new uses of agricultural products for food, feed, health and energy?

I further urge that the Farm Bill strengthen the "formula funds" at the highest level possible. Formula funds are allocated among the states by a legislated formula, but the choices of research projects and scientists to support are made locally to address local and regional issues.

This is so important. With federal formula funds, the research agenda is set by the states. Federal formula funds and state funds provide secure resources to scientists across a broad set of disciplines in agriculture for undertaking projects that require sustained focus and multiple years of diligent effort to achieve major goals. When our federal partners step forward with funding, the state and local partners step forward, too, and do an incredible job of leveraging. Each year the formula funds generate more than the original investment. With this kind of leverage, we greatly extend the mileage of progress back home.

The result can yield very large payoffs. As we think about Iowa State University's 150th anniversary, one of the landmark efforts we never neglect to talk about is Iowa State's great pride in its role in the long partnership with federal scientists in developing hybrid corn. That genetic lineage from Iowa State research can be seen in virtually every important corn hybrid today. We are beginning to see similar kinds of payoffs from livestock genetic research today, from research that stretches back decades. We are beginning to see payoffs from decades of research in soybean breeding that have yielded beans that end up as oil with no trans fats. The success of that work, led by distinguished professor Dr. Walt Fehr, has resulted in recent headlines in the Wall Street Journal and The New York Times.

In summary, the Farm Bill should focus on agricultural research and the global need for agriculture as it seeks to meet the coming challenges of population growth, climate change and resource depletion. Thomas Jefferson, in a letter he wrote in 1803, said: "[Agriculture] is the first in utility, and ought to be the first in respect. It is a science of the very first order." That is an opinion I wholeheartedly agree with because it is truer today than it was then.

Wendy Wintersteen
Dean, College of Agriculture
Director, Iowa Agriculture and Home Economics Experiment Station
Iowa State University
138 Curtiss Hall
Ames, IA 50011
(515) 294-2518
wwinters@iastate.edu

DOCUMENTS SUBMITTED FOR THE RECORD

APRIL 14, 2007

Federal Crop Insurance—An Indispensable Program
Executive Summary

1. **The modern federal crop insurance program is a huge success.** Acres insured have increased from about 81 million in 1990 to more than 213 million in 2006, while liability coverage increased from 11 billion to about 50 billion dollars.
2. **Crop insurance is an indispensable risk management tool.**
3. **Crop insurance is an indispensable financing tool.**
4. **Crop insurance is an indispensable marketing tool.**
5. **Crop insurance works because it is a unique public-private partnership.**
6. **Crop insurance is a federal program developed for public policy objectives regarding management of risks inherent to production agriculture.**
7. **An Arthur Andersen & Company study concluded that USDA experienced delivery costs twice the amount of the private sector participants.**
8. **Increased cost of the program reflects implementation of congressional intent to expand and enhance coverage for farmers across the nation.**
9. **Federal reimbursements for delivering the crop insurance program do not cover the costs of the private sector.** GAO has reported the reimbursement rate would need to be as much as 26.5 percent of premium to “adequately reimburse companies for all reasonable expenses of selling and servicing crop insurance.”
10. **Administrative and operating (A&O) reimbursements and underwriting gain opportunities are the elements of the program for attracting and keeping private companies, agencies and capital in the business.** Both A&O reimbursements and underwriting gains are gross revenue. They are not profits.
11. **Reimbursement of delivery expenses and the potential for underwriting gain does not overcompensate for the risk taken by crop insurance companies.** Multiple studies have shown that crop insurance profitability is lower and more volatile than other lines of property and casualty insurance (Deloitte and Touché 2004, Price Waterhouse Coopers 1999 and 1997, Milliman and Roberts 2002).
12. **A&O reimbursements and underwriting gains are determined by the terms and conditions of the Standard Reinsurance Agreement (SRA), a legally binding “cooperative financial assistance agreement” between the Federal Crop Insurance Corporation (FCIC) and approved insurance providers (AIPs) as developed more or less unilaterally by USDA.**
13. **The increased cost of operating a successful, nationwide crop insurance program should not be viewed as a large “piggy bank” from which to take money to fund other programs.** Keith Collins testified in March, 2006, before a House Agriculture Subcommittee, that, “Recent increases in the administrative and operating expense reimbursement and underwriting gains have strengthened the financial performance of the companies and encouraged new entrants and we believe that will help increase service to producers.”

**Federal Crop Insurance – An Indispensable Program for America’s
Farmers, Ranchers and Growers**

1. **The modern federal crop insurance program is such a huge success that it is the envy of the world. Other nations, such as Brazil, France and Japan, are working toward the development of their own crop insurance programs.**

Providing protection from risks that are beyond a farmer’s control through a more affordable and stable insurance system has been the basic and fundamental goal of the federal crop insurance program from its very inception almost three-quarters of a century ago. In recent years, especially since passage of ARPA in 2000, USDA has routinely testified before Congress that the federal crop insurance program is highly successful, especially in increasing the number of acres insured and the level of protection or coverage per acre. Acres insured have increased from about 81 million in 1990 to more than 213 million in 2006. For the 2006 crop insurance year, the program provided about 50 billion dollars of protection—a record level of coverage at that time, which was up from only about 11 billion in 1990. For the 2007 crop insurance year, projections indicate that farm risk protection will likely exceed 60 billion dollars.

2. **The modern federal crop insurance program is an indispensable risk management tool.** The program has grown more complex, including more policy choices and more stringent regulations, in becoming an efficient and effective risk management tool. An important factor in the growth of crop insurance is the growth in the number of policy options available to farmers. These additional options provide farmers with the capacity and the flexibility to insure a wider array of agriculture enterprises. They also permit the customization of risk management strategies to individual farm and farmer needs and requirements. And it is acutely important to know and understand that the expansion in policy options was a direct result of farmer requests and demands for more coverage options in more specific enterprise situations. The result has been vast improvements in the matching of farmer risk management needs to actual coverage.

Along with more complexity there are more regulations. And while regulations are certainly burdensome, they do generally serve to help enhance program integrity, which is a fundamental requirement for continuing a high level of congressional and public support for the crop insurance program.

3. **The modern federal crop insurance program is an indispensable financing tool. Without crop insurance, many farmers would be unable to obtain financing.** Crop insurance makes the process of farmers obtaining annual operating loans much easier, simpler and efficient. In the case of farmers who have purchased crop insurance, banks usually require less collateral because they

consider these farmers to be better protected. Many younger farmers with less collateral would be unable to obtain financing without crop insurance.

Farmers understand more and more that crop insurance is another cost of doing business. However, the purchasing cost of crop insurance provides certain benefits for the farming operation, including greater ability to finance land purchases, enter into land rental contracts and arrange production input purchases. Protection provided by the program gives lenders much more confidence in extending credit.

4. **The modern crop insurance program is an indispensable marketing tool.** Crop insurance often offers the courage producers need to market in advance of production as well as harvest. Today, it is more common place than ever, and the practice continues growing rapidly, for farm advisors to explore with producers how crop insurance offers the opportunity to more aggressively market, especially in times of high prices, extracting profits from markets, while they are available, in order to better control their financial destiny. With this courage, producers can extract profits from the market place at no cost to the Government. The importance of crop insurance in marketing farm commodities today cannot be over emphasized, and if the program continues to grow, marketing assistance will become an even greater benefit in the future. Without crop insurance, farmers would be less likely to implement marketing strategies which allows farmers to take advantage of price increases that occur during the growing season.
5. **Crop insurance works so well because it is a unique public-private partnership.** History has demonstrated that without Government subsidies and reinsurance, farmers could not afford to pay the premiums that would be necessary for a national crop insurance program. History has also demonstrated that without the private sector delivery system, the federal government could never sell and service the program efficiently.

From 1938 until 1981, the USDA was solely responsible for delivering the federal crop insurance program. However, in those years, crop insurance was not a very extensive program and certainly not the national program that it is today. In fact, it was more or less only a token program – one that was available only for a few commodities in a few counties in a few states. In this time period, the private insurance industry marketed only crop hail policies.

Beginning in 1981 and continuing until the late 1980s, Congress authorized a transition period for the federal crop insurance program, during which it was delivered both by USDA, through a structure known as “master marketers,” as well as private sector companies, through a structure known as the “standard reinsurance agreement” (SRA). During this period, the program was not considered successful and it never insured more than a third of the eligible acreage in the country. Not until it was completely delivered by the private sector

and after receiving increased funding in the 1994 crop insurance legislation did the program begin to approach its current level of success.

Congressional funding for the program has also played a significant role in helping achieve the program's current level of success. Increases in premium subsidies have resulted in increased participation levels and increased coverage levels. Increases in coverage and participation have been shown to be directly linked to the amount of program funding. It can be assumed that any reduction in funding for the program will have negative impacts on farmers' participation and coverage under the program, resulting in an increased demand and need for other less efficient forms of Federal assistance.

6. **Crop insurance is a federal government program developed to satisfy certain public policy objectives regarding aspects of risk management inherent to production agriculture enterprises.** AIPs agree to sell and service a predetermined and pre-approved program to all farmers, ranchers and growers. They are not free to turn away higher-risk farmers or smaller farmers whose premiums are not large enough to cover the cost of sales and service. They are required to sell to all farmers and for all commodities in a state where they do business.
7. **A study released in September, 1989, by Arthur Andersen & Company concluded that USDA experienced delivery costs twice the amount of the private sector participants, on average.** Specifically, the study reported that for 1987 total delivery cost by private sector companies equaled 43.17 percent of premium while for master marketers the total was 85.30 percent. This finding and other factors supported a move by Congress to transition to sole delivery of the federal crop insurance program by private sector insurance companies and agents.
8. **Some reports raise questions about certain aspects of the cost of the modern federal crop insurance program.** Federal cost of the program includes funds to pay a portion of the farmers' premium amount for each policy and funds to pay approved insurance providers' (AIPs) total expenses for selling and servicing policies. Therefore, in general, increased federal cost of the program reflects implementation of congressional intent to expand and enhance coverage of farmers across the nation.

The congressional objective has been to have a federal crop insurance program that is an efficient and effective production agriculture risk management tool equally and universally available to all farmers across the nation. Therefore, premium support cost will always be consistent with the level of farmer participation in the program. To the degree that the congressional objective is more fully satisfied, meaning more farmers participating and purchasing more protection, premium support cost increases.

9. **Federal reimbursements for delivering the crop insurance program do not cover the costs of the private sector.** Normally, insurance premiums are expense loaded, which means the administrative costs of selling, servicing and delivering the coverage are loaded into and are a part of the premium. This is not the case with crop insurance. Rather, the government pays these costs on behalf of policyholders. This policyholder subsidy, known as administrative and operating (A&O) subsidy, is paid to private sector companies that deliver the program to offset the costs of selling and servicing of policies. However, the A&O amounts paid fall short of covering companies' expenses for delivering the program. Currently, the average percentage A&O reimbursement rate is approximately 20 percent of premium, which is down from an average high of more than 32 percent in the early 1990s. Companies indicate that the current A&O reimbursement rate does not cover all policy selling and servicing expenses.

Company statements regarding their total selling and servicing cost are consistent with the conclusion of an April 1997 GAO Report to Congressional Committees in which the analysis indicated that the reimbursement rate would need to be 26.5 percent of premium to "adequately reimburse companies for their reasonable expenses of selling and servicing crop insurance."

10. **Administrative and operating (A&O) reimbursements and underwriting gain opportunities are the elements for attracting and keeping private companies, agencies and capital in the business.** To the extent that A&O reimbursements are insufficient for the sale and servicing of crop insurance, these expenses must be met through underwriting gains.

The press often makes the mistake of reporting underwritings gain as profits, thus conveying the false impression that the industry is making huge profits. Both A&O reimbursements and underwriting gains are gross revenue earned by approved crop insurance providers (crop insurance companies) under the terms and conditions of the USDA developed and approved SRA that each company must agree to and sign in order to be an eligible program participant. They are not profits. All businesses, including approved crop insurance companies and affiliated agencies, must subtract all expenses from their gross revenue in order to determine their profits. These expenses include unreimbursed delivery expenses, reinsurance premiums, the building of reserves for loss years, and other expenses.

11. **Reimbursement of delivery expenses and the potential for underwriting gain does not overcompensate for the risk taken by crop insurance companies.** Crop insurance is a risky business, especially when compared to other lines of insurance and taking into consideration the nature of the risk associated with production agriculture enterprises relative to the risk in other insured ventures. Multiple studies have shown that crop insurance profitability is lower and more volatile than other lines of property and casualty insurance (Deloitte and Touché 2004, Price Waterhouse Coopers 1999 and 1997, Milliman and Roberts 2002). Indeed any analysis of Best's Aggregates and Averages will demonstrate this fact.

The Deloitte and Touché study reported a 10 year profitability measure of 7.9 percent for the crop insurance program with a standard deviation of 12.9 percent while other lines of property and casualty insurance ran a 12.7 percent return with an 8.9 percent standard deviation (1992 – 2002).

12. **For crop insurance companies, A&O reimbursements and underwriting gains are determined in large measure by the terms and conditions of the Standard Reinsurance Agreement (SRA), a legally binding “cooperative financial assistance agreement” between the Federal Crop Insurance Corporation (FCIC) and approved insurance providers (AIPs) as developed more or less unilaterally by USDA.** Traditional negotiations were not permitted by RMA in developing the current SRA in 2005. Crop insurance companies have been in a “take it or leave it” situation with respect to the SRA and its terms and conditions.
13. **The increased cost of operating a successful, nationwide crop insurance program should not be viewed as a large “piggy bank” from which to take money to fund other programs.** Crop insurance cost is driven largely by the level of success of the program in meeting Congress’ public policy objectives for the program to be an efficient and effective risk management tool that is fairly and equitably available to all farmers regardless of size, location or enterprise. Keith Collins, Chief Economist at USDA, testified in March, 2006, before a House Agriculture Subcommittee, that program liability or coverage is up about one-third and program acres is up about one-fifth since the passage of ARPA in 2000. In that testimony, Collins also stated, “Recent increases in the administrative and operating expense reimbursement and underwriting gains have strengthened the financial performance of the companies and encouraged new entrants and we believe that will help increase service to producers.”

Any raids on the crop insurance funds will result in higher premium costs and less service for farmers. They would signal a retreat from all the gains in building the best crop insurance program in the world. It would be a retreat from ARPA and all the efforts made in previous legislation and program changes to provide essential risk management for America’s farmers, ranchers and growers that would also be readily accepted by lending institutions and commodity markets.

Archery Trade Association Association of Fish and Wildlife Agencies
Bear Trust International Boone and Crockett Club Bowhunting Preservation Alliance
Campfire Club of America Congressional Sportsmen's Foundation
Conservation Force Dallas Safari Club Delta Waterfowl
Ducks Unlimited Foundation of North American Wild Sheep
Houston Safari Club Izaak Walton League of America Mule Deer Foundation
North American Bear Foundation North American Grouse Partnership
National Rifle Association National Shooting Sports Foundation
National Trappers Association National Wild Turkey Federation
Orion The Hunters' Institute Pheasants Forever Pope and Young Club
Quail Forever Quail Unlimited Quality Deer Management Association
Rocky Mountain Elk Foundation Ruffed Grouse Society
Safari Club International Texas Wildlife Association
The Wildlife Society Theodore Roosevelt Conservation Partnership
US Sportsmen's Alliance Wildlife Forever
Wildlife Management Institute

April 6, 2007

The Honorable Tom Harkin
Chairman
Senate Committee on Agriculture, Nutrition and Forestry
Room SR-328A Russell Senate Office Building
Washington, DC 20510-6000

The Honorable Saxby Chambliss
Ranking Member
Senate Committee on Agriculture, Nutrition and Forestry
Room SR-328A Russell Senate Office Building
Washington, DC 20510-6000

Dear Chairman Harkin and Ranking Member Chambliss:

The following organizations offer these recommendations as top priorities for inclusion in the conservation title of the 2007 Farm Bill. We are all members of the American Wildlife Conservation Partners (AWCP) and collectively we represent millions of our Nations' sportsmen and sportswomen. Farm Bill conservation programs represent the opportunity to properly manage lands for soil, water, and wildlife resources. We appreciate the Committees' long history of support for conservation programs which benefit wildlife, and we are mindful of the unprecedented competition for dollars as you develop this farm bill. With this in mind, the organizations listed below would appreciate your consideration of these priorities should funding resources allow:

**American Wildlife Conservation Partners
Conservation Priorities for the 2007 Farm Bill**

- **Conservation Reserve Program (CRP)** – Reauthorize USDA’s most successful conservation program and ensure the competitive viability of the program. Overall CRP acreage should expand to 45 million acres.
- **Wetlands Reserve Program (WRP)** - Increase America’s number one wetlands restoration program to 300,000 acres per year to improve wetlands conservation, mitigate wetlands loss, provide migratory bird and fisheries habitat and improve water quality.
- **Grasslands Reserve Program (GRP)** - Increase GRP to 2 million acres per year. Require that a minimum of 60 percent of the agreements are long term easements of 30 years or more. Provide incentives for large tract non cropland native grasslands.
- **Wildlife Habitat Incentives Program (WHIP)** - Gradually increase the WHIP funding from \$100 million to \$300 million over the course of the 2007 Farm Bill with a significant portion of new funds targeted for aquatic restoration activities, including instream habitat improvement projects. Enhance conservation partnerships and program benefits by incorporating the assistance of states, municipalities and non-government organizations to deliver and manage WHIP.
- **Access** – Include a provision based upon “Open Fields” legislation, S. 548/H.R. 1351 in 109th Congress, to provide \$20 million per year in grants to fund state-managed voluntary access programs. Program funds shall be used to enhance wildlife management and improve recreational opportunities on land enrolled in farm bill conservation programs.
- **Forestry** - Increase technical, education, and outreach to forest landowners through existing programs such as the Forest Stewardship Program and others. In the 2002 Farm Bill, Congress provided \$100 million for cost-sharing of forest management practices on private lands and promote long-term healthy forest ecosystems. We urge the Committee to, at a minimum, support restoring this funding in the upcoming Farm Bill. This will enhance management for fish and wildlife habitat, water quality, recreation and timber production. Increase funding for the Healthy Forests Reserve Program and modify HFRP to include options for permanent easements.
- **Conservation Security Program (CSP)** – Reauthorize CSP and ensure it provides increased measurable and consistent benefits for fish and wildlife conservation. CSP should require fish and wildlife habitat improvement components for all program tiers and require that NRCS engage federal and state fish and wildlife agencies and non-government conservation organizations when developing fish and wildlife and habitat criteria and assessments. CSP should enhance other USDA conservation programs and not replace or reduce their funding.
- **Farm and Ranchland Protection Program (FRPP)** – Reauthorize at \$300 million per year. Allow transfer of water rights on enrolled land consistent with state law. Allow landowners the right to prohibit non cropland conversion on land subject to the easement.
- **Environmental Quality Incentives Program (EQIP)** – Reauthorize EQIP, increase allocation percentages for fish and wildlife practices, and increase opportunities for private forestland owners.
- **Biofuels and Renewable Energy.** Research and development funding should promote the next generation of biofuels and renewable energy technology based on sustainable polycultures that are consistent with fish, wildlife, soil, nutrient management and water conservation goals. Taxpayer investment in conservation and wildlife gains accomplished during the past 20 years under farm bill conservation programs should not be sacrificed or diminished.
- **“Sodsaver” or Non-cropland Conversion** – Any land that does not meet the definition of cropland, as determined by the USDA/Farm Service Agency, converted from non cropland status to cropland should be made ineligible for any federal benefit, including but not limited to price and income support payments, crop insurance, disaster payments, conservation program enrollment, and FSA farm loan benefits. To preserve its identity, non cropland converted to cropland shall be reconstituted as a separate farm by FSA.
- **Conservation Compliance** – Sodbuster/swampbuster compliance should be linked to all federal farm program benefits including crop insurance and disaster program eligibility. A farm shall be ineligible to receive federal benefits for the year noncompliance is discovered. Following year eligibility may be approved if noncompliance is rectified and restoration certified within 6 months of discovery.
- **Conservation Performance Measures** – Identify and authorize specific mechanisms for tracking the success of conservation mea

We look forward to working with you toward a strong array of federal farm conservation programs as part of the 2007 Farm Bill. We respectfully request your support for the priorities we have outlined. Please feel free to contact us with any questions or comments.

Archery Trade Association
Association of Fish and Wildlife Agencies
Bear Trust International
Boone and Crockett Club
Bowhunting Preservation Alliance
Campfire Club of America
Congressional Sportsmen's Foundation
Conservation Force
Dallas Safari Club
Delta Waterfowl
Ducks Unlimited
Foundation of North American Wild Sheep
Houston Safari Club
Izaak Walton League of America
Mule Deer Foundation
North American Bear Foundation
North American Grouse Partnership
National Rifle Association
National Shooting Sports Foundation
National Trappers Association
National Wild Turkey Federation
Orion The Hunters' Institute
Pheasants Forever
Pope and Young Club
Quail Forever
Quail Unlimited
Quality Deer Management Association
Rocky Mountain Elk Foundation
Ruffed Grouse Society
Safari Club International
Texas Wildlife Association
The Wildlife Society
Theodore Roosevelt Conservation Partnership
US Sportsmen's Alliance
Wildlife Forever
Wildlife Management Institute



ASSOCIATION *of*
FISH & WILDLIFE
AGENCIES

**PRIORITIES FOR THE 2007 FARM BILL
EXECUTIVE SUMMARY OF POLICY POSITIONS**

Collaborative efforts between state fish and wildlife agencies, private landowners, and the U.S. Department of Agriculture (USDA) are increasingly important and essential to achieving local, state and regional fish and wildlife conservation goals. State fish and wildlife agencies' together with their non-governmental conservation organization (NGOs) partners provide valuable knowledge, expertise, and resources to private landowners participating in voluntary, incentive-based Farm Bill conservation programs and to the USDA. These collaborative efforts and collective expertise generate mutual benefits for state and federal agencies while providing additive benefits to society including higher quality fish and wildlife habitat on the ground, better water quality and conservation, maximizing returns on the taxpayers' investment and uniting different publics to enhance environmental benefits for American citizens.

Because approximately 70 percent of the land in the US is privately owned, USDA conservation programs have broad-reaching affects on fish and wildlife populations and conservation of their habitats. These conservation programs can improve water quality and aquatic systems, reduce terrestrial habitat conversion and fragmentation and improve habitat quality while keeping producers and ranchers on the land, which is key to successful conservation efforts. Through state fish and wildlife agencies' conservation efforts in cooperation with conservation NGOs and USDA, implementation of past and current Farm Bill conservation programs has resulted in important and significant conservation benefits and results. Reauthorization of the 2007 Farm Bill will create new opportunities to improve the design and implementation of these programs as well as increase benefits to farmers and taxpayers. For example, conservation practices are available to benefit fisheries and aquatic species but could be improved with more involvement and collaboration with fisheries experts during design and implementation of conservation practices and programs. Additionally, the University of Tennessee's Agriculture Policy Analysis Center predicts that increasing the Conservation Reserve Program (CRP) acreage would have major positive effects on net farm income. According to their model, meeting the current 39.2 million acres statutory limit by 2015 would raise net farm income \$600 million, and expanding CRP to 45 million acres by 2015 would raise net farm income by \$1.7 billion. At the same time, these expansions would result in net savings to the federal treasury of \$6.3 billion and \$12.7 billion, respectively, in farm program spending while providing additional fish and wildlife, soil, and water conservation benefits and solving environmental problems (September 2006, University of Tennessee Agricultural Policy Analysis Center, "Analysis of the Economic Impacts on the Agricultural Sector of the Elimination of the Conservation Reserve Program").

Fish and wildlife conservation needs should be further integrated into USDA conservation program goals and objectives to provide enhanced conservation, societal and economic benefits. Conservation practices are available to benefit fish, wildlife, and their habitats, but could be improved with more involvement

from state fisheries and wildlife experts. State fish and wildlife agencies have statutory authority and responsibility for management of fish, wildlife, and habitats within their borders. Implementation of Farm Bill conservation programs and their results directly affect states' ability to manage their public trust resources. Therefore, state fish and wildlife agencies must be an integral part of USDA conservation program processes to maximize conservation opportunities through wise use of taxpayer dollars and deliver the expected societal, environmental and economic benefits to the entire nation.

The Association of Fish and Wildlife Agencies (Association) represents the state fish and wildlife agencies' interests in fish and wildlife management including the Farm Bill. The Association's mission is to protect state authority and support provincial and territorial authority for fish and wildlife conservation; promote sound resource management; and strengthen federal, state, territorial and private cooperation in conserving fish, wildlife and their habitats in the public interest based on scientific principles. The Association represents and assists all 50 states and territories in working toward the accomplishment of their individual fish and wildlife goals and objectives.

This policy summary highlights priority fish and wildlife conservation concerns regarding conservation programs administered by the USDA and additional issues that have emerged in recent months. The Association's priorities for the 2007 Farm Bill are based on current program purposes, budget concerns and resource needs.

1. Concern: Since enactment of the 2002 Farm Bill, demand for conservation programs and their environmental benefits continues to increase, but authorizations and subsequent appropriations for these programs have not met landowners', constituents' and the nation's conservation needs.

Recommendation: Support maintaining or increasing authorized funding for all conservation programs to meet the nation's conservation needs.

- Demands for conservation programs will likely grow, as will escalating pressure to increase agricultural production for food, fiber, biofuels and global exports.
- Shifting money from or reducing authorized funding levels for conservation programs will not meet natural resources needs under our stewardship or the needs and demands of the American public.
- As the nation's population, economy, and demands from production agriculture grow and escalating pressures are placed on natural resources, societal and economic interests in maintaining and improving quality wildlife habitat, abundant clean water and fertile soils through successful implementation of conservation programs will continue to increase as well.

2. Concern: Fish and wildlife conservation is not given co-equal resource consideration with soil and water in all Farm Bill conservation programs. Currently, this co-equal consideration for wildlife, soil, and water is identified in statute only for the Conservation Reserve Program (CRP), although wildlife is mentioned in other programs as an important factor (i.e., WHIP and EQIP).

Recommendation: Fish and wildlife should be co-equal priorities with soil and water in authorization and implementation of all conservation programs of the Farm Bill, including but not limited to establishment, maintenance, monitoring and evaluation.

- All Farm Bill conservation programs affect fish and wildlife conservation efforts across the country, regardless of the current purpose of the program.
- Implementation of Farm Bill conservation programs falls short of their use, potential, and maximum benefits when concerns for fish and wildlife, soil and water are not co-equal resource considerations.
- Taxpayer dollars are more efficiently utilized when multiple resource management concerns are made a priority in all Farm Bill conservation programs, as they are in CRP. They should not be limited to just soil and water.
- Americans have come to expect fish and wildlife conservation benefits to be delivered through Farm Bill conservation programs and have been very supportive of such efforts.

3. Concern: Although the Farm Bill contains provisions to maintain conservation and prohibit land conversion, wetland drainage and loss of habitat, land conversion is still occurring and causing habitat loss at alarming rates.

Recommendation: All Farm Bill titles should work together, not at cross-purposes, to maintain and promote conservation of fish and wildlife habitats, soil, and water and not inadvertently promote conversion or loss of habitats.

- Current Farm Bill commodity programs have encouraged hundreds of thousands of acres of habitat be converted to cropland. New technologies have further increased the pressure to convert native habitats to crop. While Wetland Conservation Compliance (Swampbuster) was designed to discourage the conversion of wetlands to croplands, inconsistent interpretation and enforcement have not prevented the loss of wetlands. The Sodbuster provision of the Farm Bill was not designed to prevent the conversion of rangeland to cropland. The Sodbuster provision is only applicable to highly erodible land. If the rangeland is not classified as highly erodible, then it can be brought into crop production without a conservation plan. If the rangeland is classified as highly erodible, then it may still be brought into production with a conservation plan and without the loss of any federal farm benefits. Therefore, the promise of various government payments can act as an incentive to break-out and farm native rangeland. And, since there are no comparable programs for grazing lands to balance these actions, the current Farm Bill, and the economics involved, encourages rather than discourages conversion of native rangeland.
- To prevent further conversion, we recommend that Sodbuster be replaced with a “Sodsaver” provision. Any land that does not meet the definition of cropland, as determined by FSA, that is converted from non-cropland status to cropland should be made ineligible for any federal benefit, including but not limited to price and income support payments, crop insurance, disaster payments, FSA farm loan benefits and conservation program enrollment.
- Programs funded in the commodity, forestry and energy titles of the legislation (including crop insurance and disaster payments) should not cause the destruction of native habitats. Further, all Farm Bill programs on cropland should not be managed in a manner that conflicts with soil, water and wildlife habitat for the duration of the contracts.

4. Concern: The current funding level for Technical Assistance (TA, includes Technical Service Providers) is insufficient to deliver environmental benefits commensurate with landowners’ and conservation needs at current Financial Assistance levels. Hence, the Natural Resource Conservation Service (NRCS) has stretched its technical staff to provide assistance outside of their expertise and look for alternative solutions to staff shortages to meet conservation objectives added to the agency’s portfolio through recent Farm Bills.

Recommendation: TA funding must be increased for every conservation program to effectively implement Financial Assistance and help landowners accomplish required and voluntary conservation goals. TA funding should be decoupled from program payments to provide adequate resources for necessary conservation actions. To improve the quality and effectiveness of TA for fish and wildlife conservation, USDA should increase its level of cooperation and coordination with state fish and wildlife agencies as well as conservation organizations on conservation programs.

- USDA conservation program participants depend on TA for contractual compliance, successful project implementation and achievement of conservation objectives.
- State agencies hold statutory authority for fish and wildlife resources and contain a depth of scientific expertise within their ranks. Requiring USDA to formally certify that state fish and wildlife agencies are qualified to deliver wildlife technical assistance through TSP is not a meaningful use of either state agency or USDA resources.
- To maximize conservation opportunities and improve TA delivery, the Secretary of Agriculture should recognize the statutory management authority of state fish and wildlife agencies and readily enter into cooperative agreements for all conservation programs to help USDA design, administer,

plan, implement and monitor conservation programs in a similar manner as has been historically true with conservation districts.

- State fish and wildlife agencies pay 50 percent of the cost associated with providing TA under NRCS contribution agreements for assistance in delivering federal programs, but a 75-100 percent cost recovery system through cooperative agreements would be more equitable with private TSP contracts and reflect the States' vested interest in delivering conservation programs that contribute to their agency goals and objectives.
- Changing NRCS agreements to reimburse States' 100 percent for TA costs for delivering conservation practices would not limit States' participation because of tight or declining state budgets. Providing multi-year agreements would enhance states' ability to sustain technical staff, provide funding stability, and allow the development and implementation longer term TA mechanisms and strategies.

5. Concern: With limited fish and wildlife specialists, USDA at times has struggled with developing and implementing conservation programs that adequately address fish and wildlife, and their habitat needs across diverse agricultural landscapes.

Recommendation: Establish a Habitat Technical Team in each state to provide technical guidance and expertise state fish and wildlife agency and US Fish and Wildlife Service professionals to USDA agencies' state level decision-making authorities on conservation programs regarding fish and wildlife habitat needs.

- Use of Habitat Technical Teams (HTT) will allow state adaptations and program flexibility to address diverse ecological, landscape, and environmental concerns.
- NRCS State Conservationist and Farm Service Agency (FSA) State Executive Director in each state will form a HTT. The HTT may be chaired by professional biologists of the HTT on a rotational basis to distribute the workload. The HTT shall include the following natural resource experts: NRCS biologists with expertise in local plant ecology; state FSA Conservation Director; fish and wildlife technical experts from the state fish & wildlife agency; and US Fish and Wildlife Service. The HTT may invite the participation of technical experts to provide expertise on certain fish and wildlife related issues such as members of science/professional societies, state forester, university cooperative or extension staff with fish/wildlife expertise, and non-governmental conservation organizations' professional biologists (e.g., Pheasants Forever, Quail Unlimited, The Nature Conservancy, Ducks Unlimited, etc.).
- Because of members' statutory authority for management and vested interests in conservation, the HTT will be responsible for development, review, and recommendations for all fish and wildlife habitat criteria related to USDA FSA and NRCS conservation programs. The HTT could provide state-level training on all fish and wildlife conservation concerns to USDA employees, which could be useful for improving fish and wildlife benefits from conservation practices.
- HTT expertise and guidance will be provided to the State Executive Director and the State Conservationist as well as to the NRCS State Technical Committee (STC) and the FSA State Committee.
- When a State Conservationist, State Executive Director, NRCS STC, or FSA State Committee does not accept and incorporate the advice of the HTT, a written justification explaining why the advice was not accepted must be submitted to USDA Headquarters for review by the National Biologist(s) (NRCS and/or FSA). USDA Headquarters shall have the authority to overturn the position adverse to the HTT recommendations and require the adoption of the HTT recommendations.

6. Concern: Energy conservation and renewable fuels production will be major issues in the development of the next Farm Bill, but they must be addressed consistent with conservation of fish and wildlife, and their habitat needs.

Recommendation: Support and encourage energy initiatives that increase energy conservation and fuel efficiencies for producers, reduce fossil fuel use on the farm and in rural communities, and promote ecologically healthy fish and wildlife populations, habitats and other natural resource conservation goals.

- Energy considerations must be complementary to and not replacements for, existing goals of Farm Bill conservation programs, and there should be no net loss of fish and wildlife benefits on conservation program lands.
- Credible research is not available to identify affects of biomass production on the co-equal objectives of soil, water and wildlife conservation on lands enrolled in the Conservation Reserve Program (CRP). CRP acres are scattered across the landscape, do not necessarily occur within a concentrated radius of a planned biorefinery, and may not have the yield potential which are all requirements for the biorefinery's economic sustainability. Thus, using CRP acres for biomass production does not seem to fit the needs of industry. Therefore, CRP should not be used for biomass production except as allowed under current rules that support the program's co-equal objectives of wildlife, soil and water conservation.
- If financial incentives for growing biomass are offered, they should be short-term, must encourage the development of the next generation of energy (e.g., cellulosic ethanol) production, and must not be detrimentally competitive with existing conservation programs.
- Encourage biomass production that provides multiple environmental benefits including the wise use of water and forest resources, prevents erosion, incorporates fish and wildlife-friendly practices that sustain plant diversity and reduce monoculture stands of vegetation and uses ecologically appropriate feedstocks.
- Fund research for ecologically appropriate mixed stands of native grasses/forbs and trees/shrubs as biomass feedstocks, including the affects of biomass production and harvest on fish and wildlife species and habitats.
- USDA should collaborate with fish and wildlife experts (e.g., Habitat Technical Teams) on the design and implementation of biofuels initiatives to minimize unintended adverse environmental affects and maximize conservation opportunities.

7. Concern: Developing consistency among Farm Bill conservation program priorities with state, regional, and national conservation goals through increased conservation partnerships would more effectively achieve conservation objectives.

Recommendation: Conservation program priorities should be established at the state level through conservation partnerships in order to strategically implement programs and allocate funds at a scale that appropriately addresses conservation priorities of the State or region.

- USDA conservation program priorities should be integrated with fish and wildlife conservation plans at the state, regional, and national levels such as the National Fish Habitat Action Plan, States' Wildlife Action Plans, and other conservation initiatives.
- Federal, regional, and state fish and wildlife conservation initiatives offer the best science and collaborative conservation strategies available to USDA for strategically implementing limited resources and maximizing environmental benefits.
- An alternate criterion should be created in statute that authorizes the Secretary of Agriculture to grant a waiver to exceed the 25 percent (CRP) county cropland acreage cap in order to address specific species' habitat needs as supported by the US Fish and Wildlife Service (FWS) and the appropriate state fish and wildlife agency(s) to preclude the need to federally list a species as threatened or endangered, to assist in the de-listing of a state or federally listed species or to assist in the conservation of a candidate species.

8. Concern: Congress, conservation groups and natural resource agencies are increasingly interested in documenting the environmental benefits of conservation practices and programs to

quantify benefits and provide information to create effective and more cost efficient methods to achieve conservation goals.

Recommendation: To more effectively address environmental problems and demonstrate societal and conservation benefits derived from Farm Bill programs, funds must be made available for the implementation of standard monitoring procedures to evaluate program benefits and ensure that fish and wildlife, soil and water goals are met on enrolled acres.

- Funds set-aside for monitoring and evaluating Farm Bill programs should be pooled to allow cross-cutting evaluations of the contributions multiple programs make to conservation objectives. Funds allocated for monitoring and evaluating fish, wildlife and their habitats should be commensurate with funds for monitoring and evaluating soil and water.
- Information derived from scientifically designed and standardized monitoring efforts should be used by USDA agencies for adaptive management purposes to improve conservation programs, practices, and implementation.
- Create a process that provides for cooperative and collaborative monitoring and evaluating of all Farm Bill programs by states, conservation organizations, USGS, EPA, USDA, FWS, and Cooperative Fish and Wildlife Research Units that authorizes funding necessary to evaluate programs' conservation benefits and effectiveness, and provides subsequent reporting of the findings for the application of adaptive management.

General Recommendations for 2007 Farm Bill Programs

Conservation Compliance

1. Replace "Sodbuster" provisions with a "Sodsaver" provision that would eliminate all federal subsidy support, including conservation, commodity, crop insurance, disaster assistance and energy program payments on new cropland put into production by converting lands with no previous cropping history.
2. Maintain existing wetland conservation (Swampbuster) and Highly Erodible Land (HEL) provisions as written in the 2002 Farm Bill.
3. Re-couple all USDA payments with Conservation Compliance (Sodsaver, Swampbuster, and HEL provisions).
4. Adequately monitor and enforce Conservation Compliance.
5. Refer to Conservation Compliance as "Baseline Protection of Natural Resources."

Conservation Reserve Program (CRP)

1. Reauthorize the program, restore the acreage cap to 45 million acres to address current program purposes, and continue to offer options for enrollment in general sign-ups as well as Continuous CRP (CCRP) and the Conservation Reserve Enhancement Program (CREP).
2. Continue a 'date-certain' clause in the next Farm Bill so that prairie cannot be plowed-out and cropped in order to make the land eligible for CRP enrollment -- as was the case prior to the 2002 Farm Bill. Retain the date-certain verbiage from the 2002 Farm Bill and enforce it.
3. An alternate criterion should be created in statute that authorizes the Secretary of Agriculture to grant a waiver to exceed the 25 percent (CRP) county cropland acreage cap in order to address specific species' habitat needs as supported by the US Fish and Wildlife Service (FWS) and the appropriate state fish and wildlife agency(s) such as to preclude the need to federally list a species as threatened or endangered, to assist in the de-listing of a state or federally listed species or to assist in the conservation of a candidate species.
4. Remove buffers, CREP, GRP and WRP acreages from the 25% county cap limitation to increase flexibility to meet farmers' needs and contribute to important high value, local conservation efforts.
5. Continue to provide incentives or create new incentives in CRP for high value cover types that are ecologically appropriate. Continue to prioritize enrollment eligibility in national and state Conservation Priority Areas (CPA). Processes developed for prioritized enrollments should include national and state-level initiatives for fish and wildlife conservation.

Conservation Security Program (CSP)

1. The CSP is under consideration by many as a World Trade Organization-compliant alternative to existing Commodity Title programs. Funding CSP should not replace or reduce funding from other USDA conservation programs and must provide measurable and consistently achievable benefits for fish and wildlife conservation. With this understanding the Association supports re-authorization of CSP.
2. NRCS must partner with and include recommendations from state fish and wildlife agencies, state water quality agencies, and the US Fish and Wildlife Service (i.e., Habitat Technical Teams) to develop fish and wildlife elements for CSP.
3. If a watershed approach is continued, criteria for selection of watersheds should be based on which watersheds are of most value to the local constituents and society (i.e., valued for recreation, soil/water quality and species of conservation concern), and NRCS should partner with state fish and wildlife agencies, the state water quality agency, and conservation organizations to develop wildlife elements and select watersheds for the program.
4. NRCS should allow a continuous, one-year CSP sign-up to facilitate enrollment.
5. NRCS should eliminate self-assessments and develop minimum requirements for each resource needed to be present prior to moving up to the next Tier. These minimums would be developed by each watershed or state to fit their particular needs. This will not address GAO concerns regarding wildlife in CSP if item #2 above is not implemented.
6. Managed forestland that is part of a working farm should be eligible to be enrolled and receive payments under CSP.
7. Additional recommendations to improve CSP can be provided upon request.

Environmental Quality Incentives Program (EQIP)

1. Reauthorize the program at no less than current levels and require that a percentage of EQIP funds are spent on restoration and protection of at-risk fish and wildlife species.
2. EQIP funding should be allowed only for eligible practices that do not adversely impact wetlands, riparian zones, streams, native grasslands and other environmentally sensitive areas.
3. EQIP should create an accounting system that ensures and measures net water gains toward in-stream flows or groundwater benefits from practices designed to conserve and increase water quantity and more accurately track completed practices for monitoring benefits and effectiveness.
4. Ensure EQIP funding is available to address whole farm and ranch resource concerns, regardless of landownership, as long as the projects are a component of a Coordinated Resource Management Plan (CRMP).
5. EQIP should prioritize projects that address all resource concerns on the farm or ranch, including fish and wildlife habitat.
6. Retain flexibility within EQIP to address specific state resource needs, including directing funds to priority watersheds and other local issues such as invasive species and at-risk species.

Farm and Ranchland Protection Program (FRPP)

1. Reauthorize the program and increase funding.
2. Require Resource Management Systems (RMS)-level plan, including Soil, Water, Air, Plants and Animals (SWAPA) to be eligible. If forested land is on the FRPP acreage, establish scoring criteria to reward farm owners with Forest Stewardship Plans.
3. Lower amount of match required by non-Federal entities from 50% to 25%.
4. Rangeland should have the same eligibility criteria as cropland for enrollment. An additional eligibility criterion should be added to Sec. 1238H. (2) (A):
“Or (III) contains unique or significant ecological features;”
5. Provide incentives for landowners to conserve rare, declining, or important fish and wildlife that occur on the farm or rangeland by including it as part of the score criteria.

Grassland Reserve Program (GRP)

1. Reauthorize the program at a minimum of 1 million acres per year and mandate the allowance of restoration of native grasslands in all states.
2. Provide incentives for large tract and non-cropland native grasslands, and revise the easement payment formula to make easements the most economic alternative for the applicant. Require that a minimum of 60 percent of the agreements are long-term easements of 30 years or more, and provide incentives for large-tract and non-cropland native grasslands.
3. GRP-enrolled acres should be exempt from the 25 percent county cropland acreage cap of other conservation programs.
4. Establish national priority areas for GRP funding to focus the program and increase its effectiveness based on state and regional grassland-based conservation initiatives. The following should be weighted equally when considering state funding allocations: 1) the number of grazing operations within a state; 2) the threat of grassland conversion; and 3) the biodiversity of plants and animals.
5. Land already enrolled in a USDA cost-share program should be made eligible to participate in GRP to ensure the program that provides the best resource protection will be the one implemented.
6. Require that cost-share for enhancements and structural practices be made available on all enrolled lands as needed to maintain or enhance biodiversity.

Wildlife Habitat Incentives Program (WHIP)

1. Recognize that both fish and wildlife are purposes of WHIP, and at a minimum, reauthorize funding at \$100 million annually increasing to \$300 million over the course of the Farm Bill to meet landowner and conservation needs.
2. Continue special allocations to target resource needs for national priority fish and wildlife species.
3. Allow funding of incentive payments similar to EQIP, in addition to cost-share, for locally identified fish and wildlife priorities.
4. Link and strategically implement programs using state or regional conservation planning efforts such as State Wildlife Action Plans and the National Fish Habitat Action Plan.
5. State established priorities rather than the amount of available TA, should determine which projects receive financial assistance (FA). Allow TA to exceed 10% of the overall project cost if more expensive and complex planning, cultural resources assessments, Endangered Species Act (ESA) consultation, engineering, etc., are required to address the highest state priorities.
6. Use Habitat Technical Teams of resource professionals from NRCS, state and federal fish and wildlife agency to assist State Conservationists with focusing WHIP funding on priority habitats and species.

Wetland Reserve Program (WRP)

1. Reauthorize the program and increase the annual acreage allocation to 300,000 acres per year and remove the national cap.
2. Decouple WRP from the county acreage caps of other conservation programs.
3. Place priority on wetland regions/complexes identified as important through the North American Waterfowl Management Plan as well as on wetland protection and restoration that will provide habitat for at-risk fish, wildlife and plant species as identified in state and regional conservation initiatives.
4. Prioritize perpetual easement agreements higher than 30-year agreements for consistency with the program's purpose.
5. Easement values should be based on appraisals that assess the current fair market agriculture value of the acres offered to remove these marginal, disaster-prone croplands from production.

6. Increase WREP utilization to allow further use of the program in states and regions that have been unable to obtain funding and take advantage of this local emphasis. WREP should be supported as a companion to, and not a replacement for, existing programs.
7. The WRP needs a management and maintenance fund to help monitor, improve, enhance, and manage vegetative cover and structural practices on perpetual easements for such purposes as needed to maintain or enhance biodiversity (i.e., manage for invasive plant species).

Forestry Programs

1. Take a multiple resource management approach to all forestry programs, fully integrating fish and wildlife conservation measures to promote the overall health of forested ecosystems.
2. Continue forestry aspects of existing conservation programs that promote restoration of healthy forest ecosystems with focus on at risk forest types, such as the Longleaf Pine Forest Ecosystem, Pine Barrens, bottomland hardwoods, etc.
3. Support strong technical, educational, and outreach assistance for private forest owners through existing programs, such as the Forest Stewardship Program.
4. Reauthorize the Healthy Forests Reserve Program and providing funding to benefit forest landowners nation-wide.
5. Increase capacity for prescribed burning on private lands to improve forest health and enhance fish and wildlife habitat.
6. Include funding authorization for practices that allow landowners to comply with federal and state BMP's for aquatic resources protection.

Public Access Option

1. Create a national and state/tribal public access partnership program that applies to but is not limited to all Farm Bill conservation programs. This program should be an extra incentive payment to landowners with land voluntarily enrolled in conservation programs who are willing to provide public access on that land or across the private lands to enhance access to public lands. The program would be created consistent with provisions found in "Open Fields" legislation (S. 548 and HR 1351 in the 109th Congress), and provide authorized funding of \$20 million per year in CCC-issued grants to states and tribes. Funding of a public access program should not diminish funding of current conservation programs.

AFWA 2007 Farm Bill Working Group Members:

Western Association of Fish & Wildlife Agencies: Sal Palazzolo (AZ), Don Larsen (WA)
 Midwest Association of Fish & Wildlife Agencies: Luke Miller (OH), Steve Riley (NE)
 Northeastern Association of Fish & Wildlife Agencies: Mike Pruss (PA), Buster Carter (ME)
 Southeast Association of Fish & Wildlife Agencies: Dan Figert (KY), Mark Whitney (GA)
 NGO members: Dave Nomsen/John Beall (Pheasants Forever), Bart James (DU), Mary Beth Charles (American Sportfishing Association)
 Chair: Jeff Vonk, Secretary of South Dakota Game, Fish & Parks, Chair of AFWA Agriculture Conservation Committee
 AFWA Staff: Jen Mock, jenmock@fishwildlife.org, 202-624-7890

Fisheries Advisors to the AFWA 2007 Farm Bill Working Group:

Northeast Fisheries Advisor: David Day, PA FBC
 Southeast Fisheries Advisor: Frank Fiss, TN WRA
 Midwest Fisheries Advisor: Don Bonneau, IA DNR
 Western Fisheries Advisor: Chris Hunter, MT FWP
 Alaska Fisheries Advisor: Bob Clark, AK DFG

The 50 state fish and wildlife agencies unanimously adopted this policy position on Thursday, September 21, 2006, during the Business Meeting at the Association of Fish and Wildlife Agencies' Annual Meeting in Snowmass, CO.

28 Feb 2007

IOWA DEPARTMENT OF NATURAL RESOURCES

2007 FARM BILL RECOMMENDATIONS

The 2002 Farm Bill (FB) should be used as a template for the 2007 FB with modifications contained in these recommendations. We will use a bulleted format and will provide detailed supporting information if requested.

General Comments

1. If funding adjustments are necessary during the life of the 2007 FB they should not be disproportional among lesser funded titles such as Conservation or Rural Development.
2. There are identified, unintended consequences caused by the 2002 FB. 2007 proposals should be evaluated for negative unintended consequences and avoided by establishing relevant policies.
3. "Wildlife" is frequently used throughout the FB. This should be clarified by using "fish and wildlife" in the 2007 FB.
4. Technical Service Providers (TSPs), in general, have not worked especially for fish and wildlife practice implementation. We recommend changing emphasis to cooperative agreements in the future.

Commodity Title

1. Decouple income support from commodities; income support should be earned from environmental benefits to the public.
2. Conservation compliance provisions should be maintained and enforced
3. The Sod Saver concept, to protect native grasslands, should be adopted.

Conservation Title

1. We support an equal balance between working land and set aside programs as intended in the 2002 FB.
2. Greater commitment to appropriating funds at authorized levels for conservation title programs is needed. Conservation programs should be mandatory spending through the Commodity Credit Corporation (CCC).
3. All allocation formulas to states must be more transparent and meaningful opportunity for public comments should be provided.
4. Greater flexibility is needed at the state level for delivery of all programs.
5. State agencies with assigned responsibility in areas such as fish and wildlife habitat management and water quality improvement should have an expanded role in program implementation decisions.

6. NRCS should be assigned technical assistance responsibilities for all conservation title programs (with the exception of forestry which should be assigned to state forestry agencies) and increased resources provided for technical assistance.
7. We support the current suite of conservation programs; however they should be simplified for increased understanding by producers and reduce technical assistance demands.
8. Increased funding for technical assistance to implement programs is needed to insure maximum natural resource benefits and improve customer satisfaction.
9. Section 1241 (d) of the 1985 FB, the regional equity provisions, should be repealed. Funding should be allocated based on needs and predicted soil and water protection accomplishments.

EQIP

1. We support the objectives as contained in the 2002 FB but urge strengthening the threat to at-risk species by specific fund allocation.
2. Recommendations in the General Accountability Office report “ USDA Should Improve Its Process for Allocating Funds to States for the Environmental Quality Incentives Program” should be implemented immediately.
3. Funding for EQIP should be increased to \$1.5 billion per year.
4. Mandatory funding for technical assistance should be included.
5. State fish and wildlife, water quality and forestry agencies should have greater involvement in program implementation decisions.
6. The Partnership and Cooperation provisions should be implemented as written in the 2002 FB and modified to clearly include all conservation title programs and increase level of funding available to 15 percent.
7. EQIP funding should be expanded \$100 million by incorporating FLEP as authorized in the 2002 FB and adding private forest as an EQIP national resource of concern.

CSP

1. We fully support the CSP concept; however, to succeed it needs to be simplified and funded at \$9 billion to allow for greater participation. To simplify, self assessments should be eliminated and clearly written minimum requirements for each resource concern developed. Opportunities for producers to move into higher tiers need to be expanded.
2. Strengthen fish and wildlife and water quality benefits by requiring NRCS to involve state agencies in program development and implementation decisions.
3. Eliminate the 15 percent technical assistance cap.
4. Amend CSP to expand opportunities for forestland and forest management practices.

CRP

1. We support a 40 million acre cap for CRP increased to 45 million acres if a Bio-renewable Energy Reserve Program is created.
2. A review and updating of soil rental rates no less than every two years with corresponding adjustments in contracts should be required.
3. Greater flexibility at the state level is needed to fully realize benefits of this program. FSA should be required to actively engage State agencies responsible for fish and wildlife, water quality and forestry in program development and implementation decisions.

WRP

1. Raise the enrollment cap to 3,525,000 acres and provide annual funding to enroll 250,000 acres.
2. Review the “yellow book” appraisal process to determine if predicted results are being achieved.

FRPP

1. Maintain the program at authorized funding levels.
2. Place priority on lands that provide habitat for at-risk fish and wildlife species.
3. Allow landowner contribution of up to 35 percent of the land value as match.

GRP

1. Reauthorize GRP at 1 million acres per year and restructure to allow and encourage participation outside of the Great Plains.
2. Focus the program on land that provide habitat for at-risk fish and wildlife species by focusing on complexes within defined geographic areas.

WHIP

1. Maintain the program and increase funding to \$150 million per year.

ENERGY TITLE recommendation provided earlier.

RESEARCH TITLE

1. Research funds should be balanced to address production and environmental performance. For example, cellulosic ethanol research should include environmental impacts of removing biomass on fish, wildlife, soil, air and water resources.

FORESTRY TITLE

1. Oak stands are declining at an alarming rate, over much of the Midwest, and could be virtually non-existent by the end of this century (Midwest Governors Association, Policy objectives and Recommendations for the Farm Bill 2007). Aspen stands are also declining in the Rocky Mountains. We recommend developing a Landscape Forestry Assistance Program, funded at \$25 million per year, with the intent of reversing these trends on a landscape scale.

RURAL DEVELOPMENT

1. Greater flexibility and additional funding is needed to address rural water and waste water issues. Funding should be available to develop new approaches to these issues similar to Conservation Innovation Grants available under EQIP. Recommend \$5 million per year be available for this purpose.

ENERGY AND THE 2007 FARM BILL
Iowa Department of Natural Resources recommendations

There is little doubt energy is a critical issue to the natural resources and people of Iowa. Our comments are based on the assumption that corn grain based ethanol will continue to expand until limited by corn availability as determined by outside sources. This industry developed over many years with a great deal of support from the public sector. We feel it is now time to provide public sector support to energy from other sources such as cellulose. The 2007 Farm Bill provides an opportunity to improve our national energy security, create economic development opportunities and protect our natural resources. We could also lose much of what we have gained in natural resource protection if we don't do it right. We believe the following recommendations will help develop policies that will turn those opportunities into reality.

The recommendations will be categorized into overarching objectives; existing programs; research; and new programs.

Overarching Objective

Energy issues could be distributed into various titles of the Farm Bill including Conservation, Research and Energy. Regardless of where they are placed the objective should be to "develop and conserve energy while protecting soil, water and wildlife resources." This approach would provide the basis for rules and /or funding decisions to implement specific energy provisions.

Existing Programs

The Conservation Security Program (CSP) should significantly increase incentives for agricultural energy conservation which would also provide environmental benefits. For example, no-till planting directly reduces fuel used but also reduces erosion by wind and water, provides some wildlife benefits and sequesters carbon. Improved nutrient management, especially "N" but also including "P" and "K" reduces energy in manufacturing, transport and application as well as reducing potential loss to the environment.

Some programs from the 2002 Farm Bill Energy Title have merit if adequate funding is provided. We support the section 9006 Renewable Energy Systems and Energy Efficiency Improvements Program but expand funding to \$250 million per year by 2012 as proposed in the Rural Energy for America Act of 2006. From our experience the incentives for smaller projects has worked better than for larger projects and recommend the focus in 2007 be on the smaller projects, ie less than \$100,000. Targeting specific energy sectors such as grain drying systems work well as does enlisting energy efficiency

and/or renewable energy consultants in the application process. However, the application process is still onerous making it difficult for small ag operations or small businesses to apply. We recommend simplification of the application process.

Research

Research to develop the energy potential from cellulose is underway and more will be required but an overlooked issue is the environment impact of energy developed from cellulose. We recommend 40 percent of research funding for developing energy from cellulose be focused on environmental impacts. This could include impacts on soil quality from removing various levels of cellulose; impacts on wildlife including developing the positive impacts that are possible; impacts of cellulose crop management practices on water quality; and the life cycle impacts of each proposed approach.

The scope of research should to be broad to allow for needs beyond technical systems. For example, methane from animal manure could be a valuable energy source using available technology. However, most farmers are not familiar with this technology and do not have the time to add another area of expertise to their skill set. If another entity either operated digesters on farms or transported the manure to a central digester near the end user are options but, would this be workable from all parties standpoint? How would nutrients from the manure be affected and how would management of those nutrients change? Research and recommendations on alternative organizational structures to address this example are needed.

New Programs

New programs are needed to develop cellulosic feedstock from dedicated energy crops, crop residues and wood. We recommend pilot projects be developed within the Conservation Reserve Program (CRP) as a Conservation Practice (CP) called the BioEnergy Reserve Program (BERP). The CREP concept could be followed by requiring states to have a Biofuel plan developed with the input of all stakeholders and submitted to the Secretary of Agriculture by the involved Governor. A core stake holder group (similar to the approach used in developing State Technical Committees) including the state energy, wildlife and water quality agencies as well as agriculture organizations and others would be needed to develop a plan with widespread support. This approach has several advantages. By developing it under an existing program a new one does not need to be created and the program objectives of reducing erosion, improving water quality and providing wildlife habitat would already be established. The models for CREP and State Technical Committees also already exist.

There is a need to improve the CRP in general and specifically to implement this recommendation. The responsibilities for implementing CRP should be clearly defined with FSA responsible for financial aspects and NRCS responsible for all technical components with the ability to fund state agencies for delivery of technical assistance as appropriate. Land values are rapidly increasing in Iowa and current soil rental rates are not competitive. To have a successful BERP the '07 legislation should require CRP soil rental rates be reviewed and updated as needed but no less than every two years. The uncertainty created by the chicken or egg first syndrome suggests BERP should be flexible and allow for alternative management strategies. For example, timing of use of the feedstock may be unknown or delayed due to issues with a processing facility. On grasslands, in Iowa, we know periodic disturbance increases plant vigor. We recommend management practices, consistent with program objectives, be encouraged such as managed haying and grazing with no financial penalty. This will insure having the maximum cellulose available when it is needed while providing the intended program benefits.

All incentive programs for cellulose feedstock should meet a minimum standard for protecting soil and water resources. This could be similar to conservation compliance but have real enforcement. We recommend the standard be based on the "soil conditioning index" which is already available and only need procedures developed to implement.

Background for Proposal to Simplify CSP and Address Wildlife Resources Consistently Between States

As indicated by the GAO Report on CSP, wildlife aspects of the program are being applied inconsistently across the nation. The National Wildlife Federation Report 'CSP and Wildlife' indicates that most states are not seeing on-the-ground wildlife improvements through the program. A noted exception to this is Missouri, where an exemplary cooperative relationship between NRCS and the state fish and wildlife agency has developed the best wildlife gains in CSP in the nation because:

1. the state fish and wildlife agency was involved in development and all modifications to wildlife assessments
2. the same agency was involved in development of wildlife enhancements and enhancements were geared toward improving the assessment score
3. wildlife enhancements, which many times require producer expense, such as water pumping, or loss of income, such as in field border establishment were given correspondingly higher payment rates than payment for soil and water enhancements which do not significantly affect income.
4. Other programs such as EQIP or CCRP were used when producers had reached payment caps in order to install practices such as field borders or develop shrubby cover in fencelines and riparian areas. This did not result in duplication of payments, but encouraged additional conservation gains.

Most states are not cooperating with their respective state fish and wildlife agency and did not address most of these parameters.

Landowners are typically not qualified to conduct complicated wildlife assessments and staff cannot successfully conduct the assessments from the office. Staff, many times, need to change documentation and contracts when the wildlife assessment gets field checked, because the landowner did not understand what grasses were present in his pasture or what constitutes shrubby cover or a field border, etc.

In order to streamline the program AND get consistent quality wildlife gains across the nation the assessments could be eliminated and replaced with minimum treatment levels that must be met in order for the producer to move to the next Tier/payment level. NRCS and their corresponding state wildlife agency or a state level Habitat Technical Team must develop these criteria and all other wildlife related CSP policy and documents for this concept to address the GAO report concerns.

Separate enhancement payments add greatly to the complexity of the current program signup, interview process and contract. Eliminating these separate payments and adding them to the Tier payments in addition to the minimum treatment criteria set up for each resource would greatly simplify the process. This would allow staff additional time to offer quality assistance and followup to producers. Modifications of contracts would be simplified.

NRCS technical staff currently spend little time outside of the office with producers because of the computer/contracting and data entry workload. Even when only one watershed in a state is eligible for CSP, NRCS must detail staff from other parts of the state to help with the workload. NRCS should be given additional TA or TSP funds to provide data entry clerks and contract clerks to allow technical staff to work with landowners and provide appropriate followup on CSP contracts.

Announcing watersheds eligible for CSP well ahead of time and offering a continuous signup will allow landowner and USDA staff the opportunity to prepare documentation, applications and eliminate workload problems during signup.

Many of the wildlife gains in Missouri come during annual opportunities for contract upgrades to higher Tiers. Many neighbors compare notes and want to come in to upgrade their contracts during these opportunities. Several watersheds in Missouri are approaching 100% of contracts in tier 3 and the landscape implications for wildlife cannot be attained through any other program. The ability to utilize other programs, while avoiding duplication of payments allows the Missouri CSP landowners to do more for wildlife and conservation than they could ever do in CSP alone.

These recommendations for changes to CSP should allow simplification of the program for producers and USDA staff and address the concerns expressed about inconsistencies and less stringent requirements in CSP for the wildlife resource in most states.

Proposal to Simplify CSP and Address Wildlife Resources Consistently Between States

#1 Require state NRCS to seek approval of the state fish and wildlife agency or Habitat Team for all state/watershed level wildlife policy in CSP including modifications to that policy. Habitat Teams or state agencies should be used to develop protocols for monitoring CSP performance for wildlife and other resources.

#2 Eliminate Enhancement Payments and add the money to the tier payments. Tiers could be further divided into levels of payment for increasing levels of work done to address a resource(s). See Below.

#3 Eliminate assessments and develop minimum requirements for each resource needed to be present prior to moving up to the next Tier. These minimums would be developed by each watershed or state to fit their particular needs. **This will not work to address GAO concerns in applying wildlife in CSP if #1 is not implemented.**

Example:

Wildlife minimum criteria for cropland will be native grass/forb field border 30 feet wide on 50% of field(s)

Riparian minimum criteria will be 50 foot buffer of native grass/trees/shrubs on all intermittent and permanent streams

#4 Allow continuous signup

#5 Provide TA or TSP resources for NRCS to add data entry/contracting clerks to each office allowing planners to work with producers on technical issues.

#6 Continue practice of allowing contracts to be upgraded to next Tier.

#7 Continue practice of allowing other programs to be used to allow producers to meet criteria for Tiers. This allows more conservation to be applied on the land than by any one program alone. Duplication of payments would still be prohibited.

#8 Eliminate Tier 1 eligibility criteria, allow all interested producers to signup and divide Tier 1 up into different levels of payment. See Below

#9 Require wildlife to be addressed in Tier 2

#10 If USDA continues to limit signup to small watersheds, the eligible watersheds should be announced 2 years in advance to allow landowners and staff to prepare criteria and documentation, etc.

Example of CSP Tier and Level Payments on Cropland

Tier 1

- Level 1 – does not meet minimum criteria for soil and water quality - \$5000
- Level 2 – meets minimum criteria for soil and water quality - \$10,000
- Level 3 – exceeds minimum soil and water quality criteria by 50% - \$15,000

Tier 2 – wildlife resource addressed (may vary by state and watershed)

- Level 1 – native grass field border on 50% of field edges - \$25,000
- Level 2 – Level 1 plus 1/10 acre shrubs in each field - \$30,000
- Level 3 – Level 2 plus native grass field borders on 100% of field edges - \$35,000

Tier 3 – riparian resource addressed plus all other resources

- Level 1 – minimum 50' native grass, shrub or tree buffer established on all permanent and intermittent streams - \$45,000
- Level 2 – Level 1 plus in-stream habitat provided - \$50,000
- Level 3 – Level 2 plus bank erosion addressed - \$55,000

SEC. ____ Conservation Security Program

DEFINITIONS. –

MINIMUM RESOURCE TREATMENTS. – The term ‘minimum resource treatments’ refers to the minimum practices or conservation treatments needed to address a resource to attain each payment level. Minimum treatments are determined by the State Conservationist with guidance from the State Technical Committee and State Habitat Team. ‘Minimum resource treatments’ will be used in lieu of conducting assessments.

PAYMENT LEVELS. – The term ‘payment levels’ refers to the 3 successive payment levels authorized under each of the three tiers. The more practices or minimum treatments that an agricultural operation has applied, the higher the payment level they can achieve. Payment levels are on a per acre basis.

STATE HABITAT TEAMS. – The term ‘state habitat team’ means a team of fish and/or wildlife technical experts assembled by each State Conservationist to provide guidance and develop program criteria for fish, wildlife and other biological resources. Each team shall consist of a minimum of representative(s) from the state fish and wildlife agency, and can include technical experts from federal agencies and non-government organizations. The team may be a subcommittee of the State Technical Committee and shall make recommendations directly to the State Conservationist. The State Conservationist must report to the NRCS Chief regarding reasons for which recommendations of the Team are not adopted.

(a) CONSERVATION SECURITY PLANS. – Section 1238A(c) of the Food Security Act of 1985 (16 3838a(c) is amended –

(1) in paragraph (1) subparagraph (B) (i) by inserting “and level” after “tier”.

(b) CONSERVATION CONTRACTS AND PRACTICES. – Section 1238A(d) of the Food Security Act of 1985 (16 U.S.C. 3838a(d) is amended -

(1) in paragraph (1) subparagraph (A) – by inserting after the first sentence “ Each Tier shall also consist of 3 successive Payment Levels based on the kind and amount of minimum resource treatments applied on the agricultural operation. Minimum resource treatments to attain each level will be determined by the appropriate State Conservationist based on recommendations of the State Technical Committee and State Habitat Team.”

(2) in paragraph (4) -

by inserting after subparagraph (S) the following new subparagraph:

“(T) in the case of practices dealing with fish, wildlife, native grassland and other biological resource conservation the Secretary will develop a State Habitat Team to determine appropriate minimum treatment levels and related guidance.”

(c) ANNUAL PAYMENTS. – Subsection (b) of Section 1238C of such Act (16 U.S.C. 3838c) is amended to read as follows:

(b) ANNUAL PAYMENTS

(1) In paragraph (1), subparagraphs (A) and (B) by inserting “on a per acre basis for each of the three payment levels in each tier” after “determined”.

(2) In paragraph (2), subparagraph (A) (i) by striking “\$20,000” and inserting “Payment Level 1 No Payment; Payment Level 2 \$ ___ per acre; and, Payment Level 3 \$ ___ per acre;”

(3) In paragraph (2) subparagraph (A) (ii) by striking “\$35,000” and inserting “Payment Level 1 \$ ___ per acre; Payment Level 2 \$ ___ per acre; and, Payment Level 3 \$ ___ per acre.”

(4) In paragraph (2) subparagraph (A) (iii) by striking “\$50,000” and inserting “Payment Level 1 \$ ___ per acre; Payment Level 2 \$ ___ per acre; and, Payment Level 3 \$ ___ per acre.”

(d) ENROLLMENT PROCEDURES. – subsection (f) of section 1238C of such Act (16 U.S.C. 3838c) is amended to read as follows:

(f) ENROLLMENT PROCEDURES. –

(1) NO USE OF COMPETITIVE BIDDING. – In entering into conservation security contracts with producers under this subchapter, the Secretary shall not use competitive bidding or any similar procedure.

(2) CONTINUOUS ENROLLMENT. – The Secretary shall enroll lands on a continuous basis.

(3) ENROLLMENT OPPORTUNITIES FOR TIER I LEVEL I CONTRACTS. – The Secretary shall ensure that all producers with eligible operations may enroll as Tier I Level I.

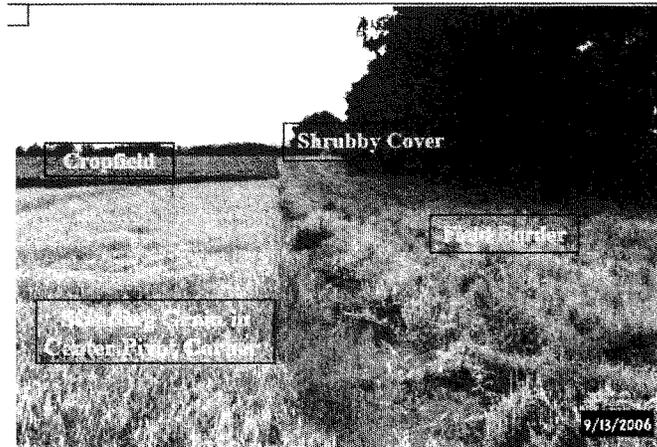
(e) TECHNICAL ASSISTANCE. – Subsection (f) of Section 1238C of such Act (16 U.S.C. 3838c) is amended to read as follows:

(g) TECHNICAL ASSISTANCE. –

(1) PROVISION OF TECHNICAL ASSISTANCE. – For each of the fiscal years 2003 through 2013, the Secretary shall provide appropriate technical assistance to producers for the development and implementation of conservation security contracts.

(2) LIMITATION. – The amount expended to provide technical assistance with respect to a conservation security contract may not be less than 15% nor more than 20% of amounts expended for the fiscal year.

CSP and Wildlife in Missouri



10 million linear feet of native grass field borders in 6 Missouri bootheel counties

An estimated 15 million linear feet statewide

Anecdotal evidence from landowners indicates that bobwhite quail are already responding

More than 40,000 acres of cropfield reflooding primarily on rice fields

The following excerpt is from the 2007 National Wildlife Federation report 'Hidden Treasures: CSP and Wildlife'

All together, \$18.2 million, or 88% of the \$20.6 million in Conservation Security Program payments in Missouri's Spring Creek watershed, will be used for practices that provide wildlife habitat or pesticide reduction benefits.

