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AGRICULTURE: GROWING AMERICA'S ECONOMY

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY UNITED STATES SENATE

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AGRICULTURE: GROWING AMERICA'S ECONOMY

Thursday, February 17, 2011

UNITED STATES SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY,
Washington, DC

The Committee met, pursuant to notice, at 2:36 p.m., Room SR–328A, Russell Senate Office Building, Hon. Debbie Stabenow, Chairwoman of the Committee, presiding.

Present or submitting a statement: Senators Stabenow, Leahy, Harkin, Conrad, Baucus, Nelson, Brown, Casey, Klobuchar, Bennet, Gillibrand, Roberts, Johanns, Boozman, Grassley, Thune, and Hoeven.

STATEMENT OF HON. DEBBIE STABENOW, U.S. SENATOR FROM THE STATE OF MICHIGAN, CHAIRWOMAN, COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY

Chairwoman STABENOW. Well, good afternoon. I am going to call the meeting to order for the Senate Agricultural, Nutrition and Forestry Committee. We do need to conduct some business. At the point at which we have a quorum, we will stop and do that.

But I do want to indicate that it is a great honor and privilege for me to be here today as the new chair of this Committee and beginning this first hearing in the 112th Congress; and I am very proud to welcome our colleagues, new colleagues as well, to the Committee.

We are, I think, starting in a very important place which is talking about jobs and the economy. Sixteen million jobs, that is the estimate of the total number of Americans who have a jobs because of American agriculture and that is why we are here today. That is a big deal for American families.

I am very proud, as you know, to represent the State of Michigan where we know how to grow things and we know how to build things. We do that and we are very proud of it.

Agriculture presents more than 70 billion dollars for our economy each year and represents one out of four jobs in Michigan.

That is why I am very pleased and both Senator Roberts and I agreed that our first hearing should look at the impact of American agriculture on our economy, how important it is in terms of jobs because it is really a story that is not told enough and it is a story that we are going to repeat throughout this Congress.

And as I mentioned, Senator Roberts and I agreed to this because certainly he understands the importance of agriculture in

creating jobs and I am very pleased to be working with our new ranking member, my friend, Senator Roberts.

I want to thank him for being here today and representing the great State of Kansas where I know there are at least 300,000 jobs that come from agriculture.

Senator Roberts and I both served in the House. He was a great champion and chairman in the House and now serving with him in the Senate is a real honor for me as well as serving with all of you.

The Senate Agriculture Committee has always been a bipartisan Committee. That is one of the things, I think, that we all enjoy about it. We put the interests of producers and rural America in our Nation above politics that occurs around here and I look forward to continuing that tradition as we move forward in this Congress.

As I mentioned, today's hearing focuses on jobs in agriculture and rural communities. I would like to extend a warm welcome to Secretary Tom Vilsack, who will be our first witness.

I also welcome our second panel and I want to indicate I am very pleased that Keith Creagh, who is our new director of the Michigan Department of Agriculture and Rural Development, will be testifying on the second panel.

I suspect that many of you have read the same reports that I have been reading. Rarely have we seen a more positive outlook for the agricultural economy as a whole. This should come as no surprise to any of us. American farmers and ranchers produce the safest, most nutritious, and most sustainable agricultural products in the world.

We know this and the rest of the world does as well. In fact, one of the biggest success stories in our Nation's economy is the strength of our farm exports. For the second year in a row, agricultural exports have been projected to be over $100 billion.

This year we expect to see a record high of $126 billion in exports and, in fact, agriculture is among very few industries where we enjoy a trade surplus. This is really welcome news for our economy.

Here is some more good news. Our agricultural exports will support over one million jobs this year alone and these jobs are not just on the farm but towns and cities all across the country.

I know that each of our members of the Committee here today have a similar story to tell about the importance of agriculture in each of your States in terms of the economy and jobs.

As we listen to our witnesses today, let us keep those 16 million Americans in mind who are counting on us to continue to give them the opportunity to be successful.

It is now my great pleasure to yield to the distinguished ranking member, Senator Roberts, for his opening remarks.

STATEMENT OF HON. PAT ROBERTS, U.S. SENATOR FROM THE STATE OF KANSAS

Senator ROBERTS. It is a true privilege and an honor to serve as ranking member of this Committee. Basically Senator Chambliss served as the top gun on our side for the last six years; and as I

quickly note, I am on page 3 instead of page 1. I better pay homage where homage is due.

Thank you, Madam Chairwoman.

[Laughter.]

Chairwoman STABENOW. All right. It is about time.

[Laughter.]

Senator ROBERTS. This knelling business I do not know about that, but I will do my very best.

As I said before, the high road of humility is not often bothered by heavy traffic in Washington but it is a very humbly experience and an honor and a privilege. My congratulations on taking the gavel of the Agriculture Committee. I am honored to be riding shotgun with you as this Committee conducts oversight of the 2008 Farm Bill and the Dodd-Frank Act and investigates over burdensome regulations and the long-delayed trade agreements and prepares for the next Farm Bill which will happen to be my seventh. That is a lot of Farm Bills.

Kansas and Michigan have much in common in regards to the crops we grow. We both have wheat, corn, and soybeans producers; and you do have something called specialty crops, big time.

Additionally, I look forward to learning about the diversity you all have in production, crops like asparagus and berries. I even like asparagus. I understand you all have tasty wine in Michigan too. So when the hour is late and we have any difficulty, why, maybe you could break that out.

Michigan has over 19 million acres of forest land. That is a lot of forest land. Kansas, I am talking about western Kansas, west of Highway 81, we have 19 trees.

[Laughter.]

Senator ROBERTS. And we call them invasive species.

[Laughter.]

Senator ROBERTS. Now, back to my original page.

It is a true privilege and honor to serve as Ranking Member. Senator Chambliss served as the top gun on our side for the last six years. He is taking on yeoman work as the Ranking Member of the Intelligence Committee. I want to thank Saxby for his tireless leadership, especially during the 2008 Farm Bill.

I could go down the line of former chairmen and ranking members who continue to serve this committee, Senators Lugar, Cochran, Leahy, and Harkin, and our former Secretary of Agriculture, Senator Johanns.

I feel compelled also to pay homage to Mr. Conrad, who has played a very key role in every Farm Bill that I have been involved with.

The unprecedented depth of knowledge and experience on this Committee this time around, I think it will serve all of agriculture and rural America well.

I also welcome two new members to the committee, Senator Hoeven from North Dakota and Senator Boozman from Arkansas. The Agriculture Committee is not often the first choice for new members but we are fortunate to have your enthusiasm and expertise on board, and you made a wise choice.

You will find that this Committee is a bit different than others in that you will work just as much with members from the other side of the table as this side. In my

experience with agriculture, I found that this Committee on more occasions than not is a fine example of bipartisanship and comity.

Those are not just words. That is what we have to do. We must work together because too often agriculture programs become the target of criticism and attacks. We have already seen that.

Our farmers and ranchers do produce the safest, most abundant, and affordable food and fiber supply in the world, all while facing increased input costs and tightening regulations. That quote has been said virtually by everybody on the Committee and by Tom Harkin at least 17 times, 18 times.

As if these challenges were not enough, our producers face a challenge of worldwide significance. Let me remind all members that as the global population of the world tops nine billion, probably 9.3 billion in the next several decades, agriculture production most then double to meet the expected demand for food and nutrition.

That to me is the key issue that we must face and it is a moral issue and it is an issue of national security and it is an issue of world stability and all you have to do is look at the conflagration going around the world today with many people suffering from malnutrition and starvation and I think you can get the message.

So as Ranking Member, I am going to work to ensure that our producers have the tools and the necessary protection to meet this challenge. Why would we do anything given that imperative that would be harmful to the men and women whose job it is to feed this country in a troubled and hungry world.

So I really think we have to bear down and really do our oversight and do our homework to make sure that does not happen.

Today's hearing focuses on agriculture's contribution to our national economy. I appreciate our witnesses that are providing their perspective.

Mr. Secretary, welcome back to the Committee. I understand this is round two for you today. I think you were over on the House side. I hope our friends on the other side of the Hill treated you well. You do not look any worse for wear. You look fine, sir.

I also thank Mr. Hoenig from the Kansas City Federal Reserve for testifying on our second panel. I will have more to say about him later. If those of you can stay to hear Tom, I would encourage you to do that. If there is a story written about somebody on the Fed who has a profile in courage it would be Tom Hoenig.

This afternoon we will hear many positives about the current state of agriculture. As everybody knows, our prices are up to historical levels. The sun is shining, well, maybe not Kansas but the sun is shining, usually a good thing.

But any farmer in Kansas or Michigan or Iowa or even Vermont who has spent more than two weeks in the field can tell you that prices can change just as quickly as the weather. We on the authorizing committee must be mindful of that fact, especially as we move into future debates on the safety net.

Madam Chairwoman, I thank you for calling this hearing. I look forward not only to hearing what our panels have to say today but

also to working with you to drive agriculture policy in the 112th Congress.

I thank you, ma'am.

Chairwoman STABENOW. Thank you very much, Senator Roberts.

And just to follow up on one thing that you said, I think this really is an extraordinary Committee when I look around at the expertise on this Committee. The chairman on other Committees, former chairman, this really is an opportunity I think in this Congress for us to really lead and provide expertise as it relates to developing a Farm Bill that really works for all of agriculture and for the country.

Senator Leahy, you wanted 30 seconds for a moment here.

Senator LEAHY. Very briefly. Just to congratulate you, Madam Chairwoman, in being here. This Committee was my first choice when I came here 37 years ago. I have served on it during that time. I have been chair. I had been ranking.

I am delighted you are here because I know how hard you worked to put together bipartisan coalitions. It is what is needed.

Senator Roberts is absolutely correct when he said he is also I think probably the only person who served both as House chairman and now as Senate ranking member. He and I have worked very close together.

You are absolutely right, Pat, in what you say that we work across party lines for the good of agriculture. So I am just delighted to see both of you in this leadership role. I think the Senate is fortunate.

Senator HARKIN. Would the Senator yield just for 30 seconds?

Chairwoman STABENOW. Senator Harkin.

Senator HARKIN. Thank you, Madam Chair.

I also want to congratulate you and commend you for taking his position but I just wanted to add one other thing and, of course, I always congratulate, Pat, my good friend——

Senator LEAHY. That Pat.

Senator HARKIN. That Pat over there and this one here too.

But I would not let this moment go by without pointing out that our new chair is the only person who has served on both her State House Agriculture Committee, her State Senate Agriculture Committee, the House Agriculture Committee, and

the United States Senate Agriculture Committee, the only one who has ever done that.

Congratulations.

Chairwoman STABENOW. Thank you, Tom, very much.

We do have a quorum now. We do have some business to conduct before proceeding with our witnesses. So thank you very much for those kind comments.

[Whereupon, at 2:49 p.m., the Committee proceeded to Executive Session, and resumed at 2:50 p.m.]

Chairwoman STABENOW. So let us move on to our two excellent panels today. In the interest of time, I am going to ask that members' opening statements be submitted for the record as would be normal practice for the Committee and, of course, we recognize members in order of their appearance alternating sides.

So welcome, Mr. Secretary, to the Committee. We want to thank you very much for your testimony and for your leadership.

Your written testimony will be submitted for the record, and we would ask that you provided us with, five minutes with your comments before opening for questions.

STATEMENT OF THE HON. TOM VILSACK, SECRETARY, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, DC

Secretary VILSACK. Thank you, Madam Chair, and to the members of the Committee, I want to thank you for the opportunity and the invitation to discuss recent developments and prospects for the farm economy.

As we enter 2011, the farm economy continues to remain strong with U.S. agricultural exports, farm cash receipts and net farm income projected at or above previous record levels. Farm household debt levels appear to have stabilized despite increasing land values. While prospects generally look bright, recent sharp increases in prices for major crops are generating a range of concerns. My written statement describes the prospects and recent developments in output and input markets and the challenges and opportunities they present for U.S. agriculture.

So I am going to take the short time I have this afternoon to touch on a few broad trends.

As you may know, recent data tells us that U.S. farm exports reached an all-time high in calendar year 2010. We saw a rise both in the value and volume of U.S. agricultural exports worldwide supported by foreign economic growth. Particularly in developing countries U.S. agricultural exports are again expected to be at a record high this fiscal year, up to $18 billion from fiscal year 2010, with an agricultural trade balance that is forecast to be a record of $41 billion.

While we are pleased with these record numbers, we remain focused on continuing to open and to improve markets for our producers. We know that every one billion dollars in agricultural exports helps to support 8000 jobs, and we want agriculture to continue to play a leading role in the President's national export initiative in helping to reach the goal of doubling exports over the next five years.

The other big trend in exports is the increased importance of China and the Chinese market. The trade numbers just published showed that for the calendar year 2010 China was our number one export market, edging out Canada and accounting for 15.1 percent of exports.

Cash receipts and cash production expenses for producers are forecast to reach record levels in 2011, $341 billion in cash receipts, $274 billion in production expenses.

Importantly, receipts are rising faster than expenses so net cash farm income is forecast at a nominal record of $99 billion this year, up $7 billion from last year and nearly $30 billion from 2009.

After adjusting for inflation, this year and last year should be two of the highest income years producers have had since 1976. These are good times for American agriculture. But while all of agriculture experienced a robust recovery in 2010 and 2011, as forecast, expenses are increasing especially prices of farm inputs like livestock and feed, the price of energy, and operating costs.

The livestock and dairy industries could face some financial pressure in 2011 and bear watching. At the same time, many small and mid-sized operations have continued to struggle to earn substantial on-farm income. We need to be aware of this reality and ensure that our work to expand domestic markets in particular helps them succeed.

As we discuss the safety net, we should also make sure that maintaining a strong safety net for producers who need it most. On the whole, we are optimistic. The balance sheet of U.S. agriculture should continue to strengthen again in 2011; and consistent with recent trends, increases in debt are forecast to be offset by the larger increases in farm asset values.

What is astonishing is that in two years the farm economy has rebuilt the equity lost in 2009, and in 2011 the farm sector's debt to asset ratio should drop even further below last year's 11.3 percent.

Our Nation's farmers and ranchers should be celebrated for this achievement. Their careful management of debt has played an important role in helping make them a key component of a strong and quick rebound from financial crisis.

Commercial banks across the country say loans are available although standards are tight, and farmers are increasingly paying them back on time. Exceptions include regions dominated by livestock, milk, and poultry production.

Last year, despite low interest rates, there was lower demand for farm loans than in previous years. At the same time, capital spending was up, probably financed with cash or non-bank credit. We hope to see this trend continue especially as result of the bipartisan tax deal reached in December which provides for 100 percent expensing of business investments like tractors and combines.

Farm real estate value rose by an estimated 3 percent in 2010 to a record $1.8 trillion. We expect this trend to continue. While this benefits existing land owners, high farm real estate values make it difficult for individuals who may wish to enter farming and increases operating expenses for individuals who rent farmland.

I hope that moving forward we can work to confront this issue and others as we look to grow the next generations of farmers, ranchers, and producers. This may mean a solution based on sweat equity or another way to provide credit to those who wish to farm in this country.

But for the good of our environment, the quality of life we all enjoy, the relatively low cost of food and for the American economy as a whole, we must keep farmland as farmland and farmers on the farms.

To conclude, as we enter 2011, the U.S. farm economy is coming off unprecedented increases in U.S. ag exports, farm cash receipts, farm income, and asset values the past few years.

We are helping to lead the recovery from the worst economic collapse since the Great Depression. Prospects for the coming year generally look bright. More normal weather and production increases worldwide should lead to improved supply demand balance in key markets such as wheat, corn, and soybean.

With biofuel demand expected to continue growing, although at a slower pace in the future, a big challenge will be responding to

that demand by developing new feed stocks, producing on more acres, and producing more per acre while protecting the environment.

I have the utmost confidence, as I know this Committee does as well, that our farmers and ranchers along with the assistance of USDA will be able to meet those challenges.

With that, I will be happy to answer questions.

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

Chairwoman STABENOW. Well, thank you very much, Mr. Secretary. I know we all have questions. I mentioned in my opening statement that one out of four people in Michigan are working because of agriculture, and I am sure everybody on the Committee has a similar story. Even though the number of farmers are in decline, agriculture has had a tremendous impact on the overall economy. As we look down the road, can you tell the Committee where you expect to see continued growth?

Secretary VILSACK. I would expect to continue to see growth, as I indicated, in exports. There is a strong demand. The world economy is improving. Expanding middle classes in China and India and other developing countries, I think suggest a good opportunity for us.

I think we are also focusing on increasing our commitment to trade missions, to displays, to exhibits of our products, and also to reducing barriers. A major emphasis has got to be on reducing the barriers that exist to many of our products, specifically beef in China, Japan, Taiwan.

One of the problems and one of the challenges will be to make sure that we understand and appreciate the differences between small, medium-size, and large-scale farming operations.

While there was a decline in the medium- and large commercial-sized operations over the last five years, there was a significant increase in the small-sized operations.

And in order to repopulate rural America and create economic opportunity, it is my judgment that our Department needs to be focused on all aspects of agriculture and as diverse an agriculture as we possibly can have to provide as many options and opportunities as we can if we are to stabilize the rural economy generally.

Chairwoman STABENOW. We have a lot of good news to talk about in agriculture but I do not want to just look through rose-colored glasses when we look at the future for agriculture.

And I know that, I hear a lot from my growers about input costs, largely feed, fuel, fertilizer. When we are looking at their future, do you expect trends to continue when we are looking at potential implications of rising input costs for our growers and what does that mean in your judgment in the near-term as well as the long-term?

Secretary VILSACK. Well, obviously there are concerns on the energy side. When oil prices go up, there is obviously an impact in farm country. So it is something we are concerned about, and we are concerned about it in terms of sector specific.

Obviously it impacts and affects livestock operations. It can also impact and affect dairy. We are concerned about the strength of our industry. It has rebounded from a very difficult 2009, and we

are cautiously optimistic for 2011. But we know that the next downturn is right around the corner.

That is one of the reasons why we are focused on addressing perhaps a more comprehensive approach to the dairy industry. They discussed this at length in the House hearing. We have a report due from our Dairy Council in the first part of March. Our hope is that there is a consensus being developed within the dairy industry that we can address this very quickly because otherwise I think we are going to be confronted with the circumstances we saw in 2009 with peaks and valleys that occur far too often.

Chairwoman STABENOW. If you could speak a little bit more in terms of the peaks and valleys or the boom and bust. I mean, some would argue that the current success in the farm economy is due slowly to strong markets and favorable exchange rates which certainly have played a role. But we do have a boom and bust. And do you not think we need to invest in emerging technologies and markets like bioenergy and bioproducts in order to make the farm economy more resilient?

Could you speak about that?

Secretary VILSACK. There is no question in my view that you need to diversify options and you need to maximize opportunities on the farm. To the extent that you can convert waste product to fuel and energy, that is something we should encourage.

We have roughly 50 anaerobic digester projects ongoing with the Dairy Council and dairymen across the country in an effort to convert manure into power, into energy.

We just recently announced 68 feasibility studies through the REAP program to take a look at alternative ways in which we could use new feed stocks to produce renewable energy and biofuels. All of that adds value, creates new economic opportunity, and also will help to create jobs.

If we could reach the 36 billion gallon threshold that Congress has set for us in terms of renewable fuel, it would mean up to a million jobs in rural America and $100 billion of capital investment.

You know, that is the type of opportunity that we need to look at. We need to expand broadband. We need to look at regional local food systems. We need to do a better job of linking economic opportunity from conservation in terms of outdoor recreation as the President announced yesterday. All of that has to be part of an overall strategy to try to rebuild the rural economy and to try to provide opportunities for farmers and ranchers.

Chairwoman STABENOW. Thank you very much.

Senator ROBERTS.

Senator ROBERTS. Mr. Secretary, thank you again for coming and I am going to go where wise men never go.

As I have said before, over the next several decades the world population is going to go somewhere between 9 to 9.3 billion people. Estimates are that we are going to need about twice as much food as we are currently producing. All of us have been concerned on this Committee regarding our ability to produce a stable feed and fiber supply.

Now, here comes a curve ball. As you know, about 10 percent of the farms with revenues above $250,000 a year are responsible for

about 80 percent of the agriculture output. So as we reach the limits in terms of planted acres, it seems certain to me we are going to need these folks more than ever.

The relatively small number of farmers who produce the vast majority of our crops, they are either going to have to grow more with what they have or even less. Consequently, I have always thought our farm policy should be agnostic in terms of size.

I can remember the great Tim Penny/Pat Roberts debates, and I think you were present on the Committee at that time, Tom. Tim always was the champion of the small family farmer.

I indicated one time that a small family farmer was somebody five foot two in Minnesota, as opposed to the large family farmer which I thought was somebody six foot two who played linebacker previously for the University of Nebraska on the western plains.

An acre of wheat, soybeans, or corn does not produce more or less depending on the size of the farm, and lots of folks today like to pick on or at least think that would be a good target for budget savings. It is a paradox of enormous irony it seems to me.

So when a natural disaster hits and impacts production either through low prices or yields, my question is what should our approach be farm policy-wise to these 10 percent of producers who are deemed too large for one reason or another? What kind of economic conditions do we need to ensure for them to be successful in meeting the future demand?

Secretary VILSACK. I think we have several responsibilities to the large scale commercial operations, Senator. I think, first and foremost, we need to figure out ways in which we can help them be as productive as possible.

That is one of reasons why our research component focuses on livestock production as well as protection and why we are also engaged in crop production and protection. I am not convinced that we have maximized the capacity of our land to produce.

I think we need to take a look at whether or not there are places in the United States that could potentially be more productive than they have been. I do not know that necessarily there are many places but there are some that can double-crop effectively. That may not be. That is something we should look at. So research and development is one aspect.

Secondly, I think we have got to be very aggressive in our efforts to export our supply. That is one of the reasons why our commercial operations are doing well financially. We need to continue to do that, and there needs to be a concerted effort to reduce barriers, to have free trade agreements approved, to look at multi-lateral trade arrangements, and I think we are focused on that.

I think we do need a safety net. I think the question which was posed to me or was posed by Bob Stallman to the Farm Bureau convention in Atlanta was well put when he asked, do we need a safety net system that provides a small amount of money every year regardless of the quality of the year or do we need a safety net that provides the assistance and help when it is needed the most in an amount that actually will make a difference.

I think that is a really good question, and I think it is one that we should be asking. I do not know that I have the answer today, but I think it is an appropriate question, and I think our capacity

to expand risk management options which we are doing I think is one way of addressing that issue.

So I think there are a multitude of things that we have to do and I think we have to recognize that science is going to play a significant role in all of this, and we have to facilitate that science.

And that gets us into when you say where no wise man wants to go, from a person who has tried to make the right set of decisions, and I think former Secretary Johanns knows about this as well. It is interesting that when you make one decision on one crop you get sued by one group and you make a similar set of decisions on another crop and you get sued by the other group.

So we must be doing something right if we are getting sued by everybody. But this is a conversation I think we have to have as well.

Senator ROBERTS. We have about 30 seconds left in my time. I know you mentioned several challenges that we face. What keeps you up at night? What is the biggest thing that you worry about? You know, we talk about the safety net. We talk about exports. We talk about trade agreements. We talk about price volatility, et cetera, et cetera.

In your current role as Secretary of Agriculture, what keeps you up at night?

Secretary VILSACK. Two things that concern me most are access to credit and capital in rural America and whether or not we are actually going to have a generation of farmers to replace those who are now averaging 57 years of age. Thirty percent of our farmers are over 65. The fastest growing segment of our farmers over 75. That is a problem we also need to address.

Hopefully, the 2012 Farm Bill will build on the steps that you have taken before.

Senator ROBERTS. Mr. Secretary, that is a very good answer.

Chairwoman STABENOW. Thank you.

Senator Nelson and then Senator Johanns.

Senator NELSON. Thank you, Madam Chairwoman.

Secretary Vilsack, it is good to see you again. We appreciate your being here.

In both your written testimony and the economic research services recent series of reports provide a very in-depth look at the current state of U.S. and global agriculture along with what is obviously an interesting overview of the future potential and challenges that farmers and ranchers will face in the coming years, and you have been very forthright with us in your expectations.

As we are looking at agriculture today and looking at the world, we are beginning to see some of the challenges as global food prices continue to rise.

We have both spoken at length on the importance of research in meeting these challenges to agriculture. The need to feed this growing world population that my colleague from Kansas has so eloquently pointed out with more limited inputs, the health aspects of food production, environmental considerations, and the need to produce biofuels.

Now, it seems unfortunate that the ARS and the NIFA budgets are basically flat, if not decreasing slightly, while we are increasing

research budgets in other agencies by as much as 16 percent for NSF and 18 percent for DOE.

In view of these challenges and the steps that you have pointed out, what can the Department do to ensure that we continue to get the level of research necessary to answer the questions that are there as well as the questions that will continue to develop along the way.

Secretary VILSACK. Senator, I think we are challenged to make sure that our research is focused on issues that matters. We have identified, I think, four or five key areas where there needs to be additional research. I mentioned two of them earlier.

You have mentioned the issue of energy. That is certainly one of them. The issue of global food security is also another area that we are focusing on.

So, number one, focusing the research dollars that we have, and then secondly, doing a better job of leveraging those resources. Our view is that if we are engaged in a competitive grant process which we are under the National Institute of Food and Agriculture that we can leverage our resources more effectively and get more bang for the limited dollars.

We recognize, and I think you all do as well, we have got to get our fiscal house in order and you have got to make tough choices. While it may seem that we have made a choice that you may not necessarily totally agree with, the fact that we are flatlined in this environment does reflect, I think, to a certain extent that it is a priority and we will continue to search for ways to stretch those dollars.

Senator NELSON. What about water resources in particular? A State like Nebraska is constantly challenged on having enough water resources spread across the State.

Is there anything being done to try to figure out the most effective way of dealing with our limited water resources? And it is not limited to Nebraska. This could be true of the southeast when they encounter drought as well.

Secretary VILSACK. I would say there are a couple of things. I mean, first of all, we are working on improved irrigation systems and processes by which we use scarce water resources more effectively.

That has implications not only domestically but also internationally. We are actually doing some interesting work in Afghanistan in that area as well.

Secondly, we continue to focus on how we can better manage our forests in both private, state, and national forests because they act as a natural reservoir. If we do a better job of maintaining our forests, then we may have a better opportunity to use that natural reservoir more effectively to control water flow.

Then obviously we are working with farmers to develop the science that will actually result in us being able to grow crops in more adverse weather conditions and circumstances. In other words, using less water, less pesticides and chemicals. That is part of the scientific opportunities that we are engaged in terms of crop production and productivity.

Senator NELSON. Do you think that the research dollars that are in the budget are sufficient for that kind of research to continue aggressively?

Secretary VILSACK. Senator, that is a difficult question to answer because every person's definition of reasonable and necessary is different. I would say that we have done a good job of trying to balance all of these important competing interests.

Senator NELSON. Finally, my time is about to run out. I want to commend you and your staff for the hard work of dealing with the Roundup ready sugar beets which you responded to that challenge. It would certainly embrace western Nebraska as well as eastern Wyoming and Colorado, and I believe North Dakota as well, and the Minnesota as long as I am naming a few states.

So thank you very much for that work and please pass the message along to your staff.

Secretary VILSACK. Thank you, sir.

Chairwoman STABENOW. Thank you.

Senator JOHANNS.

Senator JOHANNS. Mr. Secretary, good to see you again. One observation and then a couple of questions.

One of the frustrations for me, and I know for you and I think for every person who has served as ag secretary in recent years has been market conditions relative to U.S. beef. I just wanted to put on the record again today that the situation specifically with Japan is not yet solved.

These folks are impossible from my vantage point. This has been going on now for years and years. We are still dealing with the standard of 20 months, and I am not blaming you because I worked on this too. We just do not seem to be making progress with them. I hope you can convince me otherwise but it just seems like we are just not getting anywhere.

Offer your thoughts on that.

Secretary VILSACK. Senator, I would certainly agree with you that it is a very frustrating process. When you are dealing with issues involving BSE and the host country Japan has a greater number of BSE from their own domestic livestock than we have ever had, it is an interesting conversation.

Having said that, part of the challenge for us recently has been about the lack of consistency in people we are dealing with in Japan. We have had three ag administers since I have been the Secretary of Agriculture which has made it a little bit difficult.

But we have been engaged in serious conversations. Jim Miller is here and I think he can attest to, when he was working at USDA, he spent a good deal of time just recently in Japan.

You know, we are moving towards a place where I think we can get to yes. It is slow. It is difficult. It is somewhat complicated by the relationship that Japan and Korea and China and that area of the world have relative to beef.

No one wants to create a situation where someone who has treated us well believe that they are getting worse of a deal or less of a deal that we are giving someone else.

So it is a matter of trying to balance all of this, but I am confident that we can get there. You know, I think it is important for us to get the free trade agreement in Korea, get that through the

process, put that behind us, if you will. And then I think perhaps that offers a new momentum for beef.

But I share with you your frustration.

Senator JOHANNS. I mentioned it as much today to send a message to the Japanese yet again that we have not forgotten, that it really, really is time to step up to the plate and solve this problem.

I would have said exactly what you said six years ago and I am guessing Ann Venneman would have said the same thing before me. It just goes on and on, I mean it is just year after year after year. But I appreciate your efforts, whatever we can do to support that, and we will keep pressing.

Let me, if I might, focus now on another issue. I look at the USDA numbers and one thing, of course, that has caught everybody's attention is the carryover numbers for corn which are historically low, virtually no carryover, barely enough, probably not even enough to keep the pipeline going.

I look at drought in China and that creates a further upward pressure and I guess if you are on the selling end of this, this is a remarkable time.

At the elevator, you are seeing corn prices around $7. But on the other hand, as you know, there are people on the buying end of that, whether it is the ethanol industry, whether it is the meat industry or whatever.

Then the other piece that is going on this time of year, actually a little before this, is the competition between corn and soybeans.

I would like to hear your thoughts about this. Where do you think we are headed here and, you know, what would happen if we have a tough weather cycle here as we go into this crop season?

Secretary VILSACK. Well, that obviously would put, just to answer the last question first, it would obviously put more stress on a situation that we are keeping an eye on.

We are projecting increased plantings of 3 to 5 percent in corn which may alleviate some of the concerns you have on the supply side.

In the longer term, in talking with officials with seed companies, they are convinced, and I believe that they are accurate about this, that we have not yet maxed out in terms of the capacity to use science to increase productivity.

I think in our lifetime, you know, a hundred bushels to the acre, 200 bushels to the acre, we are sort of at the goal posts and now it is 300 bushels to the acre that is happening more routinely.

They honestly believe that they can get to 400 bushels an acre in the not-too-distant future. So that is one issue.

On the international issue, I think what we in the United States need to do is to continue to work with other countries to get them to have a greater willingness to accept the science, to understand there are advanced ways of producing agricultural products so that we take some of the pressure off globally.

I mean, you and I together, when we were governors started the biotech coalition, I think we recognized that there was not the acceptance of that overseas, and we are still faced with that today. We need to continue to work in that area.

Senator JOHANNS. I will just wrap up by comments, Madam Chair, by saying I agree with your thoughts about technology; but

one of the points that needs to be recognized is it used to take about 140 days, 120 days to get through the process. Now it is taking upwards of 1200 days to get through the process. So it is a solution but.

Secretary VILSACK. If I might, Madam Chair.

Chairwoman STABENOW. Yes, you may take a moment.

Secretary VILSACK. A very good point, and I would say two things. One, we have instructed APHIS to go through a process improvement program to try to see if there is a way in which we could reduce the amount of time.

Two, there are greater numbers and greater complexity of applications and petitions that are being submitted so that makes it a little bit more difficult.

Three, oftentimes there are lawsuits in-between, as you well know, that slow the process down which is why I think it is important for us to at least engage folks in a conversation in this country about science to see if we can energize the middle, the rational middle on these issues in the way of perhaps limiting or at least giving courts multiple options so that they do not basically enjoin activity for an extended periods of time.

Chairwoman STABENOW. Certainly, that is something that is a challenge for us in the Committee, and we want to work with you on as well as look at bringing people together.

Senator Klobuchar and then Senator Hoeven.

Senator KLOBUCHAR. Thank you very much, Madam Chair. Congratulations on your chairmanship as well as Senator Roberts, and welcome, Secretary Vilsack.

I was teasing my friend, Senator Nelson over here, that, in fact, Minnesota is first in sugar beats as well as turkey production. And as you know, being from Iowa, we are also in the top five for corn, canola, soybeans, and in my personal favorite, honey.

Secretary VILSACK. You say corn?

Senator KLOBUCHAR. Yes, in the top five.

Secretary VILSACK. Top five, okay.

Senator KLOBUCHAR. I was not going to get into a fight with Iowa over corn.

Secretary VILSACK. You are not going to win that one.

Senator KLOBUCHAR. No. I know.

So anyway, we care a lot about all the issues you have raised and I would say that you have identified the challenges that I heard around our State with the input cost, with what call the red tape issues, and I want to thank you.

Senator Johanns and I co-chair by the Biotech Caucus in the Senate, and thank you for the work you did, not just with what Senator Nelson mentioned but also with the Roundup ready alfalfa issue, and some of the other things in moving some of these things along.

But we continue to hear concerns about the EPA treating it as if it were considered an oil product or the discussions about regulating dust from farm driveways, and I think that we need a little common sense not only with the court process but with the EPA rules.

The third thing which you mentioned which I think is really important not just in the ag world but to our country is the export issue, and two things.

One, could you talk a little bit about Cuba? I have worked with Colin Peterson in trying to open up some of those pockets, and secondly, of the funding for the market access program at USDA and why you think that is so important.

Secretary VILSACK. First of all, on the EPA, if I might, we are working very hard with Administrator Jackson to develop an ongoing conversation relationship so that we have a good idea of what is being discussed and thought about and allow us to weigh in on the impact it may have on agriculture.

Senator KLOBUCHAR. I think that would be helpful. Senator Lugar and I have a bill trying to get people that look at those rules to have an ag background. But that would be very helpful.

Secretary VILSACK. We have ongoing conversations with her ag liaison, Larry Elsworth. So that is number one.

Number two, on Cuba, interestingly, we are seeing actually a slight decline in ag trade with Cuba. Having said that, this obviously is an opportunity for us if we can do it consistently. With the value system that is important in this country and given the complexity of our relationship with Cuba, we look forward to that activity.

On MAP, every dollar that we invest in export assistance has generated about $35 in export activity. You know, I suspected that if we got a 35 to 1 ratio return on investment for every dollar we invested in this place, it would be much easier to do your jobs than it is today.

MAP is an important component. It by no means is the only component. The relationship we have with our cooperators is important. The work of the foreign ag service in terms of their relationships, all of this is important, and we have to focus on continually reducing barriers.

Senator Johanns' question is a prime example of the ongoing challenges we have as countries create barriers and make it very difficult to remove them.

Senator KLOBUCHAR. Two questions with regard to ethanol. I was pleased with the EPA decision on E–15 but I wondering if there is anything USDA can do to help encourage state governments to ensure that gets through the regulatory process.

Then, secondly, Senator Johnson and I are working on a bill that would include a new more cost-effective producer credit for biodiesel and ethanol to replace existing tax credits and I do not know if you are familiar with that. But I wondered if you thought that would be more helpful to look at it as more cost-effective than have the tax credits go more to the producers than just the blenders.

Secretary VILSACK. I think it is a good discussion to have about how best to incent a maturing industry. We saw what happened when the biodiesel credit was prematurely ended and allowed to lapse. We lost 50 percent of our production capacity and 12,000 jobs.

I think that there needs to be some attention to the infrastructure on the supply side, making it easier and more convenient for consumers to get ethanol, and I think we need to look at ways in

which we might be able to incent our auto manufacturing companies to spend under 150 bucks to make every car a flexible fuel vehicle or to work with them to figure out what we could help them make that happen.

I understand they are under a lot of challenges but that is a discussion we ought to have. If we can produce greater demand and we produce more convenient supply, then I think this industry will take off.

At the same time, we also have to identify additional feed stocks, and we need to do what we are doing at USDA to accelerate research to try to figure out what works besides corn so that this is an industry that has its presence in all parts of the country, because if we get to 36 billion gallons it is a million jobs in rural America. It is a hundred billion dollars of capital investment and both of those are sorely needed in rural areas.

Senator KLOBUCHAR. Thank you. I can ask a question in writing about the milk program. I have appreciated your help with a really difficult subject there. That is probably the number one concern that we have heard in our State, and we look forward to working with you on the next Farm Bill about what changes we can make to make that a better program.

Secretary VILSACK. May I?

Chairwoman STABENOW. Yes.

Secretary VILSACK. You are talking milk?

Senator KLOBUCHAR. Yes.

Secretary VILSACK. We are actually going to suggest, the Daily Council is going to come out with its report next month, and we honestly think that is something you might want to consider taking up even before you get into the 2012 Farm Bill because there is energy and passion and somewhat of a consensus being developed around the entire dairy industry to sort of see if we can get better price stability and less volatility.

Senator KLOBUCHAR. Thank you.

Chairwoman STABENOW. Thank you very much.

Senator Hoeven, before your questioning, let me just welcome you again to the Committee along with Senator Boozman.

As you may have just heard with the exchange between Senator Klobuchar and the Secretary our competition here is not between Democrats and Republicans. It is what crops you produce. This is a significant competition on the Committee. So we are very pleased to have you and welcome.

Senator HOEVEN. Thank you, Madam Chairman. I look forward to working with you, also to our ranking member, Senator Roberts.

It is good to be part of this Committee and, of course, have people I have worked with for many years as a governor on two previous ag bills and certainly looked forward now to working on all the things that come before the Agricultural Committee and certainly the next Farm Bill.

And you are right. It does come down to who produces what and how much. Along those lines, I do need to mention that North Dakota is the number one producer of 14 different major commodities among all 50 states, things like oats. I just jotted down a few. Oats, barley, spring wheat, durum, sunflowers, pulse crops which is peas,

beans, and lentils. You mentioned honey. So I will mention we are number one in honey.

Senator KLOBUCHAR. But not turkey.

Senator HOEVEN. Not turkey.

[Laughter.]

Senator HOEVEN. And we share a wonderful border with Minnesota where we grow many sugar beets and share many common interests, not to mention corn, soybeans, and many other crops.

It is good to see you, Mr. Secretary. Thank you for your many visits to our State. We appreciate it. I also want to mention the last time you were there I think it was either that day or the next day that we loaded Angus and Hereford cattle on a 747 and exported them to Kazakhstan which just goes to some of the exciting things that happen in agriculture that people do not think about food, fuel, and fiber technologies playing a tremendous role. Our producers are obviously the best in the world.

And, you know, good farm policy is important for rural America. It is important for farmers and ranchers but it benefits every single American and people throughout the world because we have the lowest cost, highest quality food supply in the history of the world thanks to our producers.

So when we talk about good ag policy, it affects everyone, and I just want to start by getting some of your thoughts on, you know, as we enter writing a new Farm Bill your priority, and specifically if you would talk a little bit about the safety net.

We have a counter cyclical safety net composed of three parts, the counter cyclical payment, direct payment, and crop insurance. I think it is very important for our producers. And if you would just touch on that little bit and your priorities as you go forward.

Secretary VILSACK. Well, the Farm Bill is an extraordinarily complex document that involves really all of rural America and, you know, at the end of the day my goal is to try to revitalize the rural economy, and obviously you start with a strong agricultural economy, and that means continued investment in research as we talked about before.

It involves the continued export assistance. It involves ways in which we can promote American products. You point out that we are blessed. A recent study shows that roughly 6 to 7 percent of our paycheck goes for food. That is substantially less than it is in other parts of the world which means that Americans have greater flexibility with their paycheck than the rest of the world, and they should thank a farmer and a rancher for the privilege.

As far as the safety net is concerned, there is no disagreement that we need a safety net. I think what we have to understand is how different farming is and different groups of farmers. We described it in a recent ERS study of basically three groups.

We have got residential farming which are really small operations that frankly these folks are not really farmers, you know, in the traditional sense. They are people who work off the farm and live in rural areas that have a small acreage and sell a very small amount, maybe less than $10,000. There are 1.3 million people in that category. They are important to encourage because they help populate rural communities. They help support rural communities.

Then there are roughly 5- to 600,000 that are in what is referred to as intermediate-sized operations, less than $250,000 in sales. These folks make up a good hardy group of folks, hard working folks. They do not make much, if anything, from their farming operation.

In a state and in a time when we saw farm income go up 34 percent last year, these folks will be lucky if they average $10,000.

So when we talk about safety nets and we talk about direct payments and we talk about programs like that, that group really does, in fact, seriously need assistance and help, and they need off-farm income.

So rural development becomes extremely important for them to be able to keep the farm. That is really part of the safety net, an off-farm job for them.

Then you have got commercial-sized operations, more than $250,000 in sales. They are doing pretty well in this better economy. They are the ones that export. They are the ones who generate most of the food and they obviously are important.

I think the question is at what level do we, in fiscally constrained times, at what level do we provide assistance and when do we provided it. Do we provide small amounts over a period of each and every year regardless of how well the year is or do we help those folks out at a time when they are desperately in need.

There is a fourth component to the safety net that we have put in place in the 2008 Farm Bill that needs to be worked on, and that is the disaster assistance.

You have got crop insurance. You have got the payments. You know, you have got the counter cyclical stuff but you also have a disaster assistance.

And in the past it has been ad hoc. We made an effort to try to systematize it with the SURE program and some of the livestock programs. They work well for some crops but they do not work so well for other crops.

And I think one of the challenges is can we figure out how to do those systematic disaster programs in a way that is beneficial to all the crops otherwise you are going to continue to have ad hoc disaster which I think we are trying to move away from.

The last thing I would say is I think that there really needs to be a conversation about risk management. You know, as you know, we have made a suggestion which is not necessarily agreed upon by everybody on this Committee to take a look at those direct payments and figure out if there is a way in which someone who is making a half a million dollars in farm income or $250,000 in non-farm income, do they really need a payment. If so, what should that payment be, and is there a way in which we can use risk management more effectively and in a more cost-efficient way to provide the kind of support folks need when they really need it.

I think these are all questions that we are going to have to work on together.

Chairwoman STABENOW. Thank you very much.

Senator BENNET.

Senator BENNET. Madam Chair, congratulations to you and the ranking member. I enjoy serving on this Committee so much because of the bipartisan work that gets done here. Every time I am

here it feels like a refuge from a lot of the partisan work that goes on in the Senate. So I look forward to supporting both you and the work in front of us.

Mr. Secretary, I want to say thank you to you for coming by my office earlier this week to meet with me and Senator Udall on the continuing problem of the bark beatle in Colorado. I will not take time here except to say thank you for your efforts, to remind you again of how important it is for us to address this issue for the health of our forests, the health of our watershed, not just ours in Colorado but in the Rocky Mountain region.

I wanted to raise one other issue that is important to Colorado before I get into some other line of questioning and that is the inability of our potato producers to sell into Mexico. I wonder if you might give us an update about where those discussions stand. I know you have been trying.

Secretary VILSACK. I traveled down into Mexico in December of last year and met with Secretary Mayorga to talk about a variety of issues, and potatoes was one of them.

What we agreed to do was to have our teams essentially meet to see if there was a way in which we could, in a sense, mediate this 26 kilometer barrier that were trying to tear down. He expressed a willingness to do this and there have been meetings, two meetings have taken place since our meeting, and our hope is that this process results in a more favorable treatment of our potato growers.

Senator BENNET. I hope you can keep us posted on that and let us know here what we could do to help your efforts there. Sometimes we forget the discussion on Asia of how important Mexico is to us.

Secretary VILSACK. Our number three trading partner.

Senator BENNET. Right, exactly.

The second area I wanted to ask you about, in many ways really good things are happening. As you were saying, the prices are high, the de-levering that is going on among our producers is really substantial and a great, I think, model for the rest of us.

And to some degree, things are better but the underlying issues that our rural economy faces are still what they were when we went into this recession in many ways. The agricultural prices do not necessary translate into economic growth.

And I wonder if you could share with the Committee what you think the four or five most important things that USDA, the federal government can do generally to support an economy that really will mean that there is a rural economy going forward for the sons and daughters of people on eastern plains in Colorado, for example, who wonder very much whether there is going to be the same opportunity or a new opportunity for the next generation of farmers, the next generation of people that want to live in the small towns on the eastern plains.

Secretary VILSACK. Over the course of my lifetime, populations in rural America as a percentage of our overall population have declined. The populations have aged. The poverty rates are higher. Unemployment rates historically have been higher now.

In this most recent recovery, actually rural America is recovering a little more quickly than our urban and suburban friends. But

nevertheless there are still trend lines that we need to try to reverse.

I would suggest that there are a couple of things. First of all, within USDA I think the things that we can do to fundamentally change that dynamic are to continue to expand access to broadband so that farmers and ranchers have access to real-time information and make real-time decisions.

Small business owners can expand their markets from local and regional markets to global markets. Schools can do a better job of offering a multitude of course selections that they might not otherwise be able to afford to provide. And health care centers can link up with specialist that would be impossible for them to afford on a day-to-day basis.

I think, secondly, we absolutely need to embrace this new energy future. Whether it is fuel or renewable energy, there are tremendous opportunities for economic growth in rural communities.

Most of the renewable energy is going to be produced in rural America and we need to figure out how to maximize the economic return of that for rural residents.

Third, I do believe it is important for us to continue to look for ways in which we can create domestic markets. Apart from renewable energy and fuel, I think the local regional food systems being connected to producers and consumers is important because you can develop local supply chains that are job creators.

Entrepreneurs who can create small warehousing or cold storage facilities or mobile slaughter make it a little bit easier for schools, universities, whatever that might be located in rural areas to actually create jobs and provide alternative opportunities for producers.

I think it is very, very important that we do a better job of maximizing outdoor recreation and using our conservation dollars in a way that produces more habitat, more opportunities for hunting and fishing and hiking.

It is a multi-hundred billion dollar operation we are talking about. Those resources can go into rural America.

Then, finally, I think we need to look at ways in which we can create verifiable and credible ecosystem markets in which we are basically paying farmers, ranchers, and landowner for certain conservation practices that are of a societal benefit, whether it is water issues. Senator Nelson's comments earlier bring that to mind, things of that nature. We are working at USDA to try to develop those kinds of models that might work.

Then finally, I think you have got to be concerned about credit and the ability to attract venture capital into rural communities so that you have got a sense of entrepreneurship. That is a real challenge.

I know as a governor, we have got several former governors here. I suspect they dealt with these issues when they were governors. I certainly did, and I think we need to be very creative about how we get venture capital into those rural areas.

Senator BENNET. Thank you. Thank you, Madam Chair.

Chairwoman STABENOW. Thank you very much.

Senator Boozman, welcome.

Senator BOOZMAN. Thank you very much, Madam Chair, and it really is an honor to be with you. I was just telling my colleague

that we have an advantage in being junior members. We really get to know the witnesses. We can just lean over and shake their hands and visit with them.

It is an honor also to have you here and to listen to your testimony. We appreciate your service.

As you know, the ag business is tremendously important in Arkansas, and I had the opportunity to visit with many of my producers. You mentioned the different layers of producers and things.

But I will tell you it seems to me like, regardless of who I am visiting with, right at the top of the list is the EPA and the potential for the regulations that are coming down.

You mentioned the waste products, you know, trying to get rid of those, that offers great potential. I think with the initial Boiler MACT rules and things like that, much of that could not be done.

So I guess my question, as you mentioned, I am so pleased to hear that you are working, you know, with your counterpart on the EPA to try and figure out, you know, these things as they go forward.

But I would really like, you know, besides that what we are doing specifically. Are we outlining things like the farm dust rule, the MPDS permitting, expanding the Clean Water Act, and then again regulation of greenhouse gases through our boiler regulations? I guess what I would like to know is what would be the economic impact to our farmers and our producers if that kind of stuff was to go forward.

I really do think that is the question of the day right now.

Secretary VILSACK. Well, Senator, that is one of the reasons why, I think one of the reasons why the boiler rule was changed was because of the relationship and the input that USDA provided as that rule was being put together. I think there was a recognition of the impact.

We are doing several things. First of all, we are absolutely encouraging the EPA administrator to spend sometime in rural America and she has actually gone on farms and actually seen what is taking place on the farm so that she has a clear understanding and a clear picture of precisely what rules or regulations might, in fact, how that might, in fact, involve an operation or why it may not be necessary given what farmers and ranchers are doing.

Secondly, we are beginning to quantify in very real terms the conservation benefits and the environmental benefits of stewardship practices on ag land.

We did this in the upper Mississippi River recently. We just recently completed a study in the Chesapeake Bay area in an effort to try to re-assure people that farmers are, in fact, adopting conservation practices and, in fact, are going to do so.

We are also engaged in negotiations and discussions with the EPA about how we might create regulatory certainty. We did this with the sage grouse in the western part of the United States with the Department of the Interior and the Endangered Species Act.

If producers are willing to do "A" "B" and "C" then in exchange for that there would be some regulatory certainty that the rules of the game would not be changed on them which would make their investments inappropriate.

There is a liaison between the Ag Department and EPA. So we are constantly providing input, analysis, information on what is being proposed or suggested in an effort to try to make sure that there is a clear understanding on the part of the EPA in terms of how this might impact farms, ranches and producers.

So, you know, and I think the last thing I would say is that we have facilitated conversations between commodity groups and livestock groups and the EPA Administrator so that there is a clear understanding of precisely what is being proposed.

A lot of times things kind of circulate through the process and they get bigger and bigger and bigger as they circulate and they get scarier and scarier as they circulate.

That kind of conversation, I think, can at least make people understand what the facts are. And, you know, I think EPA is listening at least from the vantage point of the things we have been focusing on. I get the impression that they are at least open to a dialogue and conversation with us which is important.

Senator BOOZMAN. I appreciate that and appreciate those efforts. Again I think some really number values as far as economic impact are helpful. Your opinions as being Secretary, your Department's opinion as to the cost benefit, what you are actually doing, and then again I was the ranking member on water resources so I understand that there is a lot of stuff that is blown out of proportion but there is a lot of stuff that is not and so that is really—and as you mentioned also, the idea that you do the best management practices, five years later somebody comes by and says, no, you are doing it all wrong. Those things are not a good situation.

Thank you, Madam Chair.

Chairwoman STABENOW. You are welcome. Thank you very much.

Senator Brown and then senator Thune.

Senator BROWN. Thank you, Madam Chair. You look good in that chair. It is nice to see you.

Chairwoman STABENOW. Thank you very much.

Senator BROWN. Congratulations on your first hearing and I appreciate having someone who represents a State that looks a lot like mine in the chair, except for the corn and soybeans part but thank you for all that.

Secretary Vilsack, thank you for your visionary leadership. We have made such a difference in these two years.

No questions. I know that many people have asked questions pretty wide-ranging. I just wanted to bring to your attention which you know about but in a public way what happened in Wooster, Ohio at the agricultural research station.

It is affiliated with Ohio State, involved doing all kinds of innovative research on animals and plants and crops. The tornado that hit the Wooster agricultural research and development center last year caused a lot of devastation as you know.

And Deputy Secretary Merrigan was there. I appreciate her coming out and visiting and we will work with you on repairing that and getting it up to the standards that it was before. I have been there numerous times. I know that Deputy Secretary Merrigan enjoyed her visit there and contributed a lot just by her advice and her presence so I thank you for that.

Thank you, Madam Chairman.

Chairwoman STABENOW. Thank you very much.

Senator Grassley came into the room and left. He was technically the next person on the list but, Senator Thune, we will turn to you in his absence. Welcome.

Senator THUNE. I better get in here before he walks back in.

Chairwoman STABENOW. That is right.

Senator THUNE. Thank you, Madam Chair, and Secretary Vilsack, thank you for your service and appreciate you being before the Committee today. And there are lots of challenges as we look at the next Farm Bill, and all of us are interested as we begin to hear testimony and anticipate what that bill might look like.

I wanted to ask you a question about, you know in the Midwest we have been somewhat insulated, not entirely, but somewhat insulated from the housing boom that impacted the country but I am a little concerned about the potential for a land boom, a farmland boom, or I should say a bust in a place like our State.

We have a lot of land that is going for prices that we have not seen before, probably driven somewhat by higher commodity prices, who knows what all else. Agriculture has been pretty profitable of late.

But my question has to do with if you had land values reset either due to a drop in commodity prices or an increase in interest rates, how survivable is that going to be this time around?

We saw that happen many, many years ago. My impression is at that time there was a lot more debt on the balance sheets of a lot of our producers than there is today. But what is your sense of the potential for that kind of a problem, a bubble, so to speak, like what we have seen in the housing market around the country?

Secretary VILSACK. Senator, I appreciate that question. I think it is an important question because there is a lot of human toll that can take if it does not get handled properly.

I think the difference between then and the eighties when we were in a situation where land prices were inflated and all of a sudden the bubble burst is, in fact, the debt load that was being and is being carried by producers.

The one advantage I think we have in the circumstances is the debt to asset ratio is very strong right now. I mentioned that it is about 11.3 percent. So it is a relatively good strong solid ratio and we anticipate that ratio may very well decline again this year.

So I think we are in a little better shape than we were to weather the storm. You know, the other thing I would say it is that USDA, I think, it is probably more engaged in terms of farm credit than it has been in a while across the board.

We have seen rather significant increases in many of our lending programs. We are proposing some adjustments to those programs but again we are doing a pretty good job in terms of making sure our loan decisions are good decisions.

And so I think we are in a slightly better position than we were; but as you well know with agriculture, things can change very, very rapidly which is why we have to constantly look at ways to improve demand, improve productivity, try to ratchet down as best we can about costs.

Senator THUNE. With regard to improving demand, when do you anticipate that the trade agreements with South Korea and Colombia and Panama will be submitted to the Congress?

Secretary VILSACK. Well, my hope is that the Korean free trade agreement is submitted as soon as possible. I would anticipate that will be done shortly. You know, there are still a few details that have to be worked out, as I understand it, on Colombia and Panama.

But my view is that once the Korean free trade agreement goes through the process, and hopefully it goes through rather quickly, that creates real momentum.

At the same time that is occurring, the focus cannot just be on those trade agreements. It has to be on multi- lateral arrangements as well which is why the transpacific partnership is important.

And it has to be, as Senator Johanns and I had a conversation earlier, has to be about breaking down barriers that have existed far too long in some countries in terms of beef trade and some of the other challenges we have.

So it is a combination of all of those.

Senator THUNE. From Tunisia to Egypt, a lot of what is impacting global unrest has been food prices. I am a believer that the answer to feeding a growing global population sort of involves expanding biotechnology and modern farming practices beyond our borders.

And I guess my question would be what can the United States and our trading partners do to help address that?

Secretary VILSACK. We have developed a different approach on biotechnology from an international perspective. What we have done is suggested that there needs to be a much more aggressive public diplomacy effort in terms of matching farmer to farmer, scientist to scientist, political leader to political leader, discussing this because, as you know, there is a lot of objections and concerns that are raised in some areas without a great deal of justification in my view.

So that kind of dialogue has to take place. We also think that it is important for United States to partner with countries in regions, Africa and Asia, that have embraced biotechnology so that they can act as sort of the spokesperson on that continent or in that area, perhaps more effectively and persuasively with their friends and neighbors.

We can provide support and assist, and so we are trying to identify who those might be, whether it is a Kenyan or a Phillippine or someone along those lines.

And then finally we need to do a better job of focusing on the benefits of this science, the ability to use less water or less chemicals, less pesticide as well as the extraordinary increases in productivity.

When you combine that with just basic improvements in agriculture that can be incorporated by many of these developing countries, their productivity can certainly be improved.

Senator THUNE. A quick question, Madam Chair.

I am hearing from both sides as I am sure you are on these GIPSA's proposed livestock marketing rules. What is the latest with regard to that? Is there going to be a comment period?

I understand you are doing some additional economic analysis. When do you anticipate that we might be looking at that analysis and is that going to be forwarded on and available for inspection?

Secretary VILSACK. Senator, we did not do the analysis prior to the comment period because they wanted the benefit of the comments. We wanted the benefit of information from folks.

We received, I think, somewhere in the neighborhood of 60,000 comments, about 30,000 of them are unique, not necessarily form comments. We are in the process of categorizing each of those comments in areas of the rule.

That information will then be taken by Joe Glauber and his team and put together an economic analysis. I have told Joe I am not going to box him into a specific, arbitrary time frame.

I want him to do the job. I want him to do it right. I want him to do it thoroughly, and I have the confidence he will be able to do that. We obviously want to get it done but we want to get it done without forcing it to be done in a way that is not correct.

Chairwoman STABENOW. Thank you. I think in the interest of time, we will move on.

Senator Baucus and then Senator Grassley.

Senator BAUCUS. Thank you, Madam Chairman. Of course, my congratulations to you and my congratulations to the good Senator from Kansas in your esteemed positions. I look forward to working with you.

And thank you, Mr. Secretary, for taking your time to visit with us today. We know how busy you are. We thank you very much.

I would like to just say in a sidebar here which I personally appreciate working with you in lots of different measures and lots of different ways. You are a good public servant, good Iowan, good Ag Secretary. You are a good man.

Secretary VILSACK. Thank you.

Senator BAUCUS. I deeply appreciate working with you.

As is the case for all members of this Committee, agriculture is really important to my State, as you know. It is our number one industry ever since I have been in public service, has been and will continue to be for a long time. About 50 percent of the Montana economy is tied to agriculture. It is very, very important.

We have done well in Montana as have other States with our products and especially exporting overseas. A point I want to focus in on is getting more markets, opening up more markets for U.S. products. I am especially thinking of Asia right now. China. I think China is our number one export, I think. Is that true just this past year?

Secretary VILSACK. Yes, that is correct, last calendar year.

Senator BAUCUS. China is growing so quickly which is all the more important for us to expand even more in China. I would be interested in your thoughts and how we might do that, especially with respect to beef.

I am a bit put out that China does not take American beef. We are trying to put together, trying to ratify a Korean trade agreement on autos, and frankly I will not support that agreement unless we get some access on beef.

I talked to the President about that today. I think he understands. But I just ask that we get something that passes the smell

test that is credible so that we are also expanding American beef access into Korea as well as agreeing to the auto provisions.

Otherwise, I support the Korean free trade agreement as I do so long as we get a meaningful increase in beef exports to Korea as well as supporting the Panama and Colombia free trade agreement. I think we have to get this done very quickly.

Next with respect to the FTA, as I know you know, we are losing our market share in Colombia because we failed to pass an FTA. You know these figures better than we, but between 2008 and 2010, American market share in Colombia declined from 46 percent to 21 percent.

For wheat in particular, American market share fell in Colombia from 73 percent to 43 percent. As you well know, Canada is about to enter in force a free-trade agreement with Colombia. We are very concerned that Canada is, as a consequence, going to reap a terrific advantage over Montana as well as the country in Colombia.

We have got to get that Colombia free trade agreement to pass so we can sell our products into Colombia.

I understand that USDA has released a report on the benefits a Peru FTA has had in agriculture. My understanding is our exports to Peru are up 258 percent since fiscal year 2006. Again these trade agreements make a big difference.

I might add in Colombia it is not just the direct commercial value but also the geopolitical. It is very important the United States is strongly present in South America. If we are not there, there will be big vacuums.

We have all noticed the degree to which China is trying to develop market share and also its position in Colombia. They want to build a competing canal, a railroad that competes with the Panama Canal. That is Chinese capital into Colombia. It is real. I have talked with the Colombian ambassador about this just a few days ago.

One, what can we do about China, how can we get more ag exports to China, what leverage do we have? Second, with respect to the FTAs, I would like to hear from you the degree to which the administration is going to push these FTAs and get more beef into Korea at the same time.

Secretary VILSACK. Well, Senator, thank you for those questions and obviously thank you for your continued advocacy on behalf of beef producers in this country. You have been one of their strongest advocates, and I know you will continue to be.

In terms of China, we are essentially five to ten offals apart from being able to reach some kind of agreement that would result in a broader access in the Chinese market.

We had conversations in the JCCT in December in which the Chinese indicated a willingness to accept beef under 30 months, bone in and bone out.

We had conversations about offals, that they would be willing to agree to. We sent a technical team, Jim Miller, who was then Under Secretary, spent two weeks in China with technical teams.

And essentially what happened was that we wanted 10 to 15 offals included on the list and they were only willing to commit to five. The challenge for us is making sure that, as we reach these

agreements, that we do not jeopardize relationships or arrangements with other countries where the market has, in fact, been opened so that they perceive that they have received less of a deal or are not as sweet a deal as the Chinese have.

So we are going to continue to press this, continue to work on it, continue to pursue it. My belief is that if the Korean free trade agreement, when the Korean free trade agreement gets approved, that will create momentum in a variety of areas.

It will create momentum for us to go back and re-double our efforts in China and Japan in particular as it relates to beef, and it will allow us I think then to move to Colombia and Panama get those trade agreements finalized and get them to you hopefully for quick action.

So I think the lynchpin of this is the Korean free trade agreement, and I think once that gets through the process, I honestly believe that puts us in a much better position.

Senator BAUCUS. I did not hear much about beef.

Secretary VILSACK. The Koreans have indicated a willingness to go to 30 months. They have indicated a willingness to pursue further discussions about how they might get to OIE compliance based on consumer demand and consumer acceptance; and that, at least from our perspective, gives us the capacity to make a significant step forward in opening the market; and then the process of full and complete opening of the market OIE compliant sometime in the future.

Honestly, when we take a restricted position, it is all or nothing, it makes it extremely difficult for us to make progress. So our view is if we can get to 30 months, bone in/bone out, appropriate offals that are significant to their culture and our market and a process by which we can have further discussions and negotiations that they will result in significant increases in trade.

Chairwoman STABENOW. Thank you.

Senator BAUCUS. I am not asking for the question of all or nothing. I have it as open to all of American beef irrespective of age, irrespective of cut, bone in or boneless or whatnot.

It does not have to be all. I am not asking for that, although Korea was at that point a few years ago. I am just asking for something more than currently exists, and which is not all, which is more than currently exists, and I cannot support the Korean trade agreement unless we get some progress. I am not asking for all. I am asking just for some progress compared to the status quo.

Thank you, Madam Chairman.

Chairwoman STABENOW. You are welcome.

Senator GRASSLEY.

Senator GRASSLEY. Welcome, and I also want to echo what Senator Baucus said of the job you are doing.

Secretary VILSACK. Thank you. Senator, they just told me that new members of this Committee get to sit closest to me. You cannot be a new member of this Committee.

Senator GRASSLEY. You know what the deal is. This is my third committee so I get appointed and I fill the last slot, not the first one.

Senator ROBERTS. Would the Senator yield? Your glass of ethanol is up here.

[Laughter.]

Senator GRASSLEY. Would you start my clock over again please?

Chairwoman STABENOW. We will give you back 30 seconds, Senator Grassley.

Senator GRASSLEY. I was going to ask about trade and I think that most of the trade issues have been touched on but part of my question was the extent to which you may not be the lead on trade issues for the Administration but you obviously play a very important role as it relates to agriculture.

Could you tell me just a little bit about how you see your role in trade issues like Korea and Colombia or any trade issue?

Secretary VILSACK. Sure. Well, first of all, it is to make sure that everybody in this town and everybody in the country understands how successful agricultural trade is relative to other aspects of the economy.

When we talk about a $41 billion trade surplus projected for this year, to put this in proper perspective, just five years ago that trade surplus number in ag was $4 billion. So we have seen an eight- to ninefold increase in the surplus.

And every billion dollars of ag trade, as I said earlier, is 8000 jobs. So it is extremely important. It represents 10 percent of our total export.

We have a very close relationship with the U.S. Trade Representative's office. We have people right now discussing over in Geneva the Doha round.

Obviously on Doha, we are anxious to try to consummate a deal but we have to have a deal that is fair. And in order for their deal to be fair, it is important for the Indias and the Chinas and the Brazils of the world to have far better market access to our products if they are expecting us to take a look at our support structures and systems so that we can quantify precisely what we are getting.

So we have an ongoing relationship with the trade representative's office. We are in all the meetings. We are engaged in all the discussions relative to ag trade.

We have a very significant presence internationally. We have 99 offices, and most of what is done in those 99 offices is trade related.

They have developed relationships. We have seen a significant increase in the number of foreign visitors to our trade shows here in America. We have seen a significant increase in the number of exhibits that we now are promoting American branded products.

We are proposing a continued support for market access programs and all of the other financial programs that provide assistance. So we are very aggressive in this space. We see this is as one of our principal responsibilities.

Senator GRASSLEY. Let me express a frustration I have about Colombia, and you do not even have to respond to this but I would at least like to respond.

And that would be going back to the 2007. Republicans are thrown out of the majority. Democrats come into the majority. They are not satisfied with the way it was negotiated so they said we have to sit down and renegotiate.

And then on May 10, 2007, there is a bipartisan announcement between Bush and the Democrat leaders of the Congress that we

have got things worked out on Colombia and then things still are not done.

That is a frustration I have. It seems like there is a little bit of moving of the goal posts, and I just express my view. I do not ask you to respond to it but at least you know how I feel about it.

If I could go to India and I know that you and Under Secretary Miller and your FSA team has been working hard on resolving agricultural issues with India.

And I know you worked hard and I am as disappointed as you probably are that we have not had reciprocity in return from India, and it is such a large and expanding economy and they are building up a middle-class very fast.

Unfortunately, U.S. exports to India are limited both in value and in range of products. In 2008, India receive less than one half of 1 percent of the total U.S. agricultural exports and ranked 39th among overseas markets for us.

And as you may know, Senator Baucus and I requested that the International Trade Commission conduct a 332 investigation on India's barriers to exports.

The findings suggest that India's high tariffs are a significant impediment to U.S. agricultural exports and that certain Indian nontariff measures including sanitary and phytosanitary measures substantially limit or effectively prohibit it.

So my question is even considering everything you have done, what is your Department doing in coordinating with other involved agencies to bring about resolution of this frustrating challenge?

Secretary VILSACK. I traveled over there with the President and had extensive conversations with the ag minister and frustration, I do not know if that is a strong enough word, Senator. I am not quite sure in this context I could use the kind of language I would like to use about it. It is very frustrating.

And, you know, it is complicated by the fact that there are a multitude of other areas and issues in which we are dealing with India that are very, very important and significant.

I have sent a strongly worded letter to the ag minister in India about dairy and access to the dairy market. Obviously, they have certain religious concerns which we tried to address.

We are going to continue to focus on trying to open up those markets. Doha maybe creates an opportunity for us to do that. We are trying to get our international partners and international friends who want a Doha round to be concluded to press India with the fact that they have got to open up their markets.

And the reality is if they open up their markets, their consumers will have more choice, their consumers will have better price, their producers will be encouraged to be more productive and to focus on what they do best, and they will also will benefit.

But it is a hard sell right now. It is a very hard sell.

Senator GRASSLEY. The last thing I would say is kind of a, I hope you get plenty of opportunity to present to the EPA a lot of things that they are doing that is detrimental to agriculture, harmful to agriculture.

And there are a lot of them I could bring up but there is enough of them that you can almost come to the conclusion that EPA stands for end of production agriculture.

Anyway, one of them is fugitive dust. I am sure you know what fugitive dust is, being from Mount Pleasant, Iowa, or anyplace in the Midwest, and they have got this rule coming up that somehow the farmer is supposed to keep dust within his property lines.

And I tried to tell them only God determines when the wind blows and only God determines when soybeans are 13 percent moist and you have to combine them; and when you combine, dust happens.

We just got to get through to them the common sense that you cannot combine beans just when the wind is not blowing, and it is just frustrating to me. So you do not have to comment. I just hope you can make it clear to them because you are from the same part of the country I am, and they just do not seem to get it.

Secretary VILSACK. Can I share in the proceeds from the new bumper sticker that you have just created? Dust happens.

[Laughter.]

Chairwoman STABENOW. And I think on that note, Mr. Secretary, we want to thank you for coming. These are certainly issues that we all want to continue to tackle with you and we thank you for your leadership, and I would say as I began today, that 16 million jobs come from American agriculture and we look forward to working with you to make sure that our farmers have every opportunity to succeed.

So thank you very much.

We have a second panel. We would like to have them come up. I know that Senator Brown has to leave in a moment and wants to make an introduction first as we are bringing our second panel forward, and then we will proceed in introducing the other panelists.

So we will wait until folks are seated and then get started.

[Pause.]

Chairwoman STABENOW. We are going to go ahead and get started. We appreciate your patience and your joining us today. I know coming from around the country, and I am going to let Senator Brown proceed first with an introduction.

Senator BROWN. Thank you, Madam Chair, and again congratulations to you and Senator Roberts for your leadership on this Committee.

I would like to introduce Fred Yoder, who is a farmer, and dust does not happen on Mr. Yoder's farm when he is combining soybeans.

But Fred is a farmer and agricultural leader and a real visionary thinker in my home State of Ohio on agriculture issues. He has worked closely Joe Schultz on my staff that staffs this Committee and staffs us on other issues.

During the 2008 Farm Bill debate I so appreciate the counsel that you have given to Joe and to me and helped us understand these issues from your perspective as a real trusted advisor.

Fred is fourth generation corn and soybean and wheat farmer in Plain City, Ohio. Some of you may not know it is the home of the famous Dear Dutchman restaurant and their homemade pies.

Mr. Hoenig, you should try them sometime. You would like them, in Kansas or wherever. So I appreciate that.

But Fred has been a leader not only in Ohio but across the Nation. He served as president of the National Corn Growers and has volunteered thousands of hours representing farmers' interests throughout the world.

He was, I believe, the only American farmer to attend the world climate discussions in Copenhagen where he was a strong advocate in protecting and advancing the interests of U.S. agriculture. He reported to me personally and to Joe some of his observations from that.

He continue to promote policies that support farmers that help address our Nation's need for energy independence, and he is also a proud grandfather I would add.

And Fred, I am so glad he is here today. I very much apologize. I was hoping the last one would not go this long but I have to leave.

Joe will be here during his testimony and I am proud to call him a fellow buckeye. So, Fred, thank you for joining us.

Chairwoman STABENOW. Thank you, Senator Brown. Those pies you were talking about, I hope they have Michigan cherries and blueberries and apples in them. Okay. Good. Good. Absolutely.

Let me take a moment now before trying to Senator Roberts who I know also has an introduction but let me invite and welcome Keith Creagh, who was appointed by Governor Rick Snyder on January 1st to be the director of the Michigan Department of Agriculture and Rural Development, and prior to serving as director, Mr. Creagh was the director of industry affairs for in Neogen Corporation, a company that develops and provides food and animal safety solutions to the agri-food industry. And prior to Neogen, Mr. Creagh has held numerous positions I believe for 33 years with the Michigan Department of Agriculture.

So he comes with a wealth of experience and expertise to his position, and we welcome you.

Mr. CREAGH. Thank you, Senator.

Chairwoman STABENOW. Senator Roberts, you have an introduction.

Senator ROBERTS. Thank you, Madam Chairwoman. I think we have an excellent second panel with a lot of expertise.

I am pleased to introduce one of our witnesses for the second panel, Mr. Tom Hoenig, who is the president and chief executive officer of the Federal Reserve Bank of Kansas City and the senior member of the Federal Reserve System's Federal Open Market Committee.

The Kansas City reserve bank covers the 10th Federal Reserve District which is comprised or includes Colorado, Kansas, Nebraska, Oklahoma, Wyoming, the northern half of New Mexico, and the western third of that state just to the east of Kansas.

So I think it is fair to say that his district does encompass a whole lot of agriculture, including livestock, grow crops, specialty crops, as well as biofuels, and processing.

Mr. Hoenig, it is an honor to have you here today. It is very good to see you again, sir. I have had the privilege of meeting with Mr. Hoenig about every six months or every year at least and just a couple of weeks ago on his turf. He is a native of Fort Madison, Iowa. He currently resides in the non-Kansas side of Kansas City.

He received his doctorate in economics from Iowa State University and joined the Federal Reserve Bank in 1973 as an economist. He assumed the role of president in October 1991 and also currently serves as Chairman of the Federal Reserve's Presidents Committee of regulation and bank supervision and legislation, indeed a tough job.

He is the longest-serving of the 12 current regional Federal Reserve Bank presidents and is the longest tenured member of the system's Federal Open Market Committee which has authority over just U.S. monetary policy.

Now, if you all have not read it, I would encourage you to thumb through this week's Time magazine. It is an article entitled, The Man Who Said No To Easy Money, described a bit further down, it describes him as the heretic in the priesthood. A little strong but I do not know if that is quite true or not.

Madam Chairwoman, I ask that a copy of that article be included in the record. We might preclude it by saying that I consider Tom as a profile in courage.

Chairwoman STABENOW. Without objection.

[The article can be found on page 98 in the appendix.]

Senator ROBERTS. Mr. Hoenig brings a valuable perspective to today's hearing, especially the questions posed by Senator Thune, and I look forward to his testimony.

Thank you, Madam Chairwoman.

Chairwoman STABENOW. Thank you very much.

And last but certainly not least is Dr. Joe Outlaw. Thank you very much for joining us. Dr. Outlawed is a professor and an extension economist in the Department of Agriculture Economics at Texas A&M University. He also serves as the co-director of the agricultural and food policy center at Texas A&M.

His extension education and applied research activities are focused on assessing the impact of farm programs, renewable energy, and climate change legislation on U.S. agricultural operations.

We very much appreciate all of your being here and your testimony is a very important part of the record for our Committee. So I am going to ask Mr. Creagh to begin.

Thank you very much for being here.

STATEMENT OF KEITH CREAGH, MICHIGAN DEPARTMENT OF AGRICULTURE AND RURAL DEVELOPMENT, LANSING, MICHIGAN

Mr. CREAGH. Thank you, Chairwoman Stabenow and Senator. I am certainly thankful to be here and to have the opportunity to present today.

On behalf of the State of Michigan, Governor Rick Snyder, and all of us at the Michigan Department of Agriculture and Rural Development, I want to express our appreciation for your commitment and leadership on food and agriculture issues.

We also recognize the remarkable new opportunities for rural America, and we look forward to a continued partnership with you to assure Michigan's food and agricultural industry is strategically aligned to enhance our growth opportunities as we reinvent Michigan. Michigan's agri-food industry contributes $71.3 billion annually to the state's economy.

Production agriculture, food processing, and related businesses employ more than one million Michigan residents; approximately 1 in 4 jobs. This is a robust and high tech industry that will undoubtedly serve as one of Michigan's, and the Nation's, foundation to our long term, sustainable economic recovery.

At a time when Michigan lost 850,000 jobs, our agricultural economy experienced a decade of growth. It expanded at a rate of more than five times faster than the general economy, 11.9 percent versus 2 percent, between 2006 and 2007.

Further, since 2007, we have seen a 27 percent increase, making agriculture a cornerstone in diversifying Michigan's economic future. As a result of our diverse soils, crops, fresh water, and climate, we are well- positioned to continue this growth and expansion at all levels of production. Currently, we produce over 200 commodities on a commercial basis; and lead the Nation in 18 of these.

Under Governor Snyder's leadership, Michigan is developing a comprehensive food and agriculture strategy that prioritizes food safety, food security, nutrition and health, energy, trade, environmental stewardship, and rural development. It is fundamental, and part of our core mission, to provide a safe and wholesome food product for the citizens of Michigan

We will continue to work with our federal partners to seek appropriate funding and implementation of the Food Safety Modernization Act which will allow for a more vigorous and collaborative approach between federal, state and local partners.

The risk of contaminated food products to our consumers reinforces the need for a rigorous inspection system to mitigate those risks. Collaborating with our federal partners will assist in identifying respective roles in the food safety continuum.

The Michigan Department of Agriculture and Rural Development applauds your support and leadership of the Specialty Crop Block Grants. Having these resources available for cost-sharing opportunities provides much needed research, training and education that otherwise may not be available for food and agriculture entrepreneurs. The health and nutrition of Michigan citizens are directly tied to an available and wholesome food supply.

Michigan has a dynamic food processing industry currently generating $24.9 billion annually and employing 134,000 people. However, merely sighting a food processing facility in a community does not necessarily address the long term economic variables.

To ensure growth and sustainability are at the forefront of the equation, we must conduct a thorough and extensive review of the proposed facility. All of the following components are integral to the process and must be addressed: infrastructure, trained workforce, capability and capacity to deliver goods on a predictable basis, food safety checks and balances, access to available markets and appropriate inspections and certifications.

Adequate infrastructure including roads, rail, waste water treatment and high speed communication must be part of any comprehensive strategy. We appreciate the opportunity to work with USDA Rural Development to identify broadband interface opportunities in our rural areas to ensure our citizens can compete in the global marketplace.

Just as rural electrification was crucial to the advancement of food production in the 20th Century, access to high speed internet is vital to the productive capacity of today's rural communities.

Michigan is fortunate to export almost one-third of its agricultural production, generating more than $1.55 billion annually, and employing more than 12,000 workers. We have nearly doubled our exports since 1997.

In 2009, we directed over $753 million in exports to Canada alone. Michigan has worked strategically with the Food Export Association of the Midwest USA through the Market Access Program to provide export assistance to our small and medium-sized companies. Because of this partnership, in 2009 we jointly assisted over 60 companies participating in nearly 150 programs or services, which resulted in an increase of $13.6 million in export sales. We look forward to continuing this partnership as we build upon our international successes.

Agri-tourism is another area in Michigan where we are experiencing growth. Farm and farmers markets, coupled with our $287 million wine industry, generate well over a million tourists each year. Michigan ranks in the top four in the nation for the number of farmers markets, as well as the rate of growth.

By spending $10 per household each week on locally grown foods, $40 million would be kept circulating in Michigan's economy. The continued growth of the food and agriculture industry will require the integration of new science and technology, as well as the implementation of appropriate risk management tools in order to minimize the impact from food recalls, exotic and invasive species, and natural disasters.

Assuring the food and agriculture industry has the necessary tools available from the United States Department of Agriculture, the Environmental Protection Agency, and the Food and Drug Administration to provide relief from these occurrences is critical. Continuation of programs that support these collaborative efforts will enhance the future economic growth of Michigan agriculture.

Michigan farmers appreciate the technical assistance that has been made available to them. An example of this collaboration is the Conservation Technical Assistance Initiative whereby leveraging a 100 percent match from USDA we were able to put engineers and technicians on the ground to help farmers design and install conservation practices. These individuals will leverage $16 million in federal cost share dollars paid to the impacted producers for the installation of practices. The expenditure of these dollars not only resulted in a 40 to 1 return on investment, but also provided substantial protection of the Great Lakes and our Michigan environment.

As national policy is fashioned, we must provide flexibility at the state and local level to support innovation and entrepreneurs who strive to make a difference in the economic recovery process. As we look to reinvent Michigan and compete on a global scale, the food and ag industry stands ready to assist in our long term economic recovery.

We look forward to working with you and the U.S. Senate

Committee on Agriculture, Nutrition and Forestry to make rural America a great place to live, work and play.

[The prepared statement of Mr. Creagh can be found on page 55 in the appendix.]

Chairwoman STABENOW. Thank you very much.

Next is Thomas M. Hoenig, President, Federal Reserve Bank of Kansas City.

STATEMENT OF THOMAS M. HOENIG, PRESIDENT, FEDERAL RESERVE BANK OF KANSAS CITY, KANSAS CITY, MISSOURI

Mr. HOENIG. Thank you, Madam Chair.

Agriculture remains a vital industry in the expansive region of the Federal Reserve Bank of Kansas City and, accordingly, our Bank has a long tradition of focusing significant attention on industry developments. Our observations on agriculture, in turn, have given us useful insight into the U.S. and global economies more broadly. In my remarks today, I will describe recent developments in the Nation's farm economy and discuss some risks that have my attention at least and I heard discussed here earlier.

First, agriculture, broadly defined as farm production and output from related industries, accounts for almost one- sixth of U.S. jobs and economic activity. While the farm share of economic output has declined as other parts of our economy have grown, increased activity in broader agricultural industries manufacturing, transportation, distribution and food retailing, for example has opened new job opportunities in both rural and metro communities.

A robust agricultural sector cushioned the rural economy in our and other regions across the nation during the recent recession, and the industry's strength in supporting further improvement in the rural economy remains today.

In 2010, strong demand and tight supplies for most farm commodities contributed to a sharp rebound in farm profits, which then supported sales in farm equipment and other farm- based industries. Strong profits from agriculture also girded important elements of our rural financial system. Commercial banks with large agricultural loan portfolios posted stronger returns than their peers over the past three years. While more than 300 commercial banks failed during this period, only 22 agricultural banks throughout the country failed.

Agriculture is also benefiting directly from the rebounding economic strength of China, referred to here, and other emerging market economies, where rapid income growth is driving up food demand.

The United States remains a net exporter of agricultural products, shipping more than 40 percent of its wheat, cotton, soybeans and rice crops to foreign countries in 2010. United States crop and meat exports are expected to rise to record highs in 2011. Looking out a little further, economists expect global growth to exceed 4 percent well into 2012, with the developing and emerging market economies remaining in the lead. Rapid income gains in the developing world promise then further increases in demand for higher-protein diets.

Despite these prospects and the prospects of sustained farm income growth, U.S. producers must remain alert as they face challenges related to their very success and tied to recent developments in financial markets. Surging commodity prices and low interest

rates have translated into increasing farmland values, which have eclipsed their 1980s peaks. In our Bank's fourth quarter 2010 Survey of Agricultural Credit Conditions, for example, cropland values in Nebraska and Kansas were up nearly 20 percent above year- ago levels and more than 75 percent higher than five years ago.

This run-up in farmland values has occurred, however, amid financial markets characterized by high levels of liquidity and unusually low interest rates. History has taught us that it is nearly impossible to determine how much of the farmland boom may be an unsustainable bubble driven by financial markets and how much results from fundamental changes in demand and supply conditions. Therefore, it will surprise no one when I say we are watching the market closely, just as we are watching for imbalances emerging elsewhere in the economy.

Of particular interest to me is how agriculture might adjust when financial markets return to more normal interest rate conditions. Rising interest rates often coincide with falling farm revenues and higher capitalization rates, a depressing combination for farmland values. Moreover, even if crop prices remain high but capitalization rates return to their historic average, farmland values could fall by as much as a third, which most certainly would erode the financial health of the farm sector.

Fortunately, as others have mentioned, the industry entered this period with relatively strong balance sheets. Farm leverage ratios are at historic lows, and agricultural banks are well capitalized. In addition, farm operators and banks have strengthened their risk-management practices, using basic hedging strategies and derivative markets to manage price and balance sheet risk, which contributed to smaller increases in problem assets at agricultural banks than at their peers. Nevertheless, I follow the basic lesson that bad loans are made in good times, and I remain watchful.

In closing, I will briefly highlight a symposium our Bank sponsored last summer, and I think the consensus was important, and that is a marked view, and a very healthy consensus I should say, that the industry's success will lie not in its ability to follow a single path but in its ability to adapt quickly to shifting economic landscapes and conditions. Still, my nagging concern remains that current distortions in financial markets are increasing the risk that imbalances in asset markets will catch agriculture, and the U.S. economy more generally, by surprise once again.

Thank you, Madam Chair.

[The prepared statement of Mr. Hoenig can be found on page 60 in the appendix.]

Chairwoman STABENOW. Thank you very much.

Mr. YODER.

STATEMENT OF FRED YODER, FARMER, FORMER PRESIDENT NATIONAL CORN GROWERS ASSOCIATION, PLAIN CITY, OHIO

Mr. YODER. Thank you, Chairman Stabenow and Ranking Member Roberts. It is a great pleasure for me to be here and an honor to be here especially to testify at your first full Committee hearing. I appreciate the kind introduction that Senator Brown gave me.

I have been farming a long time and I am a fourth- generation farmer. I have had the privilege to testify before this Committee

several times in previous years. But today, I would like to testify before you just as Fred Yoder, a farmer from Ohio, rather than represent a national association and their policy positions.

As I reflect over the years as to what agriculture has meant to me, I am reminded of that old commercial that used the phrase, "you have come a long way, baby." Today's agriculture is not my father's agriculture. We have come through the years of excess production, using programs to curtail carry overs by limiting acres planted, all the way to Freedom to Farm in 1996, which gave us full potential of our lands that they offered.

However, we did not develop the demand for all of that volume, and soon we once again had to rely on government to help us dispose and we had to dispose of that production through deficiency payments and market clearing measures. But today, we have new technologies, and new markets, especially for corn.

While traditionally we have always used corn for livestock feed, today we use roughly a third of our production for biofuels, without reducing the bushels for the feed and export markets. Biofuels, which now represent roughly 10 percent of the Nation's transportation fuel today, has literally transformed rural America.

In Ohio alone, it has generated over $1 billion towards Ohio's economy while adding jobs and keeping small towns alive. The demand for corn, wheat, and soybeans has never been stronger and farmers will continue to respond by producing for all markets. Today's agriculture is one of the few bright spots in the American economy.

Demand for commodities is at an all-time high throughout the world. Instead of a supply-driven market, we are in a robust demand-driven one, where farmers' primary source of income is the marketplace. The current Farm Bill offered a change from previous ones with an option called ACRE, a new tool to help manage our risk in conjunction with crop insurance.

Many of you worked hard to make this new tool a reality, and I thank you for that, especially you, Chairwoman Stabenow and your great staff, and also to my own Ohio Senator Brown and his great staff too. All his kitchen cabinet meetings he had around the State of Ohio, it really showed us how the system is supposed to work.

Unfortunately, when the option of ACRE was offered initially by the local Farm Service Agency offices, it became more complicated than it probably needed to be. However, as we look at how we are going to play out the future Farm Bill, I sure would hope and encourage us all to look to build this new roadmap including those risk management tools that we started with the last one. As a citizen and taxpayer, I think it is important for us to re- address some of our core principles before we delve into specific policy decisions for a future farm bill.

First and foremost, I would suspect the vast majority of people in the United States, including those in agriculture, would agree that the U.S. Government should balance the federal budget by reducing federal spending, resulting in a reduction of the federal debt, and eliminating inefficient spending in all sectors of the U.S. economy.

If one accepts this initial principle, there is a much different perspective that emerges as we think about how we need to shape and form our discussion. I also think most would agree that the new Farm Bill should include a policy that allows the market to provide for a safe, reliable source of food, feed, fuel and fiber, but at the same time provide a strong safety net for those times when unforeseen revenue losses happen from events beyond our control. This can be done through improving such programs like ACRE in combination with improved and equitable Federal Crop Insurance for all regions of the country.

Again, it would be easy for farmers to have the attitude to cut everyone's budget but ours, and push for business as usual. But what if we could enhance the tools available in managing our risk in growing our crops, while continuing to grow new opportunities in the marketplace, and do it with savings to the overall budget?

The opportunities I have today as a farmer are the best I have seen in my lifetime. Yes, a lots more volatility but a lot of reward. We have got to deal with these volatility issues. I hope that whatever we do we can continue to grow these opportunities for today's farmers, and for my son in the future as he takes my place on the farm.

Thank you for your time, and I look forward to your questions.

[The prepared statement of Mr. Yoder can be found on page 94 in the appendix.]

Chairwoman STABENOW. I am sorry. We are discussing the fact that they just called a vote and so we definitely want to hear from Dr. Outlaw and ask questions. So it is a question of how we rotate this. Senator Roberts, if you would like to go just vote and then come back and then I will leave you and go do the same thing. We will tag team it.

Welcome, Dr. Outlaw. We very much appreciate you being here today.

STATEMENT OF JOE OUTLAW, PH.D., ECONOMIST, TEXAS A&M, COLLEGE STATION, TEXAS

Mr. OUTLAW. Chairwoman Stabenow and Ranking Member Roberts, thank you for the opportunity to testify on behalf of the Agricultural and Food Policy Center at Texas A&M University on the outlook for U.S. agriculture based on our long history of representative farm research.

We specialize in working at the farm level with a one- of-a-kind data set of information that we collect from real farmers and ranchers. Our Center was formed by our Dean of Agriculture at the request of Congressman Charlie Stenholm to provide Congress with objective research regarding the financial health of agriculture operations across the U.S. with a focus on unbiased analyses of the impacts of proposed agricultural policy changes.

For more than 25 years we have been provided funding via Congressionally directed spending to work with the

Agricultural Committees in the U.S. Senate and House of Representatives providing members and Committee staff objective research regarding the potential farm level affects of agricultural policy changes.

In 1983, we began collecting information from panels of four to six farmers or ranchers that make up what we call representative farms located in the primary production regions of the United States for most of the major agricultural commodities.

Currently we maintain the information to describe and simulate 98 representative crop and livestock operations in 28 states as seen in Figure 1. We have several panels that continue to have the original farmer members or their children that we started with back in 1983.

We update the data to describe each representative farm relying on a face-to-face meeting with the panels every two to three years. We partner with FAPRI at the University of Missouri who provides projected prices, policy variables, and input inflation rates.

The results I am going to discuss today were developed with FAPRI's January 2011 ten-year baseline projections. Under the baseline, 36 of the 64 representative crop farms are considered in good overall financial condition by 2016 with 15 in moderate condition and 13 in poor condition. Eighteen of 34 livestock operations are considered in good financial condition by 2016 with 11 in marginal condition and 5 in poor condition.

While there are a number of farms in moderate or poor condition, this is the best overall representative farm outlook since 1995 when it appeared that higher commodity prices were in place for the foreseeable future. We all know that those higher prices were short-lived.

One of the most important and useful features of our work is the knowledge and insights we gain from the interaction we have with the panels of farmers and ranchers. In addition to our update visits, we maintain communication throughout the year and periodically ask them direct questions of how they are likely to respond to policy changes. Some of their most revealing responses were to questions regarding climate change, biofuels, and farm debt levels.

In preparation for this testimony we asked them to let us know how they were doing and what their concerns were for the future. In general, most crop farmer respondents said their outlook was favorable due to the recent price improvements for most commodities.

While there is cautious optimism regarding higher commodity prices the sudden downturn experienced in 1995/96 and more recently in 2008 has most of the representative farm members nervous about the future. Most responded that input prices are sticky meaning that they rise along with commodity prices but tend to fall much slower as experienced recently after the 2008 price increases.

There is also a concern that Congress will use these current high prices as justification for severely reducing the safety net provided by the different commodity programs. Most respondents felt that the current price volatility created a much more difficult business environment than they experienced in the past.

The dairy operators reflected the dire circumstances many dairy farmers find themselves in resulting from several years of accumulated losses, particularly in 2009, which may have been the worst year ever for milk producers.

This same sentiment was reflected by several rice farmers but to a lesser degree. It is interesting to note that most cotton farmers have not benefitted from the recent record cotton prices as their

2010 crop was generally already priced, or sold, prior to the record price run-up. All livestock sectors continue to transition to a higher and more volatile feed cost environment.

While our cow calf operations cite higher market prices, they also responded that they are having difficulties securing forage supplies due to drought, difficulties outbidding stocker operators for grazing land, and face lower expected prices due to the reality that feedlot profitability is being strained by high corn prices and high calf prices.

Their final two areas of concern were their feeling that government regulation and specifically EPA regulation of their operations was driving up their costs of doing business and that there needed to be something done about the shortage of agricultural labor and specifically a more workable guest worker program.

Madam Chairwoman, this completes my statement.

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

Chairwoman STABENOW. Thank you very much and thank you to all of you.

Let me take a moment to ask some questions and, first, to Mr. Creagh, in your testimony you talk about the importance of infrastructure to economic growth and sustainability. USDA rural development administers and manages, as you know, a number of different programs, housing, business, community infrastructure, utility programs.

From your perspective at the state level, can you share with us which programs are particularly important for continued growth in our rural communities?

Mr. CREAGH. Well, Madam Chairwoman, as you know, it is always tough to pick a favorite child. I would say from the get-go for Michigan the increase in the support of the infrastructure is critical to our long-term success.

The President was in the up in the Upper Peninsula, as you are well aware of, talking about broadband and some the advantages of bringing that to rural Michigan. If are going to compete in a global network and a global society, then we are going to have to have access to those markets through the appropriate use of broadband and Internet and high speed communication needs.

But I would also have to say roads, rails, water will get your goods to market. That would be the first one.

The second one is USDA rural development has been integral to keeping people in their houses in Michigan. We appreciate the support that USDA rural development did for Michigan.

Chairwoman STABENOW. Thank you. I think it is interesting as I talk to people in Michigan about how much there is not an awareness of how rural development really does touch all of our lives, the quality of life in rural communities as you mentioned, I mean, housing as well as what we would consider traditional infrastructure or the ability to have a fire engine or a police vehicle or the other things that are so important to quality of life.

Mr. CREAGH. Right.

Chairwoman STABENOW. I am wondering also, you mentioned, Mr. Creagh, several areas of growth and entrepreneurship among our Michigan producers specifically agri-tourism, farmers markets,

wine production. As you look down the road, are there other opportunities or areas where you would see for the potential growth of new areas in terms of agriculture?

Mr. CREAGH. Absolutely. This again still is a processing state. We harvest our crops within a short period window and winter comes. So there will be a significant processing capability and capacities that Michigan can take advantage of overtime.

As I mentioned, we are number one in 18 different commodities. We still send cucumbers out of State to pickle. There are opportunities for increasing our dairy sector which is our number one sector.

And of course, my favorite is cherries. As they move from cherries, it is from a baking industry to a highly nutritional fruit. We lead the Nation in the production of dried cherries. So there are a number of opportunities to tie health and nutrition and ag production together to help also alleviate some health concerns, put healthy food on the table and solve some long-term problems.

Chairwoman STABENOW. Thank you.

I would like to ask all of our witnesses. When you look at the importance of the rural economy to each of our States and to our country, I wonder if each of you or whoever would like to respond could talk a little bit more about the larger impact that we see in rural communities from increased incomes. What are producers using increased cash flows to invest in? How do we see that impacting the health of rural communities and the economy as a whole? Where do you see this adding impact for our communities?

Mr. HOENIG.

Mr. HOENIG. Madam Chair, in our area, of course, when we have seen rising incomes, we have seen very significant increases also in investment on equipment, for example.

And also, as you build momentum, you also get increases in some of the production as was mentioned earlier and even small manufacturing moves forward.

It has multiple effects for rural America more generally, and I think that is critical. Now, you see it become more regionally oriented within States where you have major kind of hubs around that, and that is part of the process. But you do have follow-on from increasing incomes generally.

Chairwoman STABENOW. Yes. Mr. Yoder, did you wish to respond?

Mr. YODER. Yes. I just want to add to what he said. Farmers have a tendency, if they have money, they are going to reinvest in their operation.

In our area, there has been a tremendous reinvestment in new machinery as well as new technology. There are lots of GPS and auto-steer and all that kind of stuff that whenever there is money, there is going to be a time to reinvest in that.

The other thing, too, as far as talking about biofuels, while in Ohio we have five ethanol plants running. That is around 300 real jobs but that translates into—that is direct jobs. But it probably translates into 30,000 indirect jobs because of the community that produces more of those dollars that filter through the community. So it is a big deal.

Chairwoman STABENOW. We are done with our testimony.

Dr. Outlaw, if you wanted to respond to the question that I have asked, you are welcome to.

Mr. OUTLAW. Okay. I would echo the same responses that the previous panelist said. Basically, when the farmers are doing better, they tend to reinvest and purchase machinery.

Unfortunately, one of the secondary effects of that is that they probably get a little bit more leverage than they would have liked to have been, and because of some of the interesting things about tax laws and being able to write off losses, there is not a real big incentive to save which is unfortunate.

But much like they said, the ag economies in areas that are important to ag see that the spillover effects into the rest of the economy are quite large.

Senator ROBERTS. [Presiding.] The distinguished Senator from Michigan has gone to vote, and you have noticed that there has been a coup.

[Laughter.]

Senator ROBERTS. We will now proceed to write the wheat section of the Farm Bill.

[Laughter.]

Senator ROBERTS. With a little more questions about the ACRE program, Mr. Yoder, than perhaps we would like but it will be all right.

Tom, let me ask you a question, if I might. In your testimony, you said something you have probably said a lot in the past few years, including last year, during April 7, 2010 speech in Santa Fe which everybody ought to have a copy of, you say that one of the effects of near zero short-term interest rates, coupled with surging commodity prices, is that operators and investors in the Midwest are buying up farmland, and they are, bidding up the price, and they are.

And you appropriately note that we also saw this phenomenon in the banking run up to the banking crisis of the eighties, and we did, and we came through it, finally.

Although there are several differences between now and then, your point about the basic lesson of bad loans being made in good times should be repeated time and time and time again.

The old-timers at the coffee shop repeat it all the time. You are not an old-timer but at least they could repeat it.

And then you also said something about farm debt when I visited with you, something like going up in the past five years 7 percent or have I got seven years and 5 percent. I cannot remember.

Mr. HOENIG. I think it is the latter.

Senator ROBERTS. Okay. But at any rate, that is a 35 percent increase.

Mr. HOENIG. Right.

Senator ROBERTS. Then we got talking about cash grants and we got talking about other things, and some of those figures really startled me in terms of what would happen when the bubble breaks, and you know the bubble will break.

I do not know if it is a bubble or what but we are going to go back to semi-normalcy in regards to crop prices, it seems to me, or maybe we will not. I do not know. Who can tell?

What can or should we be doing policy-wise to help guard against a significant drop in farmland values and farm debt?

Mr. HOENIG. Well, the farmland values are going to proceed because of the very easy borrowing conditions and the very high prices that are encouraging people to invest in, as I think you mentioned earlier, you know, scale becomes important to operators.

And so your opportunity to buy additional land for scale has never been better in that sense, and so you have that momentum going forward.

And I think one of the things that we would try and do as we talk to operators and also to bankers who are involved in making more land loans than operating loans right now is that do not be fooled by loan to value ratios that are moving up.

In other words, the land value is going up because the discount rate is very low and, therefore, you could lend 70 percent against it and you are safe.

But if those land values are going up very rapidly and the implied discount rate is very low, 3 percent, and normally it is 7 percent, that means you can have a 50 percent decline in that land value.

So we are cautioning the lenders, the bankers who may be helping to facilitate the expanded acquisition of land with debt to be very careful about how they interpret the loan to value ratios and how they interpret the cash flows. For a considerable period these high prices will remain and then we find they do not.

So the only thing they can do is say be prudent. Make sure your loan to value ratios are actually stronger than they normally would be because you are going to need that margin. That is really what you do right now.

When interest rates rise, you will get some adjustments down because interest rates will bring those land values down, and hopefully because we watch the leverage a little more carefully, we will be in a better position to handle the adjustment this time through.

Senator ROBERTS. I know you are stepping down. I know you are retiring. Thank you for your service. Thank you for your common sense.

Gentlemen, thank you all for your testimony. We have yet another vote right after this one which necessitates that I depart as well and also necessitates the chairwoman from coming back for which she apologizes.

So I think we have had a very good first session. I thank you very much for coming, for taking time out of your valuable time to come here and to testify. As always, everything that you say will be recorded for posterity and will not collect dust on some shelf.

So with that, this meeting is adjourned.

[Whereupon, at 4:53 p.m., the Committee was adjourned.]

A P P E N D I X

FEBRUARY 17, 2011

Statement for the record of Senator Max Baucus
Agriculture Committee Hearing on growing America's economy
February 17, 2011

I would like to take a moment to recognize our new Committee leadership, Chairwoman Stabenow and Ranking Member Roberts. I congratulate both on their new appointments and look forward to working with them to craft a Farm Bill which benefits Montana's agricultural sector.

It is no surprise to most, that fifty percent of Montana's economy is tied to ranching and farming. Montanans have a long history tied to the land and agriculture in the United States.

One in five jobs in Montana is either tied directly or indirectly to agriculture. Each year Montana ranchers and farmers produce nearly $3 billion of the finest and highest quality agricultural goods produced

anywhere in the world. Some may say I am biased, but I encourage everyone to come to Montana to see the quality of our farming and ranching industries and the strong sense of heritage all Montanans feel.

Montana ranks first nationally in the production of certified organic wheat, third in wheat and barley, and in the top six in beef, lamb, and honey. This probably doesn't surprise many in this room.

What might be surprising is the diversity of that industry in Montana. While wheat and beef still makeup about three-fourths of the state's agricultural sector, crops such as potatoes, sugar beets, and peas and lentils are becoming more prevalent and offering Montana a more diversified agriculture portfolio.

The dynamics of agriculture are changing rapidly not just in Montana but also around the country. While today we can look at most commodities and see prices are high and producers are making money, all of us can remember not too long ago when most commodities were not at a breakeven point due to skyrocketing input costs, rising land prices, and record high crop insurance. Because of these new challenges agriculture has never been riskier, and the markets have never fluctuated so dramatically.

Even with these challenges Montana's farming and ranching community have continually stepped up to the plate year after year to feed the world.

U.S. agricultural exports reached record levels in 2010, and are expected to rise even higher in 2011. Our ranchers and farmers are doing well in the global

marketplace. But more work remains. I would focus on two priorities.

First, we need to expand the number of commodities we export to China. Although China is now our number one market, we have only scratched the surface of its potential. Today, U.S. exports to China are concentrated among only a few commodities. We need to remove barriers and expand exports to China of wheat, barley, and beef, and other globally competitive products. I encourage the Secretary and my colleague to review the report that the International Trade Commission will release on March 1 analyzing the factors that affect the competitiveness of U.S. agricultural commodities in China.

Second, we need to approve all three of the pending free trade agreements (FTAs). Before the President submits the Korea FTA to Congress, however, he should address concerns regarding access to the Korean market for U.S. beef. With respect to Panama and Colombia, I urge the Administration to resolve quickly any outstanding issues so that all three agreements can be approved as soon as possible this year.

In Montana, agriculture is the backbone of our economy. I appreciate the Secretary being here today to discuss its importance.

Opening Statement
Senator Saxby Chambliss
Agriculture: Growing America's Future
February 17, 2011
Senate Committee on Agriculture, Nutrition and Forestry

Senator Stabenow, I would like to welcome you as Chairwoman of the Agriculture Committee. As Chairwoman you have assembled today a panel of witnesses that will provide valuable insight into the status of the agricultural economy. I would also like to thank the Senator from Kansas for his leadership as Ranking Minority Member. I congratulate you both on your appointments and look forward to working with you on this Committee as we move towards the reauthorization of the farm bill in 2012.

Thank you for providing this Committee the opportunity to highlight the influence that farmers and rural communities have when it comes to our nation's economy.

The state of the agriculture economy is strong and farmers and ranchers across the country are experiencing a period of high prices and robust demand around the world. In Georgia, producers are making planting decisions amid historic levels for cotton and other commodities, the likes of which some have never seen while farming.

In fact, the agriculture sector cushioned the rural economy in many parts of the country through the global economic crisis and farmers and ranchers are

leading the U.S. economic recovery with a record-breaking export year. In 2010, U.S. agriculture surpassed the previous high by nearly $1 billion, with export sales totaling $115.8 billion. Imports totaled $81.9 billion, with a trade surplus slightly below the 2008 level at $33.95 billion.

While farmers and ranchers represent less than one percent of the U.S. workforce, they are the foundation of the food and fiber system that generates almost one-sixth of our country's gross domestic product. From the boots on the ground to the suits in Washington, it is important that the folks in Washington hear from our witnesses who have firsthand knowledge of the agriculture sector's condition. It is essential that we understand how all of you characterize the future of agriculture and its contribution to the economy.

Again Chairwoman Stabenow, I thank you for holding this hearing and I look forward to working with you and our Ranking Member.

STATEMENT FOR THE RECORD
Senator Bob Casey
Agriculture Hearing on February 17, 2011

I would like to start by congratulating Senator Stabenow on her new position as the Chairwoman of the Senate Committee on Agriculture, Nutrition and Forestry. Throughout her time in the Senate, Chairwoman Stabenow has established herself as a strong and effective legislator on these issues. I very much look forward to working with her and with all the other Committee members.

During my time in the Senate, I have enjoyed working for this Committee, a Committee of people willing to work together to create smart, effective national policy. The legislative issues before this Committee are critically important to our Nation. For example, the Farm Bill is essential to ensuring that Americans have food security, and that agricultural producers can continue to feed us, clothe us, provide us with environmental benefits, and fuel our future. The 2008 Farm Bill incorporated some new ideas and important reforms, boosted investment in nutrition, ensured greater regional equity and cultivated other programs that help those who haven't received benefits through the Farm Bill previously. In addition, the 2008 Farm Bill made historic investments in nutrition, conservation, fruit and vegetable production and renewable energy while maintaining a strong safety net for America's farmers.

Of great importance to Pennsylvania, the 2008 Farm Bill made an historic investment in our Nation's specialty crop industry by providing approximately $3 billion in assistance for fruit and vegetable growers. This increased funding level recognized this industry's proper role as a major contributor to production agriculture in America. These funds are currently being used for activities such as specialty crop research, pest and disease management planning and marketing programs. The Farm Bill also helped increase local food purchasing through programs like senior farmers markets. In the 2012 Farm Bill, additional improvements must be made to ensure our Nation's specialty crop industry is provided proper credit for the tremendous role it plays in the national and international agricultural economy.

Supporting Pennsylvania's dairy farmers is very important to me and I look forward to addressing problems in our current dairy system during the upcoming Farm Bill discussions. The dairy industry is central to Pennsylvania's agricultural economy, contributing more than $4 billion each year. In addition to being the top agricultural sector, the dairy industry is critical to the vitality of local economies. 85% of dairy income is spent in the local communities and 98% of Pennsylvania dairy farms are family-owned. The 2008 Farm Bill included historic improvements, such as a strengthened safety net in the Milk Income Loss Contract program and the creation of the "MILC feed adjuster." However, these improvements do not do enough to establish a stable and reliable market. Our dairy farmers deserve a such a market. Without one, it is impossible for people to count on dairy farming as a family sustaining industry and a means for achieving financial security.

During his time at the Department of Agriculture, Secretary Vilsack has worked very hard to ensure that America's agricultural economy is strong and robust. He has demonstrated his dedication to revitalizing rural communities and protecting our natural resources. In addition,

Secretary Vilsack has championed the issue of improving the health of America's children by focusing on encouraging balanced meals, eating nutritious foods and increasing physical activity. As we all know, the issues that USDA handles are diverse and complicated. I am grateful to Secretary Vilsack for his work and look forward to working with him in the 112th Congress.

We live in a Nation that is as diverse in agricultural production as it is in the people who consume the products that farmers grow. As we move forward toward passing the next Farm Bill, I hope we can again ensure that we have a safe, stable, secure supply of food, fiber, and fuel from American farmers.

Statement of
Keith Creagh, Director
Michigan Department of Agriculture & Rural Development

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

February 17, 2011

"Agriculture: Growing America's Economy"

Thank you, Senator Stabenow, for the opportunity to be here today. On behalf of the State of Michigan, Governor Rick Snyder, and all of us at the Michigan Department of Agriculture and Rural Development, I want to express our appreciation for your commitment and leadership on food and agriculture issues. We also recognize the remarkable new opportunities for rural America, and we look forward to a continued partnership with you to assure Michigan's food and agricultural industry is strategically aligned to enhance our growth opportunities as we reinvent Michigan.

Michigan's agri-food industry contributes $71.3 billion annually to the state's economy[1]. Production agriculture, food processing, and related businesses employ more than one million Michigan residents; approximately 1 in 4 jobs. This is a robust and high tech industry that will undoubtedly serve as one of Michigan's (and the nation's) foundations to our long term, sustainable economic recovery. At a time when 850,000 jobs were lost in Michigan[2], our agricultural economy experienced a decade of growth. It expanded at a rate of more than five times faster than the rate of the general economy (11.9 percent versus 2 percent) between 2006 and 2007. Further, since 2007,

[1] Michigan State University Product Center, "*The Economic Impact of the Michigan Food Processing Industries,*" by William A. Knudson, Steven Miller and H. Christopher Peterson, September 2010.
[2] Bureau of Labor Statistics. "*Michigan Economic & Budget Outlook,*" by Mark Haas, Chief Deputy Treasurer, October 25, 2010.

we have seen a 27% increase, making agriculture a cornerstone in diversifying Michigan's economic future. As a result of our diverse soils, crops, fresh water, and climate we are well-positioned to continue this growth and expansion at all levels of production. Currently, we produce over 200 commodities on a commercial basis; and lead the nation in 18 of these.

Under Governor Snyder's leadership, Michigan is developing a comprehensive food and agriculture strategy that prioritizes food safety, food security, nutrition and health, energy, trade, environmental stewardship, and rural development. It is fundamental, and part of our core mission, to provide a safe and wholesome food product for the citizens of Michigan. We will continue to work with our federal partners to seek appropriate funding and implementation of the Food Safety Modernization Act which will allow for a more vigorous and collaborative approach between federal, state and local partners. The risk of contaminated food products to our consumers reinforces the need for a rigorous inspection system to mitigate those risks. Collaborating with our federal partners will assist in identifying respective roles in the food safety continuum.

The Michigan Department of Agriculture and Rural Development applauds your support and leadership of the Specialty Crop Block Grants. Having these resources available for cost-sharing opportunities provides much needed research, training and education that otherwise may not be available for food and agriculture entrepreneurs. The health and nutrition of Michigan citizens are directly tied to an available and wholesome food supply.

Michigan has a dynamic food processing industry currently generating $24.9 billion annually and employing 134,000 people. However, merely siting a food processing facility in a community does not necessarily address the long term economic variables. To ensure growth and sustainability are at the forefront of the equation, we must conduct a thorough and extensive review of the proposed facility. All of the following components are integral to the process and must be addressed:

- Adequate infrastructure
- Trained workforce
- Capability and capacity to deliver goods on a predictable basis
- Food safety checks and balances
- Access to available markets
- Appropriate inspections and certifications

Adequate infrastructure including roads, rail, waste water treatment and high speed communication must be part of any comprehensive strategy. We appreciate the opportunity to work with USDA Rural Development to identify broadband interface opportunities in our rural areas to ensure our citizens can compete in the global marketplace. Just as rural electrification was crucial to the advancement of food production in the 20th Century, access to high speed internet is vital to the productive capacity of today's rural community. Michigan is fortunate to export almost one-third of its agricultural production, generating more than $1.55 billion annually, and employing

more than 12,000 workers. We have nearly doubled our exports since 1997. In 2009, we directed over $753 million in exports to Canada alone. Michigan has worked strategically with the Food Export Association of the Midwest USA through the Market Access Program to provide export assistance to our small and medium-sized companies. Because of this partnership, in 2009 we jointly assisted over 60 companies participating in nearly 150 programs or services, which resulted in an increase of $13.6 million in export sales. We look forward to continuing this partnership as we build upon our international successes.

Agri-tourism is another area where Michigan is experiencing growth. Farm and farmers markets, coupled with our $287 million wine industry[3], generate well over a million tourists each year. Michigan ranks in the top four in the nation for the number of farmers markets, as well as the rate of growth[4]. By spending $10 per household each week on locally grown foods, $40 million would be kept circulating in Michigan's economy[5].

The continued growth of the food and agriculture industry will require the integration of new science and technology, as well as the implementation of appropriate risk management tools in order to minimize the impact from food recalls, exotic and invasive species, and natural disasters. Assuring the food and agriculture industry has the necessary tools available from the United States Department of Agriculture, the Environmental Protection Agency, and the Food and Drug Administration to provide

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[3] MFK Research, LLC, "*Economic Impact of Michigan Grape and Wine – 2005.*"
[4] USDA Press Release – August 4, 2010, "*USDA Announces that National Farmers Market Directory Totals 6,132 Farmers Markets in 2010.*"
[5] Compilation of USDA Census Data and Michigan State University Product Center

relief from these occurrences is critical. Continuation of programs that support these collaborative efforts will enhance the future economic growth of Michigan agriculture.

Michigan farmers appreciate the technical assistance that has been made available to them. An example of this collaboration is the Conservation Technical Assistance Initiative (CTAI) whereby leveraging a 100% match from USDA puts engineers and technicians on the ground to help farmers design and install conservation practices. These individuals will leverage $16 million in federal cost share dollars paid to the impacted producers for the installation of practices. The expenditure of these dollars not only resulted in a 40 to 1return on investment, but also provided substantial protection of the Great Lakes and our Michigan environment.

As national policy is fashioned, we must provide flexibility at the state and local level to support innovation and entrepreneurs who strive to make a difference in the economic recovery process. As we look to reinvent Michigan and compete on a global scale, the food and agriculture industry stands ready to assist in our long term economic recovery.

We look forward to working with you and the U.S. Senate Committee on Agriculture, Nutrition and Forestry to make rural America a great place to live, work and play.

Statement of

Thomas M. Hoenig

President

Federal Reserve Bank of Kansas City

before the

Senate Committee on Agriculture, Nutrition and Forestry

United States Senate

February 17, 2011

Thank you, Madam Chair. I appreciate the opportunity to discuss recent developments in U.S. agriculture and its role in the U.S. economy. Agriculture remains a vital industry in the expansive region that the Federal Reserve Bank of Kansas City serves and, accordingly, our Bank has a long tradition of focusing significant attention on industry developments. Our observations on agriculture, in turn, have given us useful insight into the U.S. and global economies more broadly. In my remarks this morning, I'll describe recent developments in the nation's farm economy and discuss some risks that have my attention.

Recent Developments in U.S. Agriculture

Agriculture – broadly defined as farm production and output from related industries – accounts for almost one-sixth of U.S. jobs and economic activity. While the farm share of economic output has declined as other parts of our economy have grown, increased activity in broader agricultural industries – manufacturing, transportation, distribution and food retailing – has opened new job opportunities in both rural and metro communities.

A robust agricultural sector cushioned the rural economy in our and other regions across the nation during the recent recession, and the industry's strength is supporting further improvement in the rural economy today. In 2010, strong demand and tight supplies for most farm commodities contributed to a sharp rebound in farm profits, which then supported sales in farm equipment and other farm-based industries. Strong profits from agriculture also girded important elements of our rural financial system. Commercial banks with large agricultural loan portfolios posted stronger returns than their peers over the past three years. While more than 300 commercial banks failed during this time, only 22 were agricultural banks.

Agriculture is also benefitting directly from the rebounding economic strength of China and other emerging market economies, where rapid income growth is driving up food demand. The United States remains a net exporter of agricultural products, shipping more than 40 percent of its wheat, cotton, soybeans and rice crops to foreign countries in 2010. United States crop and meat exports are expected to rise to record highs in 2011. Looking out a little further, economists expect global growth to exceed 4 percent well into 2012, with the developing and emerging market economies remaining in the lead. Rapid income gains in the developing world promise further increases in demand for higher-protein diets.

Developing Risks in Agriculture

Despite prospects of sustained farm income growth, U.S. producers must remain alert as they face challenges related to their very success and tied to recent developments in financial markets. Surging commodity prices and low interest rates have translated into increasing farmland values, which have eclipsed their 1980s peaks. In our Bank's fourth quarter 2010 Survey of Agricultural Credit Conditions, for example, cropland values in Nebraska and Kansas were nearly 20 percent above year-ago levels and more than 75 percent higher than five years ago.

This run-up in farmland values has occurred, however, amid financial markets characterized by high levels of liquidity and unusually low interest rates. History has taught us that it is nearly impossible to determine how much of the farmland boom may be an unsustainable bubble driven by financial markets and how much results from fundamental changes in demand and supply conditions. Therefore, it will surprise no one when I say we are

watching the market closely, just as we are watching for imbalances emerging elsewhere in the economy.

Of particular interest to me is how agriculture might adjust when financial markets return to more-normal interest rate conditions. Rising interest rates often coincide with falling farm revenues and higher capitalization rates, a depressing combination for farmland values. Moreover, even if crop prices remain high but capitalization rates return to their historic average, farmland values could fall by as much as a third, which most certainly would erode the financial health of the farm sector.

Fortunately, the industry entered this period with a relatively strong balance sheet. Farm leverage ratios are at historic lows, and agricultural banks are well capitalized. In addition, farm operators and banks have strengthened their risk-management practices, using basic hedging strategies and derivative markets to manage price and balance sheet risk, which contributed to smaller increases in problem assets at agricultural banks than at their peers. Nevertheless, I follow the basic lesson that bad loans are made in good times, and I remain watchful.

In closing, I'll briefly highlight a symposium the Federal Reserve Bank of Kansas City hosted last summer to consider agriculture's response to the extraordinary shifts occurring in market conditions. There was a marked and, in my view, a very healthy consensus that the industry's success will lie not in its ability to follow a single path, but in its ability to adapt quickly to shifting economic landscapes and conditions. Still, my nagging concern remains that current distortions in financial markets are increasing the risk that imbalances in asset markets will catch agriculture – and the U.S. economy more generally – by surprise once again.

Thank you Madam Chair.

MEMORANDUM

January 14, 2011

To: Thomas Hoenig, Esther George, Diane Raley, Alan Barkema, Kevin Moore
From: Jason Henderson and Brian Briggeman
Subject: Farmland Values and Interest Rate Risk

Higher crop prices and lower interest rates have fueled a surge in farmland values, raising concerns about a bubble in the agricultural real estate market. Since June, grain prices have doubled, and futures markets suggest that prices could remain elevated through 2014. Still, historically low interest rates and capitalization rates are needed to justify current farmland values.

Over the past year, farmland values have posted double-digit gains, with additional gains expected in 2011 (Map 1). By the beginning of 2010, U.S. farmland values had risen more than 15 percent above 2005 levels, lifting the total value of U.S. farmland to almost $2 trillion (Chart 1). While farmers own the majority of U.S. farmland, non-farm investors are buying more land. According to a 2010 Iowa State University report, investors accounted for a quarter of Iowa farmland sales.

Low interest rates, which have depressed capitalization rates, contributed to the recent spike in farmland values. Capitalization rates on U.S. farmland have fluctuated over time, falling in periods of negative real interest rates – 1970s and 2000s – and rising during periods of higher real interest rates – 1980s. According to USDA data, Nebraska's capitalization rate on cropland was 5.1 percent at the beginning of 2010, well below its historical average of 7.5 percent (Chart 2). Despite regional variation, capitalization rates on farmland values have fallen to record lows across the nation, with rates below 5 percent in most states (Map 2). Oklahoma and Texas have lower capitalization rates due to mineral rights inflating farmland values.

Given low capitalization rates, farmland values face significant interest rate risk. For example, irrigated cropland in eastern Nebraska is valued at $5,000 per acre. A historically low capitalization rate of 5 percent is needed to rationalize this land value at current corn prices and yields (Table 1). If interest rates would rise and lift capitalization rates to their historical average of 7.5 percent, the capitalized value of irrigated farmland in eastern Nebraska could fall by a third to $3,300 per acre (Chart 3). If capitalization rates would rise to 10 percent as they did during the 1980s farm crisis, land values could drop by half. Additional analysis suggests that other regions face similar interest rate risks.

Rising interest rates could also cut farmland values by reducing farm revenues. Higher interest rates tend to raise exchange rates, which limits agricultural exports, in turn depressing commodity prices and farm revenues. In 1981, the spike in real interest rates led to higher exchange rates and contributed to lower agricultural exports. With falling exports, commodity prices and farm revenues dropped, which pushed farmland values to their 1985 lows. If a similar event occurred today, farmland values could fall. For example, if capitalization rates return to their historical average and corn prices drop to $4 per bushel, their 2009 average, irrigated land values in eastern Nebraska could fall almost 50 percent to $2,700 per acre (Chart 4). Other regions face similar risks. In sum, rising interest rates could trigger a sharp decline in farmland values.

Map 1:
Non-irrigated Cropland Values
(Percent change 2009:Q3 to 2010:Q3)

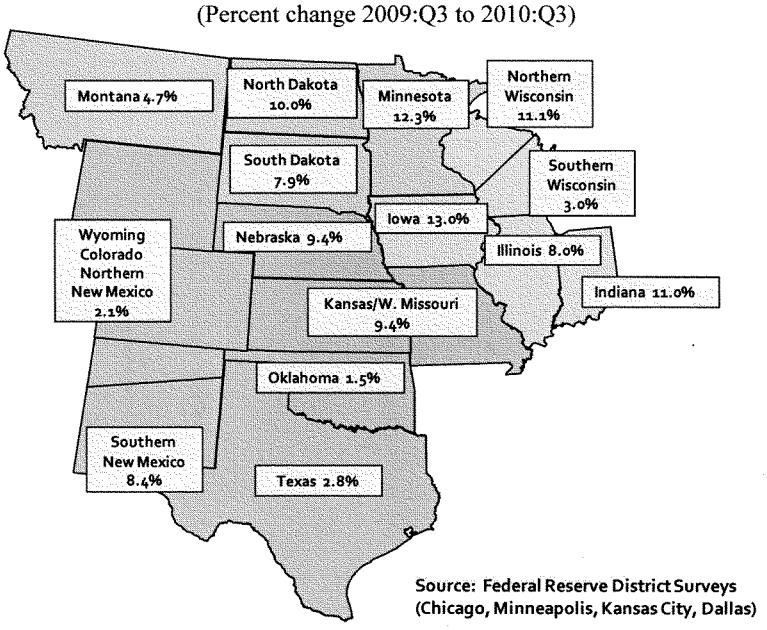
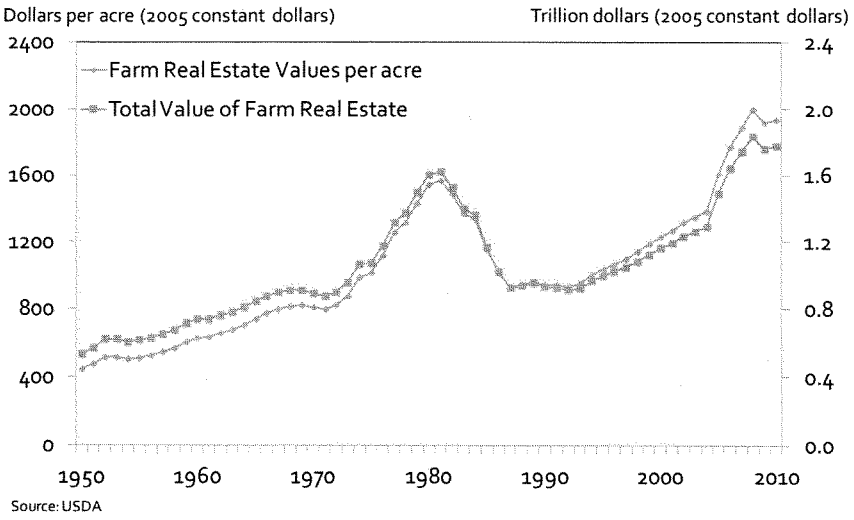
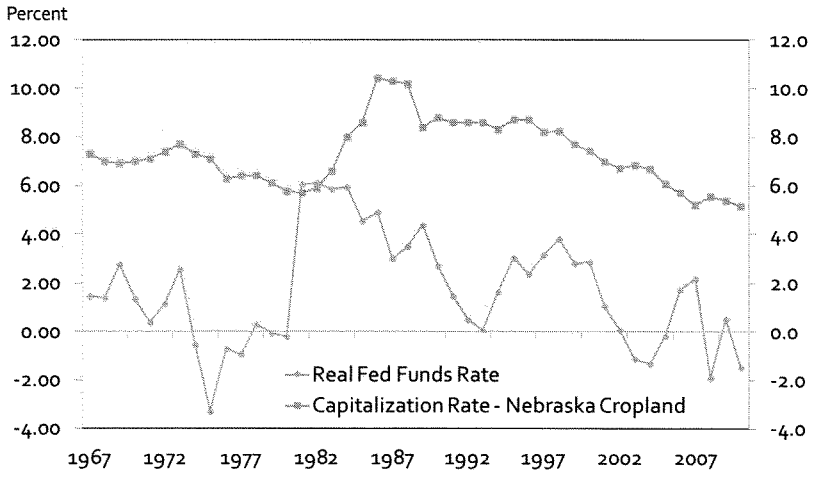


Chart 1:
Real U.S. Farmland Values



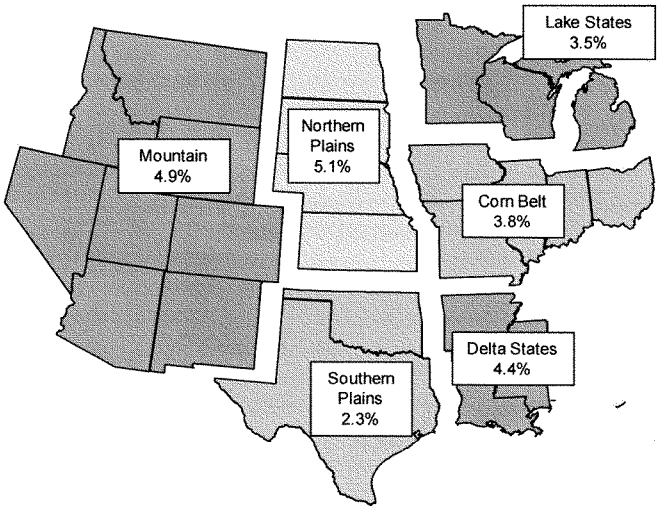
Source: USDA

Chart 2:
Capitalization Rate on Nebraska Farmland (Cash Rent/Land Value) and Real Fed Funds Rate



Source: USDA and Federal Reserve

Map 2:
Capitalization Rates on Cropland across USDA Regions



Calculations based on USDA Land Values and Cash Rents, January 1, 2010 data

Table 1: Implied Capitalization Rate on Eastern Nebraska Irrigated Cropland

Land values should equal capitalized revenues

$$\textbf{Land Values} = \frac{\textbf{Expected Revenues}}{\textbf{Capitalization Rate}}$$

Assumptions:

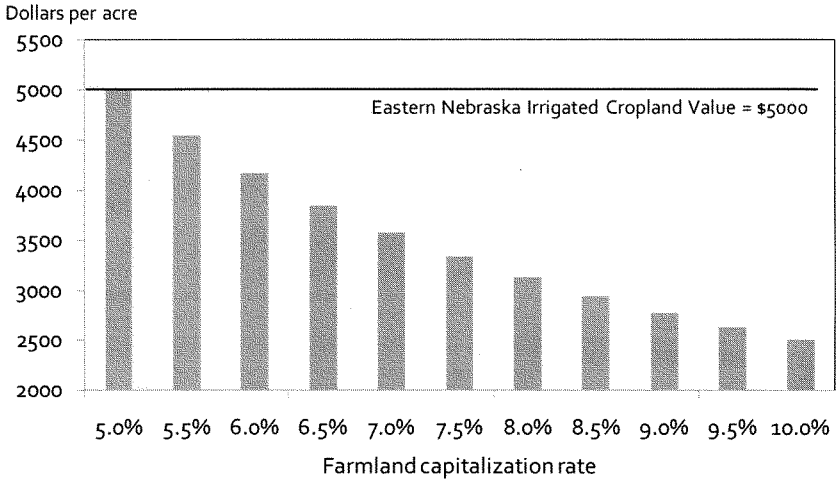
Corn Price: $5.00 per bushel

25% of gross revenues go to land

	Yield (bushel per acre)	
	150 bushels	200 bushels
Capitalization rate		
5%	3750	5000

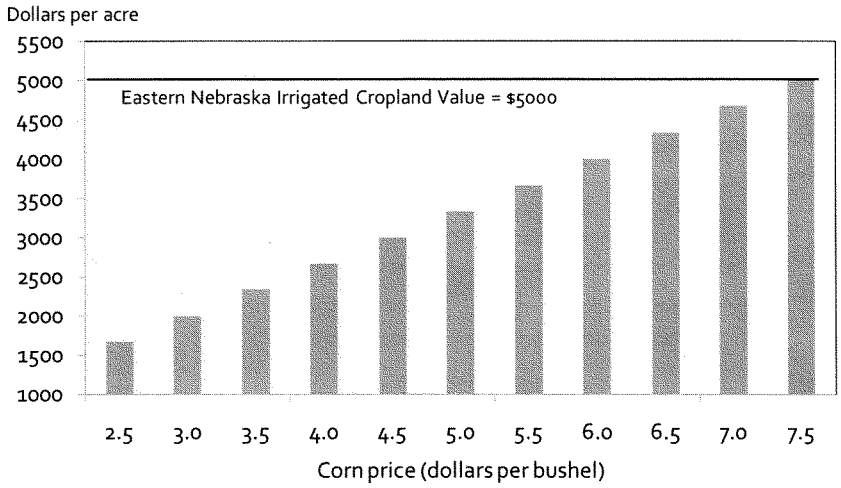
Note: Nebraska irrigated corn yield 198 bushels per acre (2009 average)
U.S. average annual price $5.20 per bushel (2010 average)

Chart 3:
Capitalized Revenues (Land Values) on Nebraska Irrigated Cropland Assuming Corn Prices at $5 per Bushel



Authors' calculations assuming 200 bushels per acre and 25% of gross revenues capitalized into land.

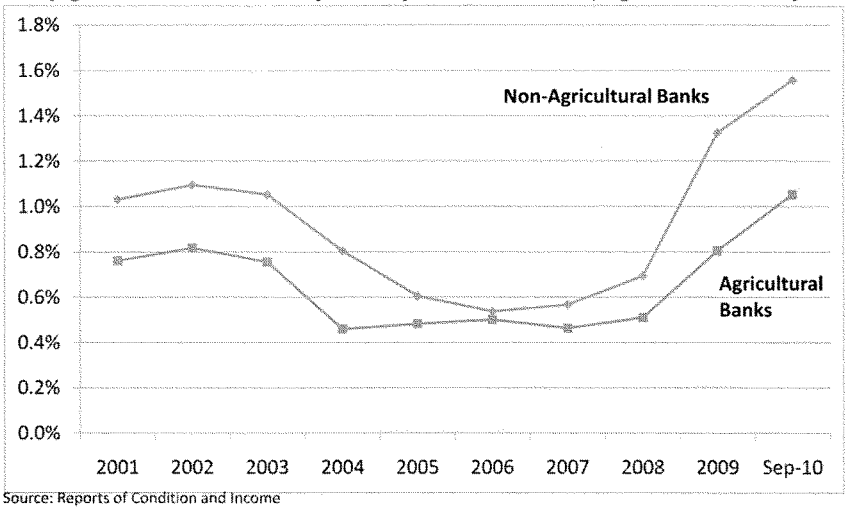
Chart 4:
Capitalized Revenues (Land Values) on Nebraska Irrigated Cropland Assuming a Capitalization Rate of 7.5%



Authors' calculations assuming 200 bushels per acre and 25% of gross revenues capitalized into land.

Agricultural Loan Noncurrent Rates

(Agricultural loans 90+ days delinquent + nonaccrual/Agricultural Loans)

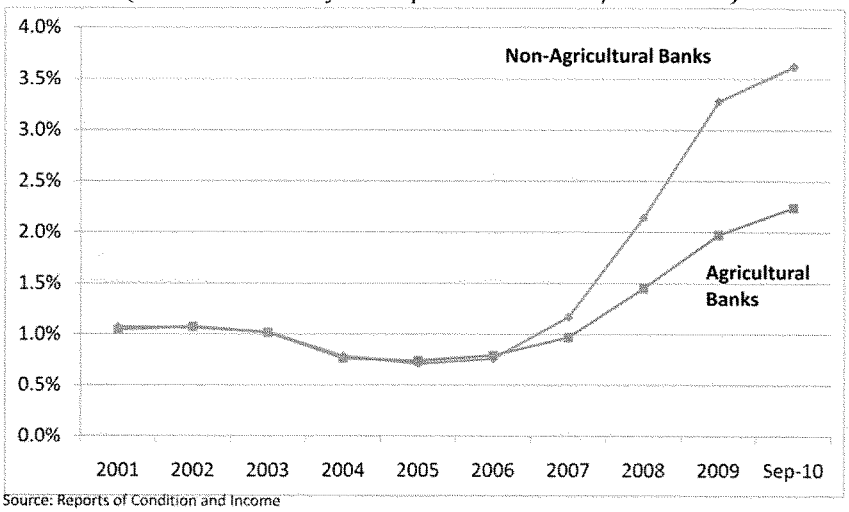


Source: Reports of Condition and Income

Note: Sample includes all banks with less than $1 billion in assets. Agricultural banks are defined as banks with total agricultural loans > 300% of Tier 1 Capital

Total Loan Noncurrent Rates

(Total loans 90+ days delinquent + nonaccrual/Total Loans)

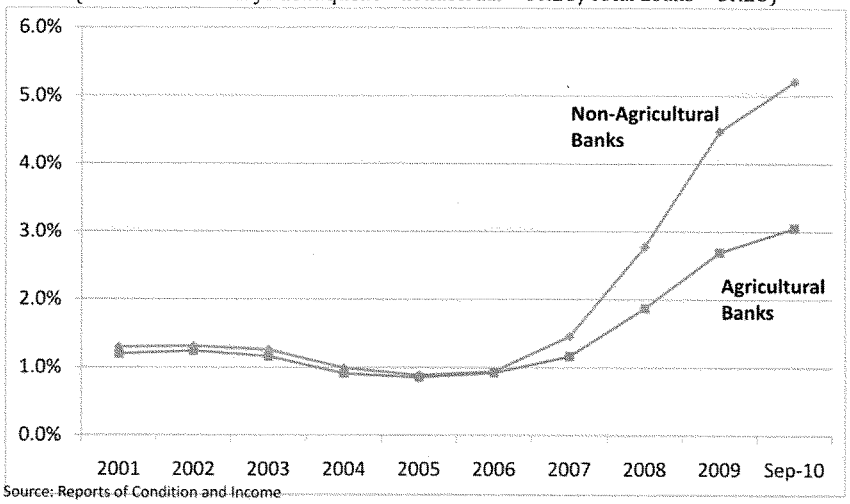


Source: Reports of Condition and Income

Note: Sample includes all banks with less than $1 billion in assets. Agricultural banks are defined as banks with total agricultural loans > 300% of Tier 1 Capital

Nonperforming Assets

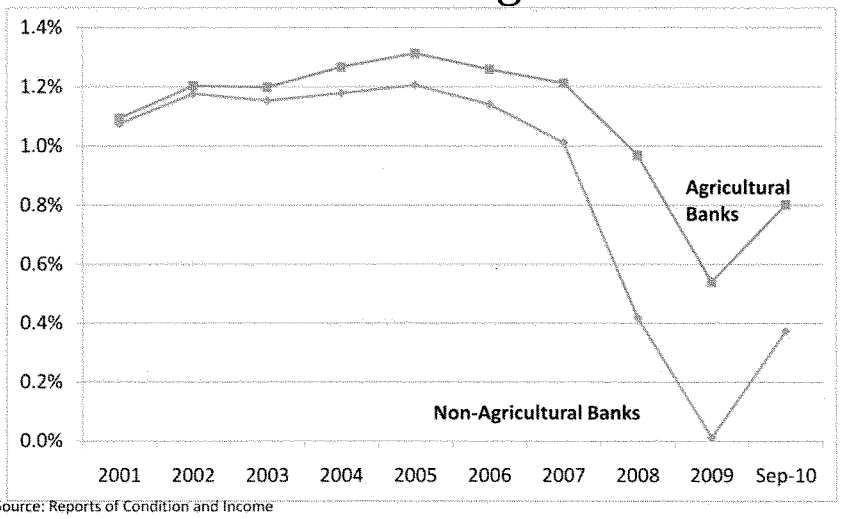
(Total loans 90+ days delinquent + nonaccrual + OREO/Total Loans + OREO)



Source: Reports of Condition and Income

Note: Sample includes all banks with less than $1 billion in assets. Agricultural banks are defined as banks with total agricultural loans > 300% of Tier 1 Capital

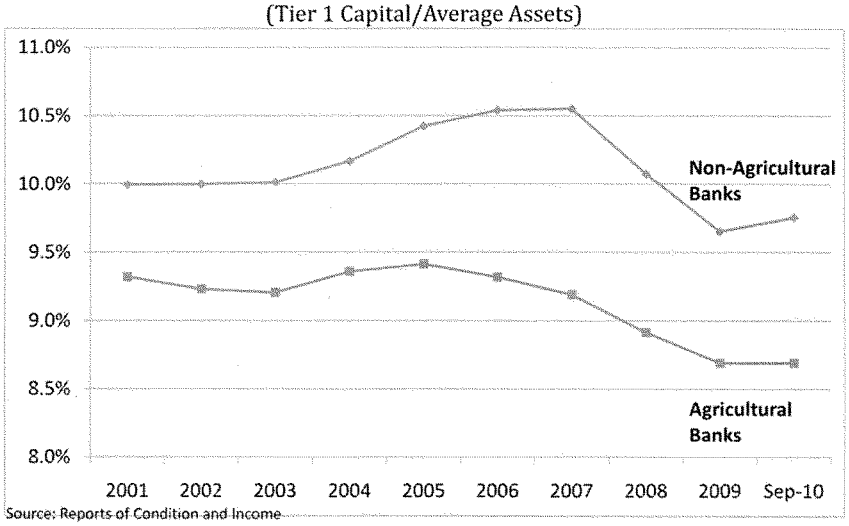
Return on Average Assets



Source: Reports of Condition and Income
Note: Sample includes all banks with less than $1 billion in assets. Agricultural banks are defined as banks with total agricultural loans > 300% of Tier 1 Capital

Capital Ratios

(Tier 1 Capital/Average Assets)



Source: Reports of Condition and Income

Note: Sample includes all banks with less than $1 billion in assets. Agricultural banks are defined as banks with total agricultural loans > 300% of Tier 1 Capital

	Ag Loan Noncurrent Rates		Total Loan Noncurrent Rate		Nonperforming Assets		ROAA		Capital Ratios	
	Non-Ag Banks	Ag Banks	Non-Ag Banks	Ag Banks	Non-Ag Banks	Ag Banks	Non-Ag Banks	Ag Banks	Non-Ag Banks	Ag Banks
2001	1.03%	0.76%	1.07%	1.04%	1.30%	1.20%	1.07%	1.09%	10.00%	9.32%
2002	1.09%	0.82%	1.06%	1.07%	1.31%	1.24%	1.18%	1.20%	10.00%	9.23%
2003	1.05%	0.76%	1.02%	1.02%	1.26%	1.16%	1.15%	1.20%	10.01%	9.21%
2004	0.80%	0.46%	0.79%	0.76%	0.99%	0.91%	1.18%	1.27%	10.17%	9.36%
2005	0.61%	0.48%	0.71%	0.74%	0.89%	0.85%	1.21%	1.31%	10.43%	9.41%
2006	0.54%	0.50%	0.76%	0.79%	0.94%	0.92%	1.14%	1.26%	10.54%	9.32%
2007	0.57%	0.46%	1.17%	0.97%	1.46%	1.17%	1.01%	1.21%	10.55%	9.19%
2008	0.69%	0.51%	2.14%	1.45%	2.78%	1.87%	0.42%	0.97%	10.08%	8.91%
2009	1.33%	0.80%	3.28%	1.97%	4.48%	2.69%	0.01%	0.54%	9.65%	8.69%
Sep-10	1.56%	1.05%	3.62%	2.24%	5.21%	3.05%	0.37%	0.80%	9.75%	8.69%

Note: Sample includes all banks with less than $1 billion in assets. Ag banks are defined as banks with total ag loans > 300% of Tier 1 Capital

Statement of Dr. Joe L. Outlaw,

Before the Committee on Agriculture, Nutrition and Forestry of the United States Senate, on Agriculture: Growing America's Economy

February 17, 2011

Chairwoman Stabenow and members of the Committee, thank you for the opportunity to testify on behalf of the Agricultural and Food Policy Center at Texas A&M University on the outlook for U.S. agriculture based on our long history of representative farm research. We specialize in working at the farm level with a one-of-a-kind dataset of information that we collect from real farmers and ranchers.

Our Center was formed by our Dean of Agriculture at the request of Congressman Charlie Stenholm to provide Congress with objective research regarding the financial health of agriculture operations across the U.S. with a focus on unbiased analyses of the impacts of proposed agricultural policy changes. For more than 25 years we have been provided funding via Congressionally directed spending to work with the Agricultural Committees in the U.S. Senate and House of Representatives providing Members and committee staff objective research regarding the potential farm level affects of agricultural policy changes.

In 1983 we began collecting information from panels of 4 to 6 farmers or ranchers that make up what we call representative farms located in the primary production regions of the United States for most of the major agricultural commodities (feedgrain, oilseed, wheat, cotton, rice, cow-calf and dairy). Often, two farms are developed in each region using separate panels of producers: one is representative of moderate size full- time farm operations, and the second panel usually represents farms two to three times larger.

Currently we maintain the information to describe and simulate 98 representative crop and livestock operations in 28 states as seen in Figure 1. We have several panels that continue to have the original farmer members we started with back in 1983. We update the data to describe each representative farm relying on a face-to-face meeting with the panels every two to three years. We partner with FAPRI at the University of Missouri who provides projected prices, policy variables, and input inflation rates. The producer panels are provided pro-forma financial statements for their representative farm and are asked to verify the accuracy of our simulated results for the past year and the reasonableness of a six- year projection. Each panel must approve the model's ability to reasonably reflect the economic activity on their representative farm prior to using the farm for policy analyses. The results I am going to discuss today were developed with FAPRI's recently completed January 2011 ten-year baseline projections.

Our whole farm simulation model enables us to accurately account for the historical price and production risk unique to each operation as we project out into the future. This feature provides a great deal of realism to our results as we simulate each year of our analyses 500 times drawing different price and yield combinations. Our

model results are 500 projected pro forma balance sheets and income and cash flow statements for each operation that tends to be too many numbers to easily grasp.

Over the years, we have moved to a color-coded representation of each farm's projected financial viability over our projection period (generally 5 to 6 years in the future) in order to effectively communicate the complex representative farm research results. Green refers to farms we would characterize as being in good financial condition with less than a 25 percent chance of both a loss in real equity and having cash flow shortfalls at the end of 2016. Yellow denotes farms in moderate or marginal financial condition with a 25% to 50% chance of a loss in real equity and cash flow shortfalls. Farms given the color code red are characterized as being in poor condition and have greater than a 50% chance of a loss in real equity and cash flow shortfalls.

Under the FAPRI January 2011 Baseline, 36 of the 64 crop farms are considered in good overall financial condition by 2016 with 15 in moderate condition and 13 in poor condition. Eighteen of 34 livestock operations are considered in good financial condition by 2016 with 11 in marginal condition and 5 in poor condition. The breakdown across farms is:

- FEEDGRAIN FARMS: Nineteen of the 23 feedgrain farms are in good overall financial condition. Three are classified in marginal condition, and one is in poor condition.
- WHEAT FARMS: Eight of the 11 wheat farms are classified in good financial condition and three are in marginal condition; no farms are in poor condition.
- COTTON FARMS: Seven of the 16 cotton farms are classified in good condition, five are in marginal condition, and four are in poor condition.
- RICE FARMS: Two of the 14 rice farms are projected to be in good financial condition, four are in marginal condition, and eight are in poor condition.
- DAIRY FARMS: Eleven of the 22 dairy farms are in good overall financial condition. Seven are considered to be in marginal condition, and four are in poor condition.
- BEEF CATTLE RANCHES: Seven of the 12 cattle ranches are classified in good financial condition, four are in marginal condition, and only one is projected to be in poor condition.

A couple of caveats are worth mentioning. We started this analysis in 2009 with actual prices and production for each farm. If 2009 was unprofitable, the farm has to work its way out of the financial hole over the period. If 2009 was a good year, it is much easier to end the period in good condition. We do not include any off-farm sources of income by design. The inclusion of off-farm income can confuse the overall view of how a policy change will impact a farm's financial condition. Off-farm income is often a function of location or the ability of a spouse to find off-farm employment.

While there are a number of farms in moderate or poor condition, this is the best overall representative farm outlook since 1995 when it appeared that higher commodity prices were in place for the foreseeable future. We all know that those higher prices were short-lived.

One of the most important and useful features of our work is the knowledge and insights we gain from the interaction we have with the panels of farmers and ranchers. In addition to our update visits, we maintain communication throughout the year with queries via email and periodically ask them direct questions of how they are likely to respond to policy changes. Some of their most revealing responses were to questions regarding climate change, biofuels, and farm debt levels. In preparation for this testimony we asked them to let us know how they were doing and what their concerns were for the future. The responses we received were representative of each type of crop farm and both cow calf and dairy operations.

In general, most crop farmer respondents said their outlook was favorable due to the recent price improvements for most commodities. While there is cautious optimism regarding higher commodity prices the sudden downturn experienced in 1995/96 and more recently in 2008 has most of the representative farm members nervous about the future. Most responded that input prices are sticky meaning they rise along with commodity prices but tend to fall much slower as experienced recently after the 2008 price increases. There is also a concern that Congress will use these current high prices as justification for severely reducing the safety net provided by the different commodity programs. Most respondents felt that the current price volatility created a much more difficult business environment than they experienced in the past.

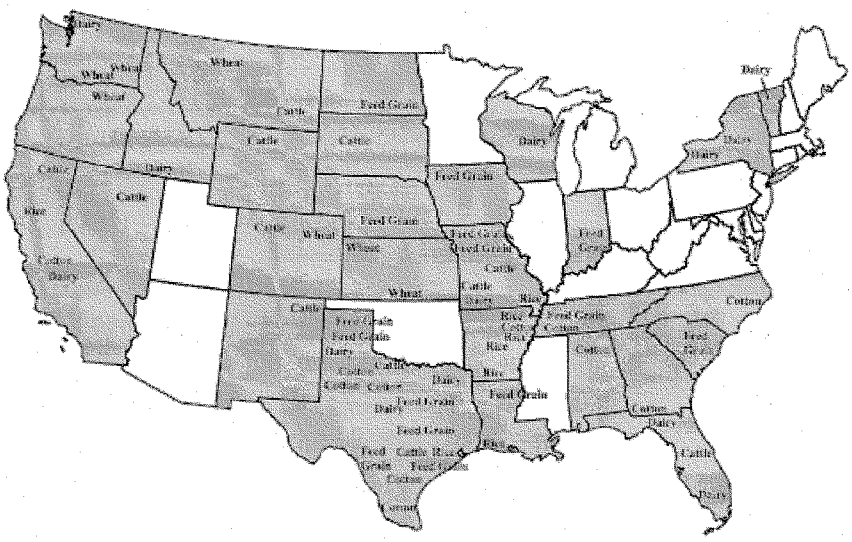
The dairy operators reflected the dire circumstances many dairy farmers find themselves in resulting from several years of accumulated losses, particularly in 2009, which may have been the worst year ever for milk producers. This same sentiment was reflected by several rice farmers but to a lesser degree. It is interesting to note that most cotton farmers have not benefited from the recent record cotton prices as their 2010 crop was generally already priced, or sold, prior to the record price run-up.

All livestock sectors continue to transition to a higher and more volatile feed cost environment. While our cow calf operations cite higher market prices they also responded that they are having difficulties securing forage supplies due to drought, difficulties outbidding stocker operators for grazing land, and face lower expected prices due to the reality that feedlot profitability is being strained by high corn prices and high calf prices.

Their final two areas of concern were their feeling that government regulation and specifically EPA regulation of their operations was driving up their costs of doing business and that there needed to be something done about the shortage of agricultural labor and specifically a more workable guest worker program.

Madam Chairwoman, that completes my statement.

Figure 1 Representative Farms, Dairies, and Ranches Maintained by AFPC



STATEMENT OF SECRETARY THOMAS VILSACK
U.S. DEPARTMENT OF AGRICULTURE
BEFORE THE U.S. SENATE
COMMITTEE ON AGRICULTURE, NUTRITION & FORESTRY

FEBRUARY 17, 2011

Madame Chairwoman, members of the Committee, thank you for the invitation to discuss recent developments in and prospects for the farm economy. As we enter 2011, the farm economy continues to remain strong with U.S. agricultural exports, farm cash receipts and net farm income projected at or above previous record levels. Farm household debt levels appear to have stabilized despite increasing land values. While prospects generally look bright, recent sharp increases in prices for major crops are generating a range of concerns. I will describe the prospects and recent developments in output and input markets and the challenges and opportunities they present for U.S. agriculture.

Agricultural Export Developments

Despite modest domestic economic growth, economic growth, especially in less developed countries, and the reduced value of the dollar are likely to support global commodity demand, keeping pressure on global supplies and prices for a wide range of agricultural products.

U.S. agricultural exports setting records. Supported by foreign economic growth particularly in developing countries and crop production shortfalls around the world, U.S. agricultural exports are expected to be record high this fiscal year. USDA's forecast for U.S. agricultural exports for FY 2011 is a record high $126.5 billion, up from $108.7 billion in FY 2010, and the previous record of $114.9 billion in FY 2008. Imports, too, continue to grow and are expected to reach $85.5 billion this fiscal year compared with $79 billion last year. Nearly half of imports are horticultural products and another fifth are sugar and tropical products such as

cocoa, coffee and rubber. This year, the agricultural trade balance is forecast to be a record $41 billion, up from $29.7 billion last year.

Soybean and wheat exports are forecast to be up in volume and value because of less foreign competition due to adverse weather conditions in other countries. Corn exports are forecast up in value due to lower U.S. production and weather concerns in South America, while higher cotton export volume and value reflects tightening global stocks and strong Chinese demand. Livestock exports are forecast to rise as the volume and value of beef, pork and poultry exports increase. Horticultural exports are being helped by the decline in the value of the dollar.

Canada is our number 1 agricultural export market, accounting for 14 percent of expected exports this year. China has moved up to number 2, also with a 14 percent share. Mexico is now number 3 with an expected 13 percent share followed by Japan at number 4 with a 10 percent share and the European Union at number 5 with a 7 percent share.

Farm Income and Retail Food Price Developments

U.S. farm income consistently strong. Cash receipts for producers are forecast at a record $341 billion in 2011, up $28 billion from 2010 and $57 billion from 2009. Cash production expenses are forecast to be a record $274 billion in 2011, up $20 billion from 2010 and $25 billion from 2009. With receipts rising faster than expenses, net cash farm income is forecast at a nominal record of $99 billion this year, up $7 billion from last year and nearly $30 billion from 2009. After adjusting for inflation, five of the highest income years since 1976 have occurred during 2004-11 (2004, 2005, 2008, 2010, and 2011).

Cash receipts for both crops and livestock are forecast to reach new record highs in 2011. Crop cash receipts are forecast to reach $195 billion in 2011, exceeding the previous record set in 2008 by $18 billion. Cash receipts for corn, soybeans, cotton, and fruits and nuts are all

expected to rise to all-time highs. Cash receipts for wheat will likely be up in 2011 but remain below the record level set in 2008.

Cash receipts from all livestock species are forecast to reach $146 billion in 2011, exceeding the previous record by $4 billion. Receipts for cattle, hogs and poultry are all expected to set record highs. Dairy receipts are forecast to increase in 2011, but remain below 2007 and 2008 levels. Government payments to producers in 2011 are expected to total $10.6 billion, down $1.6 billion from 2010. In 2011, producers are forecast to receive $4.7 billion in direct payments, $3 billion in conservation payments, $1.9 billion in disaster payments, and $0.8 billion in tobacco transition program payments. With major crop prices forecast to be near or above previous record high levels in 2011, counter-cyclical payments and marketing loan benefits are projected to be only $20 million in the coming year.

The $20 billion increase in cash production expenses since 2010 is mainly due to a $4 billion increase in farm origin inputs (livestock, feed), $6 billion more in energy-based input costs (fuel, fertilizer, electricity, and pesticides), and $6 billion more in other operating expenses. The year-over-year increase in feed expenses is projected to slightly exceed the increase in livestock cash receipts. If this occurs, livestock and dairy producers could be under added financial pressure in 2011.

The balance sheet of U.S. agriculture is expected to strengthen again in 2011. Consistent with recent trends, increases in debt are forecast to be offset by larger increases in farm asset values. As a result, the farm sector's debt-to-asset ratio should drop further below last year's 11.3 percent in 2011.

Retail food price inflation to remain modest. In 2010, the Consumer Price Index (CPI) for all food increased by 0.8 percent, the lowest annual food inflation rate since 1962. The

CPI for food-at-home (grocery store) prices increased 0.3 percent, while food-away-from-home (restaurant) prices increased by 1.3 percent. Higher commodity and energy prices are expected to lead to a stronger increase in retail food prices in 2011. For 2011, the CPI for food is currently forecast to increase by 2 to 3 percent. During the previous spike in commodity and energy prices in 2007 and 2008, the CPI for food rose by an average of 4.7 percent over the two years. The Economic Research Service will update its forecast for the CPI for food for 2011 later this month.

Developments in Farm Output Markets

Major crops: global supplies tight. For the 2010/11 marketing year, global demand is forecast to exceed global production causing global stocks of grains and oilseeds as a percent of use to fall and crop prices to rise. Global wheat production is forecast to decline by 5.5 percent in 2010/11, due primarily to adverse weather and reduced output in Russia, Kazakhstan and Ukraine. For corn, increasing global use and lower production in the United States is forecast to lead to a 15.6 percent decline in global ending stocks. And, weather-reduced soybean production in Argentina is projected to reduce global soybean stocks.

For the United States, strong export demand for crops has supported above average farm income in recent years. Market fundamentals continue to look strong as growth in demand, limited carryover and weather concerns have contributed to rising prices for most major crops. U.S. carryover of corn, wheat, soybeans and cotton could all decline in 2010/11 as total use is forecast to exceed production.

Higher crop prices will likely lead to increased area seeded to major crops in the U.S. this spring and increased crop production this fall. Assuming normal rainfall over the spring and

summer, production of major crops will likely be up in 2011, leading to some rebuilding of carryover and reduced pressure on crop prices.

Corn carryover tight in 2010/11. Under nearly ideal planting conditions this past spring, corn producers planted 88.2 million acres, up from 86.4 million in 2009 and the second largest area planted to corn in more than 60 years. Despite the higher acreage, corn production dropped by 5 percent from last year to 12.4 billion bushels. Total corn use is forecast to reach a record 13.5 billion bushels in 2010/11, reflecting the expanding ethanol industry and continued strong global demand for corn. Stocks of corn at the end of 2010/11 marketing year are forecast to decline by 60 percent to 675 million bushels, resulting in the lowest stock-to-use ratio since 1995/96. The farm price of corn is forecast to average a record $5.05-$5.75 per bushel during 2010/11, compared with $3.55 per bushel in 2009/10 and the previous record of $4.20 in 2007/08.

Corn acreage likely up in 2011. Corn planted area for 2011 is expected to increase as prices and returns have improved considerably in recent months. December 2011 futures prices for corn are currently more than $2 per bushel above the peak of December 2010 futures last February. Current cash prices are more than $3 per bushel above February 2010 levels. Given the current outlook for the 2010-crop corn and competing crop prices, corn planted area next spring could increase 3 to 5 percent from 2010. Higher plantings combined with a return to trend yields could lead to a record corn crop in 2011 and higher carryover stocks in 2011/12.

Ethanol growth expected to slow. U.S. ethanol production capacity is now estimated at 14 billion gallons. Production capacity is expected to increase modestly over the coming 18-24 months. New construction could add 560 million gallons of additional ethanol production capacity, bringing total capacity to about 14.6 billion gallons.

Most ethanol production in the United States currently uses corn as the feedstock. In 2010/11, 4.95 billion bushels of corn are expected to be used to produce ethanol, with ethanol use accounting for 37 percent of total use and 40 percent of corn production. In comparison, 4.57 billion bushels of corn were converted into ethanol in 2009/10 accounting for 35 percent of total use and 35 percent of corn production. In contrast to the increase in ethanol use of 382 million bushels between 2009/10 and 2010/11, corn ending stocks are projected to fall by over 1 billion bushels between the two crop years. These figures indicate that declining corn production is the primary factor contributing to the drop in corn carryover this year and the primary factor contributing to the recent increase in corn prices. Furthermore, each bushel of ethanol produced from corn yields byproducts, such as distiller dried grains, which substitute for corn and other feed ingredients in livestock rations.

The profitability of producing ethanol from corn depends on the price of corn, the price of gasoline and the cost of converting corn into ethanol. The returns from producing ethanol from corn increase as the price of gasoline increases providing an incentive to expand ethanol production capacity and to use additional corn for ethanol production. If petroleum and gasoline prices move higher over the next several months, this will increase the demand for ethanol leading to additional corn being used for ethanol production.

Soybean production down slightly in 2010/11. Soybean planted area remained essentially unchanged in 2010 but the average yield per acre fell slightly, causing soybean production to fall to 3.33 billion bushels, down 1 percent from last year's record production but still the second largest crop on record. U.S. soybean exports are expected to increase about 6 percent from last year's record to 1.6 billion bushels, reflecting lower production and reduced competition from South America and increasing U.S. exports to China. Meanwhile, soybean

crush is forecast to decline by 5.5 percent as increasing availability of distiller dried grains and stable livestock production lower the demand for soybean meal. With lower production and little change in total use, carryover levels are forecast to decline 7 percent from last year. The farm price of soybeans is forecast to average a record $11.20-$12.20 per bushel for the 2010/11 marketing year, compared with $9.59 last year and the previous record high of $10.10 in 2007/08.

Soybean area forecast to increase slightly in 2011. U.S. soybean planted area is forecast to increase slightly in 2011. Current futures imply a soybean to corn price ratio of 2.2, slightly favoring corn over soybeans. However, rotational practices favor soybeans and strong soybean prices could encourage farmers to plant soybeans on cropland previously planted to rice, sorghum, barley and oats.

Returns to biodiesel improve. Fifteen percent of 2010/11 soybean oil production is expected to be used to produce about 380 million gallons of biodiesel. Soybean oil is the feedstock for about 50 percent of domestically produced biodiesel. The amount of soybean oil used in biodiesel production fell by 17 percent in 2009/10 to 1.7 billion pounds, but is expected to increase to 2.9 billion pounds in 2010/11.

Wheat acreage down, prices up in 2010/11. For 2010/11, wheat acreage continued its long term decline falling by nearly 6 million acres to 53.6 million, the lowest since 1970. U.S. wheat production is estimated at 2.2 billion bushels, essentially unchanged from the previous year as lower harvested acreage was offset by improved yields per acre. In 2010/11, favorable weather pushed the average yield per harvested acre to a new record high of 46.4 bushels per acre, up 1.5 bushels from the previous record.

Total wheat supplies for 2010/11 are estimated at 3.3 billion bushels, up from 3.0 billion bushels in 2009/10, with higher beginning stocks accounting for all of the increase. Higher forecast exports, reflecting lower production in competitor countries, could increase total use from 2.0 billion bushels in 2009/10 to 2.5 billion in 2010/11, causing U.S. ending stocks to decline 16 percent to 0.8 billion bushels. The average farm price of wheat is forecast to average $5.60-$5.80 per bushel in 2010/11, compared with $4.87 per bushel for the 2009/10 crop and the record high of $6.78 in 2008/09.

Wheat area to expand in 2011/12. Winter wheat seeded area this past fall totaled 41.0 million acres, up from 37.3 million acres the previous year. Despite the recovery in area, wheat production could be down in 2011 as yield per acre drops off from last year's record high. Current winter wheat conditions on the Central and Southern Plains are not as favorable compared with this time a year ago, because of the lack of soil moisture. A much higher percentage of the winter wheat crops in Kansas, Oklahoma and Texas are currently rated poor to very poor than one year ago.

Cotton area and production up as prices increase. In 2010/11, cotton producers responded to improved returns by increasing planted area by 20 percent. The area planted to cotton, 10.97 million acres, was the highest in four years. Cotton area increased across each region of the Cotton Belt in 2010. Higher plantings, reduced abandonment and improved yields are projected to increase cotton production to 18.3 million bales in 2010/11, up 50 percent from the previous year and the highest in 3 years.

U.S. cotton use for the 2010/11 season is forecast at 19.35 million bales, 25 percent above last season. U.S. mill use is forecast to increase slightly while U.S. exports are forecast to increase by nearly one-third. With larger U.S. exportable supplies available this season and

foreign import demand rising, U.S. cotton exports are forecast to increase to their second highest level on record. U.S. ending stocks are forecast to drop to 1.9 million bales in 2010/11, the lowest since 1924/25. Reflecting the low level of stocks, cotton prices have remained relatively high through the early months of the current season. The 2010/11 farm price is forecast to average 79-84 cents per pound, up from last season's price of 62.9 cents and the previous record high of 76.5 cents in 1995/96.

More cotton area in 2011/12. Rising cotton prices will likely attract additional acreage back to cotton production in the United States, despite improved returns for corn and soybeans. Cotton planted area in the United States could increase as much as 10-15 percent in 2011. Improved returns could lead producers to plant cotton on cropland previously planted to sorghum, rice and other crops as well as producing cotton on cropland previously left unplanted due to low returns.

Rice production up, prices moderate. For 2010/11, rice planted area increased to 3.64 million acres, up from 3.14 million acres the previous year, and the second highest on record. Total rice production is up about 11 percent from last year to a record 243 million cwt. Total use is forecast to increase by 5 percent in 2010/11, reflecting improvements in both domestic use and export prospects. However, the strong increase in production is expected to lead to a sharp increase in ending stocks, despite higher total use. U.S. ending stocks are projected at 52.8 million cwt. for 2010/11, up 44 percent from last year. The farm price of rice is forecast to average $12.15-$12.65 per cwt. in 2010/11, down from $14.40 per cwt. last season.

Sugar market remains tight. World and U.S. sugar prices have remained high, as potentially tight global supplies continue to weigh on the market. In mid-December, Florida's sugarcane producing region experienced a severe freeze. According to processor reports, this

freeze resulted in widespread damage to existing sugarcane crops awaiting harvest and recently planted sugarcane meant for harvest next year. Nearly all of Australia's sugarcane production is in the northeast. That region received very heavy rainfall in November and December damaging that country's sugarcane crop.

U.S. sugar production for 2010/11 is currently estimated at 8.01 million short tons, up from last year's crop of 7.97 million tons. With import quotas for sugar set at the minimum amount to which the United States is committed under the WTO for 2010/11, U.S. sugar imports are forecast to fall to 3.25 million tons, down from 3.32 million tons last season. U.S. sugar ending stocks are projected to decline about 10 percent to 1.35 million tons resulting in a stock-to-use ratio of 11.8 percent, down from 13.3 percent last year.

Specialty crop sales stabilize. In 2011, specialty crops will continue to provide a significant source of cash revenues for U.S. producers. Cash receipts for fruits, nuts, vegetables and melons in 2011 are forecast at $41 billion, unchanged from 2010. Higher cash receipts for fruits and nuts are expected to be more than offset by lower receipts for vegetables and melons.

Livestock & livestock products: U.S. production and prices stable. Total U.S. production of meat and poultry is forecast to remain stable in calendar year 2011, with slight growth forecast in supplies of pork and poultry but reduced supplies of beef. Stable production, increased exports and some recovery in domestic demand should help maintain livestock prices near last year's historic highs.

For livestock and poultry producers, increasing feed costs will be an important component of producer production decisions in the upcoming year. In January, the price-feed cost ratios for cattle, broilers, hogs and milk, as reported by NASS, were all well below year ago levels. While livestock prices are expected to remain strong and further improvement in milk

prices is likely in the months ahead, higher feed costs could lead to below average margins for livestock and dairy producers in 2011.

Cattle prices forecast record high. Commercial cow slaughter maintained a high pace during all of 2010. Cow slaughter was the largest in well over a decade, even though the U.S. cow herd on January 1, 2010 was the smallest since 1951. While cattle marketings for the last half of 2011 are expected to be lower year-over-year, net placements in feedlots during 2010 will likely maintain beef supplies during the first half of 2011 near previous year levels. For all of 2011, beef production is currently forecast to decrease 1.5 percent, following a 1.4 percent increase in 2010. Steer prices are expected to average a record $102-$109 per cwt. this year, compared with $95 per cwt. in 2010.

Total North American cattle inventories are at their lowest levels in decades. With smaller Canadian and Mexican inventories expected in 2011, U.S. cattle imports are forecast at 2.1 million head for the year, down from 2.3 million in 2010.

Pork production to increase slightly. Pork production in 2011 is estimated to increase by 0.4 percent after falling by 2.4 percent in 2010. While hog prices were up 34 percent in 2010 and are expected to average higher in 2011, increases in feed costs are expected to temper expansion over the next several months. The *Quarterly Hogs and Pigs* report released by USDA on December 27, 2010, showed lower swine inventories and lower farrowing intentions for the first half of 2011. During the first-half of 2011, sow farrowings could be about 1.4 percent lower than in the same period last year.

While smaller breeding animal inventories and lower farrowing intentions often translate into lower pig crops, continued gains in sow productivity are expected to largely offset lower farrowing numbers in 2011. Moreover, continually improving swine genetics and enhanced

nutrition management practices are expected to continue to move average dressed weights slightly ahead of last year's average, helping to push pork production slightly ahead of last year's level. Hog prices are forecast to average $58-$61 per cwt. in 2011, up from $55 in 2010 and $41 in 2009.

Broiler production to post modest increase in 2011. The outlook for growth in broiler meat production for the beginning of 2011 has changed considerably over the last several weeks, due to sharp changes in both the weekly number of broiler eggs placed in incubators and the number of chicks being placed for growout. At the end of November, the number of chicks being placed for growout was averaging 5.5 percent higher than the previous year. By the first week of January, the average number of chicks placed for growout was only 0.8 percent higher than in the same period the previous year. This abrupt slowdown is likely the result of sharp increases in feed prices, especially coming at a time when wholesale prices for many broiler products have been declining. Reflecting this slowdown, broiler production is projected to increase by about 1 percent in 2011 following a 4 percent increase in 2010. The price of broilers is forecast to range from 80-85 cents per pound in 2011, compared with 83 cents in 2010 and 78 cents in 2009.

Milk prices to move higher. Milk production is estimated to increase by 1.8 percent in 2011 to 196.1 billion pounds. While feed costs are up considerably in recent months, a decline in cow numbers may not occur until later this year because of the large number of replacement heifers available. Milk per cow is forecast to increase again this year but at less than the pace for 2010. The gain in output per cow last year was due to good weather in addition to moderate feed prices.

In recent weeks, both the domestic and international markets for dairy products have tightened considerably leading to a sharp increase in wholesale dairy product prices and futures prices for milk. Milk output has been affected by cold weather in the U.S. and Europe and heavy rains in New Zealand and Australia. Since early January, the wholesale prices of cheddar cheese, butter and nonfat dry milk have increased by 25-50 percent.

The all-milk price is forecast to average $17.70-$18.40 per cwt. this year, compared with $16.29 in 2010 and $12.93 in 2009. While milk prices are forecast to be higher in 2011, increasing feed costs could continue to put financial pressure on dairy producers, especially those producers that purchase feed at current price levels.

Developments in Farm Credit and Land Markets

Credit conditions appear to be improving. Third quarter 2010 Federal Reserve Bank surveys indicate moderately improving farm credit conditions nationwide. Commercial banks across the country indicated ample availability of loan funds, increased loan repayment by farm borrowers, increased farm incomes, and fewer requests for renewals and extensions than in 2009. Exceptions include regions dominated by livestock, milk and poultry production which indicated slightly worsening farm credit conditions.

Banks in all Federal Reserve Bank districts reported lower demand for farm loans in 2010, despite historical lows for farm interest rates. Capital spending was up, especially for larger items (100-HP tractors and combines). The increased capital spending and reduced loan demand suggests that these items were being financed with cash or nonbank credit.

While farm incomes and credit conditions showed improvement in 2010, Federal Reserve Bank surveys indicate credit standards for banks remain tight. Bankers in all regions except the Kansas City Federal Reserve District reported increased collateral requirements on farm loans.

Farmland costs move higher. The value of farm real estate rose by an estimated 3 percent in 2010, to a record $1.8 trillion. Strong prices for major crops and record farm income will likely cause the value of farm real estate to move higher in 2011. Farm real estate accounts for 84 percent of total U.S. farm assets and is the principal source of collateral for farm loans. While a benefit for existing landowners, high farm real estate values make it difficult for individuals who may wish to enter farming and increases operating expenses for individuals who rent farmland.

Conclusion

As we enter 2011, the U.S. farm economy is coming off unprecedented increases in U.S. agricultural exports, farm cash receipts, farm income, and asset values the past few years. Prospects for coming year generally look bright. More normal weather and production increases worldwide should lead to improved supply-demand balance in key markets, such as wheat, corn and soybeans. With biofuel demand expected to continue growing, although at a slower pace in the future, a big challenge will be responding to that demand by producing on more acres and producing more per acre while protecting the environment. I have the utmost confidence that our farmers and ranchers along with the assistance of USDA will be able to meet these challenges.

Madame Chairwoman, that completes my statement.

Farm Economic Indicators

Ag. Trade (Bil. $)	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11F
Total exports	56.0	62.4	62.5	68.6	82.2	114.9	96.3	108.7	126.5
Asia	21.6	24.3	22.5	24.9	29.4	43.2	37.6	45.7	54.8
Canada	9.1	9.5	10.4	11.6	13.3	16.3	15.5	16.6	18.0
Mexico	7.7	8.4	9.3	10.4	12.3	15.2	13.3	13.9	16.0
Total imports	45.7	52.7	57.7	64.0	70.1	79.3	73.4	79.0	85.5
Farm Income (Bil. $)	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010F**	**2011F**
Cash receipts	216.0	237.9	240.9	240.6	288.5	318.3	283.4	312.3	340.7
Gov't payments	16.5	13.0	24.4	15.8	11.9	12.2	12.3	12.2	10.6
Gross cash income	246.8	266.5	279.7	273.2	318.0	352.0	317.6	345.6	372.5
Cash expenses	174.7	182.9	193.1	204.8	240.3	261.6	248.5	254.2	273.9
Net cash income	72.1	83.7	86.7	68.4	77.7	90.4	69.1	91.3	98.6

Commodity Prices 1/	Unit	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11F
Wheat	$/bu	3.40	3.40	3.42	4.26	6.48	6.78	4.87	5.60-5.80
Corn	$/bu	2.42	2.06	2.00	3.04	4.20	4.06	3.55	5.05-5.75
Soybeans	$/bu	7.34	5.74	5.66	6.43	10.10	9.97	9.59	11.20-12.20
Rice	$/cwt	8.08	7.33	7.65	9.96	12.80	16.80	14.40	12.15-12.65
Cotton (Upland)	cents/lb	61.8	41.6	47.7	46.5	59.3	47.8	62.9	79.0-84.0
		2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011F**
Hogs	$/cwt	52.51	50.05	47.26	47.09	47.84	41.24	55.06	58-61
Steers	$/cwt	84.75	87.28	85.41	91.82	92.27	83.25	95.38	102-109
Broilers	cents/lb	74.1	70.8	64.4	76.4	79.7	77.6	82.9	80-85
Milk	$/cwt	16.13	15.19	12.96	19.21	18.45	12.93	16.30	17.70-18.40
Gasoline	$/gallon	1.85	2.27	2.58	2.81	3.26	2.35	2.78	3.15
Diesel	$/gallon	1.81	2.40	2.70	2.88	3.80	2.46	2.99	3.43
Natural gas (wlhd)	$/K cu.	5.45	7.26	6.39	6.26	7.98	3.72	4.14	3.97

1/ Agricultural commodity price forecasts are from USDA, World Agricultural Supply and Demand Estimates report, February 9, 2011. Energy prices are from Energy Information Administration, Short Term Energy Outlook, February 8, 2011.
F=forecast.

Committee on Agriculture, Nutrition and Forestry
United States Senate

Hearing on

Agriculture:
Growing America's Economy

Testimony of

Fred Yoder
Ohio Corn & Wheat Growers Association

February 17, 2011

Chairwoman Stabenow, Ranking Member Roberts, and distinguished members of the Senate Agriculture Committee of the 112th Congress, it is indeed an honor and privilege to be here today to testify before you at your first full Committee Hearing.

My name is Fred Yoder. I am a 4th generation farmer from Plain City, Ohio. I raise corn, wheat, and soybeans, and also operate a farm seed retail dealership with my family, and have been for over 35 years. I have served in many agricultural leadership positions, including serving as president of the National Corn Growers Association (NCGA), as president of the Ohio Corn Growers Association, and I currently serve on the Board of Directors of the newly formed Ohio Corn & Wheat Growers Association. I have had the privilege to testify before this Committee several times on various issues and topics in previous years. But today, I would like to testify before you as Fred Yoder, a farmer from Ohio, rather than represent a national association and their specific policy positions.

As I reflect over the years as to what agriculture has meant to my state as well as my own family operation, I am reminded of that old commercial that used the phrase, "you've come a long way, baby." Today's agriculture is not my father's agriculture. We have come through the years of excess production, using programs to curtail carryovers by limiting acres planted, to Freedom to Farm in 1996, which gave us full utilization of the potential our lands offered. However, we did not develop the demand for all of that volume, and soon had to rely once again on our government to help us dispose of that excess production through deficiency payments and market clearing measures.

Today, we have new technologies, and new markets, especially for corn. While traditionally we have always used corn for livestock feed, today we use roughly a third of our production to produce biofuels, without reducing the total bushels of corn and corn equivalent for the feed and export markets. Biofuels, which now represent almost 10 percent of the transportation fuel our nation uses today, has transformed rural America. In Ohio alone, biofuel production has generated over $1 billion towards Ohio's economy while adding jobs and keeping small towns alive. The demand for corn, wheat and soybeans has never been stronger and farmers will continue to respond by producing for all markets.

We have learned to produce more corn, wheat and soybeans without increasing the use of fertilizer through better genetics and better management. At the same time, we have reduced our soil losses through conservation techniques, and significantly reduced the carbon footprint of growing our crops.

Instead of worrying about getting rid of excess production, today's agriculture is one of the few bright spots in the American economy. Demand for commodities is at an all-time high throughout the world as many of our trading nations are feeding their people much better than they were in previous years. Instead of a supply-driven market, we are in a robust demand-driven one, where farmers' primary source of income is the marketplace.

The current Farm Bill offered a change from previous ones with an option called ACRE, which allowed us to utilize a new tool to help manage our risk in conjunction with crop insurance. Many of you worked hard to make this new tool a reality, and I thank you for it. All new things are sometimes viewed with guarded skepticism until there is a chance to experience and understand it. Unfortunately, when the option of ACRE was offered initially by the local Farm Service Agency offices, it became more complicated and cumbersome than it probably needed to be. However, as we look at how the future Farm Bill may develop, I would encourage us all to build on this new roadmap of managing risk that we started with the last one.

With prices and demand for commodities much higher than in years past, as well as dollars being short, it makes sense to look at ways to strengthen the safety net for when times are bad, keeping farm families strong and able to withstand the tough times, while realizing some reduction in overall costs, to help in doing our part to aid in solving some of our Nation's budget shortfalls.

As a citizen and taxpayer, I think it is important to re-address some of our core principles before we delve into specific policy decisions for a future farm bill. First and foremost, I would suspect the vast majority of people in the United States, including those in agriculture, would agree that the U.S. Government should balance the federal budget by reducing federal spending, resulting in a reduction of the federal debt, and eliminating inefficient federal spending in all sectors of the U.S. economy. If one accepts this initial principle, there is a much different perspective that emerges as we think about how we need to shape and form our discussion.

I also think most would agree that the new Farm Bill should include policy that allows the market to provide for a safe, reliable source of food, feed, fuel and fiber, but at the same time provide a strong safety net for those times when unforeseen revenue losses happen from events beyond our control. This can be done through improving such programs like ACRE in combination with improved and equitable Federal Crop Insurance for all regions of the country.

Again, it would be easy for farmers to have the attitude to cut everyone's budget but ours, and push for business as usual. But what if we could enhance the tools available in managing our risk in growing our crops, while continuing to grow new opportunities in the marketplace, and do it with savings to the overall budget?

These are just a few of my thoughts as we start this process of debate in this upcoming Farm Bill. Agriculture is Ohio's number one industry. The opportunities I have today as a farmer are the best I have seen in my lifetime. I hope that whatever we do we can continue to grow these opportunities for today's farmers, and for my son in the future as he takes my place on the farm. American agriculture not only provides for those needs to feed and fuel the world, but also can offer other ecosystem services that are only now being realized to the rest of society.

Thank you for your time, and I look forward to your questions.

DOCUMENTS SUBMITTED FOR THE RECORD

FEBRUARY 17, 2011

NATION

The Man Who Said No to Easy Money

With the economy growing fitfully and jobs still scarce, the high priests of the Federal Reserve want to keep the country's cash spigots wide open—all except Thomas Hoenig. If he's right, he may become the prophet for a new age of American austerity

BY DAVID VON DREHLE

LATE IN JANUARY, THE HIGH priests and priestesses of the U.S. economy gathered inside their Washington sanctum for the regularly scheduled ritual known as the Federal Open Market Committee (FOMC). This is the group that decides the value of money, measured by interest rates, which it controls by easing or tightening the money supply. Of course, there are other forces that influence the value of money—a great global whirlwind of forces—but most don't hold orderly meetings in a grand conference room on Constitution Avenue.

The FOMC's mission is to steer a course between the shoals of high unemployment and high inflation, putting enough dough into circulation to keep the economy well fed and growing—but not so much that money begins to plummet in value. The priesthood meets eight times per year, reporting its decisions in oracular statements of Olympian voice. This year, when the committee spoke, Fed watchers noted something striking: for the first time since 2009, the members were unanimous. All supported the chosen policy of adding $600 billion to the banking system by purchasing that amount of Treasury bills from big banks—a strategy known as quantitative easing.

And here's the reason they were finally unanimous: Thomas Hoenig couldn't vote. Throughout 2010, this tall Iowan with thin white hair and cuff links like gold coins was a voting member of the priesthood. He sized up the data, then cast his lonely ballot against the indefinite reign of easy money. Eight meetings, eight no votes—a rare unblemished record of recalcitrance that made him a hero to inflation hawks and a pariah to the many economists who believe that, with unemployment above 9%, the engine of the economy needs further priming.

Hoenig would still be issuing dissents

A heretic in the priesthood *Thomas Hoenig, president of the Federal Reserve Bank of Kansas City, Mo.*

Photograph by Marco Grob for TIME

if his one-year term as a voting member had not expired (non–New York regional Fed presidents share votes on a rotating basis). With his mandatory retirement at 65 as president of the Federal Reserve's 10th District looming in October, he will never get another chance, though he plans to continue his critique of government policy as a think tanker, consultant or author. When I paid him a visit a couple of days after the FOMC's unanimous vote, Hoenig (pronounced *Hawn*-ig) was happy to explain his unyielding point of view, one that has become ever more relevant now that rising commodity prices have put inflation worries back on the economic radar screen.

Amber Waves of Grain

HOENIG'S VIEWS START, QUITE LITERALLY, with his view. His corner office sits atop a buff-colored tower on a hill overlooking downtown Kansas City, Mo., with the gently rolling hills of Missouri and Kansas stretching into the distance. "I'm not sure people in New York and D.C. are thinking about agricultural land prices and mineral rights the way I am," Hoenig ventures safely. What he sees through his soaring windows are the signs of an economy that supposedly doesn't exist in the U.S. anymore, a well-balanced one that resists both booms and busts. Hoenig can see a resilient and promising manufacturing sector—notice the big GM plant in the middle distance, where the carmaker is investing $136 million to prepare for production of the redesigned 2012 Chevy Malibu. The high-rises of downtown are home to some of the soundest regional banks in the country. Slicing through the foreground is a freight train hauling the heavy commodities mined and grown in the nation's midsection. The horizon contains some of the most productive farmland on earth, and beyond lie rich reserves of oil and gas. Since the start of the financial crisis, the unemployment rate in the 10th District has been about 2 percentage points lower than the national rate.

In other words, for all the headlines over the past quarter-century about the death of American manufacturing and the twilight of community banks and the vanishing farmer, those humble building blocks of a sound economy still figure significantly in Hoenig's perspective. The way to strengthen them, he believes, is not by pumping money into a financial system that encourages megabanks to engage in high-risk speculation. You build them up by encouraging savings, which form capital for investment, which builds stronger businesses, which hire workers and pay dividends—which leads to more savings and more investment.

But by keeping interest rates near zero indefinitely, the Fed is "asking savers to continue to subsidize borrowers," Hoenig says. "What incentive is there to save and invest?" This insight was gaining ground after the irrationally exuberant Alan Greenspan years at the Fed. The former chief issued a mea culpa for piling too much money onto the economic bonfire that led to the Great Recession. But the crash of 2008 was precisely the wrong time to shut off the fuel supply. Hoenig supported massive infusions of money to save the world economy from a replay of the Depression. Now he simply believes the time has come to start sobering up.

Certainly, Hoenig's thrifty Midwestern sensibilities sound quaint to the central bankers in Washington and New York City who dominate the FOMC's deliberations. But he is adamant that his perspective is every bit as worthy as the view from Wall Street or from K Street or from the Princeton faculty club. "Provincialism," Hoenig observes, "is not unique to the provinces." He believes that the bad effects of easy money are already cropping up in the heartland. Hoenig's domain stretches across Oklahoma, Kansas, Nebraska, Wyoming, Colorado and parts of Missouri and New Mexico. Surveying those states, his economists find that the price of farmland is escalating wildly. "Agricultural land is appreciating almost weekly," he says. Energy prices are booming as well.

There is more going on here than a simple rise in economic activity, Hoenig thinks. Rocketing land and energy prices are telltale signs, he says, of too much money sloshing around. "When you put this much liquidity into the system, it has to go somewhere." It won't go into savings as long as the Fed keeps interest rates near zero. So the money starts chasing assets with higher yields—like land, the once again booming stock market and energy (indeed, some savvy Wall Street investors believe quantitative easing is a major factor in the current run-up in oil prices). As more money joins the chase, asset prices rise and keep rising until ...

Pop.

Remember *pop*?

"This is how bubbles are formed," Hoenig says. He has seen it all before. A career employee of the Fed in Kansas City, Hoenig is the longest-serving district president, with more than 18 years in his post. Before reaching the top job, he helped mop up the damage from the oil-price bubble of the mid-1980s. A little bank in the 10th District, Penn Square Bank of Oklahoma City, went wild in that boom, packaging unsound loans and selling them to other banks—sound familiar? When the bubble burst, Penn Square helped drag down the once mighty Continental Illinois National Bank in Chicago.

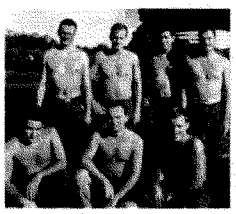
During his years as a regional Fed president, Hoenig has watched uncomfortably as the central bank began to play a larger and larger role in the public's perception of the economy. Monetary policy "came to be seen as the solution to more and more economic issues. It has been used to deal with one crisis after another: a stock-market crash [in 1987], a recession [in 1990-91], a bubble in high tech [which burst in 2000], the 9/11 attacks, the Iraq war, a financial meltdown. People came to feel that all you had to do was ease interest rates and everything would be fine. But that's what gives us these bubbles," Hoenig says.

He knows that many people feel it's too soon to start tightening up on money when unemployment remains high and core inflation in the U.S. is low. As the joke goes, Hoenig has predicted eight of the past zero bouts of inflation. Maybe there's a reason he was all alone in his dissents. But he feels that his critics—notably Nobel laureate Paul Krugman, who has written that tighter money will "perpetuate mass unemployment"—overestimate the Fed's short-term ability to drive down unemployment, while underestimating the long-term damage of superlow interest rates.

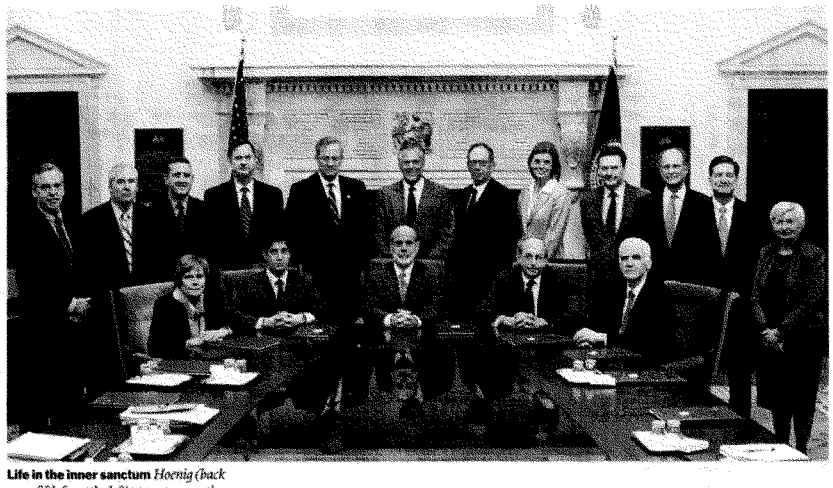
"Inflation isn't a not-here-today, here-tomorrow phenomenon," Hoenig says. It builds slowly. "The sequence of events that led to runaway inflation in 1979 got started back in the mid-1960s. That's what I mean by long term."

Hoenig supported the Fed's dramatic

If Hoenig made policy, he would set a course toward high savings rates and a strong currency



A sense of history *Hoenig (standing, second from left) spent a year in Vietnam*



Life in the inner sanctum *Hoenig (back row, fifth from the left) at a 2009 meeting of the Federal Open Market Committee*

actions in 2008 and 2009 to pour trillions into the staggering financial system. But now the economy is growing fitfully, and all that money "is looking for places to go." A lot of it is pouring into places like Brazil and China, where, Hoenig notes, inflation is rising sharply. Global food prices have risen 25% in the past year, according to the U.N., and many nations are starting to hoard commodities.

Wall Street vs. Main Street

MEANWHILE, IN AMERICA, THE MOST RAPIDLY rising prices aren't factored into the core inflation rate, because food and oil are considered too volatile to produce a reliable measure. But just because these costs aren't part of the inflation rate, it doesn't mean that people don't have to pay them. In fact, the poorest 60% of American households spend 12% of their income on energy alone, compared with the 3% spent by the richest 10%.

"Inflation is so unfair," Hoenig declares passionately. "It is the most regressive tax you can impose on the public," he adds. "It erodes the buying power of the poor and people on fixed incomes. The people who have money and are savvy come out ahead. In fact, they end up stronger than before."

It's not just the Fed's loose-money policy that bothers Hoenig. He feels that little has been learned from the crisis and that government policy continues to smile on Wall Street but not on Main Street. Instead of breaking up the financial giants whose gambles crashed the economy, the government has let the biggest banks grow even bigger. Now they're gorging on free money. Where is the penalty for failure? "We don't have a market economy now," Hoenig says. "I hate to use this term, but it's almost crony capitalism—who you know, how big your political donation is."

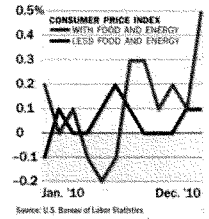
If Hoenig made policy, instead of dissents, he would set his course toward "high savings rates, low leverage and a strong currency." He would bring back the Depression-era Glass-Steagall rule that barred commercial banks from taking excessive risks. He would reduce government debt and promote a manufacturing revival. "We can become a low-cost producer again," he says. "It won't be easy—there is no painless approach. But Germany has done it, and we can too."

Hoenig acknowledges that he has been accused of grandstanding at the end of his Fed career. In his mind, there's no point in giving regional Fed chiefs a vote if they're not going to vote with their conscience. His stand has attracted admirers, like the octogenarian from Connecticut who dug up his unlisted phone number and called him at home one Sunday last year to urge him not to back down.

He won't.

One of the great novels of Kansas City, Evan S. Connell's *Mr. Bridge*, tells the story of a man who would have applauded Hoenig's dissents. A lawyer who invested "in companies that he considered essential," Mr. Bridge abhorred "speculations" and lived by the principle that "it is better to trade too little than too much." That spirit of thrift and caution is out of style in a world that's still awash in complex derivatives and computerized trading, a world of trillion-dollar deficits. But it lingers in Kansas City and in the impulses among people like Thomas Hoenig, who may come to be seen as a prophet for a future that looks a little more like a distant past. ■

Warning Sign. Overall inflation isn't rising yet, but food and oil are up sharply



Source: U.S. Bureau of Labor Statistics

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January 10, 2011

The Honorable Darrell Issa
Chairman
House Committee on Oversight
and Government Reform
2157 Rayburn House Office Building
Washington, DC 20515

Dear Mr. Chairman:

Thank you for your letter requesting the assistance of the American Farm Bureau Federation (AFBF) in "identifying existing and proposed regulations that have negatively impacted job growth" in the agricultural sector. Your letter also solicited our suggestions for "reforming identified regulations and the rulemaking process." We are pleased to respond to your request.

Unfortunately, the list of recent Federal regulatory actions that have had or may have a negative economic impact on the agriculture sector is long. The attached chart outlines some of the more important regulatory actions that have recently occurred or are in the process of being implemented. Where appropriate, we have identified specific remedies to the rule in question or more general reform of the rulemaking process that might help prevent a recurrence of abuse in the process.

The attached chart is not exhaustive. We have done our best to identify these immediate issues but also wish to draw your attention to additional policy matters that merit the committee's attention. I will elaborate on these in a supplemental submission to the committee but I would like to draw your attention here to several matters that we believe also have significant economic implications, as well as due process concerns of the regulated community.

1. *Use of settlement agreements.* In a number of instances, EPA has utilized unilateral settlement agreements with environmental organizations to achieve policy ends outside the normal APA process. This is a serious matter that deserves the committee's scrutiny and we would urge that you share your findings with the House Committee on the Judiciary, which has jurisdiction over the Administrative Procedures Act.

2. *Non-disclosure of disbursement of public funds.* The United States government pays millions of dollars annually in court costs and attorney fees to environmental activists and others who file actions against the United States. This money is paid from a Judgment Fund, and in some cases is paid from agency budgets. Entities do not have to

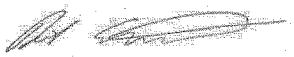
win their cases in order to be awarded fees and costs. In many cases, agencies settle with these groups and pay their costs. Until 1995, the Administrative Conference of the United States filed reports on some of these expenditures, and the Department of Justice filed reports on money paid from the judgment fund. In 1995, the ACUS was deactivated, and reporting requirements by DOJ were repealed as part of a paperwork reduction effort. These funds are now paid to groups that sue the government, and there is no accountability for these taxpayer funds being spent. ACUS was reauthorized in 2010 and public disclosure of these disbursed sums should be made.

3. *Use of computer modeling.* Use of computer models received much attention in the context of the global warming/climate change debate and the committee should look into the use of computer models in its review. Two recent instances of concern are the computer model used by EPA in its Chesapeake Bay TMDL and EPA's announced intention to give particular weight to modeling scenarios in determining NAAQS compliance even when actual data may conflict.

4. *Data Quality Act.* The committee may wish to evaluate whether the Data Quality could be strengthened by amending the law to provide for judicial review of such determinations.

We strongly support your committee's effort to exercise its oversight authority in this area, and we would encourage you as well to share your findings with the relevant committees of jurisdiction so that they may evaluate possible changes to the underlying statutes when appropriate. We will be pleased to work with you as the committee proceeds with its inquiry. If you have any questions about this subject, please contact Paul Schlegel at (202) 406-3687.

Sincerely,



Bob Stallman
President

Agency: EPA
Issue: Re-consideration of Atrazine
Status: EPA will have further hearings in the spring of 2011
Discussion: In 2009, in response to requests from environmental activists, EPA re-opened the re-examination of Atrazine's use as an agricultural herbicide, even though the chemical went through the normal re-registration process in 2006 and is not due for reconsideration until 2013. Atrazine is widely used in agriculture and is particularly important in the planting and harvest of corn and sorghum. The chemical has been the subject of numerous scientific studies (some estimates place the number at over 6,000). EPA's decision to re-open the registration of Atrazine is virtually unprecedented and has caused great anxiety among farmers who depend on this crop protection tool. Were Atrazine removed from the market, its removal could seriously erode farmers' profitability. (Notably, this chemical is particularly important in no-till agriculture, which has gained increasing acceptance over the last few decades and has been cited by some as an important means of keeping carbon stored in the soil.)

Agency: EPA
Issue: Clean Water Act Permits for Normal Pesticide Use
Status: EPA is planning to promulgate a new permit program by April 9, 2011
Discussion: In 2009, a three-judge panel from the 6th Circuit Court handed down an unprecedented ruling. Ignoring nearly four decades of law, the court invalidated an EPA rule and declared that when a farmer uses a pesticide – even in complete accordance with Federal requirements under the Federal Insecticide, Fungicide and Rodenticide Act (FIFRA) – that use may constitute a "discharge" under the Clean Water Act; the pesticide's use, therefore, according to the Court, requires a national pollutant discharge elimination system (NPDES) permit under Federal law – even though that use is currently regulated under FIFRA and FIFRA label instructions incorporate findings related to water quality impacts. The Secretary of Agriculture asked the Administrator of EPA to appeal this ruling and to defend its own rule but the agency failed to defend its own regulation. Instead, the agency is proposing a permit system that will be put in place by April 9, 2011 – a system that, by one estimate, would require 5.6 million application of pesticides by 365,000 applicators to have permits. Moreover, the agency in its original proposal opened the door to requiring NPDES permits for virtually *any* application of a FIFRA registered chemical – even when the application is done strictly in accordance with the FIFRA label. The economic impact of this policy change could be enormous. It will not only raise the costs of farming; it will potentially subject farmers and ranchers to lawsuits from environmental organizations who have philosophical objections to any pesticides.

Recommendation: Adopt legislation to clarify that application of FIFRA-registered pesticides do not require an NPDES permit when applied in conformance with the FIFRA label. (Bipartisan legislation was introduced in the 111th Congress to remedy this issue.)

Agencies: EPA and the Army Corps of Engineers (COE)
Issue: Regulatory treatment of prior converted croplands (PCC)
Status: Ongoing
Discussion: In 1993, the Clinton Administration issued a regulation to clarify the regulatory treatment of prior converted croplands. (NOTE: Prior converted croplands are wetlands that were drained before 1985 and that no longer exhibit the characteristics of wetlands. Such PCC are not treated as wetlands under Sec. 404 of the Clean Water Act unless they are abandoned for a period of 5 years.) The Clinton Administration stated that PCC were no longer to be considered "waters of the US" regardless of how the land was used. EPA and the COE have been trying to "recapture" such PCC by ignoring the regulation and promulgating guidance that claims that when there is a "change in use," the PCC comes into regulation under the Clean Water Act. COE just lost a court decision on this matter, and the court explicitly rejected the agencies' contention.
Recommendation: If EPA intends to change the regulatory treatment of prior converted croplands, it should be required to follow the appropriate procedures in the Administrative Procedures Act and not use guidance to undermine a policy that is nearly two decades old.

Agency: EPA
Issue: Interpretation of Court decisions and enforcement of Clean Water Act for concentrated animal feeding operations (CAFOs)
Status: Pending
Discussion: Several years ago, the 2nd Circuit Court invalidated an EPA rule in which the agency contended that all CAFOs propose to discharge pollutants and therefore had a "duty to apply" for an NPDES permit whether or not the CAFO actually discharged. The court clearly stated that Congress had given EPA only authority over actual discharges and the agency had no authority to compel entities to apply for a permit if they did not discharge or intend to discharge. EPA, however, has been working on regulations that may come out in 2011 and that are expected to require small- and medium-sized CAFOs to obtain NPDES permits, as well as mandating use of more aggressive nutrient management plans. The rule is

rumored to include a presumption that all CAFOs discharge – a policy determination that is clearly at odds with the ruling in the 2nd Circuit. Other ways in which the agency is seeking to increase regulation over CAFOs and increase costs to farmers and consumers are:

- Under a secret settlement agreement reached with environmental activists in current litigation over the 2008 CAFO rule, EPA will soon propose to collect information about farms and post that information on the internet.
- EPA entered into another settlement agreement to requirement permits for dust and feathers blown out of poultry house ventilation fans.
- EPA is proposing regulations to limit the use of manure nutrients and limit a farmer's ability to sell manure nutrients to crop farmers.

Agency: EPA
Issue: Guidance undermining two Supreme Court decisions (*SWANCC* and *Rapanos*) and usurping congressional language on the legislative term "navigable waters"
Status: A lengthy EPA guidance document is reportedly now under review at the Office of Management and Budget (OMB)
Discussion: In two important decisions, (*SWANCC* in 2001 and *Rapanos* in 2007) the US Supreme Court declared that there are limits to Federal jurisdiction under the Clean Water Act, citing Congress's use of the term 'navigable' to limit Federal authority. With the failure of legislation to delete that term in the 111th Congress, EPA is now reportedly developing guidance that will undermine the Court's decisions and assert sweeping Federal jurisdiction over intrastate waters in ways never intended by Congress. Expanding federal control over intrastate waters will substantially interfere with the ability of individual landowners to use their private property and will significantly impair job creation from private and public investments in development and infrastructure projects including housing, schools, hospitals, roads, highways, agriculture and energy projects. Should such guidance reflect the policy direction of failed legislation, it could well empower EPA to assert Clean Water Act jurisdiction over even dry land.

Agency: EPA
Issue: Regulation of non-point sources of pollution
Status: Ongoing
Discussion: Under the Clean Water Act, states have primary authority to regulate non-point source pollution (Section 319 of the law). EPA, however, is encroaching upon state prerogatives and is engaged in a vigorous regulatory campaign to insert itself into non-point source pollution regulation. Specifically:

- The agency is trying to narrow the agricultural stormwater exemption – an exemption explicitly written into the law by Congress. In the Chesapeake Bay, EPA is seeking to do away with the exemption entirely.
- EPA has entered into a settlement agreement with environmental activists to adopt unrealistic and unattainable numeric nutrient criteria.
- EPA is advocating new total maximum daily load (TMDL) limits that would effectively limit CAFOs from expanding their operations.
- EPA is proposing to strengthen the water quality standards program. Key among EPA's proposals are measures to tighten rules over point and nonpoint sources and give environmental advocates greater access to challenge livestock operations and land use activities of farmers and ranchers.

Agency: US Department of Labor
Issue: Regulations for the temporary and season agricultural (H-2A) program
Status: Final rule promulgated in 2010. Due to effective date, many H-2A employers will feel first impact when entering into contracts in 2011.

Discussion: 8 U.S.C. 1101(a)(15)(H)(ii)(a) authorizes a foreign guest worker program under which agricultural employers may, after meeting certain conditions, hire foreign workers for temporary or seasonal work. Revised regulations for this program, known commonly as the H-2A program, were promulgated in December, 2008; those reforms were eventually revoked and replaced by regulations promulgated by the Department of Labor in 2010. The 2008 regulations revised the wage methodology and streamlined the program; the 2010 revisions reverted to the previous wage structure but at the same time instituted new reforms that will make the program more costly and less attractive for farmers and ranchers. Although there are many problems with the new regulations, three items in particular are worth noting:

1. *Mandatory wage rate:* An employer utilizing the H-2A program must pay his workers the highest of (a) the state minimum wage; (b) the federal minimum wage; (c) the prevailing wage; or (d) the adverse effect wage rate (AEWR). In nearly all cases, this is the AEWR. The 2008 regulation modified the formula by which the AEWR was determined, bringing it much closer to the actual wages paid in the agricultural labor market. The 2010 final rule restored the earlier formula, which is not based on actual wages but is a formula based on a state-wide average of wages paid in differing jobs within agriculture. The practical effect of this change was to drastically increase labor costs for

employers who use the H-2A program and, consequently, to discourage employers from using the program.

2. *Worker eligibility*: One of the significant reforms of the 2008 rule was a requirement that state workforce agencies (SWAs), which receive Federal funds, be required to verify the work eligibility of individuals whom they refer to H-2A employers. Prior to that reform, SWAs would routinely refer prospective employees to H-2A employers not knowing whether the individuals themselves were eligible to work in the United States. Farmers complained that government agencies themselves were effectively compelling them to consider for employment individuals for whose eligibility the government itself could not attest. The '08 regulation remedied this ridiculous situation by simply requiring SWAs to verify work eligibility. The 2010 regulation repealed this common sense reform, thus restoring a situation which had the effect of requiring farmers to consider for hire workers not eligible to work in the U.S. The following explanatory note is taken from DOL's own website (full cite is at http://www.foreignlaborcert.doleta.gov/faqsanswers.cfm#h2a:

   May I continue to rely on the SWA to verify the employment eligibility of the applicants it refers to my job opportunity?

   Under the Immigration and Nationality Act (INA), the employer is responsible for verifying the employment eligibility of all of its hires. Department of Homeland Security (DHS) regulations do not require State agencies to verify the employment eligibility of job applicants they refer to employers but do permit employers to rely on employment verification voluntarily performed by a State employment agency under certain limited circumstances. Under the 2008 Final Rule the Department required the SWAs to perform I-9 verification on all applicants being referred to job openings for which H-2A workers were sought. Under the 2010 Final Rule, the SWAs will no longer be required to conduct I-9 employment eligibility verification of job applicants referred to job opportunities for which H-2A workers are sought. Employers should carefully examine the requirements under the INA and the DHS regulations to ascertain their obligations and ensure compliance with respect to employment eligibility verification.

3. *50 percent rule*: A longstanding regulatory requirement under the H-2A program has been that farmers are required to recruit and hire eligible and qualified US workers before they receive certification (approval) to bring in foreign workers under H-2A visas. Customarily, a farmer would file an application specifying the number of workers he or she needs for the work in question. The

US DOL will ultimately reject or approve the application and certify for a certain number of H-2A workers. Through 50 percent of the contract period, a farmer is obliged to interview and hire eligible, qualified individuals (including those referred by an SWA) up to the number of workers certified on his H-2A application. For example, if a farmer were certified for 100 workers over a 6-month period, he would be required to interview and/or hire100 workers during the first 3 months. For years, DOL had interpreted this rule to mean that once a farmer had interviewed or hired referrals up to the number certified on his H-2A application, the farmer had met his legal obligation. Under the 2010 Final Rule, DOL drastically changed this requirement.[1] (See the explanatory statements below taken from DOL's website at http://www.foreignlaborcert.doleta.gov/faqsanswers.cfm#h2ajoboffers15.). DOL now requires that a farmer during the first half of the contract period hire any and all eligible US workers as long as at least one H-2A worker is employed. In real terms, this means that as long as a farmer has *one* H-2A employee, he must hire an unlimited number of US workers *regardless of the amount of H-2A workers actually certified by DOL.* This interpretation is wholly unworkable. From a practical perspective, it is frequently the case that US referrals either will not show up at the time and date required or, if they do, they will often not return or quit employment after a short period. A farmer will thus always keep some H-2A employees on the job because he cannot afford to lose his crop and he knows that referrals from SWAs are, in most instances, highly unlikely to result in a reliable supply of workers. The practical effect of DOL's new interpretation has been to raise costs and uncertainties for farmers who want to use the H-2A program. From a public policy standpoint (coupled with the changes mentioned in #1 and #2 above), the effect has been to discourage the use of legal employees under the H-2A program and to make it easier for workers with fraudulent documents to gain employment in the U.S.

Am I required to hire every U.S. worker who applies, or is referred to me by the SWA, during the first 50 percent of the contract period?

For as long as an H-2A worker is employed in a certified position during the first 50 percent of the contract period, the employer must provide employment to any able, willing, qualified and available U.S. worker who applies to the employer until 50 percent of the period of the work contract has elapsed, regardless of the number of H-2A workers covered by the employer's

[1] It should be noted that the 50% rule, like nearly all the regulations governing the H-2A program, is wholly a regulatory creation. There is no language in the statute mandating such a requirement.

certification. The start of the work contract timeline is calculated from the first date of need stated on the Application for Temporary Employment Certification under which the foreign worker who is in the job was hired.

An employer may continue to employ its H-2A workers under the work contract so long as it complies with all requirements of the H-2A program with respect to the H-2A workers and workers in corresponding employment. The employer may also choose to displace its H-2A workers with the newly hired U.S. workers so long as it pays for the H-2A workers' return transportation and subsistence in accordance with 20 CFR 655.122(h)(2). In the event the employer decides to displace its H-2A employees as a result of hiring U.S. workers, the employer is not liable for the payment of the three-fourths guarantee to the displaced H-2A workers.

October 1, 2010

What are my options if the newly hired U.S. workers under the 50 percent rule become unavailable after I have displaced some or all of my H-2A workers?

If all of the H-2A workers have been displaced, and some or all of the U.S. workers hired as a result of the 50 percent rule become unavailable, i.e., abandon the position or are terminated for cause, <u>during</u> the first 50 percent of the work contract period, the employer is under no obligation, but may continue, to hire any able, willing, qualified and available U.S. workers. However, so long as the employer continues to employ at least one H-2A worker in a certified position during the first 50 percent of the contract period, the employer must continue to hire any able, willing, qualified and available U.S. worker who applies to the employer until 50 percent of the period of the work contract has elapsed, regardless of the number of U.S. workers hired under the 50 percent rule who become unavailable.

If some or all of the newly hired U.S. workers become unavailable <u>after</u> the first 50 percent of the work contract period, the employer may, but is not obligated to, hire additional able, willing, qualified and available U.S. workers and/or engage in additional recruitment of U.S. workers.

<u>Note:</u> An employer whose Application for Temporary Employment Certification is approved for

the full number of workers requested may not apply to the National Processing Center for a redetermination of its need based on the unavailability of U.S. workers. Pursuant to the Department's regulations at 20 CFR 655.166, this option is only available to employers whose certifications were initially denied or whose applications were partially certified.

October 1, 2010

Agency: EPA
Issue: Lowering the national ambient air quality standards (NAAQS) for coarse particulate matter (PM_{10})
Status: The agency is expected to recommend tighter standards in the near future
Discussion: EPA is in the process of reviewing the NAAQS for PM_{10}. Coarse particulate matter is much more prevalent in rural areas due to unpaved roads, working farm fields and blowing winds. With very little evidence of adverse health impacts from PM_{10} (and virtually no evidence from rural areas), EPA is proceeding to revise its standards. While EPA has said that it is justified in retaining the current standard, all indications are that it will reduce the current allowable levels of PM_{10} by half. Such a change will not have much impact in urban areas, but will cause significant economic concerns in rural areas that are already having difficulty in meeting the current standard. Reducing the standard will cause many rural areas to go into non-attainment, and bring more restrictions and controls on production. The effect will be to raise costs and reduce profitability for agriculture.

Agencies: EPA and US Fish & Wildlife Service
Issue: Over-regulation and duplication of efforts under Section 7 of the Endangered Species Act
Status: Ongoing
Discussion: Section 7 of the ESA requires federal agencies to consult with either Fish & Wildlife Service or National Marine Fisheries Service ("Services") regarding actions that could affect listed species. The Federal Insecticide Fungicide and Rodenticide Act (FIFRA) provides a procedure for EPA to register crop protection products, taking into account that product's effect on wildlife, including listed species. Any crop protection registration has considered impacts of the registered product on wildlife. Because of this procedure, EPA has traditionally not consulted with the Services on registrations. Recent lawsuits have established a requirement for EPA to consult with the Services on crop protection registrations, even though EPA has already performed analyses of impacts on listed species during the registration process, thus creating a duplicative process. Crop protection use is often enjoined or restricted until consultations are complete. To make matters worse, the analyses done by EPA to assess impacts on listed species are

different from the analyses done by the Services to assess impacts on listed species. The processes employed by the agencies are not only duplicative, but they do not agree on the methodology to be used to perform the same analyses. Losers in this inter-agency dispute are farmers and ranchers who are restricted in the use of crop protection materials until section 7 consultation is completed.

Recommendation: Legislation should be adopted to resolve this conflict and to eliminate the duplication of costly and time-consuming reviews of impacts of pesticides on species listed under the ESA.

Agency: EPA
Issue: Regulation of greenhouse gases (GHGs)
Status: EPA regulatory authority commenced on January 2, 2011
Discussion: EPA began regulating greenhouse gas emissions at stationary sources (including farms and ranches) on January 2, 2011. The Clean Air Act requires that any such sources that emit, or have the potential to emit, 100 or 250 tons of GHGs per year obtain both Title V operating permits and preconstruction permits before building or renovating any structures. (EPA, under its "tailoring" rule, has claimed it has the authority to phase in these limits, starting at levels as high as 100,000 tpy – a level a thousand times above that explicitly set by Congress in the law. EPA's claim of such authority is being challenged in court.) EPA estimates that when fully implemented, there will be over 37,000 farms and ranches subject to Title V operating permits alone, at an average cost of over $23,200 per permit. In addition, EPA has stated that methane emissions from livestock are not classified as fugitive emissions, and thus would be required to obtain such permits. If so, this would affect over 90 percent of the livestock production in the United States.

Recommendation: Congress should act to halt EPA's regulatory over-reach.

Agency: EPA
Issue: Regulation of ammonia emissions
Status: A proposed rule is expected in July, 2011
Discussion: In the course of revising national ambient air quality standards for sulfur dioxide (Sox) and nitrogen oxides (NOx), EPA is also seeking to regulate ammonia emissions. Livestock emit ammonia and would thus be regulated under these standards. The Clean Air Act only regulates emissions of "regulated pollutants," which does not include ammonia. EPA is seeking to use a controversial and unproven method for the NOx and Sox standards that would incorporate the regulation of "reduced nitrogen," which includes ammonia. The methodology has not been endorsed by the EPA Clean Air Scientific Advisory Committee which is reviewing these standards.

Agency: EPA
Issue: Spill Prevention, Control and Countermeasures (SPCC) rule
Status: Final regulation issued 2010
Discussion: In 2009, EPA finalized regulations that will require any farm with above-ground oil storage capacity of greater than 1,320 gallons to have secondary containment measures in place; for farms with more than 10,000 gallons of such capacity, such plans must be certified by a professional engineer. This regulation is over thirty years old and was originally intended for the petroleum industry, although EPA contends that agriculture has never been exempt. There is no identifiable history of spills from agricultural tanks, and the agriculture community has repeatedly urged EPA not to extend this regulation to farms and ranches or, in the alternative, to do so in a way that minimizes burdensome costs (e.g., for farms with storage capacity of 20,000 gallons or more) and to provide a lengthy phase-in period (e.g., 4-5 years) to educate producers about their responsibilities. Those requests have not been granted and farms are now faced with spending literally thousands of dollars to undertake spill containment measures that will result in little to any environmental benefit.

Agency: EPA
Issue: EPA settled a lawsuit with environmental groups to establish a regional Total Maximum Daily Load (TMDL) for the Chesapeake Bay. The administrator of the EPA is on record indicating her desire to use the Bay TMDL as a model for the entire nation.
Status: Ongoing
Discussion: The CWA requires that states identify impaired waters and establish Total Maximum Daily Loads (TMDLs). EPA must approve or disapprove all such TMDLs and, in the event of disapproval, directly establishes TMDLs. EPA appears to be exceeding its congressional mandate and authority in the law by pushing states to implement TMDLs as if they are effective caps on economic activity. Congress vested TMDL implementation with the states in order to balance the attainment of environmental goals with other important economic and social considerations. The Chesapeake Bay TMDL is unprecedented and contains far reaching consequences for the entire U.S. EPA's approach effectively ignores limits Congress prescribed in the CWA and will have the effect of erecting barriers to economic growth, as well as affecting a secure food supply. The implications are so far reaching that the regulations may well allow EPA to dictate virtually all economic activity including the ability to build roads, homes and grow food.

Saxby Chambliss, U.S. Senator for Georgia

Press Releases

CHAMBLISS, ROBERTS URGE ADMINISTRATION TO REVIEW PENDING REGULATIONS TO EASE COSTLY BURDEN ON AGRICULTURE

Jan 26 2011

Washington – U.S. Senator Saxby Chambliss (R-Ga.), Ranking Member of the Senate Agriculture Committee, and U.S. Senator Pat Roberts (R-Kan.) today sent a letter to Cass Sunstein, Administrator of the Office of Information and Regulatory Affairs (OIRA) at the Office of Management and Budget (OMB) urging him to reduce burdensome and ineffective regulations impacting farmers, ranchers and rural America. Consistent with President Obama's January 18th executive order, the Senators include a list of regulations and proposals that OIRA should consider a priority for review given the substantial and unjustifiable cost on stakeholders. In the letter, the Senators said they want assurance that the administration will review the actions by the U.S. Department of Agriculture (USDA) and the Environmental Protection Agency (EPA) and swiftly implement corrective action.

Text of the letter to Administrator Sunstein is below:

January 26, 2011

The Honorable Cass Sunstein

Administrator

Office of Information and Regulatory Affairs

The Office of Management and Budget

725 17th Street, NW

Washington, DC 20503

Dear Administrator Sunstein:

We write as a follow-up to your recent conversation with Senator Chambliss regarding the grave concerns we have about a significant number of regulatory proposals by the Obama Administration. These proposals will impact the U.S. agriculture industry as well as jobs and wealth creation in rural America. We are most interested in the executive order released last week by President Obama and, importantly, the impact of this measure as it is implemented by leadership at the Department of Agriculture and Environmental Protection Agency.

As stated in the executive order, "some sectors and industries face a significant number of regulatory requirements, some of which may be redundant, inconsistent, or overlapping." Furthermore, the executive order mandates that "...each agency shall attempt to promote such coordination, simplification and harmonization" across agencies. Agriculture is such an industry under the jurisdiction of multiple agencies where coordination is necessary to ensure the executive order's goal of "economic growth, innovation, competitiveness, and job creation."

We are fully supportive of any effort to reduce burdensome and ineffective regulation.

Therefore, we wish to draw your attention to the following measures which we believe will have a substantial and unjustifiable cost on production agriculture and rural communities across our nation. In addition to expressing our continued concern about these provisions, we hereby request a review and subsequent analysis by your office as to whether each of these proposals is consistent with the essence and requirements of the January 18th executive order. Finally, once such analysis is complete, we ask that your staff be made available to present your findings to our staff and the staff of other Senators concerned about these matters.

Thank you for your prompt attention to this request.

Sincerely,

U.S. Senator Saxby Chambliss

U.S. Senator Pat Roberts

REGULATORY ACTIVITY OF CONCERN FOR AGRICULTURE AND RURAL AMERICA

(A) EPA

(1) PESTICIDES

a. NPDES permits– This is scheduled to go into effect on April 9, 2011. It will require 5.6 million applications of pesticides by 365,000 applicators to have NPDES permits to apply pesticides. It will cost $50 million and require one million hours per year to implement. http://cfpub.epa.gov/npdes/home.cfm?program_id=410

b. Atrazine – In the fall of 2009, in response to a New York Times article, EPA announced an unscheduled re-review of atrazine. Atrazine was favorably reviewed by EPA in 2006 and is scheduled to begin registration review in 2013. EPA's decision on atrazine could establish a precedent for other pesticides. http://www.epa.gov/opp00001/reregistration/atrazine/

c. Endangered Species Act – Courts are imposing arbitrary limits on pesticide use, mostly by requiring large buffers along streams, in order to protect endangered species. The uncertainty that these actions have created is then greatly exacerbated by the Administration's failure to establish a process through which the U.S. Fish and Wildlife Service and National Marine Fisheries Service can consult with EPA on endangered species issues as they are required to do by statute. Such failure to coordinate is creating serious jeopardy for agriculture as environmental groups recently filed suit against EPA alleging that its pesticide regulatory process does not take into account the effects of pesticides on endangered species.

http://www.epa.gov/espp/
http://www.biologicaldiversity.org/news/press_releases/2011/pesticides-01-20-2011.html

d. Risk Assessment Process/Precautionary Principle – In December 2009, EPA proposed to revise its risk assessment methods related to agricultural workers, their children and pesticides with no food uses. This is a significant change to the agency's risk assessment methodology and is not required by FIFRA. It would add an additional ten-fold safety factor for occupational risk. http://www.epa.gov/pesticides/health/worker-rsk-assmnt.html

(2) WATER

a. Clean Water Act Strategy – In 2009, EPA began to develop a series of aggressive Clean Water Act initiatives. Agriculture is the chief focus of the effort. The problem is not that EPA is developing new strategies and plans for improving water quality, but it is how the agency is going about doing it. Agriculture has not been impressed with the promises of openness and transparency. Agriculture groups are routinely not included in meetings and strategy sessions and the groups' concerns about hasty decision making without thorough analysis are frequently dismissed. For example, only a few from the agriculture community were invited to attend EPA's strategy workshop held in August 2010.

http://blog.epa.gov/waterforum/2010/08/draft-clean-water-strategy-is-released/

b. Numeric Nutrient Criteria – Under a settlement agreement with an activist group, EPA has taken over the development of numeric nutrient criteria (NNC) for Florida's waters. NNC are a subset of EPA's technical water quality standards program. Florida estimates the total capital cost of EPA's criteria will range from $47 to $98 billion over 30 years. At this time, 44 states have criteria under development.
http://yosemite.epa.gov/opei/RuleGate.nsf/6c93b95a7f1614c1852576b70060eb51/355215442d406485852576da0076d5cb!OpenDocument

c. Water Quality Standards Rulemaking – On July 30, 2010, EPA announced it will propose amendments to the Water Quality Standards program. EPA plans to strengthen anti-degradation standards, adopt a presumption that all U.S. waters should be fishable and swimmable, and require state decisions to be approved by EPA. In effect, this proposal would federalize decisions historically made by the states under the Clean Water Act.
http://water.epa.gov/lawsregs/lawsguidance/wqs_index.cfm

d. Chesapeake Bay Total Maximum Daily Load (TMDL) – EPA is seeking expanded authority to implement plans to restore the Bay. Part of this effort is setting a stringent total maximum daily load (TMDL). TMDLs are allocations by sector of allowed discharges to certain water bodies. This will subject producers in the Bay states to more regulation than producers in other states. The Bay TMDL is expected to be used as a model for other water bodies, such as the Mississippi River in the Midwest and the Puget Sound in the Pacific Northwest. http://www.epa.gov/chesapeakebaytmdl/

e. CAFOs – A new regulation is planned for summer 2011. It is expected to require small and medium Concentrated Animal Feeding Operations (CAFOs) to obtain permits and the use of more aggressive nutrient management plans. It also will include a presumption that all CAFOs discharge, thus subjecting them to permitting requirements.
http://www.epa.gov/npdes/pubs/cafo_implementation_guidance.pdf

(3) AIR

a. PM 10/Dust – EPA is preparing to reconsider its large particulate matter (PM 10) standard. EPA's Clean Air Advisory Committee has recommended lowering the standard. This is problematic because the current standard is already difficult for many rural counties, especially in the West, to meet. http://www.epa.gov/ttn/naaqs/standards/pm/s_pm_index.html

b. Greenhouse Gas Regulations – EPA is swiftly moving ahead with a suite of regulations concerning greenhouse gas emissions. In the short term, they will affect agriculture by creating additional uncertainty and slowing the recovery of the economy. In the long term, they will raise production costs for producers and agricultural businesses.
http://www.epa.gov/climatechange/initiatives/index.html

(4) OTHER

a. Dioxin Risk Assessment – EPA is considering a cancer risk factor that will cause nearly all agricultural products to exceed the agency's level of concern. Since 2000, the incidence of dioxin contamination has dropped 90 percent.
http://cfpub.epa.gov/ncea/CFM/nceaQFind.cfm?keyword=Dioxin

b. Arsenic Risk Assessment – EPA is considering a cancer risk factor that will cause virtually all soils to exceed the agency's target risk range. This means rice, wheat, corn meal, peanuts, apples, lettuce, carrots, onions, sugar, and tap water would be considered unsafe.
http://cfpub.epa.gov/ncea/cfm/recordisplay.cfm?deid=219111

c. Urea Risk Assessment – Urea is widely used in fertilizers as a source of nitrogen. It also is an important raw material for the chemical industry. In September, EPA announced a 60-day public comment period and a public listening session on November 16 for the external review of the draft human health assessment on urea.
http://cfpub.epa.gov/ncea/iris_drafts/recordisplay.cfm?deid=214771

d. Fly Ash Regulation – EPA's preferred approach for regulation of fly ash is to declare it hazardous waste. This would end all beneficial uses of fly ash, including agricultural uses. Currently, it is used as a soil amendment and research shows it can be used at field borders to better capture phosphorus runoff.
http://yosemite.epa.gov/opa/admpress.nsf/d0cf6618525a9efb85257359003fb69d/4eca022f6f5c5011852577190005dfb1!OpenDocument

(B) DEPARTMENT OF AGRICULTURE

(1) Biotechnology- Recently, USDA convened a forum of stakeholders to discuss alfalfa co-existence and conflicts between supporters and critics of agriculture biotechnology. In proposing a "partial deregulation" with isolation distances and geographic restrictions based entirely on perceived economic consequences resulting from the commercialization of genetically engineered alfalfa, the Department has introduced political considerations that exceed their statutory authority to regulate the introduction and movement of plant pests. The integration of the co-existence discussion within the regulatory process signals the Department's willingness to elevate the precautionary principle as a fundamental tenet of decision making rather than established procedures as set forth by years of science based risk assessment. The Department plans to issue a record of decision on GE alfalfa the week of January 24th. http://www.aphis.usda.gov/biotechnology/alfalfa_documents.shtml

(2) Trade- USDA intends to propose modifications to the Foreign Market Development and Market Access Programs that have the potential to reduce their effectiveness in increasing U.S. exports. At present, these programs are operating optimally and fulfilling all of the goals of the President's National Export Initiative by including small and medium-sized enterprises as required by law.

(3) Livestock marketing- In June of last year, the Grain Inspection, Packers and Stockyards Administration (GIPSA) published a proposed rule that would make historic changes in the rules governing production and marketing of livestock. The draft rule has come under significant criticism from industry as well as Congress as to substance and a lack of economic analysis conducted before the proposal was published.
http://archive.gipsa.usda.gov/rulemaking/fr10/06-22-10.pdf

(4) Crop insurance- In early January, the Risk Management Agency (RMA) unveiled a proposed rule that would reward farmers participating in the federal crop insurance program for good performance. As proposed by RMA, the "Good Performance Refund" Program does not appear to meet the spirit of the new executive order. First, instead of utilizing an electronic delivery mechanism that is already in place, the proposal would require the Treasury or

USDA to issue hard copy checks to eligible producers. Secondly, the proposal fails to comply with the statutory requirement that producer performance be based on region. By failing to take geographical differences under consideration, RMA's proposal disproportionately benefits producers in regions with favorable weather conditions. Finally, the agency has allowed only 15 days for public comment. http://www.rma.usda.gov/regs/2011/gprpr.pdf

Browse by: -- Month -- -- Year -- GO

01/27/11 -	Chambliss to Serve as Vice Chairman of the Senate Select Committee on Intelligence
01/27/11 -	CHAMBLISS VOWS TO CHAMPION GEORGIA AGRICULTURE IN 112th CONGRESS
01/26/11 -	*Current record*
01/25/11 -	Chambliss Reaction to President Obama's State of the Union Address
01/19/11 -	CHAMBLISS, ROBERTS, LUCAS: USDA SENDING MIXED SIGNALS ON GENETICALLY ENGINEERED ALFALFA
01/09/11 -	Chambliss Statement on Arizona Shooting

QUESTIONS AND ANSWERS

FEBRUARY 17, 2011

Senate Committee on Agriculture, Nutrition & Forestry
Agriculture: Growing America's Economy
Questions for the record
Mr. Keith Creagh
Thursday, February 17, 2011

Senator Pat Roberts

I often say that Washington needs to be a partner -- not an obstacle -- with U.S. farmers and ranchers to meet the challenge of doubling food production to feed the exploding world population. As Chairwoman Stabenow and I work together to ensure that need is met, I am interested in your perspective on the ever increasing regulation of agriculture. Specifically, I would like to know from your position of leadership both in agriculture and economic development -- what regulations or regulatory proposals do you believe pose the greatest threat to continued growth in the agriculture sector of your state?

Thank you for the opportunity to address your question from Michigan's perspective.

As you are aware, the challenges being faced by the food and agricultural industry are numerous and complex in nature. The American Farm Bureau and the letter you sent to Administrator Cass Sunstein of the Office of Management and Budget provide a thorough list detailing a number of concerns pertaining to regulatory inconsistencies and issues at the federal level. These issues arise because of the myriad of guidance documents, rules, regulations and statutes that pertain to the food and agricultural industry. Although some would argue that the statutes are science-based and potentially well-intended, it is the approach, interpretation, implementation and overlap of the various regulatory requirements that is cause or reason for concern.

Statutes enacted generally address specific areas of concern, e.g. the Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA), Clean Water Act (CWA), Endangered Species Act, Food Safety Modernization Act, and Clean Air Act, but rarely are their collective impact on any one sector considered. The agricultural sector is somewhat unique in that it primarily uses an open system (not a "facility") that produces a product (food) that has a universal benefit. The duplicity and conflict within and between the various statutory requirements erodes the producer's ability to make decisions and maximize efficiency. If the regulatory framework and construct would seek compliance rather than punitive damages, and assist producers in the implementation of practices under the various statutes, then many of the concerns of the farm and ranch community would be diminished. A couple of recent examples include:

Biotechnology

As technology advances and the scientific review becomes more complex, there exists the potential and reality that decisions will be made by forces outside the regulatory Agency. The recent debate and subsequent court case pertaining to Roundup Ready® sugar beets is an excellent example of this occurring. USDA's review of the Roundup

Ready® sugar beets permit and the process used provided the impetus for those opposing the decision to seek a preliminary injunction in the District Court. On February 25, 2011, the 9th Circuit Court of Appeals overturned that decision and found that APHIS's permitting of "steckling plants" appears to follow the Supreme Court's blueprint. However, the uncertainty prior to the 9th Circuit Court decision caused concern and negatively impacted Michigan sugar beet growers as they "scrambled" to find alternative seed sources that are not as generally productive. It appears as though the recent decision has resulted in a "workable" short-term solution that will still result in increased costs on the farm.

Duplication of Efforts

In the spring of 2011, in response to a 6th Circuit Court decision, EPA is planning to propose a new permit program that duplicates a system that already adequately regulates the application of pesticides. Currently, pesticides and their use are appropriately regulated under FIFRA. This court decision and EPA's response to require a National Pollutant Discharge Elimination System (NPDES) general permit under the CWA is duplicative, provides no additional environmental benefit, and ignores the regulatory construct of FIFRA. Further, the redundancy in the system adds direct costs and provides little, if any, benefit to the process (either for the farmer or the environment). It is estimated that this duplication will cost an additional $50 million and require one million hours per year to implement.

In 2009, EPA began developing Clean Water Act initiatives, with agriculture being one of the sectors of focus. The challenge is not that EPA is developing new strategies and plans for improving water quality, but it is how they are going about it. Agriculture is concerned about the lack of openness and transparency, and is routinely not included in meetings. The traditional stakeholders involved in the Clean Water Act are typically facility-related point sources, and are not necessarily the same stakeholders involved in production agriculture. A recent example is the Chesapeake Bay Total Maximum Daily Load (TMDL) effort. It is laudable that EPA is seeking additional means to restore the Bay; however, part of the effort is setting stringent TMDLs without adequate information or consideration of the impact on production agriculture. Constructive dialogue with those in agriculture would yield tangible results that could be implemented in a cost effective manner. This could be accomplished by targeting existing Farm Bill programs in priorities areas.

In Michigan, a stakeholder-driven approach was implemented as Governor Snyder recently signed legislation that codified the Michigan Agriculture Environmental Assurance Program (MAEAP). MAEAP is a proactive, voluntary program that addresses environmental risks on all farm types and all farm sizes. The program uses technical assistance and recognized standards (such as those developed by the Natural Resources Conservation Service) to achieve economically viable, farm-specific environmental solutions verified by the Michigan Department of Agriculture and Rural Development. Our goal is to complete 5,000 verifications by the end of 2015; representing 80% of production acres. This approach of working with the farm community and a diverse stakeholder group to achieve desired outcomes, whether it be

environmental, food safety or animal welfare, can be a cornerstone for future efforts. A "one size fits all" regulatory approach is not effective and will continue to have negative consequences for production agriculture.

In conclusion, each of the above examples has an impact on a farmer's ability to maximize efficiency and construct long range management policies predicated on production cycles. We collectively need to continue to allow farmers to farm, while meeting the intent of the statutes. It is incumbent that we align policies and strategies to work with agencies to achieve results that will enable agriculture to be a profitable and a robust economic provider for rural economies. Thank you again for the opportunity to comment, and I look forward to working with Chairwoman Stabenow and yourself to help grow the nation's food and agriculture industry.

Senate Committee on Agriculture, Nutrition & Forestry
Agriculture: Growing America's Economy
Questions for the record
Dr. Joe Outlaw
Thursday, February 17, 2011

Senator Pat Roberts

1) I appreciate you sharing the financial condition of the model farms in your database. It was interesting to see that, even with the positive outlook for agriculture presented today, 20 percent of the crop farms are in the "poor" category – meaning they have a greater than 50% chance of loss in real equity and cash flow shortfalls.

   From your analysis, why are those farms considered to be in poor condition?

   Answer: Working with our representative farms, we have found the cost of production for crops varies widely across the United States. Differences in land productivity and weather, among other regional factors, generally leads to some farms having much higher costs of production than others. Our farm results can be impacted by regional droughts that lead to debt accumulations that also have to be worked through. To moderate these regional differences we start a seven year analyses with two years of actual prices and yields before we start using the Baseline prices. When a weather event triggers low yields in a pre-Baseline year the cash flow carries into the projection period, which shows the real cash flow problems farmers are experiencing.

2) As you know, the President's Budget Request released this week proposes farm program changes, including a reduction in the direct payment limitation cap from $40,000 to $30,000 and tighter restrictions on adjusted gross income (AGI) limits.

   In your opinion, what will be the impact of this policy change in farm country? If we continue to lower payment limits to the point farm programs no longer cover producers that derive most of their income from farming, what are the potential impacts on production and profitability knowing that commodity markets are cyclical?

   Answer: In the past, tighter payment limitations have had a relatively small impact on commercial farms (the 10-15% of farms that are responsible for 85% of production) because of the three-entity rule and the $2.5 million limitation on AGI. With direct attribution of payments that was included in the 2008 Farm Bill, we would expect a much larger impact from lowering the direct payment limit and AGI limits. Our nearly 30 year history of studying the costs of production on farms in the United States has helped us understand that commercial producers are not always the lowest cost producers. The constant drive to become more efficient leads them to take on more debt by acquiring land and technologically

advanced equipment. In a perfect world, spreading their costs over more acres and equipment that either replaces labor or allows for more acres to be covered in a shorter timeframe will lead to lower costs – but this does not happen instantly nor automatically and not without significant capital costs.

We feel that tightening payment limitations on commercial farms effectively reduces the safety net that our Nation has for our producers. It makes very little economic sense to reduce the safety net for those responsible for the majority of the production given the increased price volatility currently being experienced.

3) Given the current state of appropriations, and your traditional funding sources, what do you see happening to the Agricultural and Food Policy Center should funding not be included in the Continuing Resolution or future appropriations bills? Do you see formula funding or other means as a possibility to help continue the work you do on behalf of Congress until the issue can be more fully addressed in the upcoming Farm Bill?"

Answer: Without a new source of funds to replace the recently eliminated Congressionally directed funds we have relied on for more than 25 years, the Agricultural and Food Policy Center would lose our ability to update our one-of-a kind dataset of representative farms. We would have limited ability to assist policymakers and staff evaluate agricultural policy changes in the pending farm bill.

Formula funding that is currently being provided to our state is of limited help as those funds are currently being directed elsewhere by agency administrators. Congressional increase in formula funding would likely see the money go to these same programs and not be received by the Agricultural and Food Policy Center.

Senate Committee on Agriculture, Nutrition & Forestry
Agriculture: Growing America's Economy
Questions for the record
Secretary Tom Vilsack
Thursday, February 17, 2011

Senator Pat Roberts

1) Mr. Secretary, the Administrator of the Environmental Protection Agency has the authority to waive the requirements of the Renewable Fuel Standard (RFS) in whole or in part if there is inadequate domestic supply to meet the mandate OR if the "implementation of the requirement would severely harm the economy…of the United States."
As you note in your testimony, corn stocks are at historically low levels and demand remains very strong, possibly moving higher than their 2008 peaks. How low do corn stocks need to be in order for EPA to finally modify the RFS and relieve pressure on the livestock industry and other stakeholders?

Response: While corn stocks are expected to be at historically low levels next year, I do not see the need to advise the Administrator of the Environmental Protection Agency to waive the requirements of the RFS at this time. While the market for corn is expected to remain tight over the next year, we expect there will be ample production to meet demand. We are currently expecting the area planted to corn will increase by almost 4 million acres this year and yields to return to normal levels. If that occurs, US corn production for the 2011/12 crop year will be 13.7 billion bushels; an increase of 10 percent over 2010/11 production levels. We will have better information on corn acres when our National Agricultural Statistics Service publishes its Prospective Plantings report at the end of March. We will continue to monitor the demand and supply situation over the year.

It is also not clear whether temporarily reducing or waiving the RFS would have a significant impact on ethanol production. For example, in 2010 the U.S. Department of Energy estimated that U.S. ethanol production was about 13.2 billion gallons. That production level is greater than the amount of starch-based ethanol that can be credited toward the RFS for 2011. This suggests that the current high gasoline prices are creating an economic environment where it remains profitable to blend starch-based ethanol into gasoline, in spite of the high commodity prices.

2) What affect does President Obama's Executive Order issued January 18, 2011 regarding improving regulations and regulatory review have on the Grain Inspection, Packers and Stockyard's Administration proposed rule issued nearly six months earlier on June 22, 2010? Since the rule has yet to be finalized, will it go through the additional scrutiny as outlined in the Executive Order or will it go through the process in place before the Order was issued?

Response: Our goal is to have a workable, feasible, and commonsense rule. We believe the final rule which will be published by the Grain, Inspection, Packers and Stockyard's Administration (GIPSA) will be consistent with President Obama's Executive Order. I have directed our Chief Economist to lead a team which

includes economists from across the Department to analyze and address comments on the cost-benefit analysis of the GIPSA Farm Bill rule.

Senator Patrick Leahy

1) Following the devastating record low prices that hit the dairy industry in 2008 and 2009, you established the Dairy Industry Advisory Committee in August of 2009. The Committee was to advise you on policy issues impacting the dairy industry including farm milk price volatility and dairy farmer profitability. The Committee was to provide a report with recommendations on how USDA can best address the issues facing the dairy industry and meet the industry's needs in both the near and long term.
Now over a year and a half since the committee was first established, we have yet to see the final recommendations and report. I fear that as dairy prices begin to rebound we could loss the momentum necessary to enact true dairy reform. We have lost many dairy farms in Vermont since prices plummeted and I believe that we must make meaningful improvements to dairy policy in this country that will address volatility and protect our nations small dairy farmers. When can we expect to see the final report?

Response: I am extremely pleased with the hard work of the Committee. They have dedicated a tremendous amount of time and effort in examining the issues facing the dairy industry and making public policy recommendations. The committee delivered their final report on March 16, 2011.

2) And do you feel that it represents a clear path forward to address price volatility and farmer profitability?

Response: I feel the report offers some sound guidance on ways to improve the profitability of dairy farmers as well as reduce the volatility in dairy markets. The report accurately points out that there are no easy solutions, but it does present some very well thought out ideas.

Senator Ben Nelson

1) I am heartened by USDA's forecast for a record high in U.S. agricultural exports for FY2011.

Looking at the Department's forecast it appears our beef exports are getting close to their levels before the BSE bans in 2003 and our pork producers could be looking at a 10.5 percent increase in exports.

I also believe these positive trends are will only continue with the eventual passage of the Korean, Columbian, and Panamanian Free Trade Agreements, which will allow us to meet the National Export Initiative's goal of doubling exports in five years.

My concern today, however, is the increasing use of protectionist sanitary and phyto-sanitary measures by some of our trading partners to restrict pork, beef, chicken, and other U.S. farm products. These are some of America's biggest exports, and vital to U.S. farm incomes. Some examples are:

China and Taiwan restrict imports of U.S. pork because of ractopamine, even though a Joint FA0/WH0 Expert Committee on Food Additives risk assessment has found that ractopamine is safe.

Japan still restricts imports of U.S. beef because of BSE, even though the OIE has found our beef is safe.

Russia and the EU restrict imports of U.S. poultry because of non-science based restrictions on certain antimicrobials.

As you are aware, all of these issues fall within the purview of the Codex, which is the UN organization charged with developing international food safety standards.

But the European Union and China have blocked a CODEX ractopamine standard for 3 years despite the Joint risk assessment finding that ractopamine is safe.

Further, I understand that the Codex Committee on Residues of Veterinary Drugs in Food (CCRVDF) just recommended adoption of the EU's proposal for a "negative list."

I'm concerned that the negative list concept could be expanded to other issues like hormones, antimicrobials, and GMO foods, where the U.S. and EU have longstanding differences.

As such, will USDA in its role in the U.S. Codex delegation fight for a science-based ractopamine standard?

Will it work to oppose the recommended "negative list that could put our exports further at risk?

What steps is the Department and the Administration taking to strengthen our standing in CODEX and overcome these protectionist hurdles by our trading partners?

Mr. Secretary, I think you and I both agree that Free Trade is essential for our producers, but it also must be Fair Trade.

Response: The United States is strongly committed to ensuring that the Codex Alimentarius Commission (Commission) continues to set international standards based on sound science. To that end, USDA, USTR, and the other Federal agencies involved in the work of the Commission have vigorously advocated the adoption of a maximum residue level (MRL) for the veterinary drug ractopamine as a Codex standard. An international panel of scientific experts evaluated ractopamine and concluded that the MRL for this compound provides for the safe consumption of beef and pork. The Codex Committee on Veterinary Drug Residue in Foods (CCRVDF) forwarded the ractopamine standard to the Commission for adoption, and the issue of ractopamine was the subject of prolonged debate at the Commission's session in July 2010. During this debate, the U.S. Delegation emphasized the need to adhere to Codex' science-based principles, and that opposition to this standard undermined the scientific basis for decision-making in Codex, thereby devaluing Codex as an international standard-setting organization. Debate on this issue was suspended, to be resumed at the July 2011 session of the Commission. We have used, and will continue to use, this interval to consolidate international support behind the U.S. position regarding the veterinary drug ractopamine.

The U.S. Delegation to the CCRVDF has consistently objected to the creation of negative lists. The United States recognizes the value of Codex providing countries with risk management guidance based on independent scientific advice, and the U.S. Delegation has strongly encouraged CCRVDF to provide Codex member countries with comprehensive risk management information, featuring a broad range of options, for all veterinary drugs that have been subject to independent international scientific evaluation. The United States has taken a leadership role in the work of CCRVDF to promote the position that it is more appropriate for Codex to provide risk management advice to national regulatory authorities than to simply establish "negative lists" of veterinary drugs that should not be used in food-producing animals.

It is important to note that significant work continues to be accomplished in Codex despite this handful of contentious issues. Codex has adopted several hundred standards, guidelines, and codes of practices over the past 3 years. These science-based standards help facilitate the smooth flow of a projected $135.5 billion in U.S. agricultural exports.

2) Secretary Vilsack, I understand the Department has concerns regarding a worldwide shortage of sugar, which too has been impacted by extreme weather conditions, much like wheat, corn and other commodities around the globe.

This will certainly have a cost impact on both food processors and consumers.

As such, I want to thank you for the hard work you and the Department put into its decision regarding Roundup Ready sugar beets.

My understanding is a USDA study indicated that halting the use of Roundup Ready beets would have caused sugar beet production to plunge by 37 percent in the U.S., having a devastating impact on jobs and rural communities; while placing additional strain on ever growing food prices.

I applaud the fact that the USDA has made this decision based on sound science after a careful review process and not politics.

This was extremely important to my producers back in Nebraska – particularly in the Panhandle, which you had the opportunity to visit with Secretary Salazar – where we have over 300 sugar beet growers that produce 55,000 acres and more than 1 million tons of beets annually.

Granted this isn't as much as Michigan's sugar beet crop, but we try and keep up.

Could you briefly touch on how you envision the framework laid out by APHIS will be implemented to ensure that our producers wishing to plant Roundup Ready beets will not be prevented from getting into the fields with unnecessary costs or paperwork?

Also, I would like to hear what the timeline is for the Department completing the final Environmental Impact Statement with Roundup Ready Beets – in particular if you believe it will be done in time for producers making 2012 planting decisions?

Response: On February 4, 2011, USDA announced our decision that Roundup Ready sugar beet (RRSB) root crop, when grown under APHIS-imposed conditions, can be partially deregulated without posing a plant pest risk or having a significant effect on the environment. Additionally, RRSB seed crop can be grown under APHIS' permitting process. We imposed the partial deregulation and the related conditions in response to a supplemental petition for partial deregulation. The court ordered that we complete an Environmental Impact Statement (EIS) before we could begin to consider full deregulation. APHIS is continuing to work on that EIS for RRSB, and we expect to complete it by the end of May 2012.

Based on the Environmental Assessment we produced, we reached a finding of no significant impact for partial deregulation of root crop and permitting of seed crop. Briefly, the restrictions on RRSB root crop, which are enforced through compliance agreements between APHIS and the sugar beet cooperatives or processors, include geographic restrictions on where the crop can be grown, surveillance and monitoring requirements, equipment handling procedures, personnel training, reporting, and movement and handling standards.

For RRSB seed producers, mandatory conditions would continue to be imposed through the permitting process. Those conditions include geographic restrictions, isolation distances, recordkeeping and reporting, movement and handling standards, training, and monitoring.

We recognize that producers have concerns about costs to comply with the conditions and recordkeeping requirements, as outlined in a lawsuit recently filed in the U.S. District Court for the District of Columbia.

APHIS will provide technical guidance to producers, and is ready to answer any questions and provide any assistance and guidance they may need.

3) I appreciate the Department is conducting a cost-benefit analysis of the proposed GIPSA rule.

I think this analysis will help give our producers confidence that the Department has thoroughly reviewed their proposal and the economic benefits and consequences that could come with it.

My question is given that the Cost-Benefit analysis is being conducted outside the comment period on the overall GIPSA rule, will producers have the opportunity to provide comments on the cost-benefit analysis the Department provides?

Response: GIPSA received over 61,000 comments on the proposed rule and the agency is currently reviewing and analyzing these comments to ensure all issues are properly considered and whether certain changes should be incorporated into a final rule. Before a rule may be issued, the Department will conduct a more robust cost benefit analysis, address the comments received, and clear the rule through the Office of Management and Budget.

Upon publication of the proposed rule, GIPSA specifically requested comments on the cost-benefit analysis on certain aspects in the proposed rule. Producers and other members of the livestock industry submitted a wide array of comments and economic analysis in response to this particular call for information. At my request, USDA chief economist Dr. Joseph Glauber has assembled a team of economists across USDA to begin work on the updated cost/benefit analysis as part of the rulemaking process. The team will begin with an analysis of the comments, paying particular attention to any economic analysis that was submitted as comments and then model conclusions about the economic effects of any regulatory changes.

Senator Kirsten E. Gillibrand

1) While dairy prices for 2011 are predicted to stabilize between $17 and $18 per hundredweight, the volatility in dairy prices that we've experienced in recent years has been unprecedented, and can be at least partly attributed to the existing use of end-product pricing. In 2009, New York's dairy producers saw their income cut by over $500 million in the year alone. One suggested alternative to this method of dairy pricing is the use of Competitive Pay Pricing methodology. As we begin work on the dairy title of the 2012 Farm Bill, it would be helpful to have the data available to compare the prices created under a competitive pay pricing system with the current end-product pricing, so that we can make informed and thoughtful decisions about the best way to achieve stable, fair, and adequate prices for our dairy producers. I would like to ask for your help in beginning this data collection effort.

Response: USDA has identified several varieties of alternative competitive pay prices using different competition assumptions and methodologies. (See http://www.ams.usda.gov/AMSv1.0/getfile?dDocName=STELPRDC5085528) These are concepts that can be applied to various geographic markets within the US. USDA has not yet collected data for any of these concepts since no unregulated or deregulated areas exist within current Federal milk marketing areas. However, we have initiated steps toward constructing meaningful data by maintaining contact with industry economists who can offer insight and suggestions on appropriate assumptions.

2) As you mentioned, dairy prices are predicted to be stronger in 2011 than we've seen in 2010 and 2009. However, high energy and feed costs are predicted to result in below average marginal returns for dairy producers. USDA has established a framework for protecting dairy producer margins through the Livestock Gross Margin Dairy Insurance Program, I applaud the recent improvements to the program's payment calendar and premium rates. As a result of these changes, we have seen a growing interest in this program among our dairy producers. Unfortunately, we are now hearing that LGM dairy may soon run out of funds for the rest of the year. As you know, Mr. Secretary, dairy farmers have not had very good tools to help manage price risk in a global market. Can you assure us that dairy farmers who sign up in the next few months will get into the LGM Dairy program? Are there other ways that we can partner together to help protect profitability margins for dairy producers?

Response: As you note, on August 12, 2010, the Federal Crop Insurance Corporation Board of Directors approved several improvements to Livestock Gross Margin for Dairy Cattle (LGM-Dairy) plan of insurance. These improvements were incorporated into the policy available for purchase starting December 17, 2010. The improvements, which were requested from the dairy industry, included, making a premium subsidy available and revising the timing of the premium payment until after the end of the coverage period.

These changes have resulted in a dramatic increase in sales in many parts of the country. Before the change, RMA had insured about 1 million hundredweight of milk (from July-November of 2010). Since the change, RMA has insured about 34 million hundredweight of milk (December 2010-February 2011).
Section 523(b)(10) of the Federal Crop Insurance Act (Act) limits funding (A&O costs and premium subsidy) for this and 7 other livestock pilot programs to a maximum of $20 million per fiscal year. Originally, the $20 million was prorated among the livestock programs as they became available and for years, no program reached its limit. With the completion of the February 25 sales period, RMA has about $3.5 million in funding remaining for the rest of the fiscal year. If sales continue on their current pace, LGM-Dairy will exhaust the remaining funding during the March 25 sales period and once reached, no new policies will be accepted.

3) Historically, higher commodity and energy prices have led to sustained increases in retail food prices. In the period between 2007 and 2008, which was also characterized by high commodity and energy prices, the Consumer Price Index (CPI) for food rose by an average of 4.7 percent. As you mentioned, for 2011, the CPI for food is currently forecast to increase by 2 to 3 percent. This means that American families will face higher prices for basic staples. Last year, 4.95 billion bushels of corn were used as the feedstock for ethanol production. To what extent do you attribute the diversion of corn as a source of energy to the rise in food prices? And how can we better tailor or renewable energy policies to advance the production of biofuels without inflating prices at the grocery store?

Response: A variety of factors have contributed to changes in the price of food. Of note, it is important to realize that the farm value of overall consumer food basket is relatively small. Based on recent analysis from the Economic Research Service, only about $0.16 of every dollar spent by consumers in the United States on food goes toward farmers for the sale of raw commodities. The additional $0.84 accrued to industries in all post-farm activities. While added demand such as the added demand for corn due to ethanol production will increase the price of corn, the price of corn is only a small component of the cost of food to consumers.

With respect to the future of biofuels, USDA is committed to the development of biofuels beyond corn-based ethanol. In early February, the Department announced a series of policy changes to increase the production and use of renewable energy. The changes increase the amount of financial assistance available for biorefinery loan guarantees, expand the types of facilities at which bioenergy products can be produced, and, in some cases, provide payments during the retrofitting of biofuels facilities. We will also seek proposals to study the feasibility of providing crop

insurance to producers of biofuel feedstocks, including corn stover, straw and woody biomass. These feasibility studies, funded by the Risk Management Agency (RMA) will join research efforts already underway for energy cane, switchgrass and camelina.

Senator Saxby Chambliss

1) Mr. Secretary, as you know, the Market Access Program (MAP) and the Foreign Market Development Program (FMD) are authorized in the farm bill. Both programs are well established with broad participation representing many different commodities and agricultural products. In fact, most stakeholders are trade associations and farmer-owned cooperatives, representing small and medium sized family farms.

   Recently, Associated Administrator Nuzum presented several reform proposals to stakeholders that would modify their operation under the Administration's "National Export Initiative." I am concerned regarding the impact of the proposals since your Department did not first consult with Congress.
   Can you explain the rationale for the proposed changes and assure the Committee that the Department will not move forward without the support of the Senate and House Agriculture Committees?

   Response: Foreign Agricultural Service (FAS) Associate Administrator Nuzum's remarks to the U.S. Agricultural Export Development Council (USAEDC) in November regarding the Market Access Program and the Foreign Market Development Cooperator Program were meant to generate thoughtful discussion on the programs, and we welcome your input. These programs effectively increase U.S. agricultural exports, but it is important to explore opportunities that exist to make the programs better. FAS briefed both House and Senate agriculture committee staff in early December regarding the proposals and solicited their input at that time. FAS continues to engage USAEDC members on potential improvements. When these discussions are complete, FAS intends to return to the Hill to discuss the possible implementation of these improvement ideas.

2) As you know, negotiators continue to meet in the hopes of finalizing a WTO Doha Round agreement this year. I am concerned that the current talks are focusing too much on domestic support concessions within the agriculture pillar in exchange for benefits in the non-agriculture and service sectors.

   It will be very difficult to gain support in the Congress, let alone the Senate and House Agriculture Committees if the farm safety net is offered up for market access concessions in other areas.

   What is the current state of play in the negotiations? How are you working with the U.S. Trade Representative to ensure that the agriculture sector achieves appropriate market access commitments in developing countries in return for existing commitments on domestic support reductions?

   Response: USDA is committed to concluding an ambitious and balanced Doha Development Agenda (DDA) that will create additional trade flows and benefit

America's farmers and ranchers, as well as agricultural producers worldwide. USDA's negotiating team works closely with the Office of the U.S. Trade Representative (USTR) to put pressure on key U.S. trading partners to provide clarity on how they intend to apply their DDA agricultural market access flexibilities.

On March 29, 2011, Ambassador Michael Punke, who serves as Deputy United States Trade Representative and U.S. Ambassador and Permanent Representative to the World Trade Organization (WTO) in Geneva, Switzerland, addressed the status of the negotiations in a statement to the WTO Trade Negotiating Committee noting that:

- "Clearly the negotiations are not advancing at this point as we have all hoped -- and the gaps among Members remain wide."
- "In agriculture, we give credit to key partners for being transparent with us as to how they plan to employ their flexibilities. Unfortunately, what we learned confirmed our worst fears - that we would see no new market access on our major agricultural export interests. This represents a major gap."
- "The United States is committed to working hard in coming weeks to find productive ways forward and we continue to be open to a full discussion with any and all Members to explore this question."

U.S. commitments on domestic support must be part of a package that contains commitments to improved agricultural market access from both developed and developing countries, especially from more advanced developing economies like China, India, Brazil, and South Africa. While there is excellent potential for lower tariffs from the DDA's Tariff Reduction Formula, certain developing country flexibilities, such as the Special Safeguard Mechanism (SSM) and Special Products treatment, could undermine our market access gains. To this end, we are actively engaging these key U.S. trading partners to seek greater clarity in an effort to maximize those gains.

3) As you are well aware, China has fast become the top market for U.S. agriculture exports. As a key destination for cotton and soybeans, among other products, China is an important trading partner.

What are the most pressing challenges we face in China and how do build upon past progress and grow the export market in a mutually beneficial way?

Response: Since China's 2001 accession to the World Trade Organization, it has rapidly ascended to become the number one export market for U.S. agricultural products. In calendar year 2010, China purchased over $17.5 billion of U.S. agricultural exports. Our FY 2010 soybean trade to China alone accounted for over nine percent of all U.S. agricultural exports to the world for that year. Our cotton exports to China were $2.2 billion in 2010.

To build upon past progress and grow the market in a mutually beneficial way, we must maintain our strong bilateral relationship. The strength of this relationship is evident today in the number of scientific exchanges that take place annually, the number of joint research projects underway, the many joint-venture businesses and other investments that improve productivity and add value to our respective agricultural economies, and the considerable growth in our bilateral agricultural trade.

Nevertheless, U.S. agriculture faces a number of challenges with China. Of particular concern is China's continued ban on U.S. beef, its anti-dumping duty on U.S. poultry parts, and slow progress to develop phytosanitary protocols for a range of U.S. horticultural products, including apples, pears, strawberries and potatoes. In addition, last year, USDA dealt with issues as wide-ranging as resolving China's quality concerns with our soybeans and corn, prolonged time-consuming approvals for biotech events, and registration requirements for poultry that disproportionately affect small- and medium-sized exporters. Our experience with Chinese officials is that they seek balance on a commodity-by-commodity basis, and this approach of reciprocity can force us to spend large amounts of time and energy on specific technical issues rather than the larger trade agenda.

With the significant progress we have made in U.S.-China agricultural trade as a positive backdrop to our relationship, we are focused on encouraging the adoption of science-based standards and demonstrating the benefits of trade across the entire portfolio, not on individual products. USDA remains fully engaged with China to address the specific details of these and other trade issues, and full resolution will require a sustained, strategic approach to our relationship across all sectors, not just agriculture.

I personally am committed to tending to this important relationship and finding solutions to our trade irritants. One of my first overseas trips as Secretary was to China for the 2009 meeting of the U.S.-China Joint Commission on Commerce and Trade (JCCT) with U.S. Trade Representative Ron Kirk and Commerce Secretary Gary Locke. I recently invited China's Minister of Agriculture to the United States to strengthen our strategic partnership. As two of the world's largest producers, traders and consumers of agricultural products, the United States and China must continue to work together to enhance productivity and facilitate trade to improve food security; to improve production, processing and marketing practices to deliver safe food to consumers; and, to introduce environmentally sound practices to ensure sustainability.

USDA's and my emphasis on China is apparent in the amount of resources we dedicate to our bilateral relationship. USDA has one of its largest foreign presences in China, with thirteen Foreign Agricultural Service (FAS) and Animal and Plant Health Inspection Service (APHIS) officers stationed in five Chinese cities; this personal attention allows us to communicate daily with Chinese officials and traders and assist our exporters when problems arise. We participate fully in the Executive Branch's standing bilateral trade and economic forums, including the JCCT and the U.S.-China Strategic and Economic Dialogue (S&ED), to advocate for the concerns of American farmers and ranchers. Just recently, FAS signed a Memorandum of Understanding with China that will protect our $10.8 billion market there for U.S. soybeans. Moreover, FAS' market development efforts

helped increase tree nut exports to China to $146 million in 2010, a three-fold increase from 2005. Also, APHIS' office in China addresses both daily irritants and protracted SPS issues. The Agricultural Research Service has ongoing collaborative research exchanges and programs to address areas of mutual concern, such as pest diseases and water conservation. We have seen the benefits of our comprehensive approach in the past few years in our engagement on market access, biotechnology, food safety, food security, and biofuels research, to name a few areas.

4) While Secretary, you have spoke very passionately regarding biofuels and the need to promote a domestic ethanol industry. Recent statistics highlight record exports of ethanol totaling 397 million gallons, with key export markets in Canada, the Netherlands, the United Kingdom, India and the United Arab Emirates.

What is the need for continued government incentives for corn ethanol if we are competitive in the global export market?

Response: The primary government support program to the ethanol industry is the Volumetric Ethanol Excise Tax Credit (VEETC), a $0.45 credit to registered blenders for every gallon of ethanol blended with gasoline. The VEETC is paid to businesses that blend ethanol with gasoline. However, the issue of support for a more mature industry is a good one. The Administration is considering a glide path away from the VEETC, while supporting the domestic biofuels industry with infrastructure improvements, as well as building out advanced biofuels production.

We recognize that the continuation of the VEETC requires Congressional action. In 2010, the U.S. produced 13.23 billion gallons of ethanol, 12 billion of which were blended into U.S. liquid transportation fuel. Also in 2010, the U.S. exported 397 million gallons of ethanol. Given seasonal variations in crop production and the high world price of sugar relative to corn, it is our belief that this strength in U.S. ethanol exports is temporary. It is also our belief that once the relative prices of corn and sugar return to their longer run levels, U.S. ethanol's export growth will weaken. In 2010, Brazilian sugar producers earned a higher return in world markets for sweeteners than they could earn in markets for ethanol. This reduced the supply of Brazilian sugarcane ethanol, causing it to trade at higher prices than U.S. corn ethanol in the world marketplace.

In addition to increasing energy security, ethanol's demand for corn creates a stable market for America's farmers and is a major contributor to economic development in rural America. A Renewable Fuels Association (RFA) funded study concluded that in 2010 the ethanol sector generated $34 billion in economic activity, displacing $36 billion in petroleum imports while serving as an important source of employment in rural America.

Senate Committee on Agriculture, Nutrition & Forestry
Agriculture: Growing America's Economy
Questions for the record
Mr. Fred Yoder
Thursday, February 17, 2011

Senator Pat Roberts

1) You note in your testimony that agriculture is in a demand driven market. This is in stark contrast to past years when we worried about excess production. In the grain market, a key factor in changing this has been ethanol and the renewable fuel standard.

   Dr. Outlaw notes in his testimony that the livestock sector continues to transition to higher and more volatile feed cost environment and that feedlot profitability is being strained by high corn prices.

   Do you believe corn ethanol is a mature market and if so, should the government continue to extend the blenders credit or any other tax incentive that pays for distribution infrastructure?

   Should the RFS be adjusted to relieve some of the pressure on the livestock market since they have to compete against demand from ethanol producers that are somewhat insulated from higher corn prices?

In response to the first point of whether the corn ethanol market is a mature market yet, let me say I think we are getting to the place where we need to move to a more market-oriented system to provide market certainty rather than continuing to support the blenders (oil companies) with tax credits for doing something that is already required for them to do. Do not get me wrong, the blenders credit, or VEETC has done its job by giving the infrastructure time to get established, as well as giving the chance to let new technology become an intricate part of enhancing the efficiencies of producing more ethanol gallons from a bushel of corn while providing a higher value feed product from the distillers grain. This support has also led ethanol producers to look at new and different feed stocks to use as the next generation of biofuels. Without giving corn ethanol production systems room to grow and refine their systems, advanced biofuels would not be able to be developed.

I think you need to take a similar look at the ethanol market just as we need to do as we look for a starting point for the new farm bill. Again, you must first agree on the principles of what you want the farm bill and ethanol policy to provide. You mentioned Dr. Outlaw's testimony concerning the livestock sector that is continuing to transition to higher and more volatile feed costs, which does indeed put more strain on profitability for them. I think in principle all end users of corn and feedgrains should have equal access to the marketplace. Rather than subsidize every gallon of ethanol blended, or every acre of corn and feedgrains produced, it would make more sense to find ways to embrace these

newer more volatile markets, which is the primary way farmers and ethanol producers are earning their profit, and take steps to enhance the underlying safety net to protect against revenue losses due to circumstances beyond their control. Just as I heard Secretary Vilsack testify before your committee, we can give a little money to everyone whether they need it or not, or figure out when some entity really needs it, and only provide for them at that time. At the same time, we need to find ways to do all this much more efficiently and save the tax payer money when we can.

2) Like my colleagues here on the Agriculture Committee, I take very seriously my dual responsibilities of providing strong agricultural policy and being a good steward of taxpayer resources. We will all be pounding the pavement to educate our colleagues on the value of farm programs, so please tell me from your perspective: why are farm programs a good investment?

Again, as I said in my testimony, if we start out supporting the principle that the US Government should balance the budget by reducing spending which will result in a reduction of the federal debt, then it seems hypocritical for us farmers to tell you to cut any and all spending except ours. By defining what the function of the farm bill and ethanol policy really is, or should be, there is no doubt we can not only improve the safety net for the farm bill through revenue tools like an improved ACRE program to be triggered when there are revenue shortfalls beyond our control, and also take a fresh look at the ethanol industry and consider transitioning the current VEETC into some sort of counter-cyclical safety net trigger when the relationship between the price of crude oil and corn are disproportionate. I truly believe we can also do this for less money than we are currently spending for these two industries.

The productivity of the American farmer is second to none in the world. The landscape has changed, though, with many more opportunities than ever before. Managing the added risk from these new opportunities is the most important thing we need to do as we look forward. While the marketplace will be the primary tool all food producers will rely on for profitability, we will still need a strong safety net to ensure both agriculture and the biofuels industries can remain strong. You your fellow committee members have a formidable job. But everyone needs to have the assurance that food production remains robust for not only today, but to continue to grow to feed the growing demand the world will require in the future. The days of having the luxury of having too much excess are gone for now. But the American farmer will usually always eventually over-respond to market demand, or let increased input costs put them in a precarious position of risk. The American consumer needs to be assured that as the food environment may change, our government has put in place ways to ensure they will always have adequate food resources at their disposal.