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Madam Chairwoman, Ranking Member and Members of the Committee, thank you for the opportunity to appear here today to discuss the implementation of the Food, Conservation and Energy Act of 2008, as well as to discuss future directions for farm policy. This hearing provides us with a chance to reflect on the 2008 Farm Bill and discuss its implementation, while thinking ahead to its reauthorization in 2012. I look forward to working with Members of this Committee, and other Members of the House and Senate, to help develop policy that will support a robust and thriving farm sector in this country.

Before I begin, I want to acknowledge the hard work of the Members of this Committee and your staff. Having worked diligently over the past 17 months to implement the bill, I can now fully appreciate the months of hard work that went into crafting this important piece of legislation. The farm safety net is a vital set of tools that supports our food security and the ability of our farmers and ranchers to be the most efficient and productive in the world.

2008 Farm Bill Implementation

For the last 17 months, the Department of Agriculture (USDA) has expedited vital farm safety net programs authorized under the 2008 Farm Bill, and has worked diligently to ensure proper administration of other, non-Farm Bill, programs. USDA has disbursed more than $1.3 billion under the five new permanent disaster programs authorized by the Farm Bill; in addition to payments under these new 2008 Farm Bill safety net programs, approximately $12.5 billion has been paid under the “traditional” Farm Service Agency (FSA) - administered safety net programs. Direct payments, counter-cyclical payments, and marketing loan benefits account for 80 percent, 11 percent, and 9 percent, respectively of payments made under the FSA - administered safety net programs. To aid the struggling dairy industry, USDA has spent or committed more than $1.5 billion since March 2009, including $930 million through the Milk Income Loss Contract Program and $290 million through last fall’s Dairy Economic Loss Assistance Program. In addition, our Rural Development mission area alone invested $460 million in over 1,600 energy projects that will assist nearly 3,000 businesses and create nearly 7,000 jobs. Many of our programs are currently in proposed final rules and I expect most of them to be completed by the end of the Fiscal Year.

Today, I will focus on the major new provisions of Title I Farm Bill programs (in particular, ACRE) and the disaster-related provisions of Title XII; I will also provide you with an update on the Federal Crop Insurance Program, as well as an update on our energy programs as these are important efforts working side-by-side with our traditional safety net programs to strengthen our rural economies. Together, these programs complement existing farm support programs, and ultimately form the backbone of the farm safety net.

Twenty regulations are associated with Title I and disaster-related programs in the 2008 Farm Bill, of which fifteen have been published to date. USDA elected to pursue some of the more complex and difficult programs early in the implementation process. Doing so allowed the most rapid distribution of assistance, particularly under the disaster programs, to the largest number of producers. We currently expect two regulations - one on various dairy provisions (including the Dairy Indemnity Payment Program), and the other on the Durum Wheat Quality Program – to be the first of these completed.

Much work has gone into including the voices of farmers, ranchers, and other constituents in the development of these regulations. In addition, we have tried to thoroughly assess the economic analyses and environmental impact considerations, as well as civil rights and business impacts, of these rules.

I would like to share with you some of our experiences in implementing these programs, along with some data on the response we have seen to these programs from the field.

Average Crop Revenue Election (ACRE) Program

ACRE is a new program designed to protect against both declines in price and yield, as opposed only to price risk. In 2009, the first year of the program, 8 percent of eligible farms—representing 13 percent of base acres, or about 34 million acres—enrolled in ACRE. Preliminary data indicate that an additional 1.2 million acres of new base and 4,000 new farms (not in the program last year) are enrolled in ACRE in 2010.

Several reasons likely explain the modest interest in the program relative to earlier expectations. ACRE is a fairly complicated program that takes time to understand and it requires producers to estimate the potential economic impact of participating in the program. In addition, the program requires producers to participate in the program for the duration of the Farm Bill, which presents a difficult choice to producers.

Overall, ACRE participation has been strongest for corn, soybeans and wheat.
For the 2009 crop year, we expect about $435 million in ACRE payments to be made (based on the June 2010 USDA's *World Agricultural Supply and Demand Estimates* report). Wheat accounts for about 70 percent of the total, largely due to the decline in the national average price in 2009 as well as yield issues in some states. Of the approximately $435 million in ACRE payments, about $305 million are expected for wheat, $100 million for corn, $14 million for barley, $10 million for sunflower seed, and small amounts for several other crops. These estimates are preliminary because not all 2009 ACRE yields and ACRE prices have been finalized; and because they are calculated under the assumption that farm triggers will be met. Across all ACRE commodities, participants in Oklahoma, Washington, Illinois, South Dakota, Idaho, and Montana are expected to receive about 80 percent of total ACRE payments paid on 2009 crops.

Supplemental Revenue Assistance Payments (SURE) Program
Another key safety net program, SURE, or the Supplemental Revenue Assistance Payments Program, provides assistance to crop producers for eligible losses in times of natural disasters.

As of June 24, 2010, payments for 2008 crop losses totaled more than $930 million (about $599 million under the SURE program, and $331 million under the Recovery Act supplement to the SURE program). Major recipient states include Iowa ($183 million), North Dakota ($120 million), and Texas ($97 million). The large payments to Iowa in part reflect the speed at which payments were processed in that state; other states may, in the end, realize higher totals.

For 2009 crop losses, SURE sign up and payments will occur later this year in 2010, and for 2010 crop losses, SURE sign up and payments will occur in 2011. This lag between the timing of crop loss and disaster payment is due to the statutory requirement regarding the calculation of actual farm revenue. Farm revenue depends on the National Agricultural Statistics Service's season average prices, which are usually released 13 months after the start of the crop year. It also depends on other revenue data which are not available until well after a crop loss occurs, including marketing loan benefits, ACRE payments, crop insurance indemnities, and other government payments received by the producer.

Other Disaster Programs

The 2008 Farm Bill authorizes disaster assistance programs for livestock losses and tree losses. For 2008-10 losses, more than $87 million has been paid out under Livestock Indemnity Program (LIP), and as of June 24, 2010 more than $313 million for Livestock Forage Disaster Program (LFP). Both LIP and LFP payments can be processed and made quickly, and are providing a major boost to livestock producers and rural communities alike across the United States. Major LIP recipient states include South Dakota and North Dakota; the major LFP recipient states are those that have suffered significant drought losses, such as Texas, Georgia, California, and North Dakota.

FSA has completed compiling applications for 2008 Emergency Assistance for Livestock, Honeybees, and Farm-Raised Fish Program (ELAP) losses. ELAP payments in excess of $10 million will be issued beginning today, and 2009 ELAP payments will be issued shortly thereafter. ELAP funding is limited to $50 million per calendar year; we will not need to factor a producer's payment for either 2008 or 2009 losses, as this amount will not be exceeded in either year.

The Tree Assistance Program (TAP), which provides assistance for losses of trees, vines and shrubs due to natural disaster, completes the 2008 Farm Bill disaster assistance program portfolio. FSA began accepting TAP applications for calendar year 2008, calendar year 2009, and calendar year 2010 losses on May 10, 2010.

Dairy

Since the beginning of the dairy crisis in late 2008, USDA has taken a series of steps designed to respond to a very challenging marketplace for dairy farmers and to try to prevent producers from going out of business. Altogether, USDA spent or committed more than $1.5 billion to aid dairy producers struggling with low prices and high feed costs. USDA has paid dairy producers more than $930 million under the Milk Income Loss Contract Program (MILC), authorized under the 2008 Farm Bill. Although the 2008 Farm Bill kept the same basic structure for the MILC 3program, it also included a "feed cost adjuster," which increases the size of the payment depending on ration costs. The feed cost adjuster had an impact on the payment in 5 of 11 months of payments that have been triggered under the MILC program since February 2009.

USDA has also expedited emergency non-Farm Bill action to aid dairy producers. In addition to MILC payments, the Fiscal Year 2010 Agriculture Appropriations Act authorized $290 million in additional direct payments to dairy producers, as well as $60 million for the purchase of cheese and other products. Of the total, $270 million was paid in near-record time—with payments beginning within 60 days of the bill being signed into law. The $17 million reserve amount was paid out in June, the remainder is an administrative set aside for appeals. USDA also has expedited the purchase of cheese and cheese products authorized under the Agriculture Appropriations Act, to assist dairy producers and provide food banks across the country with high-protein cheese. USDA also temporarily increased the purchase prices for cheddar blocks, cheddar barrels, and nonfat dry milk under the Dairy Product Price Support Program (DPPSP) during August-October 2009 and re-activated the Dairy Export Incentive Program (DEIP).

DEIP has remaining volumes allocated but USDA has not awarded DEIP bonuses in recent months because world prices are currently above U.S. prices and the U.S. is competitive in world dairy markets. We have also used our full administrative flexibility to make alternative loan servicing options available to dairy producers under Farm Service Agency loan programs.

Given the complexity of current dairy policy and the search for new directions, I am pleased by the progress of the USDA's Dairy Industry Advisory Committee as they search for policy recommendations regarding ways to reduce dairy price volatility and improve profitability. This Committee is carefully examining several options that would improve the safety net for dairy producers. USDA eagerly awaits the recommendations and insights of this Committee as we move into the 2012 Farm Bill debate.

Sugar

Compared to expectations at the time the 2008 Farm Bill was enacted, the sugar market has been far more favorable for sugar beet and sugarcane farmers.

However, since the 2008 Farm Bill was developed, domestic sugar production has fallen and demand has increased. The domestic market was also severely disrupted by the loss of refining capacity due to the disaster at the Savannah refinery and the world sugar price spike in Fiscal Year (FY) 2010. The U.S. need for sugar grew faster than Mexican imports and, as a result, we increased the FY 2010 raw cane sugar tariff-rate quota volume this spring.

Despite the almost doubling of sugar prices since 2008, sugar users in the United States are increasingly using sugar to replace other sweeteners in their products. The sugar market outlook is now much tighter than in 2008 and USDA does not anticipate the need in the near term for the use of the Feedstock Flexibility Program, which was designed to utilize the expected surplus sugar for bio-fuel production.

The Federal Crop Insurance Program

Crop insurance is a vital part of the farm safety net. Producers generally have a choice of crop or livestock policies, with coverage they can tailor to best fit their risk management needs. In many cases, producers can buy insurance coverage for a yield loss, or revenue protection that provides coverage for a decline in yield or price.

In 2009, the Federal crop insurance program provided about $80 billion in protection on over 264 million acres. Our current projection for 2010 shows the value of protection will remain relatively steady at about $79 billion. This projection is based on USDA's latest estimates of planted acreage and expected changes in market prices for the major agricultural crops.

The 2008 Farm Bill provided an alternative for producers and private entities to work with RMA to develop insurance coverage for crops not traditionally served, or to improve current insurance coverage. To date, the Federal Crop Insurance Corporation (FCIC) Board has received 16 Concept Proposals and approved eight for advance payments totaling approximately $925,000. Recently approved plans of insurance provide coverage for apiculture (bees), cottonseed, fresh market beans, oysters, and processing pumpkins.

RMA continues to move forward in improving crop insurance coverage for organic producers so they will have viable and effective risk management options like many of the conventional crop programs. Consistent with the 2008 Farm Bill, RMA contracted for research into whether or not sufficient data exists upon which RMA could determine a price election for organic crops, and if such data exists, to develop a pricing methodology using that data. Also included in the contract was research into the underwriting, risk and loss experience of organic crops as compared with the same crops produced in the same counties during the same crop years using nonorganic methods. Three reports have been completed from this study and should be made available in the near future.

RMA intends to establish dedicated price elections for organic crops where supported by data and sound economic pricing principles. The first of these organic price elections may become available for the 2011 crop year. In addition, RMA will continue to capitalize on improved data collection and sharing of organic production and price data occurring throughout USDA, an initiative to better leverage the resources of all of our agencies to address this important segment of agriculture.

RMA will also continue to evaluate the loss experience of both organic and conventional practices to ensure that premium rating is commensurate with the level of risk for each.

In response to criticisms about the cost of the Federal crop insurance program and concerns delivery system, USDA recently undertook a renegotiation of the Standard Reinsurance Agreement that governs the relationship between the Federal government and the Insurance Companies that deliver risk management products to producers. Several reports issued by the widely respected firm Milliman, Incorporated were used to determine a reasonable rate of return for the crop insurance companies.

On June 10, USDA released the final draft of the new Standard Reinsurance Agreement and announced that $6 billion in savings has been created through this action. Two thirds of this savings will go toward paying down the federal deficit, and the remaining third will support high priority risk management and conservation programs. The agreement provides for a reasonable rate of return for crop insurance companies, increases the incentive for companies to serve areas that are currently considered under-served by crop insurance, and provides for a reasonable and sustainable level of agent commissions. These changes will also ensure the sustainability of the crop insurance program for America's farmers and ranchers for years to come.

Renewable Biofuels

I want to spend a brief moment highlighting our energy programs, specifically focusing on building domestic capacity to produce renewable biofuels, which is a particularly important economic opportunity for American agriculture and our rural communities.

Last week USDA released a report outlining both the current state of renewable energy efforts in America and a plan to develop regional strategies to increase the production, marketing and distribution of biofuels.

The Renewable Fuels Standard (RFS2) mandates that there will be 36 billion gallons of renewable fuel per year in America’s fuel supply by 2022. I am confident that we can meet this threshold, but to do so we must make further investments in areas including research and development of feedstocks; sustainable production and management systems; efficient conversion technologies and high-value bioproducts and analysis tools.

In addition to production of corn-based ethanol, we are also gearing up research efforts to assist growers of advanced biofuels to produce energy from new feedstocks on a regional basis and in an environmentally sustainable manner.

Renewable energy development not only promotes energy independence; the regional strategy we’ve outlined sets the stage for job creation in rural communities that are often located in distressed areas and persistent poverty counties.

In the past year, USDA has used 2008 Farm Bill programs to work towards meeting the mandate set by the RFS2. We have:

- Provided loan guarantees and grants to help biorefineries expand and promote the commercialization of biofuels;
- Expedited funding to encourage production of next-generation biofuels;
- Offered guidance and support for advanced biofuel and biomass conversion facilities;
- Provided funding to support the efforts to raise and provide energy crops to conversion facilities;
- Helped existing biorefineries retrofit their facilities to utilize biomass instead of fossil fuels for their heat generation and power needs.

- But our work goes further:
  - Our new National Institute for Food and Agriculture will accelerate our research efforts, focusing science dollars on rapidly improving plant-based feedstocks.
  - We have partnered with the U.S. Navy to help them meet their energy goals and support the development of markets for renewable energy.
  - A new interagency agreement with EPA is promoting renewable energy generation and slashing greenhouse gas emissions from livestock operations.
  - And as members of the Biofuels Interagency Working Group we are coordinating with partners across the federal government on efforts to advance biofuels research and commercialization. Our Farm Bill programs alone are providing hundreds of millions of dollars to support this goal.

The Importance and Challenges of Rural America and its Future

I strongly believe that a healthy American economy depends on a prosperous rural America. Farmers and ranchers in rural America produce the food, feed and fiber that the rest of our nation depends on. Rural communities play a significant role in science, innovation and implementing new technologies to move us towards our energy independence. And rural America is also home to our values. Even though only one in six citizens call rural America home, 44 percent of our nation's military is composed of Americans from rural areas. And children in rural communities are often the first to learn that hard work is its own reward – and the importance of looking after your neighbor.

Since becoming Secretary of Agriculture, I have traveled the country, visiting nearly 40 states– including more than 20 stops for rural forums on President Obama's Rural Tour. And what I have seen is a silent crisis in rural America.

Rural communities have higher poverty rates than the rest of the country, with average per capita income of approximately $11,000 below their urban and suburban counterparts. Nearly 90% of America's 'persistent poverty' counties are rural. And rural unemployment figures rose as we weathered the current recession.

Rural infrastructure is more likely to be outdated. And rural Americans are less likely to have health insurance – or convenient access to health care facilities.

Compared to their urban counterparts, rural Americans are more likely to be older than 65 and are less likely to have college degrees. Many small towns are watching their young adults move away because they don't see opportunities to make a good living. As a result, a majority of rural counties have seen declining populations in the past decade.

My travels also showed me that despite the most severe recession since the Great Depression and new challenges presented by an ever-changing agricultural economy, America's farmers and ranchers continue to be the most productive in the world.

For decades, the willingness of America's farmers and ranchers to embrace science has led to productivity gains that are nothing short of astonishing. While in 1940 a farmer produced enough food to feed 19 of his neighbors, today they feed 155. This means an affordable food supply that allows Americans to spend 10 to 15% more of their income on a home, a vacation, or a college education for their children than folks in most other countries.

The American agriculture economy supports 1 in 12 jobs in America. And agriculture is one of the only industries where our nation enjoys a large trade surplus – more than $20 billion last year, and expected to rise to $28 billion for this year.

But among these measures of the strength of our agricultural economy, the dynamics are changing. In the past 40 years, the United States lost more than 1 million farmers and ranchers. Today, only 11 percent of family farm income comes from farming and fewer than half of our nation's farmers and ranchers list farming as their primary occupation. Even for those farms with more than $250,000 in annual sales, which account for the vast majority of our agricultural output, nearly 30% of farm family income comes from off-farm sources.

The Obama Administration and USDA care deeply about our farmers and ranchers. We are looking to time-tested programs as well as new approaches to maintain a strong farm safety net for America's producers and investments in the rural communities they call home. And we work every day to keep farmers on the farm and to support their efforts to provide us with a safe and nutritious food supply.

But to keep farmers on the farm we will have to build a thriving companion economy to compliment production agriculture in rural America. That is to say, our efforts to support farmers, ranchers, and communities in rural America must also embrace innovative new ideas for generating wealth on and off the farm.

From traveling around the country, I have seen that the elements of this new 21st century rural economy are already in place. What we heard and saw from folks in small towns is that they see the potential for more opportunity for economic growth in Rural American than at any time in decades. The tools that Congress provided to USDA in the 2008 Farm Bill and American Recovery and Reinvestment Act are working to make rural America stronger – but we must go further in the next Farm Bill to embrace new strategies to help foster sustainable and significant economic growth in rural America for the long-term.

The elements of a new rural economy will be built on a combination of the successful strategies of today and the compelling opportunities of tomorrow. And that is why USDA is working to pioneer five pillars to build the foundation for growth and opportunity in rural communities in the decades to come:

- We must develop new markets to provide new income opportunities for American producers by improving access and promoting exports abroad, by supporting domestic local and regional food systems that keep wealth in rural communities, and by facilitating the creation of ecosystems markets that reward landowners for taking care of the environment;
- We must create new opportunities for prosperity and small business growth with investments into rural broadband access;
- We must create green jobs that can't be exported by promoting the production of renewable energy in communities across the country;
- We must stimulate rural economies by encouraging natural resource restoration and conservation and by promoting recreational uses like hunting, fishing and other activities that create jobs;
- And we must continue to strengthen farm income by investing in critical research to ensure our farmers remain world leaders in providing a reliable, affordable, safe and abundant food supply.

One other area of particular concern to me is the need to ensure that new farmers find a way to be part of 21st Century agriculture. These new agricultural entrepreneurs are a key to a vibrant rural America and to the future of all of agriculture.

Working Toward the Next Farm Bill

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

In the coming months as we engage in development of the next Farm Bill, I look forward to bringing the experiences of these rural Americans, and others I have worked with to the table. I look forward to working with you, Madam Chairwoman, and every Member of the Committee on that endeavor.

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

Thank you.