HEARING TO REVIEW THE STATE OF AGRICULTURE IN KANSAS

HEARING

BEFORE THE

SUBCOMMITTEE ON
GENERAL FARM COMMODITIES AND RISK MANAGEMENT

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

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HEARING TO REVIEW THE STATE OF AGRICULTURE IN KANSAS

TUESDAY, JUNE 5, 2007

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GENERAL FARM COMMODITIES AND RISK MANAGEMENT,
COMMITTEE ON AGRICULTURE,
Salina, KS

The Subcommittee met, pursuant to call, at 9 a.m., at the College Center at Kansas State University at Salina, 2310 Centennial Road, Salina, Kansas, Honorable Bob Etheridge [Chairman of the Subcommittee] presiding.

Present: Representatives Etheridge, Moran, Boyda, King, and Smith.

OPENING STATEMENT OF HON. BOB ETHERIDGE, A REPRESENTATIVE IN CONGRESS FROM NORTH CAROLINA

Mr. ETHERIDGE. Good morning. This field hearing of the Subcommittee of the General Farm Commodities and Risk Management to review the state of agriculture in Kansas will come to order. As Jerry reminds me, this is his Subcommittee; he's just loaned it to me this year.

Mr. MORAN. Some of us do hope it's temporary.

Mr. ETHERIDGE. Keep dreaming, Jerry. We really are honored to be here and thank you. And we're going to move into the program and I do, before I have opening remarks, want to thank Jerry and his staff and Nancy and hers for the hospitality. Last night we had dinner at just a fabulous restaurant. It was an old school building. Amazing what you can do with an old school building. I'm going to go back home to my folks in North Carolina and tell them we need a nice restaurant because it really was a good place. And it's good to be here.

It's my pleasure to be here today in America's Heartland in the great State of Kansas. It's a distinct privilege to be in the district of my good friend, the Ranking Member of the Subcommittee, Jerry Moran. Last year, no matter what happened in the election, we were going to have a hearing in Kansas because we traveled all over the country and said we were going to talk about it later. During the previous Congress I participated in many of the field hearings held on this Subcommittee under Jerry's leadership and others as we traveled the country. While I was unable to attend them all, I think Jerry made about every one of them.

And Nancy is new to the Committee and she was very instrumental in helping make sure we got this back to Kansas between her and Jerry. So I thank both of them.

During the hearings last year I met with producers in Arizona, from Arizona to the Rust Belt in Indiana, from the upper Midwest States of Minnesota, South Dakota to the peanut and cotton fields of Georgia and even in North Carolina. So I welcome the opportunity to be here meeting with producers in Kansas.

Next week this Subcommittee intends to begin the hard work of putting together the bulk of one of the most important pieces of this or any farm bill and that's Title I, the commodity title. Already, two other subcommittees have put forth and amended their respective pieces of the farm bill ranging from energy to conservation to dairy to research. Our turn is coming to consider the part of the farm bill that is the heart and soul of the safety net the farmers depend on when times really are tough. We've had some 70 years out here where you've had drought. So while the topic of today's hearing is to review the state of agriculture here in Kansas and neighboring states, the witnesses who will testify today have a unique chance to get the last word in before we begin the heavy lifting on the commodity title.

Now I highly recommend that you all take advantage of that and I'm sure you will. I want to thank all the witnesses who are here today who will participate. I appreciate your commitment to agriculture because folks need to remember that without the people who till the soil, there wouldn't be a whole lot in the dairy case or the fresh fruit and vegetable case in the grocery store.

I am now pleased to recognize one of the co-hosts of our visit to Kansas and my good friend and a partner in our work on behalf of agriculture, the Subcommittee's Ranking Member, Jerry Moran, for his opening statement.

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

Mr. MORAN. Mr. Etheridge, thank you very much. Thank you for joining us. My particular appreciation to Mr. King. Mr. King is a Member of Congress from Iowa and Mr. Smith is a new Member of Congress from Nebraska. We appreciate them both, very much, taking time out of their schedules to come to Kansas and hear from Kansas and Nebraska producers. And to Ms. Boyda, it's been a real privilege to have another Kansan serve on the House Agriculture Committee. And we are working hard to develop a good, close, working relationship to see that good things happen for Kansas farmers and ranchers at a time in which Congress is truly focused on agriculture. So I appreciate very much the help that Mrs. Boyda provided us in having this hearing here today and glad that my colleagues would take the time to join us.

And Mr. Etheridge, as he said, we are friends. We will have banter back and forth from time to time, but ultimately both of us are interested in seeing that this Subcommittee and really the full Committee on Agriculture moves forward in a bipartisan way designed to develop farm policy that is advantageous to the producers of this country.

We have had—I've lost a bit of credibility by the arrival of these other Members because for most of the time I've been in Congress I've been advocating for drought assistance.

Mr. ETHERIDGE. We won't hear that again.

Mr. MORAN. They flew over the state arriving here yesterday and the ponds were full and the fields are green. We're now advocating for flood assistance.

It is a sad thing in our state, all but 12 counties in the First Congressional District of Kansas, in fact 85 percent of the counties in Kansas have, in 2007, been declared disaster areas. So we have had significant challenges and just seen that the challenges have changed.

We started with 5 and 6 years of drought in much of our state, followed by a December 31st winter storm which consisted of: 5 inches of rain; followed by 6 inches of ice; followed by 2 feet of snow and 40 mile an hour winds resulting in 44 Kansas counties being declared natural disaster counties. Then it was just a few weeks ago in April we toured wheat losses here in Saline County and four other counties. We had 3 nights of temperatures in the teens, which, from my perspective, it appeared that 2007 was going to be the year in which we might have some recovery on Kansas farms. And our winter wheat crop was significantly damaged, particularly in this part of the state, and now we've had tornadoes, floods and hail. I'm now predicting locusts are next. Every array of disaster has beset our state.

So our efforts on behalf of disaster assistance perhaps are not over, but my number one priority for 2007 in agriculture was passage of a disaster assistance plan which Congress did a week ago and the President has signed that bill. It's a modest amount of assistance for farmers and I am pleased that we were successful in doing that. As I say, it's my number one priority of 2007, despite the fact that I know this is the year in which we're going to develop the farm bill and the process has begun.

Mr. Etheridge is right. Our full Committee held 11 field hearings across the country. We were in California, New York State, Washington and Alabama and places in between, and the Subcommittee that Mr. Etheridge and I led last year held four more hearings. This will be our fifth and this is the final one, before the farm bill is written, out in the country. So I'm very pleased that we've been successful in having Members of this Subcommittee come here in advance of writing the farm bill for 2007. It is perhaps our last shot.

Mrs. Boyda and I were involved in the selection of witnesses and much of our criteria was related to finding farmers who are earning a living in farming. We did not seek necessarily people who represented particular farm organizations or commodity groups. And I looked, in particular, for witnesses that would unlikely—it would be unlikely that they would have the opportunity to testify in our Nation's Capital.

So who we will hear from today are people who are actively engaged in farming and ranching in Kansas who are trying to help figure out how their lives can succeed and how there can be another generation of young Kansans on family farms in our state.

This Subcommittee will meet soon to mark up the farm bill. Those of you who listened in on the Conservation Subcommittee, Mr. Etheridge and I have, and we do not want to defer everything to the full Committee and we hope to take the amendments as they're offered in our Subcommittee.

Let me just close by saying that the Gypsum community, which is just south of Salina, lost a long time farm leader, Steve Roe, just on June 2nd. And we treat our—we hold our Kansas farm families in high regard here and I just want to express my condolences to his family and express my appreciation for he, who, like many others, tried to figure out how to make a living farming, but provide leadership in their communities and the farm organizations throughout their lives.

So, Mr. Chairman, thank you very much for allowing us the opportunity to join you and for you to have the opportunity to be here among the Kansans gathered here today.

[The prepared statement of Mr. Moran follows:]

PREPARED STATEMENT OF HON. JERRY MORAN, A REPRESENTATIVE IN CONGRESS FROM KANSAS

Mr. Chairman, thank you for holding this hearing in my home State of Kansas. It is a pleasure for me to welcome you and the other Members of the Committee to Salina, Kansas. The Kansans I represent are grateful for the opportunity to have their voices heard during this critical time for the future of agriculture policy in the United States. In Kansas, not every Kansan is a farmer, but every Kansan is affected by agriculture.

I would also like to acknowledge my colleague and fellow Kansan, Congresswoman Nancy Boyda. Thank you, Congresswoman, for traveling to the First District to participate in this hearing. Finally, thank you to Kansas State University at Salina for hosting today's event.

Today we will hear from seven Kansas producers, a Nebraska producer, and an agriculture extension economist from Kansas State University. Each witness was chosen because they are a leader in their respective community and have demonstrated the ability to conduct a successful farming or ranching operation. The witnesses were not chosen because they have an affiliation with a particular organization or cause, but because they represent their peers involved in production agriculture across the state and region.

As the Committee undertakes drafting the next farm bill, it is important that we hear from those most heavily involved in production agriculture. In the end, it is these producers the farm bill will affect. In creating farm policy that will influence the direction of agriculture for the next 5 years, the Committee must know what works and what does not work on the ground level. It is one thing to sit in Washington, D.C. and listen to policy analysts, but it is quite another to hear directly from someone whose livelihood is directly affected by Congress' actions.

I hope that today's witnesses will help the Committee better understand agriculture production on the High Plains. I look forward to hearing the witnesses discuss their farm operations and how their operations have been affected by the Commodity Title of the 2002 Farm Bill. I also hope that each producer will give the Committee recommendations about how Congress can improve, or perhaps not detrimentally change, existing farm policy as the Committee drafts the 2007 Farm Bill.

As I have traveled across Kansas, I have heard many positive comments about the 2002 Farm Bill. I suspect that many of the witnesses today would agree that the basic structure of the 2002 Farm Bill should remain in place. However, this is not to say there are not certain aspects of the legislation that can be improved upon. If there are ways to improve on the structure of the 2002 Farm Bill, the Committee should listen to the advice of today's witnesses and attempt to implement those suggestions that make sense.

I believe most producers across Kansas and the United States would just as soon earn their living from the marketplace. Nevertheless, there are times when the marketplace may not be enough and Congress should craft policy that will deliver necessary assistance. This should be done in a reliable and consistent fashion that utilizes the least market distorting means possible. I believe today's witnesses will help to identify how to meet the future needs of agriculture in the United States.

I would like to take the opportunity to mention that Congress recently passed, and the President signed into law, disaster assistance for agricultural producers. This is something that many Kansas farmers and ranchers have expressed the need for and I have supported for the past few years. I am glad this assistance will now be available to producers and I will work along with my colleagues on the Committee to ensure that USDA delivers the aid in the most expeditious and efficient manner possible. Problems, such as declining yields in Kansas, are one of the reasons this legislation was needed. As we move forward with the 2007 Farm Bill, I hope the Committee can find a solution to problems like declining yields that necessitate ad hoc disaster assistance.

Finally, as I conclude my opening statement, I would like to take this opportunity to extend my condolences to the Steve Roe family of Gypsum, Kansas. Steve recently passed away on Saturday, June 2, 2007. Although I did not know Steve personally, I have heard tremendous things about him from people who did. By all accounts Steve was a very good farmer and stockman. He was forward thinking and able to utilize new technologies in his farming practice. In light of his many efforts and achievements, his family came first. Steve and his wife Joyce raised two children, Jennifer and Kristi. Our thoughts and prayers go out to Steve's family in this time of difficulty. Steve will be a greatly missed member of the Kansas agriculture community.

Again, thank you, Mr. Chairman, for holding this hearing and I look forward to the testimony of today's witnesses.

Mr. ETHERIDGE. Jerry, thank you. And I want to give my other colleagues here an opportunity to have opening statements. I think that's important to have brief comments. And it's my distinct pleasure now to recognize the other co-host of this endeavor. Although she is new to Congress, as to agriculture issues, she's already distinguished herself as a voice on behalf of farm families. She serves on two other agriculture subcommittees besides this one. So she has an ample opportunity to really engage in what happens in agriculture, specifically here in Kansas' agriculture. The first 5 months since she first took office Nancy Boyda is already making a difference. Nancy has quickly established herself as a leader in Congress, has earned a reputation as a tireless advocate for Kansas working families. I'm now pleased to recognize the Second District Congresswoman of Kansas, Congresswoman Nancy Boyda.

OPENING STATEMENT OF HON. NANCY E. BOYDA, A REPRESENTATIVE IN CONGRESS FROM KANSAS

Mrs. BOYDA. Thank you, Chairman. I really appreciate it. And I will make my remarks brief. We have 2 hours and I want to make sure that we hear from our producers and our witnesses.

So thank you very much, Mr. Chairman, for coming and for our other Members from Nebraska and from Iowa. I really appreciate your coming here. The people of Kansas deeply appreciate having their voice heard. And I will say that timing is everything and I got to Congress in a very good time. Whether it's the Ag Committee or Energy, even Health Care, real live conversations, even civil bipartisan conversations, maybe more than you think, are happening about how we find real solutions. So I get to go on the Agriculture Committee who—it's one of the most bipartisan committees, if not the most, bipartisan Committee in Congress and have the honor to serve with Jerry Moran. And it has been very, very good. Jerry's helped me certainly understand—I stopped saying the whole thing about I'm trying to understand completely the farm bill. "Don't say that. Nobody will believe you." But he's certainly been helpful in helping me understand some of the more complex issues.

One of the things that we've done is had some field, just roundtable discussions around the district. And clearly everyone is looking for some help with the safety net with disaster relief. How can we level out those ups and downs for our families so disaster relief, which is so appreciated and so needed, we don't all have to sit on the edge of our chairs or worse waiting to see what's going on happen.

And, clearly, as we've talked about even this morning, each group sees the answers a little bit different. So having a chance to come here today, having a chance to go right from here back to D.C., on a plane and talk with these guys, and specifically with Jerry, about how do we translate that into the best farm bill for our country, but specifically the best farm bill for Kansas.

So they say timing is everything. I will congratulate you. Democracy is not a spectator sport. It is very much a contact sport. And I feel like I've gotten to know so many of you one on one because you have been there from the day—probably before I was sworn in—saying, "Let me tell you about what's going on in Kansas."

There's one thing: We're the producers. We produce what America eats and what I feed my family and the rest of you feed yours. And we want to make sure that the producer has a strong voice in Congress. Not the only voice, but, by God, we need to make sure that you have that voice and you know that it's been heard.

So we've been trying to get this hearing together for quite a little while and it's come together. But, as I say, timing is everything. We're going to be marking this up with amendments in the next few weeks, maybe in the next couple of weeks.

So your voice will be the last field hearing that's heard before the ink is put on that paper about what this farm bill's going to look like. So thank you all for coming. It's a tremendous response this morning. And I look forward to hearing what you have to say. Thank you for being here.

Mr. ETHERIDGE. Thank you, Nancy. We have two other colleagues with us today. Even though they're not on our Subcommittee, they're on the full Committee. It's great to have them come and join us. We were talking last night, we wondered whether or not we'd have many people show up this morning. And after looking around at how wet it was yesterday, I figured farmers would not be in the field. They may be getting equipment ready, but they wouldn't be in the field. Jerry said, "Nah, they'll be there. It'll be too wet to plow and not dry enough to get everything ready." So thank you for coming.

Now let me turn to my colleagues for whatever opening statements they want to have. From the Fifth Congressional District of Iowa Congressman Steve King will be recognized for whatever opening comments you want to make.

OPENING STATEMENT OF HON. STEVE KING, A REPRESENTATIVE IN CONGRESS FROM IOWA

Mr. KING. Thank you, Mr. Chairman. I appreciate you holding this field hearing. I appreciate being here with my good friend, Jerry Moran, and my other colleagues that are here.

We get a lot out of these field hearings. And when we have them in Washington our time is pulled. We're like a wishbone for our time. But when we can come to the field then we can really focus on the witnesses and focus on listening and that's what I came here to do.

I do want to tell you that my Ag legislative assistant is Brent Boydson, a K-State grad, and he played football here. So he keeps me on top of what's going on in Kansas and he really regrets that he is not able to be here today to show me the purple that's around this town. So we have a great working relationship.

I represent the western third of the State of Iowa and my background started out in soil conservation work. I bought a bulldozer in 1975 and began to build terraces, dams, waterways, clean out cattle yards and whatever else needed to be done. So from 1975 on up till I entered Congress and sold that business to my oldest son, my life has been the earth moving business. I see that as kind of the canary in the cage of agriculture economy. The dirt's always been there, it can wait another year to be moved, and so when the economy goes up, they will see me last and when the economy starts to go down, they'll strike me off their list first. And that's the sense that I have.

So I've been acclimated to, I'll say, being sensitized towards the fluctuations in our ag economy. It's great to see where it is overall in the country today. And I've seen all of these things that Jerry talked about and lived through them all with the exception of the pestilence. I haven't had that come through.

So I wanted to make those comments and then I just wanted to ask this question to the real Kansans: After you've been through all of that—the famine, the drought, the blizzards, the ice storms and the tornadoes and all that, are there any pansies that survive? I expect not. I think it's all real hard working people here that put their roots down into the soil. And that's the part that I care an awful lot about and it is the essence of America and that's what gets me out here to Kansas to see that today. Thank you.

Mr. ETHERIDGE. Thank you. And, finally, another new Member of Congress and a new Member to the Committee, we're glad to have him join us today, Adrian Smith, from the Third Congressional District in Nebraska.

OPENING STATEMENT OF HON. ADRIAN SMITH, A REPRESENTATIVE IN CONGRESS FROM NEBRASKA

Mr. SMITH. Thank you, Mr. Chairman. It's great to be here, despite the purple—the tie, the tape on the floor, I mean, that's pretty rotten.

I am grateful to be here and it's an incredible experience as a new Member of Congress in the district immediately north of here. I'm glad that things are wet enough down here that we don't have to worry about any Republican River water flow anymore. Maybe I struck a cord.

Seriously, as we look at the issues important to our economies, I look at this Congressional district as being so very similar to my own where there's flooding in one end of the district and still drought in the other. The challenges we face are immense and oftentimes we focus so many of our policies perhaps on protecting the family farm which, I think, is commendable. That is an objective I share. I would rather characterize it as strengthening the family farm to afford the tools necessary to farmers and those on the front lines to compete.

And so many times policies stand in the way. Public policy stands in the way of innovation, of individuals pursuing new ways of doing things.

And so I want to thank Brian Starck from my district, Fairbury, Nebraska, for coming down here today and for all of you for showing up here today because it's vital that you give us your expertise, your insights on the issues because we've got big decisions to make and we certainly need your input. So go Big Red. Thank you.

Mr. ETHERIDGE. Thank you. We'd like to welcome our first panel to the table. Our four panelists are Mr. Tony Dumler; he's an Agricultural Economist from K-State in Garden City, Kansas. Dr. Bill Miller, cattle producer from Princeton, Kansas. Mr. Steve Rome.

Mr. ROME. Rome.

Mr. ETHERIDGE. Rome. He's a farmer, a crop farmer in Hugoton, Kansas.

Mr. ROME. Hugoton.

Mr. ETHERIDGE. Hugoton. And Mr. Brian Starck, who we've just been introduced from Nebraska. Appreciate you coming down.

Gentlemen, please know that your full statements will be entered into the record and if you would try to keep your comments as close to 5 minutes as possible to allow more time for questions from the panel if they'd like.

STATEMENT OF TROY J. DUMLER, AGRICULTURAL ECONOMIST, KANSAS STATE UNIVERSITY, GARDEN CITY, KS

Mr. DUMLER. Mr. Chairman, Members of the Subcommittee, thank you for inviting me to testify. I appear before the Subcommittee to discuss the challenges and opportunities facing agriculture producers in Kansas.

Having spent nearly a decade assisting farmers and ranchers in managing their businesses and having grown up on the farm myself, I understand the challenges of Kansas producers are numerous and varied. The last 5 years have clearly demonstrated some of those challenges.

According to data from the Kansas Farm Management Association, over this period of time average net farm income has ranged from $19,000 per farm in 2002 to more than $62,000 per farm in 2004. Much of this variability can be explained by weather and fluctuating production costs.

The crop and livestock producers have also experienced increased demand for their products which has led to higher market prices.

I think the relevant question for Kansas producers is this: What is the most likely source of income variability over the next 5 years? At this point continued demand for renewable fuels indicates that prices for grains and oil seeds will likely remain strong; however, those same prices will also put pressure on livestock producers. As the last couple months have demonstrated, weather continues to be an important production factor for Kansas farmers and ranchers.

There's little question that commodity subsidies have reduced the income variability of Kansas farms. From 2002 to 2006 government payments averaged 60 percent of net farm income for Kansas Farm Management Association farms.

As part of a recent nationwide survey on preferences for the 2007 Farm Bill, Kansas producers indicated that they generally support the current three-part safety net. That same survey indicated that among existing program funding priorities, Kansas producers ranked disaster assistance over each of the three current commodity programs. These results suggest that the current safety net may have some holes.

Primary support for Kansas producers has come in the form of direct payments. Being decoupled from price and production, the primary advantage of direct payment is that it has minimal distortions in global markets. For Kansas producers, the primary advantage of direct payments is they have been, at times, the only means of support in the low yield/high price environments that predominated since the passage of the 2002 Farm Bill. Direct payments are not without disadvantages, including the fact that payments get capitalized into land values. But the assertion that direct payments get capitalized into land values and payments from other commodity programs do not has no economic validity.

Proposals have been made to convert the current price-based counter-cyclical program to a revenue-based program. When asked to prioritize new program funding, Kansas producers participating in the 2007 Farm Bill preference survey ranked a counter-cyclical revenue program behind only funding for bio-energy production incentives.

An analysis of the USDA revenue proposal, for example, indicates over the last 5 years Kansas farmers would have received $230,000,000 more under a revenue-based counter-cyclical program *versus* the current price-based program. Most of that support would have come in 2002, a low income year for Kansas farmers.

Because the revenue-based counter-cyclical program can provide support at times when yields are low and prices are high, it offers the potential to reduce ad hoc disaster assistance.

Finally, Kansas farmers currently have a tremendous opportunity to earn an income from the market. If government support is deemed to be appropriate, it also seems appropriate that those policies encourage a continuation of that market return. Thank you very much.

[The prepared statement of Mr. Dumler follows:]

PREPARED STATEMENT OF TROY J. DUMLER, AGRICULTURAL ECONOMIST, KANSAS STATE UNIVERSITY, GARDEN CITY, KS

Introduction

The challenges of Kansas producers are numerous and varied. The last 5 years have seen sustained droughts, brutal winter storms, late spring freezes, widespread flooding, and massive tornados. These events by themselves make agricultural production in Kansas interesting. But those factors are not the only ones to make the last 5 years interesting. Rising energy costs and increasing demand for crop and livestock commodities have also had a significant impact on agricultural production in Kansas. Currently, a variety of forces are aligning to shape the future of agriculture in Kansas and the United States. The immediate future looks brighter for some, but perhaps dimmer for others. Following is a discussion of the challenges facing Kansas producers.

Farm Income

Data from the Kansas Farm Management Association (KFMA) indicates that net farm income in Kansas has mirrored U.S. net farm income (*Table 1*). After experiencing lows in 2002, net farm income, both nationwide and in Kansas, recovered to record levels in 2004 before dropping each of the last 2 years. Though Kansas farm income was barely a record in 2004, nevertheless it was three times higher than it was in 2002—the only year in the last 5 in which net farm income did not cover family living expenses.

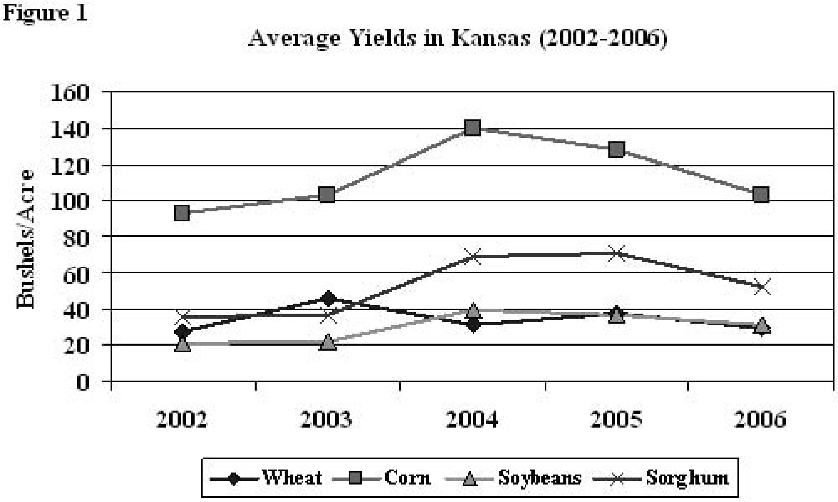
Table 1. Net Farm Income in the U.S. and Kansas (2002–2006)

Year	U.S. (Total $)	Kansas * ($/Farm)
2002	40.2	19,106
2003	60.4	51,051
2004	85.4	62,604
2005	73.8	56,982
2006	60.6	46,593

* Kansas Farm Management Association farms.

Much of this variability in income can be explained by weather and fluctuating production costs. *Figure 1* shows the annual average yields for wheat, corn, grain sorghum, and soybeans in Kansas. Widespread drought in 2002 resulted in low yields for all four crops. Wheat yields rebounded to near record highs in 2003, but dry conditions that summer produced low yields once again for the fall crops. While wheat yields were again below average in 2004, yields of fall crops were above average. Yields for all four crops were average or above in 2005, before dropping in 2006.

Figure 1



The variability of crop production was exacerbated by rising input costs during this period of time, putting additional pressure on income. As seen in *Figure 2*, diesel fuel and natural gas prices increased by 145 and 97 percent, respectively, from 2002 to 2006. Current forecasts from the Energy Information Administration (EIA) point to slightly higher costs in 2007. The increasing energy costs have caused crop production costs to increase as well. *Table 2* shows the energy intensive expenses for non-irrigated KFMA crop farms from 2002–2006. Each year from 2003 to 2005 had double-digit percentage increases for fertilizer and fuel expenses. Fuel costs continued the double-digit increase in 2006, while fertilizer expenses increased by a modest 1.55%.

Figure 2

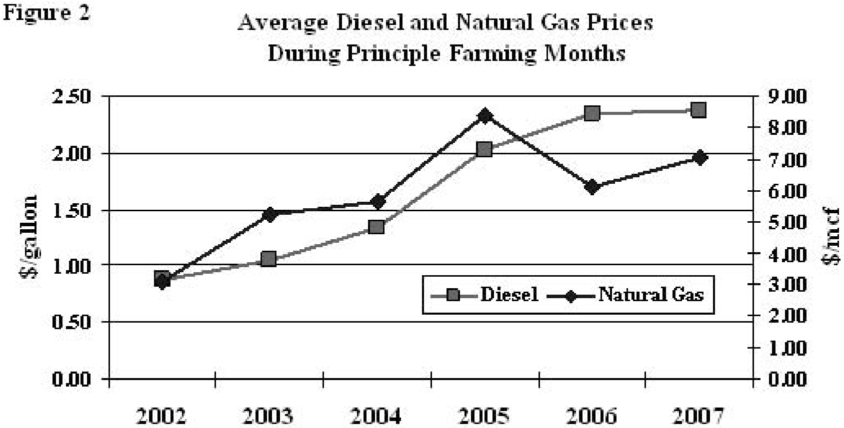


Table 2. Energy Intensive Expenses for Non-Irrigated KFMA Crop Farms (2002–2006)

Expense Category	2002	2003	2004	2005	2006
Fertilizer and Lime					
Crop Expense	$21,114	$24,710	$27,858	$36,797	$37,920
Expense/Crop Acre	$16.55	$19.18	$21.13	$26.69	$27.11
Annual Change (%)		15.83%	10.20%	26.31%	1.55%
Gas, Fuel, and Oil					
Crop Expense	$11,584	$13,257	$15,806	$20,901	$24,127
Expense/Crop Acre	$9.08	$10.29	$11.99	$15.16	$17.25
Annual Change (%)		13.27%	16.55%	26.45%	13.75%
Total Energy Expense					
Crop Expense	$32,698	$37,967	$43,664	$57,698	$62,047
Expense/Crop Acre	$25.64	$29.46	$33.12	$41.85	$45.01
Annual Change (%)		14.92%	12.42%	26.36%	7.54%

Source: Kansas Farm Management Association 2006 Databank.

The past 5 years have not been all negative though. Even after declining somewhat in 2006, beef cattle prices have remained strong. In addition, crop prices have increased significantly due to rising demand for ethanol. At this point, continued demand for renewable fuels indicates that prices for grains and oilseeds will likely remain strong. However, those same strong prices will also put pressure on livestock producers. Evidence of this occurring may already be evident in the 2006 KFMA data. While income on crop farms in 2006 was generally equal to or greater than income in 2005, beef cattle operations saw declines in income (*Table 3*). This drop in income can partially be explained by lower cattle prices in 2006 and higher forage costs caused by drought. But it is also likely that the increase in feed grain prices in the fall of 2006 had a negative impact on cattle returns.

Table 3. KFMA Net Income per Operator by Farm Type (2002–2006)

Type of Farm	No. of Farms (2006)	Net Income per Operator				
		2002	2003	2004	2005	2006
All Farms	1,554	$19,343	$52,410	$63,491	$57,584	$46,804
Cash Crop Dryland	1,065	20,229	51,424	57,087	49,422	49,366
Cash Crop Irrigated	73	9,743	57,580	62,729	64,955	92,335
Stock-Ranch Cowherd	33	9,291	34,148	51,366	45,396	35,986
Cowherd	21	6,595	22,458	32,088	24,914	13,344
Dairy	38	22,426	24,484	71,192	52,658	25,663
Backgrounding	14	29,220	63,035	82,252	63,279	−5,823
Cash Crop-Cowherd	155	17,544	33,879	49,613	50,149	31,132
Cash Crop-Dairy	11	34,201	49,643	81,068	72,799	55,538

Table 3. KFMA Net Income per Operator by Farm Type (2002–2006)—Continued

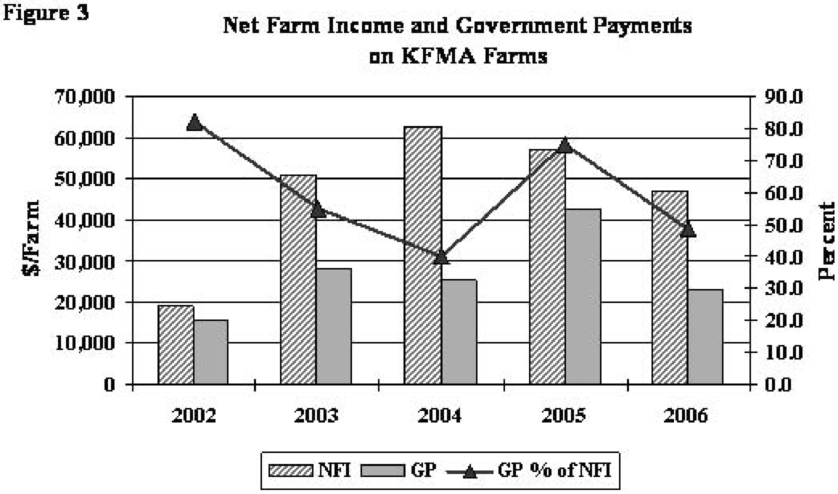
Type of Farm	No. of Farms (2006)	Net Income per Operator				
		2002	2003	2004	2005	2006
Cash Crop-Backgrounding	33	3,197	87,728	79,308	83,820	1,203

Source: Executive Summary, 2006 *Profitlink* Analysis, Kansas Farm Management Assoc.

Government Payments

There is little doubt that commodity subsidies have reduced the income variability of Kansas farms. As shown in *Figure 3*, from 2002–2006, government payments averaged 60% of net farm income for KFMA farms. In spite of the seemingly high dependence on government payments, some care needs to be exercised in interpreting these numbers. Namely, KFMA government payment data includes all government payments (i.e., commodity, conservation, and disaster assistance.) Because conservation payments (mainly from the Conservation Reserve Program) are included, the importance of government payments may be overstated. For example, according to the 2002 Census of Agriculture, in 2002 nearly 29% of government payments were CRP or WRP (Wetland Reserve Program) payments. However, commodity program payments in 2002 were lower than previous or subsequent years, thereby making CRP/WRP payments a higher percentage of total government payments. Nevertheless, CRP/WRP payments are a significant source of government payments in Kansas.

Figure 3



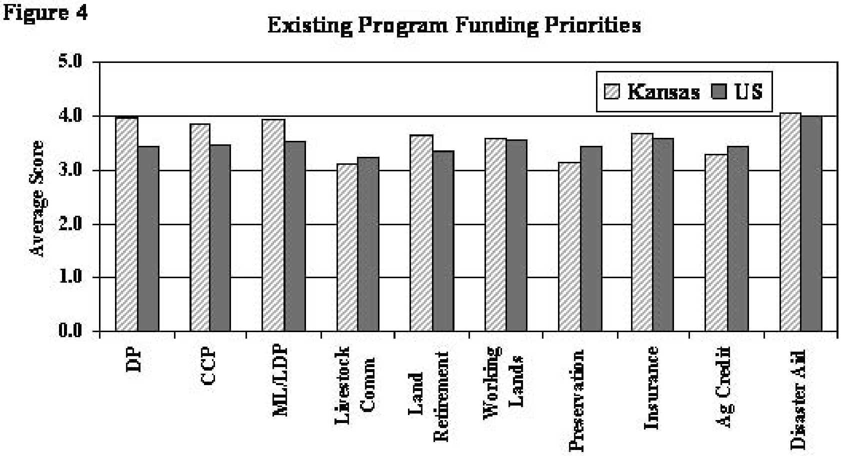
Concerning the relative importance of government payments, a study by Dumler in 2005 determined that, from 1995–2004, farm program payments have been a significant factor in farm profitability. However, the study also determined that other factors, such as cost management and production have larger effects on profitability than government payments. Nevertheless, if government payments were reduced or eliminated, farm profitability would be diminished. Obviously, those farms that specialize in the production of farm program commodities would suffer larger losses than those who do not specialize in those commodities. In addition, larger farms would be able to absorb the loss of government payments better than small farms, and in many cases even remain profitable. On the other hand small farms were not profitable, on average, even with government payments.

Although government payments have contributed a significant portion of net farm income in recent years, not all the benefits of government payments go to farmers, as a portion of those benefits gets capitalized into land values. This reality has two ramifications. First, it demonstrates that family farms are not the only beneficiaries of farm subsidies. Second, it indicates that as farm income would decline from a reduction or elimination of government payments, farm asset and equity values would also decline.

A 2006 study by Kastens and Dhuyvetter estimated that average cropland values by state would fall by 2.3% to 40.8% if government payments were eliminated. Land values in Kansas would be estimated to fall by 30.2% if government payments were eliminated. Certainly, a reduction in land values of that magnitude could have a devastating effect on the financial viability of many farms. The estimated decline in land values, however, assumes that 100% of government payments are capitalized into land. In reality, government payments are not likely to be fully capitalized into land values. Moreover, the study was conducted prior to the rapid rise in commodity prices in the fall of 2006. Consequently, the reduction in land values would likely be significantly less. This point is illustrated by a recent survey on farmland values. The survey by the Federal Reserve Bank of Kansas City indicates that in spite of decreasing commodity program payments, non-irrigated farmland values in Kansas have increased by 7.6% from 2006 while irrigated values have increased by 10.4%.

Because of the relative importance of government payments in enhancing farm income, it is not surprising that Kansas producers would generally support the current three-part commodity safety net. As part of a recent nationwide survey on preferences for the 2007 Farm Bill, Kansas producers were asked to prioritize which of several existing programs are most important to maintain in light of potential funding constraints or trade-offs. The results for 10 separate programs or program categories are shown in *Figure 4.*

Figure 4



Note: A score of 1 = least important, 5 = most important.

Kansas producers placed the highest priority on maintaining funding for disaster assistance programs. That corresponds with producer preferences nationwide. The next highest priority was for direct payments, followed by commodity loans, and counter-cyclical payments. Conservation programs, including land retirement programs such as the Conservation Reserve Program (CRP), and working land programs such as the Environmental Quality Incentives Program (EQIP) and Conservation Security Program (CSP) ranked lower. Supporting livestock commodities ranked last in Kansas and nationwide. Given that the primary commodities grown in Kansas are farm program commodities, it is not surprising that Kansas producers would rank commodity programs higher than other programs. It is also not surprising that Kansas producers ranked disaster assistance over each of the three current commodity programs, or that direct payments would rank much higher in Kansas than on a nationwide basis. Overall, the results suggest that Kansas producers may believe the current safety net may have some significant holes.

Primary support for Kansas producers since 2002 has come in the form of direct payments. Being decoupled from price and production, the primary advantage of direct payments is that they result in minimal market distortion in the global trade arena. For Kansas producers, the primary advantage of direct payments is that they have, at times, been the only means of support in the low yield/high price environments which have predominated since the passage of the 2002 Farm Bill. As previously mentioned, direct payments get capitalized into land values. But the assertion that direct payments get capitalized into land values, and payments from other commodity programs do not, has no economic validity. The capitalization process may be more transparent with direct payments, but it is not exclusive to direct payments.

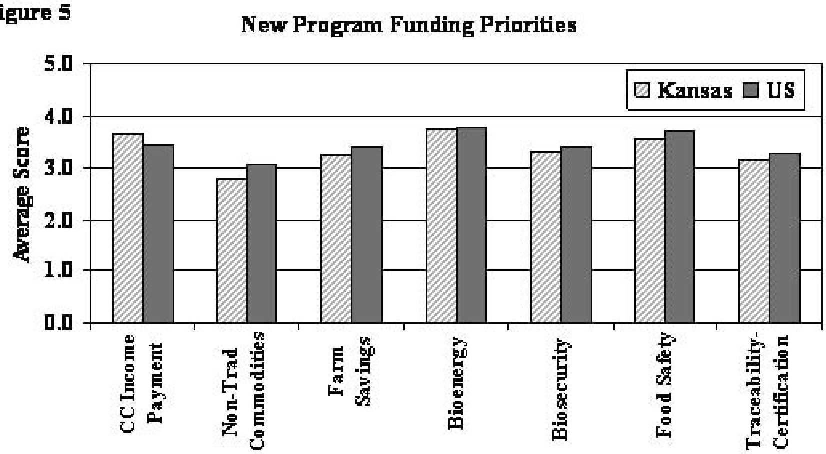
Counter-Cyclical Revenue Proposals

Leading up to the 2002 Farm Bill, much debate centered on the need to provide an enhanced safety net for crop producers when prices decreased. Crop producers received direct payments and marketing loan program payments averaging nearly $10 billion per year from 1999–2001, but that was deemed insufficient, and Congress intervened to provide a total of $19.5 billion in market loss assistance (MLA) payments over those 3 years. In the 2002 Farm Bill the counter-cyclical payment (CCP) program was created, formalizing the MLA payments into a permanent program.

With two of the three commodity safety net programs tied to price, it is fair to say that producers of commodity program crops should be well covered in low price environments. But does that imply that the safety net is now sufficient? Given the fact that an average of $1.3 billion in crop disaster aid has been paid out annually from 1999–2006 suggests that the current combination of safety net programs is not sufficient. The primary problem with safety net programs that are tied to price is that they are not very effective in high price/low yield environments.

Economically, there is a strong argument for a redesigned safety net that more effectively focuses on a bottom line revenue or net farm income goal instead of the current multitude of safety net tools that variously focus on price, production, or some mix of the two. Kansas producers participating in the 2007 Farm Bill preference survey ranked a counter-cyclical revenue program behind only bioenergy incentives when asked to prioritize potential new program funding (*Figure 5*).

Figure 5



Note: A score of 1 = least important, 5 = most important.

Several proposals have been made to convert the current price-based counter-cycle program to one in which payments are made when revenue falls below a predetermined target. These include, but are not limited to proposals from USDA, American Farm Bureau Federation (AFBF), the National Corn Growers Association (NCGA), and American Farmland Trust (AFT). All four of the revenue-based proposals are designed to achieve the same goal, but use different means to do so. Two of the proposals (USDA and AFT) trigger payments when national revenue falls below the target level. The AFBF proposal triggers payments when state revenue falls below the target level, while the NCGA proposal triggers payments when county revenue falls below the target level. Since the proposals use different methods to calculate the revenue target and payment when revenue falls below that target, they will vary in how much money will be distributed through them and to whom it will be distributed.

Following are the results of a simple analysis comparing counter-cyclical revenue proposals from USDA and the AFBF to the current price-based CCP program. *Table 4* shows the net advantage of the USDA proposal over the current CCP from 2002–2006 for wheat, corn, soybeans, and sorghum in Kansas, while *Table 5* shows the net advantage of the AFBF proposal for those same crop years. For the primary Kansas crops, the USDA proposal had a $231.5 million advantage over the current CCP program and a $79.6 million advantage over the AFBF proposal from 2002–2006. The USDA proposal resulted in higher payments for all crops except grain sorghum. When compared to the current CCP program, corn was the only crop that received lower payments under the AFBF proposal. Most of the support under both proposals would have come in 2002, a low income year for Kansas farmers, while fewer payments would have been made in 2004 and 2005.

Table 4. Net Advantage of USDA Proposal Over Current CCP From 2002–2006 in Kansas

Year	Wheat	Corn	Sorghum	Soybeans	Total
			Million Dollars		
2002	164.6	103.4	51.0	13.0	332.0
2003	0.0	0.0	19.2	0.0	19.2
2004	0.0	−36.7	−56.4	0.0	−93.1
2005	0.0	29.8	−56.4	0.0	−26.6
2006	0.0	0.0	0.0	0.0	0.0
Total	164.6	96.5	−42.6	13.0	231.5

Table 5. Net Advantage of AFBF Proposal Over Current CCP From 2002–2006 in Kansas

Year	Wheat	Corn	Sorghum	Soybeans	Total
			Million Dollars		
2002	76.0	51.0	99.8	51.9	278.7
2003	0.0	0.7	88.3	0.0	89.0
2004	0.0	−68.7	−56.4	0.0	−125.1
2005	0.0	−34.3	−56.4	0.0	−90.7
2006	0.0	0.0	0.0	0.0	0.0
Total	76.0	−51.3	75.3	51.9	151.9

Tables 6, 7, and *8* show how the current CCP program compares to the USDA and AFBF revenue proposals using data from the Kansas Farm Management Association from 2002–2005. As expected, results correspond with state totals. Both the USDA and AFBF programs would have provided more income to Kansas farms than the current CCP program. In addition, the USDA proposal, on average, resulted in larger payments per farm than the AFBF proposal. Also, the AFBF proposal performs better for sorghum, but worse for wheat and corn.

Table 6. Estimated Payments for KFMA Farms With 2002 Price-Based CCP Program

	Wheat	Corn	Sorghum	Soybeans	Total
			$/Farm		
2002	0	0	0	0	0
2003	0	0	0	0	0
2004	0	3,744	2,701	0	6,445
2005	0	5,231	2,759	0	7,990
Average	0	2,244	1,365	0	3,609

Table 7. Estimated Payments for KFMA Farms With USDA Revenue-Based CCP Program

	Wheat	Corn	Sorghum	Soybeans	Total
			$/Farm		
2002	7,679	4,898	2,355	521	15,453
2003	0	0	900	0	900
2004	0	1,539	0	0	1,539

Table 7. Estimated Payments for KFMA Farms With USDA Revenue-Based CCP Program—Continued

	Wheat	Corn	Sorghum	Soybeans	Total
	$/Farm				
2005	0	5,497	0	0	5,497
Average	1,920	2,984	814	130	5,847

Table 8. Estimated Payments for KFMA Farms With AFBF Revenue-Based CCP Program

	Wheat	Corn	Sorghum	Soybeans	Total
	$/Farm				
2002	3,594	2,546	4,790	2,999	13,929
2003	0	36	4,255	0	4,291
2004	0	0	0	0	0
2005	0	2,519	0	0	2,519
Average	899	1,275	2,261	750	5,185

The revenue proposals considered in the analysis offer the opportunity to provide assistance to producers over a broader array of economic scenarios. That does not imply that the programs will always be superior to the current CCP program, but because the proposals are tied to revenue instead of price, they offer the possibility to provide assistance when producers need it most and therefore reduce the need for ad hoc disaster assistance.

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IMPACT OF U.S. FARM PROGRAMS ON KANSAS FARMS

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Impact of U.S. Farm Programs on Kansas Farms

U.S. farm subsidies have faced increased scrutiny in recent years. Groups representing consumer, environmental, and international competitor interests have stepped up efforts to persuade developed countries to reduce or eliminate farm subsidies. The increased coverage of these interest groups in the media coupled with successful challenges of farm subsidies in the WTO and record domestic budget deficits result in a negative outlook for the future of U.S. farm subsidies. The President's 2006 Budget Proposal provided a possible glimpse into the future of U.S. farm subsidies. However, the reaction to that proposal also demonstrated that support for these programs remains strong in production agriculture.

Whether U.S. farm subsidies should be reduced or eliminated can be debated extensively from an economic and social standpoint. That is not the purpose of this paper, however. Rather, this paper will determine the relative impact that U.S. farm program payments have on Kansas farms, and evaluate the economic consequences of reducing or eliminating government payments.

Who Receives Farm Subsidies?

Before any changes to farm payments are evaluated, it is important to develop a baseline regarding who receives farm subsidies and how large those subsidies are.

It is also important to understand the different types and sizes of farms in the U.S. and how government payments are dispersed to those farms. In the *2004 Family Farm Report* from the Economic Research Service (ERS) of USDA, farms were split into three primary categories: small family farms, other family farms, and nonfamily farms. The definition of small family farms in this categorization would be those farms with annual gross sales of less than $250,000. Other family farms are those with annual gross sales of $250,000 or more, and nonfamily farms are those that are "organized as nonfamily corporations or cooperatives, as well as farms operated by hired managers" (Banker and MacDonald 2005).

In the *2004 Family Farm Report*, small farms are further separated into five different categories. These small family farm categories are (1) limited-resource farms, (2) retirement farms, (3) residential/lifestyle farms, (4) low-sales farming occupation farms, and (5) high-sales farming occupation farms. Limited resource farms are those with sales less than $100,000, farm assets less than $150,000, and total operator household income less than $20,000. Retirement farms are small farms whose operators report they are retired. Residential/lifestyle farms are small farms whose operators report a major occupation other than farming. Low-sales farming-occupation farms are small farms whose operators report farming as their major occupation and have sales less than $100,000. High-sales farming-occupation farms are small farms whose operators report farming as their major occupation and have sales between $100,000 and $249,999. Other family farms are further separated into large family farms, and very large family farms. Large family farms are those farms that have sales between $250,000 and $499,999. Very large family farms are the farms that have sales of $500,000 or more.

Small farms (all those with sales under $250,000) comprise 91% of the farms in the U.S., but only 28% of the value of production. Conversely, large and very large family farms constitute nearly 7% of U.S. farms, but are responsible for 58% of the value of production. The remaining 14% of agricultural production comes from nonfamily farms (Banker and MacDonald 2005).

Broken down further, limited-resource, retirement, and residential/lifestyle farms account for nearly 60% of the farms, yet provide only 6% of the value of production. Moreover, 55% of small farms had sales under $10,000. However, small farms held 68% of farm assets, including 60% of the land. Furthermore, small farms produce a large percentage of the major commodities, including 60% of the value of production for hay, 45% for soybeans, 47% for wheat, 39% for corn, and 38% for beef (Banker and MacDonald 2005). Based on this information, it can be argued that both small and large farms have an important role in production agriculture in the United States.

Focusing on government payments, from 1996–2003 commodity program payments (production flexibility contracts, direct payments, counter-cyclical payments, loan deficiency payments, and marketing loan gains) accounted for nearly 59% of the average annual farm program payments of $14.9 billion. Commodity payments were followed by ad hoc and emergency payments which accounted for over 27% of average farm payments, and conservation payments at 12% of total payments (USDA–ERS 2004).

High-sales small farms, large family farms, and very large family farms receive approximately 75% of commodity program payments. However, that percentage is roughly equivalent to the percentage of program commodities that they produce. Conversely, over 50% of Conservation Reserve Program (CRP) payments, which make up the majority of conservation payments, are received by retirement and residential/lifestyle farms. In fact 25% of retirement farms receive CRP or Wetland Reserve Program (WRP) payments. Only 10% of residential/lifestyle farms receive CRP or WRP payments, but they comprise 44% of all farms, and enroll an average of 44% of their land in the program—compared to 25% for all participating farms (Banker and MacDonald 2005).

Farms and Government Payments in Kansas

In Kansas, small farms in 2002 (i.e., those with sales less than $100,000) comprised nearly 82% of all farms (*table 1*). However, they accounted for less than 10% of all sales, but received over 42% of all government payments (*table 2*). By contrast, large farms (i.e., those with sales over $250,000) made up only 7.5% of all farms, but provided nearly 79% of all sales and received 34% of all government payments (USDA–NASS 2004). In 2002, nearly 29% of government payments were CRP or WRP payments. However, commodity program payments in 2002 were lower than previous or subsequent years, thereby making CRP/WRP payments a higher percentage of total government payments. Nevertheless, CRP/WRP payments are a significant source of government payments in Kansas. Although CRP/WRP payments are significant, they vary across farm types and locations in Kansas. Since farm typology data is not available on a state-level basis, this paper will not discuss, in-depth, the differences in government payments (including CRP/WRP) across typology groups. Rather, specific attention will be given to the relative importance of government payments on a county and farm-level basis in Kansas.

Table 1. Number of Farms and Total Sales By Market Value of Ag Products Sold

Ag Market Value of Sales	No. of Farms	% of Total Farms	Total Sales ($1,000)	% of Total Sales
Less than $1,000	7,214	11.2	1,061	0.0
$1,000 to $2,499	6,647	10.3	5,826	0.1
$2,500 to $4,999	6,764	10.5	14,754	0.2
$5,000 to $9,999	7,961	12.4	39,504	0.5
$10,000 to $24,999	10,464	16.2	138,201	1.6
$25,000 to $49,999	7,159	11.1	222,946	2.5
$50,000 to $99,999	6,513	10.1	425,723	4.9
$100,000 to $249,999	6,858	10.6	1,015,924	11.6
$250,000 to $499,999	2,896	4.5	942,898	10.8
$500,000 to $999,999	1,214	1.9	794,074	9.1
$1,000,000 to $2,499,999	473	0.7	689,078	7.9
$2,500,000 to $4,999,999	97	0.2	325,124	3.7
$5,000,000 or more	154	0.2	4,131,131	47.2
Total	64,414	—	8,746,244	—

Source: 2002 Census of Agriculture: Kansas.

Table 2. Number of Farms Receiving Government Payments and Total Government Payments By Market Value of Ag Products Sold

Ag Market Value of Sales	No. of Farms Receiving Govt. Pmts.	Total Govt. Payments ($1,000)	% of Total Government Payments	Govt. Pmts. as a % of Total Sales
Less than $1,000	1,333	642	0.2	60.5
$1,000 to $2,499	3,690	5,313	1.6	91.2
$2,500 to $4,999	3,703	9,811	3.0	66.5
$5,000 to $9,999	4,541	17,375	5.3	44.0
$10,000 to $24,999	6,376	31,654	9.6	22.9
$25,000 to $49,999	5,043	32,660	9.9	14.6
$50,000 to $99,999	4,991	41,418	12.6	9.7
$100,000 to $249,999	5,579	77,698	23.7	7.6
$250,000 to $499,999	2,421	56,828	17.3	6.0
$500,000 to $999,999	1,009	32,655	9.9	4.1
$1,000,000 to $2,499,999	379	17,796	5.4	2.6
$2,500,000 to $4,999,999	56	2,405	0.7	0.7
$5,000,000 or more	70	1,988	0.6	0.0
Total	39,191	328,243	—	—

Source: 2002 Census of Agriculture: Kansas.

Without question, farms in Kansas differ due to climate, typography, and proximity to population centers. Average annual precipitation varies from over 42 inches in the southeast corner of the state to under 16 inches on the western border. Much of eastern Kansas is dominated by rolling grasslands, small, irregular-shaped fields, and woodland areas. In contrast, a large portion of western Kansas is dominated by flat cropland with deep soils. These differences are critical in understanding agriculture in Kansas, and understanding how policy changes may affect farms in the state.

Since commodity programs constitute the majority of government payments in both the U.S. and Kansas, farms specializing in crop production obviously will be impacted more by potential reductions in government payments than predominately livestock and non-program commodity farms. Therefore, counties in Kansas that have a higher percentage of land in crops will likely be affected more than those counties with larger amounts of grassland. *Tables 3* and *4* show how the counties differ across Kansas by crop reporting district.

Table 3. Average Number of Farms, Crop Farms, and Percentage of Crop Farms per County by Crop Reporting District

Crop Reporting District	Avg. No. of Farms per County	Avg. No. of Crop Farms per County	Avg. % of Crop Farms per County
Northwest	429	398	92.8
West Central	360	331	91.9
Southwest	388	346	89.2
North Central	554	507	91.5
Central	725	660	91.0
South Central	709	645	91.0
Northeast	762	666	87.4
East Central	745	641	86.0
Southeast	729	585	80.2

Source: 2002 Census of Agriculture: Kansas.

Table 4. Average Land in Farms and Cropland per County by Crop Reporting District

Crop Reporting District	Avg. Land in Farms per County	Avg. Cropland in Farms per County	Avg. % of Cropland from Total Farm Land by County	Avg. Cropland per Crop Farm
Northwest	567,372	384,497	67.8	967
West Central	512,178	357,399	69.8	1,080
Southwest	497,894	362,517	72.8	1,047
North Central	479,105	295,323	61.6	582
Central	505,047	326,647	64.7	495
South Central	528,565	349,276	66.1	542
Northeast	297,276	181,715	61.1	273
East Central	321,691	161,545	50.2	252
Southeast	402,723	180,820	44.9	309

Source: 2002 Census of Agriculture.

These tables show that while there is not much difference in terms of the average number of crop farms to total farms per county from east to west, there is a noticeable difference in average amount of cropland to farmland per county across regions in Kansas. For example, 72.8% of the average land in farms per county in southwest Kansas is cropland, compared to only 44.9% in southeast Kansas. Since counties in southwest Kansas have more land in farms, a higher percentage of cropland, and fewer farms, the average crop farm in western Kansas farms over three times the acreage of the average farm in eastern Kansas.

Average county and farm level net income and government payments from 1994–2003 are shown in *table 5*. Most notably, both on a county and farm basis, government payments exceed net income in all districts except west central and southwest Kansas. Also, net income and government payments are substantially higher in western Kansas than in the eastern districts of the state. The higher government payments on a county basis can be explained by the fact that farms in the west tend to be more crop oriented (see *tables 3* and *4*), and, on average, have higher levels of production through irrigation. Higher production, both historically (when direct payment yields were frozen), and currently (for marketing loan benefits), will result in higher payments for farms and counties that grow program commodities. Because farms in the west are also significantly larger in terms of acreage, it is also expected that income and government payments would be higher on a farm basis.

Table 5. Average Net Farm Income * and Government Payments by Crop Reporting District (1994–2003)

Crop Reporting District	Avg. NFI/County ($1,000)	Avg. Govt. Pmts/County ($1,000)	Avg. NFI/Farm ($)	Avg. Govt. Pmts/Farm ($)
Northwest	8,123	10,931	18,935	25,481
West Central	9,120	8,998	25,324	24,988
Southwest	15,062	11,569	38,784	29,789
North Central	7,057	8,466	12,731	15,274
Central	6,209	7,688	8,561	10,600
South Central	5,934	9,769	8,366	13,772

Table 5. Average Net Farm Income * and Government Payments by Crop Reporting District (1994–2003)—Continued

Crop Reporting District	Avg. NFI/County ($1,000)	Avg. Govt. Pmts/County ($1,000)	Avg. NFI/Farm ($)	Avg. Govt. Pmts/Farm ($)
Northeast	4,838	5,144	6,348	6,750
East Central	2,182	3,108	2,929	4,173
Southeast	2,038	3,322	2,797	4,560

* Net Farm Income equals *Total Net Farm Proprietors' Income.* According to the Bureau of Economic Analysis this number consists of the net income that is received by sole proprietorships and partnerships that operate farms. It excludes the income that is received by non-family farm corporations.

While it is not unexpected that net income and government payments would be higher in the west, it may be surprising to some that portions of western Kansas may be less dependent on government payments (i.e., have net income greater than government payments) than eastern Kansas. After all, western Kansas is more crop intensive than eastern Kansas. However, there may be several explanations regarding why portions of western Kansas are less dependent on government payments.

First, a larger portion of small farms tend to reside in the east. Although farm typology data is not currently available regarding those small farms, it is likely that there are more residential/lifestyle farms in the east than the west. These farms are often not as concerned about earning a living from farming as simply enjoying the farm lifestyle.

Second, since direct payment yields and acreage bases were largely frozen in the mid-1980s, farms in the west intensified cropping rotations and shifted the overall crop mix. Consequently, these farms may actually be moving toward receiving a larger percentage of revenue from the market rather than government payments. In contrast, eastern Kansas may have already been farming at a higher cropping intensity, which would thus be reflected in their direct payment yield and acreage base. (Of course, benefits from the marketing loan program are based on current production which would lessen this overall effect.)

Third, CRP payments could distort the relative importance of government payments as a contributor to net income. For example, some counties enrolled larger percentages of cropland into the program than other counties. Those counties that have a large percentage of cropland in CRP would then appear to be receiving a larger portion of net income on a county and farm basis from government payments than is actually occurring. In other words, counties and farms are not as dependent on government payments as the numbers indicate.

Finally, various events such as droughts and fluctuations in livestock prices affect the relative relationship between government payments and net income. For example, northwest Kansas was especially hit hard by drought from 2000–2003. To help those who were affected by those conditions, disaster legislation was passed and emergency disaster payments were distributed to farmers. Obviously, in circumstances such as these, government payments could increase in importance in terms of contributing to net farm income on a county basis. Also, if overall net income is depressed because of poor cattle prices for instance, then government payments will again appear to contribute a greater portion of net income.

While it is interesting to evaluate the importance of government payments for farms in Kansas on an aggregate basis, care must be taken when drawing conclusions. Aggregating income and payment data may end up masking important trends and relationships. Furthermore, little can be said in terms of how changes in farm programs may impact individual farms. Therefore, the remainder of this paper will focus on the impact of government payments on farms in the Kansas Farm Management Association (KFMA). Using KFMA data, more precise analysis can be performed.

Impact of Government Payments Using KFMA Data

Data from farms that were continuously enrolled in the KFMA from 1995–2004 were used to study the relationship between government payments and farm financial performance. The entire data set contained 9,630 farm-year observations. In determining these relationships, a 2001 study by Dumler that determined the relationship between farm size and profitability was used as a foundation for this study. Following the 2001 study, farms were separated into three regions: east, central, and west. Since farm size issues have become mainstay topics for farm policy debates, in this study, farms were also divided into four size categories. These size categories basically follow the major categories of 2004 *Family Farm Report.* Thus, the four farm size categories based on gross farm income (GFI) are: small farms under

$100,000 GFI, medium farms with GFI from $100,000 to $249,999, large farms with GFI from $250,000 to $499,999, and very large farms with GFI over $500,000.

Farms by Area

Following is a brief description of how farms compared in the three regions of the state. As previously mentioned, farms in Kansas differ across the state in climate and typography. However, the average farms in the KFMA data set are quite similar across regions (*table 6*). In terms of total government payments, the average farm in the west had payments that were nearly 82% higher than the average farm in the east, and almost 49% greater than the average farm in central Kansas. Likewise, as a percentage of gross farm income (GFI), government payments in western Kansas (18.9%) were nearly double that of the east (10.7%). The central region fell in between this range at 14.5%. On a total crop acre basis, however, government payments in each region are within $2.65/acre.

Table 6. Financial and Production Measures for KFMA Farms in Kansas, 1995–2004

Measure	Units	East	Central	West
Total Govt. Payments	$	23,151	28,231	41,972
Govt. Payments/Acre	$	26.30	24.00	26.65
Govt. Payments/GFI	%	10.7	14.5	18.9
Gross Farm Income (GFI)	$	247,453	212,942	254,004
Net Farm Income * (NFI)	$	19,834	10,130	11,503
Total Expense Ratio	%	105.1	105.2	105.0
Total Assets	$	725,440	607,938	781,818
Total Capital Managed	$	1,380,247	1,288,509	1,486,091
Rate of Return to Capital Managed (RRCM)	%	1.6	1.1	1.7
Avg. Debt/Equity Ratio	%	83.8	102.8	86.4
Crop Income/GFI	%	48.1	57.9	57.9
Livestock Income/GFI	%	35.0	22.4	16.6
Non-farm Wages	$	11,114	8,168	8,429
Total Crop Acres	No.	915	1,182	1,730
Acres Harvested	No.	958	1,132	1,189

* Net Farm Income equals gross farm income minus operating expenses, depreciation, unpaid operator labor, and unpaid family labor.

Table 6 shows several other interesting financial and production measures as well. For instance, as expected, eastern farms earn a higher percentage of GFI from livestock than crops. Moreover, as expected, farms in the west were larger, in terms of total acreage, but had a lower cropping intensity (acres harvested/total crop acres). Nevertheless, the financial measures across regions were similar.

In the 2001 farm size study by Dumler, the primary profitability ratio used was rate of return to capital managed (RRCM). Capital managed equals total farm assets plus the value of rented land. Thus, the RRCM formula, shown below in *equation 1*, is:

$$RRCM = (Net\ Farm\ Income + Interest\ Expense) / Total\ Capital\ Managed, \qquad (1)$$

where net farm income equals gross farm income minus operating expenses, depreciation, and unpaid labor charges. Although RRCM is not one of the 16 standard farm financial ratios, it is very similar to rate of return on assets. The only difference is that RRCM includes the value of rented land in addition to total assets. Capital managed was used instead of total assets because it gives a broader indication of farm size. The average RRCM per region ranged from 1.1% in central Kansas to 1.7% in western Kansas.

Another important financial measure in *table 6* is the total expense ratio. The total expense ratio, shown in *equation 2*, indicates how much it costs to produce each dollar of gross income.

$$Total\ Expense\ Ratio = Total\ Expenses / Gross\ Farm\ Income. \qquad (2)$$

The lower the total expense ratio—the greater cost efficiency (and potentially higher net returns). Like RRCM, the total expense ratio was nearly identical for all three regions. In fact all three areas were within 0.2% of each other. Obviously, a ratio above 100% is a concern, but it should be noted that unpaid operator and family labor are included in total expenses, resulting in a ratio that is higher than would typically be expected.

Farms by Size

Although the average farm in the KFMA is similar across regions, significant differences exist between farms when separated into size categories according to gross farm income. *Table 7* shows selected financial and production measures for KFMA farms by farm size.Notably, government payments for very large farms are over six times as large as those for small farms. However, government payments per acre for very large farms are less than 50% greater than those for small farms. In addition, very large farms earn a smaller percentage of gross farm income from government payments than do their smaller counterparts. The differences between farms, in terms of government payments, are not surprising. Certainly, it is expected that large farms would receive greater amounts of payments since they farm larger acreages. It is also expected that payments per acre may be greater since the size of farms in this study are determined by gross income. Thus, farms producing high yielding program commodities (i.e., irrigated corn) would likely earn a higher income, and potentially higher government payments on a per acre basis. Finally, larger farms have demonstrated the ability to achieve lower costs and higher yields, thereby making government payments a smaller portion of gross farm income.

Table 7. Financial and Production Measures for KFMA Farms by Size, 1995–2004

Measure	Units	Small	Medium	Large	Very Large
Total Govt. Payments	$	10,194	22,674	40,576	66,942
Govt. Payments/Acre	$	22.56	24.90	27.72	31.49
Govt. Payments/GFI	%	15.6	13.6	11.7	9.3
Gross Farm Income (GFI)	$	66,469	166,315	348,371	755,987
Net Farm Income * (NFI)	$	–20,022	1,032	37,222	123,917
Total Expense Ratio	%	136.1	100.8	89.6	84.5
Total Assets	$	382,596	569,797	914,160	1,584,294
Total Capital Managed	$	644,087	1,152,746	1,867,243	3,039,967
Rate of Return to Capital Managed (RRCM)	%	–2.5	1.4	3.8	6.1
Avg. Debt/Equity Ratio	%	67.6	90.7	106.8	106.6
Crop Income/GFI	%	49.3	54.3	55.4	48.4
Livestock Income/GFI	%	28.8	26.6	26.7	35.3
Non-farm Wages	$	13,770	10,196	7,016	3,628
Total Crop Acres	No.	506	1,005	1,577	2,272
Acres Harvested	No.	440	906	1,492	2,246

*Net Farm Income equals gross farm income minus operating expenses, depreciation, unpaid operator labor, and unpaid family labor.

While the government payment information by farm size is interesting, it does not tell the whole story in terms of the relative importance of government payments for farms in Kansas. It is also important to understand the financial characteristics of the different size farms. The most telling financial differences between farm sizes are profitability and expense management. As shown in *table 7*, profitability, as measured by RRCM, varies from –2.5% for small farms to 6.1% for very large farms. While, in terms of percentage points the difference seems small, the difference in profitability between farm sizes is actually quite large. For example, very large farms earn over four times the return on capital than medium size farms. In another major difference between farms, the total expense ratio drops from 136.1% for small farms to 84.5% for very large farms. This suggests that cost management is a significant factor in farm profitability. It also suggests that large farms have some cost advantages over small farms, or that large farms were able to grow over time because they were efficient cost managers. Otherwise, many of the remaining financial measures are not very dissimilar, or generally follow expectations based on how the farms were classified. Of the remaining variables, the most interesting is the debt/equity ratio. Unlike what many would expect, small farms actually have the lowest debt/equity ratio, meaning they have lower debt loads than larger farms.

Farm by Type

When discussing government payments by area and farm size, it was hypothesized that government payments in the west were higher than those in the east because of irrigation. Likewise, since irrigation usually results in greater production than non-irrigation, it would be expected that government payments would be higher as well. As *table 8* shows, total government payments and payments per acre were larger for irrigated farms.

Table 8. Financial and Production Measures for Irrigated and Non-irrigated KFMA Farms in Kansas, 1995–2004

Measure	Units	Irrigated	Non-irrigated
Total Govt. Payments	$	49,340	30,831
Govt. Payments/Acre	$	36.72	23.99
Govt. Payments/GFI	%	15.4	15.5
Gross Farm Income (GFI)	$	340,594	222,114
Net Farm Income * (NFI)	$	30,008	15,009
Total Expense Ratio	%	97.0	105.0
Total Assets	$	808,074	671,815
Total Capital Managed	$	1,583,416	1,382,611
Rate of Return to Capital Managed (RRCM)	%	3.1	1.4
Avg. Debt/Equity Ratio	%	106.3	91.6
Crop Income/GFI	%	71.5	64.5
Livestock Income/GFI	%	6.3	13.7
Non-farm Wages	$	8,453	9,874
Total Crop Acres	No.	1,456	1,298
Acres Harvested	No.	1,224	1,215

*Net Farm Income equals gross farm income minus operating expenses, depreciation, unpaid operator labor, and unpaid family labor.

Statistical Model

A statistical model was developed from the KFMA data set to quantify the relationship between profitability and several other explanatory variables, including government payments. The profitability measure used in the statistical models was rate of return to capital managed. The purpose of this extensive model was to quantify the effect that these variables had on RRCM. The model can be expressed as:

$$RRCM = B_0 + B_1 YEAR + B_2\ GOVTPP + B_3 CINCP + B_4\ TEXPR + B_5 AVGDE + B_6 AVGDE^2 + B_7 GFI + B_8 GFI^2,$$

where YEAR is a binary, or "dummy" variable that allows for changes in RRCM over time (year is defined as 1995 = 95, etc.), GOVTPP is the percentage of gross income earned from government payments, CINCP is the percentage of gross income earned from crops, TEXPR is the total expense ratio, AVGDE is the average debt/equity ratio, and GFI is gross farm income. Squared terms on AVGDE and GFI allow for non-linear relationships with RRCM.

The results of this model are shown in *table 9*. The R^2 value, at 71.2%, indicates the amount of variability in RRCM that is explained by the other variables. Thus, 71.2% of the variability in RRCM can be explained by the six independent variables in the model. Two of the most important things to consider when interpreting the results of the regression model are the sign of the coefficient and whether or not the variable is statistically different from zero. Beginning with the YEAR variable, we can see from *table 9* that RRCM was statistically different from the base year (2004) in 7 of the 9 years from1995 through 2004.

Table 9. Regression Results for KFMA Profitability Model

Variable	Coefficient	t-statistic
Intercept	0.1099	62.13
1995	*0.0050	3.86
1996	*0.0148	11.72
1997	*0.0113	9.00
1998	*−0.0030	−2.33
1999	−0.0011	−0.78
2000	*−0.0044	−3.27
2001	*−0.0046	−3.50
2002	*−0.0027	−2.13
2003	*−0.0038	−2.98
GVTPP	*0.0154	4.44
CINCP	*−0.0025	−2.27
TEXPR	*−0.1055	−102.37
AVGDE	*0.0036	10.21
$AVGDE^2$	*−0.0002	−6.27
GFI	*0.0001	16.45

Table 9. Regression Results for KFMA Profitability Model—Continued

Variable	Coefficient	t-statistic
GFI^2	* − 0.0000	− 2.63

* Indicates significantly different from zero at 0.05 level.
* 2004 is the base year.

The general purpose of government payments is to provide a safety net for farmers in an economic environment where many forces are out of their control. Because these payments are designed to boost farm income, it would be reasonable to expect that government payments would be an important variable in determining RRCM. The percent of gross farm income from government payments (GVTPP) was used instead of total government payments because it also gives an indication of the crop/livestock mix of the farm. GVTPP is statistically significant and positive, meaning that as the percentage of GFI earned from government payments increases, RRCM increases as well. However, for every 1% increase in GVTPP, RRCM increases by only 0.015%.

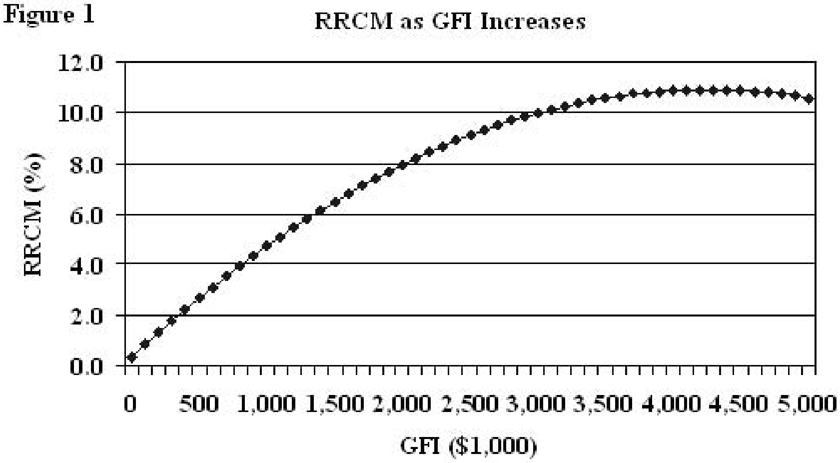
The CINCP variable was included in the model to determine whether the crop/livestock mix of a farm had any impact on RRCM. According to this model, as the percentage of gross income earned from crops increases, RRCM decreases. Although, this variable is statistically significant, like GVTPP, the effect is small.

The total expense ratio (TEXPR), defined on page eight, gives an indication of how well a farm manages costs, which in turn will affect profitability. The TEXPR variable in the model is highly significant and negative, meaning that for every 1% increase in TEXPR, RRCM will decrease by about 0.1%. For example, assume that a farm had a total expense ratio of 90% and a corresponding RRCM of 5%. If the total expense ratio increased to 91%, and everything else was held constant, RRCM would fall to 4.9%.

An average debt/equity ratio (AVGDE and $AVGDE^2$) was included in this model to determine the impact debt may have on profitability. According to the regression results, as the average debt/equity increases (i.e., a farm is more highly leveraged), RRCM increases as well, but at a decreasing rate. Again, this variable is statistically significant, but its impact is minor. This indicates that, on average, farms in the KFMA are using their borrowed funds to earn positive returns on their operations. Of course, caution should be used in increasing leverage as cash flow problems can develop.

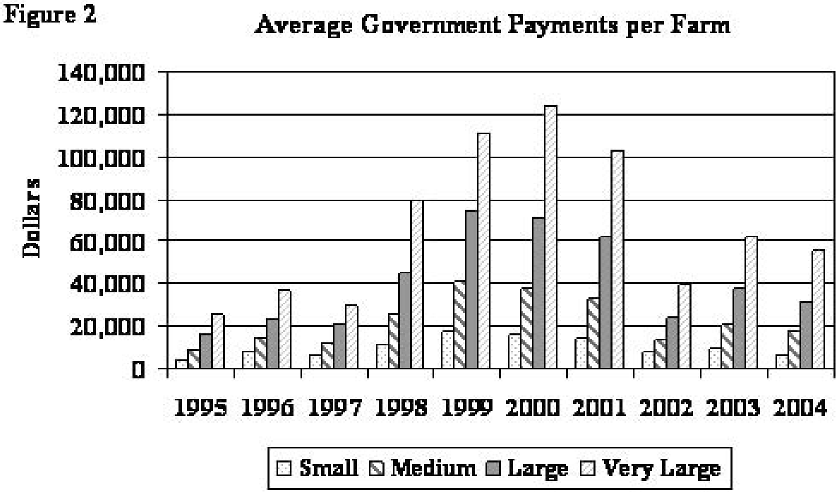
The final variable is gross farm income (GFI and GFI^2). As previously mentioned, a squared term for GFI was included in the model to allow for a non-linear relationship between GFI and RRCM. In the model both variables are statistically significant, with GFI positive and GFI^2 negative, indicating that as farms get bigger—in terms of GFI, RRCM increases, but at a decreasing rate. By holding all other variables constant and varying GFI and GFI^2, we can determine the point at which RRCM levels off with continued increases in GFI. *Figure 1* shows that RRCM increases until GFI reaches $4.3 million. At that point GFI plateaus and then starts to decrease. This result would suggest that profitability is maximized with GFI of $4.3 million. However, extreme care must be taken in making that assertion. First, data on large farms is limited in the KFMA, making projections at higher levels of GFI more problematic. For example, the maximum GFI for a farm in the data set used to derive this model was $2.8 million. Second, in order to predict RRCM as GFI increases, all other variables were held constant. However, as previous data showed, as farm size increased, TEXPR decreased. Since this variable was held constant to illustrate the relationship between RRCM and GFI, the advantage most large farms have in terms of costs are eliminated, making it appear that economies of size are maximized at $4.3 million in GFI.

Figure 1



The preceding statistical model indicates that government payments are a significant factor in the overall financial performance of a farm. However, the same model also shows that increasing the percentage of GFI that comes from government payments has less of an impact on profitability than other variables. Expenses and total revenue have a greater impact on profitability than government payments do. It is important to understand this when evaluating farm policy alternatives. In today's farm policy environment there are government officials and interest groups who are advocating reductions in payments or even the complete elimination of farm subsidies. Some of the information previously presented would seem to suggest that, on average, farms may be able to absorb a reduction in government payments without a catastrophic reduction in profitability. This may be especially true with larger farms. At the same time there is the realization that in some years, government payments were a vital contributor to gross income (*figure 2*).

Figure 2



Loss of Government Payments

To further determine the impact of government payments on farm profitability, additional analysis was performed with the KFMA data set. In this analysis, scenarios in which government payments were reduced by 10%, and completely eliminated were developed. Without question, it would be expected that both gross and net income would fall if government payments were reduced or eliminated immediately, and everything else remained constant. However, reducing or eliminating government payments will likely have consequences outside of simply reducing income. Most notably, land values would likely fall as government payments dropped. A study by Kastens and Dhuyvetter estimated that cropland values in Kansas would fall by 33.3% if government payments were eliminated. A reduction in land values of that magnitude could have a devastating effect on the financial viability of many Kansas farms. The estimated decline in land values, however, assumes that 100% of government payments are capitalized into land. In reality, government payments are not likely to be fully capitalized into land values.

Nevertheless, using the assumption that government payments are fully capitalized into land values provides a "worst case scenario" in terms of the impact of a reduction in government payments. This could also be considered a "worst case scenario" because cash rent for cropland was not reduced in conjunction with land values. This was necessary because the KFMA data does not distinguish between crop, pasture, and other cash rent.

To account for the fact that government payments get capitalized into land values, in this analysis, land values were reduced by 3.3% in the scenario in which government payments were reduced by 10%, and by 33.3% in the scenario in which government payments were completely eliminated. For farms that own land, the reduction in land values will negatively effect the solvency position of those farms, and may reduce the profitability of those farms as well. *Table 10* shows the changes in net farm income, rate of return on assets, and rate of return on equity as government payments are reduced. As government payments are reduced, net farm income is reduced by the same amount. Since larger farms receive larger payments, total income losses are greater for larger farms. On a percentage basis, however, smaller farms are more adversely affected.

Table 10. Net Farm Income, Rate of Return on Assets, and Rate of Return on Equity for KFMA Farms by Farm Size, 1995–2004

Measure	Small	Medium	Large	Very Large
Net Farm Income (NFI)	−$20,467	$1,226	$37,579	$124,484
NFI w/ Govt. Pmts Reduced by 10%	−$21,475	−$1,045	$33,502	$117,739
NFI w/o Govt. Pmts	−$30,549	−$21,480	−$3,186	$57,037
Rate of Return on Assets (ROA)	−5.22%	3.22%	8.20%	12.31%
ROA w/ Govt. Pmts Reduced by 10%	−5.70%	2.76%	7.75%	11.90%
ROA w/o Govt. Pmts	−10.67%	−2.02%	3.21%	7.90%
Rate of Return on Equity (ROE)	−15.51%	−1.00%	8.37%	17.63%
ROE w/ Govt. Pmts Reduced by 10%	−17.13%	−2.86%	7.33%	16.95%
ROE w/o Govt. Pmts	−27.53%	−13.01%	−1.17%	8.66%

Because income levels differ dramatically between farm sizes, better measures of changes in profitability include the rate of return on assets (ROA) and equity (ROE). ROA and ROE were used instead of RRCM because they provide a better indication of how changes in government payments affect profitability in terms of a producer's investment and not a landlord's. According to the data shown in *table 10*, ROA decreases by less than 0.5 percentage points for all farm sizes if government payments are reduced by 10 percent. Declines in ROE range from 1.86 percentage points for medium farms to 0.68 percentage points for very large farms.

If government payments are eliminated altogether, rate of return on assets decreases by over five percentage points for the two smallest farm sizes, and by 4.4 percentage points for very large farms. Rate of return on equity drops by approximately 12 percentage points for small and medium farms, but only by 9.5 and nine percentage points for large and very large farms, respectively. In spite of the declines, rate of return on assets and equity remains positive for very large farms.

Table 11. Average Total Assets, Liabilities, and Equity for KFMA Farms by Farm Size, 1995–2004

Measure	Small	Medium	Large	Very Large
Total Assets	$359,808	$550,677	$907,746	$1,577,664
Total Assets w/ Govt. Pmts Reduced by 10%	$353,206	$542,006	$894,685	$1,557,077
Total Assets w/o Govt. Pmts	$293,182	$463,175	$775,944	$1,369,923
Total Liabilities	$75,448	$155,888	$282,464	$551,111
Equity (Net Worth)	$284,360	$394,790	$625,282	$1,026,553
Equity w/ Govt. Pmts Reduced by 10%	$277,758	$386,118	$612,220	$1,005,966

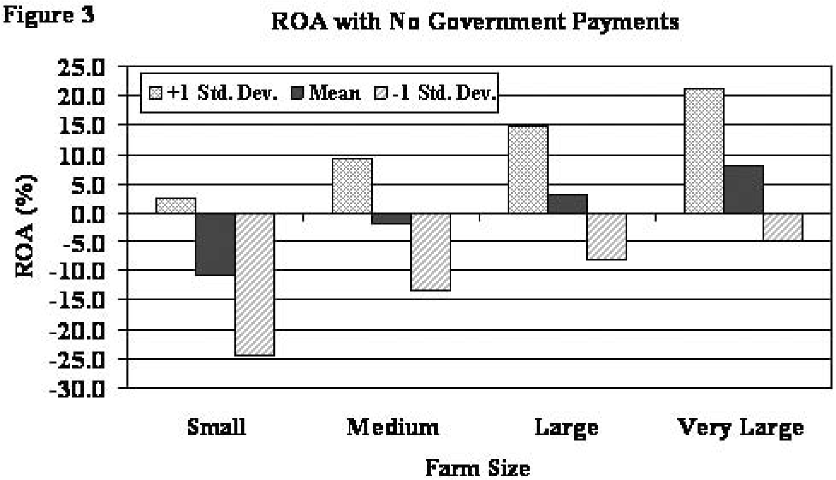
Table 11. Average Total Assets, Liabilities, and Equity for KFMA Farms by Farm Size, 1995–2004—Continued

Measure	Small	Medium	Large	Very Large
Equity w/o Govt. Pmts	$217,734	$307,287	$493,480	$818,812

Based on the values in *table 11*, average total assets fell 18.5%, 15.9%, 14.5%, and 13.2% for small, medium, large, and very large farms, respectively. The difference in asset values is due to small farms having a greater portion of assets in land. Larger farms tend to rent a higher percentage of land *versus* owning, making long term assets such as land a smaller percentage of total assets than small farms. As liabilities remained constant, the average debt/asset ratio for each size of farm increased by about six percentage points, with small farms having the lowest ratio at 32.0%, and with very large farms having the highest ratio at 42.6%. Average declines in equity ranged from 23.4% for small farms to 20.2% for very large farms. Although the average financial position declined for KFMA farms when government payments were eliminated, the number of farms that become insolvent during the 1995–2004 timeframe increased by only 2 percent (0.7% to 2.7%).

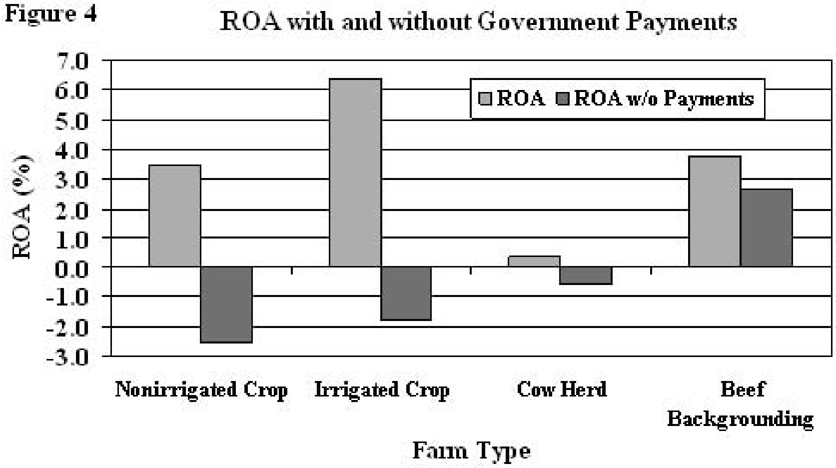
While the preceding discussion simply illustrates the impact of government payments through mean values, it is also important to understand that there is a tremendous amount of variability between farms as well. For example, *figure 3* shows the mean ROA without government payments by farm size. Looking exclusively at small farms, the average ROA without government payments was −10.7%. However, at one standard deviation above and below the mean, ROA would be 2.8% and −24.1%, respectively. This indicates that many, but not all farms will become unprofitable if government payments are eliminated.

Figure 3



There are many potential reasons why the loss of government payments may have different effects on farms in Kansas. First and foremost, since most government payments are targeted toward specific commodities, those farms that have historically produced those commodities will receive the bulk of farm program payments. Therefore, if farm programs are reduced or eliminated, those farms will likely be affected more than farms that do not produce those commodities. For example, *figure 4* shows ROA and ROA without government payments for four types of farms in the KFMA data set. These farms include non-irrigated crop, irrigated crop, cow herd, and beef backgrounding. As one would expect, ROA suffers larger declines for both non-irrigated and irrigated farms than cow herd or beef backgrounding operations. Irrigated farms suffer the largest decline in returns, and cow herd operations the smallest. Beef backgrounding operations are the only ones who earn a positive return.

Figure 4



A second reason for the variability of impact of farm program payments is that farms vary significantly in terms of their ability to consistently earn positive returns. It was demonstrated earlier that larger farms have shown the ability to produce at lower cost than their smaller counterparts. That ability has allowed larger farms to earn higher profits and be less dependent on government payments. In addition, some farms within a particular size class have demonstrated the ability to earn higher returns than comparably sized farms without the benefit of additional government payments.

Finally, as previously mentioned farms in the data set may have experienced different conditions over the last 10 years, such as drought and highs and lows in cattle prices that have increased or decreased the amount of government payments they received relative to average and to other farms.

Discussion and Summary

The fact that profitability varies so much between farms with and without government payments has some major implications for farms in Kansas and the forthcoming debate over the 2007 Farm Bill. In recent farm bill debates, support for farm subsidies has been broad and bipartisan. Recently, however, that support has splintered to some degree and become increasingly contentious as Federal budget pressures developed and advocacy groups have protested against farm program payments being inefficient and detrimental to poor, developing countries. As a result, proposals have been made to reduce farm program payments.

This paper has shown that, over the last 10 years, farm program payments have been a significant factor in farm profitability. However, it has also shown that other factors, such as cost management and production have larger effects on profitability than government payments. Nevertheless, if government payments were reduced or eliminated, farm profitability would be diminished. Obviously, those farms that specialize in the production of farm program commodities would suffer larger losses than those who do not specialize in those commodities. In addition, larger farms would be able to absorb the loss of government payments better than small farms, and in many cases even remain profitable. On the other hand small farms were not profitable, on average, even with government payments. Because farm profitability varies significantly between farms, some difficult questions arise regarding future farm policy.

For instance, since large farms are typically more profitable than small farms, and receive a smaller portion of gross income from government payments, it could be construed by some that payment limitations could be imposed on large farms with minimal effect on profitability. To do so, however, requires a means to impose those limits. In other words, should payment limitations be based on a strict ceiling of total payments, number of acres farmed, gross income, or some other measure? This leads to the issue of equity. The problem with using one of the above measures to define an "equitable" distribution of government payments is that one's particular definition of "equitable" may not meet another's definition. This can already be seen in the reaction of various commodity groups to proposed stricter payment limitations. One commodity group's definition of an equitable distribution of payments does not agree with another's.

Then there is the issue of the variability of profits and motives between similar farms (i.e., size and type). As a group, small farms have difficulty competing with large farms. But in terms of profitability, some can compare favorably with large farms. Other small farms are not profit oriented. They have other primary occupations, but enjoy and value the agricultural lifestyle. The remaining group of small farms faces challenges such as limited resources and production or management inefficiencies. (Large farms can face these challenges as well). Even if people would agree to target farm payments to small farms, the question exists as to whether those payments should be targeted to all three of those groups. These circumstances make forming farm policy difficult. That is why it is important to understand the structure of agricultural and understand how changes in policy may impact farms. When the process of understanding the relationship between government payments and farm profitability begins, often more questions arise then are answered. Consequently, this study is just one step in a broader effort to provide information to a complex issue.

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Mr. ETHERIDGE. Dr. Miller.

STATEMENT OF BILL MILLER, PH.D., CATTLE PRODUCER, PRINCETON, KS; ON BEHALF OF FRANKLIN COUNTY FARM BUREAU ASSOCIATION

Dr. MILLER. I wasn't quite sure about what to talk about, so I finally decided that maybe I could just sit here and complain for 5 minutes and see how it goes.

Ag producers in Kansas face many challenges that affect their operation. Among those are ever increasing costs of fuel and fertilizer. When most other businesses are faced with increases in cost for production, those costs are passed on to the consumer. Farmers pay high prices for necessary inputs to grow food and fiber and usually have to sell their produce at whatever price is offered. They do not have the luxury of passing increased costs associated with production on to anyone. As a result, their operation is always operating between a rock and a hard place.

Within the last year, farmers have had a significant increase in the price of grain that they sell, but when you consider the increase in production costs, the bottom line doesn't change much. When environmental conditions are such that production is high, then the supply and demand equation takes effect and market prices are low. And when environmental conditions are such that crops are not good, the price increases, but the problem with that is he doesn't have anything to sell.

Most farmers operate a business that barely hangs on from 1 year to the next and they exist in that manner from year in, year out, year after year. And when he or she gets too old to farm and decides to pass it on to the next generation, then the next generation starts out by trying to dig themselves out of a hole that was inherited when they inherited the farm.

The lack of rural development results in young people growing up and moving away, never to return to the community which they grew up in, unless it's as a visitor. Agriculture is a key component of rural communities, but if rural communities are to survive, they must be strengthened. They need better access to education, health care and improved infrastructure. In western Kansas a man might bleed to death before he can get to a physician for medical help. In east Kansas the worst thing associated with the same injury might be the headache and boredom that his wife suffers while he lays around the house 5–6 days recuperating.

Farmers are among the most productive and most creative entrepreneurs in this country, but farming is a never-ending battle. It's a battle that you can fight for a while, but there comes a time when you get tired of fighting or you just can't afford to fight anymore.

I admit that today the things that I've said have barely etched a mark when it comes to identifying challenges faced by agriculture in Kansas, but you've heard from others and you'll hear from more—more from those that follow.

If Kansas agriculture is to remain viable and survive, then these issues must be addressed.

In closing I must say that it is a privilege and an honor to be able to sit here and address such a distinguished group of people. I thank you for requesting my presence here today and I thank you for listening.

[The prepared statement of Dr. Miller follows:]

PREPARED STATEMENT OF BILL MILLER, PH.D., CATTLE PRODUCER, PRINCETON, KS; ON BEHALF OF FRANKLIN COUNTY FARM BUREAU ASSOCIATION

Agricultural producers in Kansas face many challenges that effect their operation. Among those are the ever increasing costs of fuel and fertilizer. When most other businesses are faced with increases in production costs, those costs are passed on to the consumer. Farmers pay high prices for necessary inputs to grow food and fiber and usually have to sell their produce at whatever price is offered. They do not have the luxury of passing increased costs associated with production on to the consumer. As a result, their operation is always between a rock and a hard place.

Within the last year, farmers have had a significant increase in the price of grain that they sell but when you consider the increase in production costs, net income doesn't change very much. When environmental conditions are such that production is high, then the supply and demand equation takes effect and market prices are low. When environmental conditions are not good and production is low, then grain prices are high but the problem with that is that there isn't much to sell.

Most farmers operate a business that barely hangs on from 1 year to the next and they exist in that manner year in and year out. And when he or she gets too old to farm and decides to pass the operation on to the next generation, then the next generation starts out by trying to dig their way out of a hole that was created when they inherited the farm.

Farmers are among the most creative and most productive entrepreneurs in the country. But farming is a never-ending battle, it's a battle that you can fight for a while but there comes a time when you do get tired of fighting.

I admit that today, I have barely etched a mark when it comes to identifying the challenges faced by agriculture producers in Kansas but you have already heard from others and you will hear more from those that follow.

In closing, let me say that your being here today as Representatives of the Agriculture Subcommittee attests to your good will and your good intentions and for that, I thank you.

BILL MILLER, PH.D.

Mr. ETHERIDGE. Thank you. Mr. Rome.

STATEMENT OF STEVE ROME, CROP FARMER; PRESIDENT, SOUTHWEST KANSAS CORN GROWERS ASSOCIATION; BOARD MEMBER, KANSAS CORN GROWERS ASSOCIATION, HUGOTON, KS

Mr. ROME. Mr. Chairman and Members of the Committee, my name is Steve Rome and I'm honored and humbled by the opportunity to testify before you this morning. I'm also a bit puzzled as to why I deserved whatever, whether this is an honor or punishment, for being in front of this group. But, nevertheless, I appreciate the time that you have all spent to come to Kansas and to hear the situations that we deal with.

I'm involved in an irrigated farming operation in southwest Kansas with two of my brothers and we're actually third generation citizens of the United States. So I've started out with saying that immigration is one of the issues that, I think, we have to somehow deal with. The labor force in western Kansas relies heavily on our neighbors to the west, not only Hispanic population, but the German Mennonites, and some type of a solution to allow those people to become citizens, I think, is important. I don't particularly, in my opinion, think a guest worker program is a solution. We need these folks for a year-round job. We do have jobs for them. They're hard workers. And so I challenge Congress to look for solutions there. That's a real need. We've had an ad in the paper for 2 weeks for two employees and we have not had an answer. It's not because we don't pay. We feel like we pay decent wages, benefits, paid vacation, so on, so forth. So that's one of the issues that, I think, we struggle with.

Our operation we took over from the folks in 1982 and it's grown about 10 fold in that time. And I've made the joke that we've figured out at least part of Sam Walton's business plan: We've learned how to sell more for less. We don't always know how to influence the people we buy products for on the inputs and we don't know how to pass along the costs that are part of our production and that's frustrating.

I was talking to a neighbor the other day that had some welding that was going on on some farm equipment a mile away from a machine shop and he had a $10 surcharge that he added onto his bill for a mile drive. No doubt that fuel charge is part of that business's expense and he needs a way to recoup that. We are no different. We have reduced our fuel usage in our operation tremendously through the use of no-till, strip-till, a lot of less tillage. We, in our part of the world, have served on lots of K-State committees as my bio says and I appreciate the purple. I didn't go to school there, but it's a soothing color.

We see as much variance from the western side of Kansas to the eastern side of Kansas as we do from the eastern side of Kansas to the East Coast. So there's a lot of variability in our state on rainfall and soil types and the challenges. When I looked at the letter that I received inviting me to the hearing, it said describe the challenges facing Kansas. And I thought about that a little bit and tried to figure out exactly what to say; and I decided that if you didn't live close to a town that was hit by a tornado that spread the entire town throughout all your fields, or you weren't in an area where all your wheat was frozen and it was smelling like sewage, or it was hailed out, or the fields were so wet that you couldn't get a planter across it, times are relatively good.

In our part of the world we had a little bit of moisture this winter. Some of it was in ice and it did a lot of damage to our trees. REA poles: we spent a lot of time without electricity this winter. Fortunately we're back up and running and so we've decided energy and the ability to flip on a light when you need it is important, although we've learned how to use candles and other things.

The thing that I struggle with when we look at this is most of the time when you read a farm magazine article it talks about the price of production or, excuse me, it talks about not being afraid to sell at a profit. That's an interesting statement for those of us who have spent many winters—which farmers supposedly aren't working during the winter—but spent many winters buying feed or trying to identify what is a profit and how do you identify that.

In our part of the world that's always a two part equation, and in most articles it's talked about as just being a price. The costs very seldom run into that. We're always, even though we see some pretty decent prices, and we see an opportunity for this year to be profitable.

I'm a little bit concerned about what the inputs are going to do and I would say that the people that are in the livestock industry would maybe not agree with me on how good of a benefit ethanol is. To us it's one of the bright spots of the economy and I hope our government continues to see the value of that into the future. It's a—we talked about cellulosic and I think Stevens County is one of the two counties that's in the final running for a cellulosic plant, but yet I have heard no presentations on economics of switch grass production. I've also not heard anything from NRCS as to how much they're going to scream when we remove all the residue that we've spent lots of years trying to accumulate on our soils. So there are some questions I have about that, but I think it makes lots of sense to continue that process.

Anyway, there's lots of stuff to cover today and I appreciate the opportunity to be here and look forward to any questions that you might have later on. Thank you.

[The prepared statement of Mr. Rome follows:]

Prepared Statement of Steve Rome, Crop Farmer; President, Southwest Kansas Corn Growers Association; Board Member, Kansas Corn Growers Association, Hugoton, KS

Mr. Chairman and Members of the Committee: My name is Steve Rome and I am honored by the opportunity to testify before you this morning. I am involved in an irrigated farming operation with my two brothers in southwest Kansas near Hugoton. We are third generation United States citizens. I think our family has an appreciation for the immigration situation which is very important to the economy of western Kansas. My grandfather immigrated to the United States from Germany through Russia in the late 1800's. My father had to learn English when he started school, and as Dad would tell us, if the nuns caught you speaking German, you would be reminded to speak English by a ruler on your knuckles.

When we took over the farm in 1982, we farmed about 1,200 acres. Today we farm approximately 12,000 acres with about 75% being irrigated by center pivots. Some would say this is a large business and I suppose it is, and I'm not sure if the risk is always worth the return. Nevertheless, this is a family farm. I hear so many people say we need to save the family farm but I never hear anyone say we need to save the family grocer, hardware store, pharmacy, lumber yard etc. We have figured out the "how to sell more for less" part of Sam Walton's business plan, but we are unable to figure out to exert the influence on our suppliers or pass on our increased cost to our customers. Without farm subsidies and an understanding lending institution our farm would probably not exist today and according to our insurance agent we have one of the highest APHs of all of his customers. Most of the writers whose articles I read in farm publications always talk about not being afraid to sell at a profit. I wonder how they possibly know what that is when they very seldom discuss the cost of production in the articles only the price of the commodity. Last year, I would have bet right up until we put the combine in the field that we had an average to above average crop. I was fooled along with our crop consultant, county agent and the rest of the industries that try to guess how good of a job of production we did for the year. Our yields were off 20% which nobody anticipated. Success or profit is always a two part equation "*price* × *yield*". Unfortunately this type of loss usually puts us at a level with crop insurance where all we lose is the profit! I keep telling my brothers we need to put a sign along the highway that reads **"We are giving you the opportunity to second guess us at least 1 more year."**

We use crop insurance to help manage our risk and give us the opportunity to pre-market our planned production. With crops like wheat that we have not been able to maintain yields on, the insurance program becomes less effective in risk management. This is because we have suffered several years with below average yields caused by drought, diseases and freeze damage. It would seem that crop insurance could be designed to insure anticipated revenue, and not have coverage to cover less and cost more when we have a crop loss.

I serve on the Kansas Corn Growers Board and have heard Ken McCauley explain NCGA's plan for some type of a revenue plan that would limit or do away with direct payments and create something that would be a safety net when yield or prices were low. I have not studied this enough to have an opinion whether this is a good solution. We do think the programs could be made simpler and easier to explain to an out of state landowner. Surely there is a better word than counter cyclical. We have a landowner that was a college professor and then a consulting geologist. He is a very intelligent and detailed person but he drives the poor ladies in our local FSA office insane trying to figure out how his payments were determined and if they are correct.

Agriculture is the life blood of western Kansas. Our farm is located on top of two finite and depleting resources, the Ogallala Aquifer and the Hugoton Natural Gas Field. The recent increase in grain prices has farmers apprehensively excited about the future of our industry. We have not even completed one growing season with the increased grain prices we have seen from the growth in the ethanol industry and we are already concerned about what the higher prices will do to our long time customers in the livestock industry.

I have served on several committees to discuss how to maintain the water supply that has made our economy what it is. We killed lots of trees creating reports but have done little to stop the decline. Most farmers have implemented practices (strip till, no-till, raising cotton, center pivots) to make their business more efficient and hopefully save water, but the reality in my mind is that it is no different than the natural gas industry. They are both finite resources but one we are attempting to remove as rapidly and completely as possible but with water our goal is to maintain the resource infinitely. For those of us who are investing in production agriculture, it almost seems to be a hypocrisy. It is difficult to make long term investments with this uncertainty and it varies from state to state which also makes it difficult to attract new industry to our area when they see the differences in water law. I have told the people on the committees that it is my goal to run out of water the day before the second coming of Christ. Even though I say that with tongue in cheek, I believe anything beyond drinking water should be treated as a resource not unlike natural gas, oil etc. I serve on our county economic development board and we think Stevens County is one of the final two choices for a cellulosic ethanol plant but I have not heard one presentation on the economics of switch grass production. I also have not heard from NRCS on what concerns they might have about the removal of the entire above ground residue as it would apply to conservation plans.

The letter I received inviting me to testify asked about the challenges facing Kansas farmers. If you are a grain producer and don't happen to live close to one of the communities that was hit with a tornado that spread the town through out your fields, or your wheat was not frozen earlier this spring, or your fields are not so wet that you can't get a planter across them, then this a better year compared to the last several. We have had a little moisture and the grain prices look decent. If you are a livestock producer and had to put up with all the snow and ice this winter and are now looking at record high grain prices you might not think times look so good.

In closing I would like to say that with current economics, most farmers have less concern about a subsidy program than they have in the last few years. The main concern most of us have is with the investment it takes to run a farming operation, changes in policy can have a devastating effect on the profitability our industry. Most of us would be more than happy to get our profit from the marketplace but with the risk of inputs, rent, and land costs increasing, most of us are still skeptical that can be done. I would like to have some of the magazine and newspaper writers tells us exactly what it is to compete in a fair world market. I'm not sure that exists.

I have heard many K-State economists say "on *average* we drive the profits on most businesses to zero." It appears it will continue to be more difficult to be above average in the future. I still remember the comment our banker made when we brought in one of our first farm payment checks. He said "**I see you received your welfare check.**" I said I thought we worked way too hard for this to be called welfare. It appeared to me those payments were as much of a benefit to his business as they were to mine. I read many articles in the newspapers that make me think the non-farming just consider this a form of welfare. We think the subsidy program should not be based on what a person's income is, but should be a tool to help make sure we have a viable food production system in this country.

In my opinion, we as a country cannot afford to have a national policy that relies on other countries for our food or energy supplies.

In reflecting back on the past 25 years, I sometimes wonder if we would have made the same decision to get involved in this business. We are against payment limitations. It sometimes appears my brothers and I are being penalized by trying to run an efficient operation. By running our business as a partnership, we can spread the cost of expensive equipment over more acres. But we would not make the list of operations that receive a large amount of government payments if we each had our own operation. I am not sure it is wise or good business to have part of the farm program that helps "beginning farmers" get into a business that is so capital intensive and has such huge risks involved with it. With most of our retirement tied up in the value of land, and the State of Kansas having so much influence on that value with where they try to take water law, it makes for many sleepless nights.

I thank you for the opportunity to address you today.

Mr. ETHERIDGE. Mr. Starck.

STATEMENT OF BRIAN STARCK, CORN, SOYBEAN, AND WHEAT FARMER; SWINE PRODUCER, FAIRBURY, NE; ON BEHALF OF JEFFERSON COUNTY, NEBRASKA FARM BUREAU

Mr. STARCK. Good morning. My name is Brian Starck, a farmer in Jefferson County in the southeast part of Nebraska. My family and I own and operate a corn, soybean and wheat farm which includes a 100 sow farrow to finish swine operation.

Mr. Chairman and Members of the Committee, I want to thank you for holding this field hearing on the 2007 Farm Bill and for taking time to listen to those who have the most at stake in this debate—our nation's farmers and ranchers.

The landscape that my family farm faces has changed considerably since the enactment of the 2002 Farm Bill. Unpredictable weather conditions, market opportunities involving the development of the ethanol industry, uncertainties involved with international trade and significantly higher input costs are creating many challenges for my operation.

While we are experiencing some great opportunities in the corn and soybean market at the present time, now is no time to abandon the basics of the safety net created in the 2002 Farm Bill. What should be done in the 2007 Farm Bill is to make some modifications to the existing safety net to help farmers like me deal with the growing risks inherent to agriculture.

We in agriculture are unique in many ways. We are very vulnerable to weather related crop disasters each and every year, which constantly puts my production levels at risk. In 2001 we experienced dryland corn yields of 10 to 30 bushels per acre, and again in 2003 we experienced similar yields.

We are price takers when we sell our commodities. To develop a farm policy on the notion that crop prices will remain high for a long time would be a mistake. Farm commodity markets are no different than other markets in that they will cycle and there will be both good and bad years to come. We have to keep a safety net in place to deal with the risk of lower prices.

When it comes to the input side, I am also a price taker. When I purchase fertilizer, fuel and other inputs vital to my operation, some of these costs have almost doubled in the last 3 to 4 years which makes my operation even more vulnerable to production and price risks that I face.

Therefore, I support a safety net structure that incorporates direct payments, counter-cyclical support and LDP's; however, I believe that consideration should be given to modify the counter-cyclical program to have payments triggered by a shortfall in crop revenue rather than a trigger based solely on price.

I have faced a couple years of drought during the last 5 years and it seemed that the years I needed the most assistance from a safety net, I received the least help from current safety net structure because you had to grow the crop in order to receive assistance. In those dry years the direct payments were very beneficial because they provided some cash assistance at a time when there was a short crop to sell.

I also believe that crop insurance continues to play a larger and larger role in providing a safety net for my individual risk in agriculture. I usually participate in a 70 to 75 percent level of CRC coverage policy, and though I hope to never receive the guarantee, I know it is there to recoup most inputs at a near break-even level.

It is my opinion that future farm policy should strive for more improvement in our current crop insurance program while taking the uncertainties out of annual disaster bills that seem to come up every year in Congress.

As a farmer from a state that relies on a great deal of farm exports, I think it is imperative that the next farm bill be compliant with current WTO rules. WTO violations could have a huge negative impact on many sectors in agriculture—particularly the livestock industry. By the same token, the 2007 Farm Bill should not be written to comply with what someone assumes will be the outcome of the current WTO negotiations taking place.

Many producers in Jefferson County are participants in the Conservation Security Program. I support the CSP program and I think we should look for ways for more funding to provide room for steady and efficient expansion of the program. The CRP program has, in some cases, turned out to have some negative economic factors in rural counties. The rent paid on CRP acres used to stay in the local economy, but with the rise in outdoor enthusiasm some urban landowners have purchased land for hunting and the majority of the rent paid is being exported to Lincoln, Omaha or Kansas

City, and only the property tax money is staying in our local economy.

In terms of bio-fuel development, I believe it is imperative that Congress prioritize research on modifications of dried distiller grains and other byproducts to expand their use, especially in non-ruminant animals. Projections are by the end of 2009 we will process the equivalent of 65 percent of total production of corn in Nebraska to ethanol and we will increase the production of DDG's threefold.

In order to take advantage of this exciting phenomenon in Nebraska of corn to ethanol to DDG's to livestock, we must have the research to improve ways distiller grains can be used for cow/calf operations, non-ruminant animals, and to enhance the consistency of the DDG's to increase their levels in cattle rations.

Finally, one last issue is the 1031 tax-free exchanges. This has forced land values in my area to a point where I and other young producers are unable to compete in purchasing land for further expansion without seriously diving into debt with little chance of success in servicing that debt.

Mr. Chairman and Members of the Committee, thank you for the opportunity to share our thoughts with you and I look forward to any questions you may have.

[The prepared statement of Mr. Starck follows:]

PREPARED STATEMENT OF BRIAN STARCK, CORN, SOYBEAN, AND WHEAT FARMER; SWINE PRODUCER, FAIRBURY, NE; ON BEHALF OF JEFFERSON COUNTY, NEBRASKA FARM BUREAU

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While we are experiencing some great opportunities in the corn and soybean markets at the present time, now is no time to abandon the basics of the safety net created in the 2002 Farm Bill. What should be done in the 2007 Farm Bill is to make some modifications to the existing safety net to help farmers like me deal with the growing risks inherent to agriculture.

We in agriculture are unique in many ways. We are very vulnerable to weather-related crop disasters each and every year which constantly puts my production levels at risk. In 2001 we experienced dryland corn yield of 10 to 30 bu/acre and again in 2003 we experienced similar yields.

We are price takers when we sell our commodities. To develop a farm policy on the notion that crop prices will remain high for a long-time would be a mistake. Farm commodity markets are no different than other markets in that they will cycle and there will be both good and bad years to come. We have to keep a safety net in place to deal with the risk of lower prices.

When it comes to the input side, I am also a price taker when I purchase fertilizer, fuel and other inputs vital to my operation. Some of these costs have almost doubled in the last 3 or 4 years which makes my operation even more vulnerable to production and price risks I face.

Therefore, I support a safety net structure that incorporates direct payments, counter-cyclical support and loan deficiency payments. However, I believe that consideration should be given to modify the counter-cyclical program to have payments triggered by a shortfall in crop revenue rather than a trigger based solely on price.

I have faced a couple years of drought during the last 5 years and it seemed that the years that I needed the most assistance from a safety net, I received the least help from current safety net structure because you had to grow the crop in order to receive assistance. In those dry years, the direct payments were very beneficial because they provided some cash assistance at a time when there was a short crop to sell.

I also believe that crop insurance continues to play a larger and larger role in providing a safety net for my individual risk in agriculture. I usually participate in a 70% or 75% level Crop Revenue Coverage policy and though I hope to never use the guarantee I know it is there to recoup most inputs at a near break-even level.

It is my opinion that future farm policy should strive for more improvements in our current crop insurance programs while taking the uncertainties out of annual disaster bills that seem to come up every year in Congress.

As a farmer from a state that relies a great deal on farm exports, I think it is imperative that the next farm bill be compliant with current WTO rules. WTO violations could have huge, negative impacts on many sectors in agriculture—particularly the livestock industry. By the same token, the 2007 Farm Bill should not be written to comply with what someone assumes will be the "outcome" of the current WTO negotiations taking place.

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In terms of biofuel development, I believe it is imperative that Congress prioritize research on modifications of Dried Distiller Grains (DDGs) and other byproducts to expand their use, especially in non-ruminant animals. Projections are by the end of 2009, we will process the equivalent of 65 percent of total production of corn in Nebraska to ethanol and we will increase the production of DDGs threefold.

In order to take advantage of this exciting phenomenon in Nebraska of corn to ethanol to DDGs to livestock, we must have more research to improve ways distiller grains can be used for cow/calf operations, non-ruminant animals, and to enhance the consistency of the DDGs to increase their levels in cattle rations.

Finally, I like to mention some of the conditions that I have had to face because of the unintended consequences of the current and past farm bill and how that impacts the next generation of farmers. Clearly, government support has had an impact on land costs and cash rents which is often cited as a factor limiting opportunities for young farmers entering agriculture. It is my opinion that the payment limitation is too high and the big farmer that hits the limitation just starts another entity and then can go and offer in some cases $20 to $30 an acre more in cash rent than I or another small younger producer can compete with.

Another policy issue affecting land values and cash rents relates to the 1031 taxfree exchanges. This has forced land values to the point were I and other young producers are unable to compete in purchasing land for further expansion without seriously diving into debt with little chance of success in servicing that debt.

Mr. Chairman and Members of the Committee, thank you for the opportunity to share our thoughts with you and I look forward to any questions you may have.

Mr. ETHERIDGE. Thank you. Let me thank each of the witnesses and now we'll recognize each Member of Congress for 5 minutes of questioning. And I will begin by yielding myself 5 minutes.

Mr. Dumler, I want to follow-up on your comments regarding higher crop prices and beef cattle prices. The topic of food *versus* fuel has been an underlying theme as we have moved forward toward this next farm bill. We've heard it here, but we also heard it in other places and many of the witnesses today have touched on the grain and livestock issues and many of you in this audience today probably have both.

So my question is this: Can you give us a snapshot of producers here in Kansas? How common is it for a farmer here to have large grain and cattle production together? And for those producing both, is the rise in crop prices helping them make up for the increased cost in their livestock production?

Mr. DUMLER. I'd say a very high portion of Kansas producers have both grain and livestock in their operations.

For example, the increase in production costs has had an impact on livestock producers in 2006 already. When you look at net farm income from our Farm Management Association, it was down in 2006 from 2005 and most of that was from livestock producers. Cash grain producers actually had—were either equal or had higher net farm income in 2006. So it does have an impact and it's impacting livestock producers right now as far as the increase in grain prices.

Mr. ETHERIDGE. So you're saying if you have both, though, you don't pick it up in the cattle production because the actual cost of the grain inputs are going to negate——

Mr. DUMLER. Potentially, yes.

Mr. ETHERIDGE. Your testimony mentioned one problem that we've been hearing about; that is the high cost of land values.

Mr. DUMLER. Yes.

Mr. ETHERIDGE. As you stated, farm program payments are often cited as one of those sources of rising land values. I have two questions on that because we've sort of got a three-legged stool that we talk about in the farm bill: A direct payment, marketing loan programs and counter-cyclical payments. Which of these has the greatest risk of seeing its benefit captured in the land values? And Second, before you answer that, let me give you a hypothetical: If this Subcommittee had additional resources to put in place which we don't right now, but if we did, if we did put it in the programs and we wanted to make sure that these dollars got to the farmer rather than to the landowner, which are separate in some cases, which program would be the best one to add those additional resources to.

Mr. DUMLER. I would argue first that all three programs—direct payments, counter-cyclical payment and marketing loan will get capitalized into land values. The direct payments will be capitalized probably faster. It's more transparent certainly. If the landowner is cash renting land, they may just increase the amount of the cash rent that they're asking by that much that the farmer's receiving.

Mr. ETHERIDGE. So your basic premise is that government payments add to the cost of land values.

Mr. DUMLER. Yes. But certainly the counter-cyclical payment and the marketing loan payment will get capitalized as well because again the cash rents and, in turn, land values are a function of income that you can earn off that land and each one of those programs increases that income. So they all will get capitalized into land values.

Mr. ETHERIDGE. Or in rent values.

Mr. DUMLER. In rent values, yes.

Mr. ETHERIDGE. Either or.

Mr. DUMLER. Yes, sir.

Mr. ETHERIDGE. Thank you. Mr. Moran, 5 minutes.

Mr. MORAN. Chairman, thank you very much. One of the disadvantages of no longer being Chairman, and there are many, is that I'm now held to this 5 minute time limit.

Mr. ETHERIDGE. But I didn't take all mine, Jerry.

Mr. MORAN. Thank you very much. Let me first acknowledge a number of folks in the audience that need to be recognized. Not only do we have the dean of K-State School of Agriculture, Fred Cholick here, but we have our host, the dean, Dean Kuhlman of K-State Salina. And so we appreciate very much the hospitality you've extended to us.

For my colleagues from out of state, we're on the K-State Salina campus. K-State is in Manhattan, but this school here is generally devoted toward aviation. We have a very strong school of agriculture at Kansas State University.

We also have with us Bill Fuller, who is the State Director of FSA. In the row behind him is Harold Klege who is the State Conservationist at NRCS and Adrian Polansky, our State Secretary of Agriculture, is also present. Plus, two of our leaders in the Kansas Legislature, Mark Taddiken, the state Senator who chairs the Senate Agriculture Committee and John Faber, who chairs the House Agriculture Committee. So we are surrounded by dignitaries. I tell you that mostly so that you can take your complaints to those folks.

And then let me just speak briefly before I ask a couple questions. One, I think that folks need to know what a difficult circumstance this Subcommittee faces in regard to the new farm bill. I think it would be very difficult to draft a farm bill that provides the safety net that the current farm bill provides. The baseline budget that the House passed and Senate passed budget allow the House Agriculture and Senate Agriculture Committees to use in developing the farm bill, if you take the commodity title that we're responsible for on this Subcommittee, it's 43 percent less money than the 2002 Farm Bill. So when my Kansas constituents come to me and ask for a greater direct payment, higher loan rates, the reality is that we are asked to draft a farm bill, the commodity title, with nearly half the amount of money that was available in 2002.

Now the budget provides a $20 billion reserve fund which perhaps is something that we're going to be able to utilize, but I remain very skeptical. Currently it's required that we either raise taxes or cut other spending to take money out of that reserve fund. So in many ways it looks like we're able to do more than, I think, ultimately we'll be able to do.

And in particular, the direct payment is under attack in Washington. The Senate Chairman of the Agriculture Committee has indicated that he very much wants the direct payment to be used to fund CSP. In the House our Chairman has indicated that this is an opportunity for us to fund a permanent disaster program: to take money out of the direct payment and use it for permanent disaster and to rebalance loan rates.

And so one of the topics that I would like to understand from the hearing today is how important the direct payment is as a component of this three-legged safety net that we created in the 2002 Farm Bill.

And so let me ask particularly, Mr. Starck, in this case, you talked about those three payments and you had some pretty specific reasons why that direct payment was important to you as it would be to Kansas farmers.

Mr. STARCK. For myself the direct payment is very beneficial in getting a start on the next year for your yearly inputs. You know, the counter-cyclical, you don't know what it's going to be. It's nothing you can bank on. The direct payment, though, is very beneficial. The LDP, the problem with the LDP, as I stated, is you need to have the crop in order to collect that. If you don't produce anything, the LDP does you no good if there's an LDP there. But, yes, the direct payment to me is very beneficial.

Mr. MORAN. Professor Dumler, the direct payment and its WTO implications as compared to loan payments, anything that you would care to—what payments are least market distorted.

Mr. DUMLER. Direct payment is the least market distorting, as you well know. And we thought this was a WTO green box program meaning it has minimal market distortion, whereas, the counter-cyclical program and the commodity loan program each are amber box programs meaning that they have significant market distortion. So from the aspect of trade distortion, the direct payment has the minimum amount of those three.

Mr. MORAN. I appreciate the way Mr. Starck phrased it which is we ought not try to figure out how to comply with negotiations that are ongoing, but it is important for the next farm bill, as best we know how, to comply with WTO as it is today. I never thought we should extend the current farm bill while we figured out what WTO was going to do and turn our farm programs over to 140 negotiators in Geneva, but we do not want the uncertainty that comes with a commodity program that's subject to attack, constant attack at WTO.

And using the Chairman's extra time, Mr. Rome, you, I think, mentioned in your testimony, but I don't think you said this vocally, payment limitations. It caught my attention because, as I understand it, there are three brothers farming in your farming operation. Payment limitations is a significant topic of conversation in Washington. Trying to figure out how do we best direct the amount of money that we can that increases the likelihood that farmers survive and that there's rural development, and communities are alive and well. How would a change in payment limitations affect your farming operation?

Mr. ROME. We've had to structure our operation differently as we've grown and it appears to be a deterrent for growth in that industry or in this industry. And so, I guess, and I mention in the final pages of my written testimony that the first farm check I brought in to our banker when we first started, they referred to it as a welfare check. And I told him that I thought we worked way too hard for this to be called welfare, even though I knew him well and he was kidding and so forth.

But the reality is that the cost of production is important to a large farm, as well as a small farm, and the large farm just like the way we talk about family farms and I mention in there, we're saving the family farm. We don't talk about family pharmacist, the family druggist, the family grocer, so on, so forth.

And the reality is that to be efficient you have to cover more territory and the equipment to do it is expensive. So our business is a lot more efficient with the three of us tied together, but without structuring our business and subjecting ourselves to—don't remember the group that posts our numbers on the Internet as for the amount we—the environmental working group. You can be clever on how you structure things and hide that, but the reality is that just because you're larger doesn't necessarily mean those costs of production are any less. So it shouldn't be a welfare payment in my opinion. It should be something that ensures that we have an economy, an ag business that ensures food and potentially energy now with ethanol for a long time and we're not relying on other countries for that. So I think it's something that our farm businesses are growing.

Mr. MORAN. Thank you very much.

Mr. ETHERIDGE. Thank you. Mrs. Boyda.

Mrs. BOYDA. Thank you, Mr. Chairman. One of the difficulties that I have to deal with is I have to go after Jerry Moran too often. It's just difficult, Jerry. You don't make it easy on me.

My question was pretty much the same, I think, as we've all been trying to get at too. There are three payments that are trying to be balanced and clearly we know that there's going to be less money in the pot right now because it's an equation that was set up. This is not an intentional thing that Congress is doing. It's just the way the formula is working right now.

So among those three and, I think, what you were trying to do, Mr. Chairman, was to say if we had more money how would you spend it.

So if I could go at the same question that, I think, each one of us is going at, and I would ask each one of you: Are we saying direct payments? How do those three work and if you were writing the farm bill, Mr. Dumler, how would you balance those three? How would you do that?

Mr. DUMLER. As an economist we like the idea of less market distortion. So from that standpoint the direct payment is favored.

Mrs. BOYDA. And who's going to get hurt by that? If we did it that way, who in Kansas will be hurt by that.

Mr. DUMLER. If we went to more direct payments.

Mrs. BOYDA. Yes. If we balance those three a little bit, but then we used more direct payments, who is going to get hurt by that? The corn growers, the soybean producers? Wheat? I know wheat—God bless the wheat growers. They understand democracy, the context for it.

Mr. DUMLER. If we think prices are going to remain high over the next few years, which the likelihood is they are, it's no guarantee that they will, but they are, then no groups are really going to get hurt that much if we maintain or enhance the direct payments. Nationwide probably like cotton, for example, would be the group that would get hurt most if we move money from other programs to specifically the direct payments.

Mrs. BOYDA. And as we all know, the Agriculture Committee tends not to be so bipartisan, but it does tend to be very regional.

Mr. DUMLER. Right. But I don't see groups here in Kansas, one commodity *versus* the other being hurt that much by potentially changing some of those programs around.

Mrs. BOYDA. Dr. Miller, I had asked a couple of cattle producers, I know we're talking—this is the commodity chair, but the fact is we have one hearing. We're not going to have another hearing. And certainly talking about cattle production and livestock production I just—we wanted to make sure that those issues were being heard as well.

So could you talk to me, Dr. Miller, about just how you market your livestock and do you think you have access to markets? You know what we were talking about.

Mr. Starck used the words price takers or price taker on both ends of the deal; you take whatever price is out there. How do you feel about competition, your access to markets?

Dr. MILLER. Where we live we don't have a problem with access to markets because we're within 10 or 15 minutes of two or three auction houses.

Mrs. BOYDA. So you feel you can get a pretty good price for your cattle on a given day. It's a competitive marketplace that's running.

Dr. MILLER. It's a competitive marketplace and it seems to depend on which day you take them there, you know. And I guess it does, you know, what are they looking for, who's there and what are they looking for today. And you don't know that until you get there and you're sitting there and they start bidding and then you know what they're looking for today.

But in the last, I would say, year or year and a half, cattle prices have been very good; extremely good. And like it was alluded to earlier about the ethanol thing and livestock feed. They kind of clash. And we do feel that a lot now when we call the co-op and tell them to come out and fill the wheat feeders. It's not like it used to be at all. And it's due to the ethanol plant down at Garnett. So if we can get rid of it we'll——

Mrs. BOYDA. The press didn't hear that. Thank you very much. I'm going to take a little bit more of the Chairman's time, too, that Jerry didn't take or maybe Jerry did. But from your standpoint what's the one thing that we can do to help the young farmers? If we could write one piece into the farm bill what would that be?

Mr. STARCK. Give them a farm. That is the toughest thing is in order to be—I'm 35 and I started when I was a freshman in high school with 80 acres and my dad helped me get it set up.

Mrs. BOYDA. Good for you.

Mr. STARCK. And I think in today's climate, I have a six-year-old and it's going to be tougher to get him into it than it was for my dad, I think. But one piece that would be a loan towards young producers, and how you define a young producer I don't know. I'd like to consider myself young, but I've been doing this for 17 years too so——

Mrs. BOYDA. You're young.

Mr. STARCK. Thank you. But a loan that would encourage a retiree to sell that property at a reduced rate to a young producer and have tax benefits for that retiree to not have to take the ultimate top price of the market.

Granted that's not fair to the guy that can be competitive and bid the higher price, but to have that advantage for the young guy, he's going to need that or else we're all going to be pushing 40, 50, 60 and there's no one at 20 going to be coming back to take over.

Mrs. BOYDA. In the last 3 years I haven't met a farmer yet who doesn't tear up when talking about the next generation. True story, not one. Thank you.

Mr. ETHERIDGE. Thank you. All right. The gentleman from Iowa, Mr. King.

Mr. KING. Thank you, Mr. Chairman. I just do want to say that, Mr. Starck, you're going to be delighted at how great you feel when you're jumping out of bed when you're pushing 60.

But in your testimony all of you impart so many questions and I appreciate all of it, all of us do.

I'd like to turn first to Mr. Dumler and your discussion about all the farm program payments being capitalized and land prices, and I don't know if it was intentional, you said prices instead of values. But I notice as I look through your testimony I didn't pick out any chart in there that showed what had been the price of land value prices from 2002 through 2006 as your comparison for the income portion of this. Can you give us some sense of what that trend has been producer to producer sales rather than producer to hunter sales or city investment sales?

Mr. DUMLER. I mean, land values, in general, have been trending up. And the tough thing is to distinguish between land values going up because of agricultural reasons and land values going up because of essentially non-ag influences in land values.

Mr. KING. And that's why I said producer to producer.

Mr. DUMLER. Right. They've still been going up because of land—agricultural uses. And there's a recent survey from 2006–2007 from the Federal Reserve Bank in Kansas City that said for Kansas, anyway, dryland land values went up 7½ percent and irrigated land values went up over 10 percent. So we've seen, from the ethanol and bio-fuels effect, quite an increase in land values. So that's having quite an impact right now. Generally they have been going up over time.

Mr. KING. I appreciate that. And just ask this question, it's really not quite hypothetical: You said, though, as an economist we like the idea of less market distortion. So I went to what would be no market distortion. That would be the baseline that one would measure everything off of then, wouldn't it. And so I had this sadistic thought of what if, in 1985, we had let our program sunset. We would have zero market distortion for a period of perhaps a generation. What would land values be or what would land prices be today? Could we function here? What kind of crops would be out here on this land we're seeing today? Do you have a sense of what has been the effect over the last 22 years of farm programs?

Mr. DUMLER. There was a study by my colleagues at Kansas State that was updated in 2006 that they estimated land values in Kansas would drop by about 30 percent if government payments were removed. Now today, because of basically bio-fuels and higher grain prices, we know that that impact would not be that steep. It would be significantly less than that if we expected prices to remain high long term. So certainly it has helped enhance those values or, if you want to look at it from a equity standpoint, keep that.

Mr. KING. What about producer income. Would it be the same or would it have dropped 30 percent proportionally? Has it all been capitalized into land values?

Mr. DUMLER. That's the big debate among economists: what percentage of those are capitalized into land values. Some would say that it's closer to about 50 percent. Others argue it's closer to a hundred percent. I would argue it's probably closer to a hundred percent than 50 percent. But income certainly would drop. I did a study looking at, okay, if payments were removed and the land values fell by that 30 percent, what would happen to profitability. Basically rate—rate of return on assets and return on assets would drop as well.

Mr. KING. And at this time could I ask you to submit that study into the record.

Mr. DUMLER. Sure.

[The information appears following the prepared statement of Mr. Dumler:]

Mr. KING. I'm very interested they even asked that question; appreciate that. I'd like to quickly, if I could, turn to Dr. Miller. And you mentioned fertilizer costs. And we've got something like 406 trillion cubic feet of natural gas offshore the United States we can't drill because of environmentalist barriers. We've got enough natural gas underneath public lands in the United States, non-national park public lands, to heat every home in America for the next 150 years we can't drill. Or if we can, we can't get the access to it.

What would be your recommendation on the fertilizer costs recognizing that 90 percent of the input cost on nitrogen fertilizer, at least, is out of that natural gas? What would be your advice to the environmentalist community that might be in charge of some gavels in Washington D.C.?

Dr. MILLER. The people that are standing there saying that you can't bring the drills out here if we don't want the hole in the ground, those people.

Mr. KING. That's a right hand question.

Dr. MILLER. For myself I have to keep the holes out of the ground also, but, I guess, we're in a predicament now where we can't have everything. We've got to put the holes in the ground. And you have to do it, I guess, in a responsible way. We don't want to dig up everything, I don't suppose. But I think we have to start exploring our own resources. We can't put the whole country into the atmosphere of being a park. I think we have to start using what we have, but use it responsibly. I don't think we can have 150 years of energy under our feet without using some of it.

Mr. KING. Thank you, Dr. Miller. I just want to very quickly ask Mr. Rome because I'm dying to ask this question and it's a very short answer.

Mr. ETHERIDGE. Please be quick.

Mr. KING. Was the nun's use of the ruler to teach English an effective method?

Mr. ROME. I think so.

Mr. KING. All right. Thank you.

Mr. ETHERIDGE. Mr. Smith, 5 minutes.

Mr. SMITH. Thank you. We've heard about land values, 1031 exchange, certainly implies a discussion of capital gains taxes. Mr. Dumler, realizing that in the context of the farm bill we do need some revenue to pay for many of the safety nets not just in agriculture, but otherwise, would there be a down side to repealing the capital gains tax?

Mr. DUMLER. It would certainly encourage additional investment perhaps. To be honest I haven't thought about that significantly to put a whole—I don't see a huge down side right now besides revenue.

Mr. SMITH. You're saying it would result in a decrease in revenue.

Mr. DUMLER. From your perspective perhaps, yes. But keeping in mind also that people have a tendency to adjust how they manage their assets, whether they sell more assets or exchange those assets if that tax is there or not in place, it may or may not. I mean, I haven't looked at it enough to give you a solid answer on that, but I wouldn't expect certainly the amount of revenue, if it would drop, to drop in the amounts of the capital gains that's taxed.

Mr. SMITH. Okay. Thank you. Dr. Miller, you are a cattle producer for which I'm grateful. We've heard about energy issues and talked a little bit about the environmental activism. I was reading in *TIME* magazine the other day that the writer suggested that eating a T-bone steak or any beef product, I will surmise, is as egregious to the environment as driving a Hummer. And, I mean, I come from a very cattle heavy district and certainly have observed a lot of the obstacles to efficient cattle production and effective cattle production.

What would be the single best thing to do in terms of a regulatory manner that would make your job easier and more effective?

Dr. MILLER. That is a toughie. I don't know the answer to your question. I can't answer that one.

Mr. SMITH. That's fine. When we look at revenue-based approaches perhaps, Mr. Rome and Mr. Starck, what would you see in terms of payment limitations, what would be the right amount? And that might be a tough question too. Payment limitation: Would you support payment limitations, and if so, at what level?

Mr. ROME. That's the nice thing about having Mr. Dumler to do all the studies and to look at that and that's where K-State and the economists fit into it. I think you would have to analyze that situation. You know, there probably is some limit somewhere, but again you have to evaluate it on what the business environment is that we're looking at. So it's sure not—it's something that scares us when we hear the term anyway with the amount of capital that it consumes to run our business is when we see our first combine at $80,000 now be worth over a quarter million without a corn head. So right now with the current commodity prices due to ethanol and the bio-fuels and the other things that are going on, those things aren't as big a concern and it doesn't look like it will be in the future.

But, I guess, we believe in cycles and taking that away, if we're going to maintain the size of operations we need to produce the food for this country, I'm reluctant to put a number out there without having some good justification as to why that number fits there. So I'm sorry, I can't give you an answer.

Mr. SMITH. Okay. But Secretary Johansen has put out the $200,000 number, adjusted gross income.

Mr. ROME. There are so many loopholes that the devil's always in the details. That's been the thing that when we had the 2002 Farm Bill everybody thought that was going to be great until you put things in the application and that's the way most things are, it seems like, is you find out the details that don't work and where the loopholes are. So are there enough loopholes to work around some of that? Can you create enough entities? You know, sometimes it really almost feels fraudulent when we talk about the subsidy program and that's probably the most frustrating thing being in this seat. I don't know that any of us that wouldn't love to receive every bit of our income from the market like, it appears, we get for the next few years. But that hasn't been the case for the 25 years we've been here. So that's again a concern when you put a limit on something when you don't have a better crystal ball than what we do.

Dr. MILLER. If I may, back to your question, the question that you asked me was which government regulation most affects the operation. It wouldn't affect an operation like the one that we have. All of our cattle are on range. But I would imagine that that changes drastically when you get to like out here in western Kansas particularly where you have a lot of feedlot operations. Government regulations regulating how they manage those feedlots, the waste produced at those feedlots, that gets to be quite a problem when you have cattle in confinement.

Mr. ETHERIDGE. Thank you. Let me thank each of our witnesses for your testimony and your time this morning. And we now will ask the second panel, if they will, to come forward.

(Off the record.)

Mr. ETHERIDGE. Let me thank each of you for being here. And, Mr. Pracht, from Kansas, thank you.

Mr. Childs from Kansas. We're really trying to save time. Mr. Parker also from Moran, Kansas. Mr. Mark Meisinger from Kansas. Thank each of you for coming. Your full statement will be included in the record. And we'll start with you, Mr. Pracht, 5 minutes.

STATEMENT OF JOHN C. PRACHT, CORN, WHEAT, AND SOYBEAN FARMER/RANCHER, WESTPHALIA, KS

Mr. PRACHT. Thank you very much. I am honored to be here and I appreciate all the Representatives for coming down here and listening to us complain. As Mr. Moran said, we have hardly any money to work with so with what I'm going to say today, hopefully I'll get half of what I'm asking for.

My name is John Pracht and I farm in Anderson County.

My wife, Reva, and I have three boys. I raise corn, wheat, soybeans and cattle. I farm with my two brothers, Bill and Dave. My family has been involved with agriculture for many generations. We are a true family farming operation.

The challenges in agriculture are many. The high cost of fertilizer, fuel, machinery, property tax, health care and mother nature's lack of cooperation are just a few of the many items that I, as a Kansas farmer, deal with from day to day. Take, for example, liquid fertilizer last fall was selling for $160 per ton. This spring the price increased roughly 60 percent to $260 per ton. As everyone knows, fuel cost has followed the same path. The inputs that producers use to raise their crops have risen dramatically. These inputs are what producers have to have and cannot do without, nor skimp on. These inputs dramatically affect our end profit margin, which is becoming less every year.

As for my family and I, we are fortunate enough to have health care for now. There are many producers that cannot afford it. My neighbor is around 60 years of age. He and his wife pay around $1,200 a month for their health care premium. I'm paying about half that. I do not know how we will be able to afford health care in the future. Every year my health care premium increases. This problem has to be dealt with or it will be even a bigger problem in the future.

Property tax, machinery and machinery repair costs also rise every year. It is extremely hard for a middle sized farm operation to operate with the prices the way they are. For example, a new combine lists around $300,000. It makes me sad to think that I'm getting roughly the same price for my grain as my father did many years ago and his fuel, fertilizer, machinery prices were nothing like we have today. Hopefully with the help of ethanol and bio-diesel plants the price for grain will increase and stay increased. I think that if the farmer has higher grain prices that we will be less dependent upon government help. But higher prices are not the only piece of the puzzle.

A safety net must be in place in the farm bill for disasters like droughts and floods. The new farm bill should raise the LDP price to higher levels than they are now. More money should be spent for disaster relief in the years we have crop failures. I know a lot of talk is to do away with the direct payment program, but for me it's nice to know that some steady income is coming in. The money spent in the conservation program is money well spent, but I believe the program needs more money to carry on to benefit farmers as the program is intended. I do not think payment limitations should be in place for farmers who have higher incomes, if all their income comes from agriculture. Investors with other sources of income that own farms or ranches should not receive government payments. Ranchers with livestock should be included in the farm bill also. There is not a price protection for livestock owners like the LDP payment for the grain farmer. Emergency haying and grazing on CRP or buffer strips need to be released for haying in a much quicker time frame. When a drought occurs, livestock producers have to rely on buying hay and other feeding material to feed their animals which will end up costing them lots of money. There needs to be a disaster plan in the farm bill to help out cattle ranchers.

Closing of some of the ASCS offices should not be done. This money saved is not worth the inconvenience that this will cost.

I am not in favor of having mandatory animal ID. This decision should be left for the producer to decide. Located in Anderson County is a large Amish community. I'm sure that they are not in favor of this either. A lot of retired farmers have a few cows to supplement their incomes. I believe this could make some of them sell their cow herds and quit. I hope it has been taken into consideration how this might affect people such as these. This could lead to weeding out of the little producer. It appears like we are getting closer every day when issues like this arise to becoming large corporate farms instead of family farms. This is what happened to the hog producers. I think there would be other less costly and simpler ways of having animal ID. I would like to remind you that the cattle which had mad cow disease were traced back to the original owner without the help of this proposed animal ID system. I would support country origin of labeling if we were a hundred percent positive that the cattle producer would not have to pay for it. I strongly support farm bureau and farm credit for bettering life for rural America.

In closing, I hope that Representatives and Congress can keep an open mind, bring all their ideas to the table and leave with the best solution. Please keep in mind what is best for the people that your decisions will have an effect on. Help keep family farms family farms and rural communities from extinction. Thank you.

[The prepared statement of Mr. Pracht follows:]

PREPARED STATEMENT OF JOHN C. PRACHT, CORN, WHEAT, AND SOYBEAN FARMER/ RANCHER, WESTPHALIA, KS

My name is John Pracht. I farm in Anderson County. My wife, Reva, and I have three boys. We hope that they can have a future in agriculture, if they choose so. I raise corn, wheat, soybeans and cattle. I farm with my two brothers Bill and Dave. If it wasn't for my father, I never would have been able to get started farming. My family has been involved with agriculture for many generations. I would say that we are a true family farming operation.

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My wife, Reva, and I have three kids. We arc fortunate enough to have health care for now. There are many producers that can not afford it. My neighbor is around 60 years of age. He and his wife pay around $1,200 a month for their health care premium. I am paying about half that. I do not know how we will be able to afford healthcare in the future. Every year my heath care premium increases. This problem has to be dealt with or it will be even a bigger problem in the future!

Property tax, machinery and machinery repair costs also rise every year. It is extremely hard for a middle sized farm operation to operate with the prices the way they are, for example a new combine list price is around $300,000. It makes me sad to think that I am getting roughly the same price for my grain as my father did many years ago and his fuel, fertilizer and machinery prices were nothing like we have today. Hopefully with the help of ethanol and bio-diesel plants the price for grain will increase and stay increased. I think that if the farmer has higher grain prices that we will be less dependent upon government help. But higher prices are not the only piece of the puzzle.

A safety net must be in place in the farm bill for disasters, like drought and floods. With so much money invested in farming today one bad year can bankrupt a producer. The new farm bill should raise the LDP prices to higher levels then they are now. More money should be spent for disaster relief in the years we have crop failures. I know a lot of talk is to do away with the direct payment program, but for me it's nice to know that some steady income is coming in. Money spent in conservation programs is money well spent, but I believe the program needs more money to carry on to benefit farmers as the program is intended. I do not think payment limitations should be in place for farmers who have higher incomes, if all their income comes from agriculture. Investors with other sources of income that own farms or ranches should not receive government payments. Ranchers with livestock should be included in the farm bill also. There is not a price protection for livestock owners like the LDP payment is for the grain farmer. Lets say hoof and mouth disease was found in America, cattle prices would fall and many producers would loose large amounts of revenue. Times have changed, if something like this happens the American rancher needs a safety net to count on. Emergency haying and grazing on CRP or buffer strips need to be released for haying in a much quicker time frame. Lets say most of the county where a producer lives has received adequate rainfall, and the producer lives in a drought stricken area of the county. The USDA will not give the authority to hay or graze because the other part of the county has adequate conditions, this is not right. I know of cattle producers that this has happened to. When a drought occurs, livestock producers have to rely on buying hay and other feeding material to feed their animals, which will end up costing them lots of money. There needs to be a disaster plan in the farm bill to help out cattle ranchers.

Closing of some of the ASCS offices should not be done. The money saved is not worth the inconvenient that this will cause.

I am not in favor of having mandatory animal ID. I believe this program will leave less income for cattle producers. Not just the cost of tags will the producer have to pay for. I'm sure sale barns will increase their price of operation to be able to pay for the technology that has to he bought to make this program work. Packing plants will pass the buck on as well. This all adds up to less dollars for us. Located in Anderson County is a large Amish community. I am sure that they are not in favor of this either. A lot of retired farmers have a few cows to supplement their incomes. I believe this could make some of them sell their cow herds and quit. I hope it has been taken into consideration how this might affect people such as these. This could lead to weeding out the little producer. It appears like we are getting closer every day when issues like this arises to becoming large corporate farms instead of family farms. I think there would be other less costly and simpler ways of having animal ID. I would like to remind you that the cattle which had mad cow disease were traced back to the original owner without the help of this proposed animal ID system. I would support country origin of labeling, if we were 100% positive that the cattle producer would not have to pay for it.

In closing, I know that tough decisions have to be made. I hope that Representatives in Congress can keep an open mind, bring all of their ideas to the table and leave with the best solution. I hope this letter can help all of you make your decisions a little easier. Please keep in mind what is best for the people that your decisions will have an effect on. Help keep family farms, family farms and rural communities from extinction.

Sincerely,

JOHN C. PRACHT

Mr. ETHERIDGE. Thank you, sir. Mr. Childs.

STATEMENT OF BARRY K. CHILDS, VICE PRESIDENT AND FIELDMAN, FARM MANAGEMENT SERVICES, INC.; CHILDS FARMS PTR., BELLEVILLE, KS

Mr. CHILDS. Thank you for this opportunity to discuss a few issues. I'm a 53-year-old fourth generation farmer from Belleville, Kansas, with a BS and Master's in Ag Economics from Kansas State University.

The invitation was to comment on a few challenges ag producers are facing. It seems to be very open ended. Since you guys aren't in control of mother nature, we'll focus on just a few things that the Committee might be able to.

First would probably be health insurance costs or health care insurance. Both availability and the cost continues to be a huge problem; possibly deduct them on Schedule F or Schedule C depending on your small business.

Second, simplify how and when the dollars are received by producers and their landlords. The CCP concept was a very good idea; however, its implementation is almost impossible to follow. Quite a few people say they're not sure what they're supposed to receive when they're supposed to receive it and I guess they do know how. I've included a little chart—flowchart simplifying the procedure from the local FSA office and I would challenge anybody on the Committee to try and explain the how, why and the when to a 90-year-old or an 80-year-old landlord. It would be quite dramatic.

And, I guess, the FSA offices should be applauded and thanked for their continued front line support with the farmers as far as implementing new procedures and ever-changing implementations.

One possible suggestion might be the direct payments have just two simple payment dates: Spring, and Fall. The CCP payments, if it's harvested in the summer have it paid in the summer. If it's harvested in the fall have it paid in the fall. Have a maximum of four payment periods so people know what's going on.

For 30 years I've had a very unique experience of working with farmers of all ages and sizes usually around the kitchen table. I've considered myself very lucky and extremely blessed to have been invited into the financial workings of so many farm families. The intergenerational workings of these businesses seem to be most challenging and most rewarding.

This brings me to my third point: Getting young people to stay and come back to the farm. A few simple thoughts might be to change the recapture depreciation for the first year of machinery equipment to an installment sale provision such as used on the land. Most of you know that the recapture depreciation is taxed in the first year. It wouldn't be a change to the total revenue received. It would be a matter of the timing.

Second: Starter loans for farmers. I'm not sure how, in the governmental budgeting process, how loans or FMHA or FSA loans are figured in your budget. Cities and counties have revolving funds; loans are loans; they are paid back. They're secured. But this would be a very good opportunity for young farmers to know what those loans are and the amount of those loans.

Now with FSA program there are people that are approved for loans, but simply not—they don't know when those loans are going to become available.

The third one is probably the stability of the ag program: How else would we tell the young people that agriculture is an extremely excellent career? Let me explain why. When you're a parent, if you're lucky enough to be one, you talk about their future career, what's the first thing that comes up? How a future or how that job is—does this job have a future and can they succeed at it? Is that job going to be constantly changing with regulations and government interference? Will that job be used as a political tool? And will the pay scale be known and will they be penalized for being successful? I'm sorry to say, but our past ag programs have told potential farmers and ranchers the wrong thing.

Now we started with payment limits of $50,000 and dropped to $40. If you adjust the 1985 $40,000 limit to today's—or just simply inflation, that's almost $78,000. The other thing, 1985 Farm Bill was an 11 year program. The 1996 fortunately was 6 years. The

2002 was 5 years and we don't know what we're going to have. The stability again is the issue. And again the prices are high now. Why can't target prices and loan rates be set and adjusted for inflation?

The CCP payments will not be a liability to the USDA in 2007. And where is that budgeted money going to go? Why can't those unused budgeted funds be set aside for years to come when we, unfortunately, will probably need them. Do the same with the LDP payments.

Any future legislation proposed, especially for ag legislation: Please have you or your staff do the due diligence that needs to be done. But before you decide on anything, make one more column in that. And title it: Will this be a positive or a negative for the future generations of farmers? If it's not going to be a positive, if it's a negative, don't put it in there. If it's a positive, however, and telling that next generation of farmers that they are needed, they are wanted, and we want them to keep producing food and fiber for this country and world, pass it and fight for it. How else can you explain to that next generation that they're wanted and they're needed.

Again, thank you for this opportunity. We have entrusted you with tremendous responsibility for drafting and passing this ag legislation. I think that most people understand that there will always be short term wants and needs that must be addressed. With these decisions, however, always and without exception you and your fellow Congressmen and Congresswomen must determine whether that's going to be a positive for the future generation of ag men and women. We cannot afford to lose another generation as we did in the 1980's. Thank you.

[The prepared statement of Mr. Childs follows:]

PREPARED STATEMENT OF BARRY K. CHILDS, VICE PRESIDENT AND FIELDMAN, FARM MANAGEMENT SERVICES, INC.; CHILDS FARMS PTR., BELLVILLE, KS

June 5, 2007

Thank you for the opportunity to discuss just a couple of issues with the committee.

I'm a 53-year-old fourth generation farmer from Belleville, Kansas with a BS and Masters in Ag Economics from Kansas State in 1977.

The invitation to comment about challenges Kansas producers are facing is very open ended. There are numerous challenges, but since this committee can't control Mother Nature, I'll focus on just a few this committee could focus on. I've eliminated the first hour of my original notes.

First: Health Care Insurance, both its availability and cost will continue to be an extreme problem. I wish I had a plan. Please consider allowing farmers and other small business to deduct health insurance on **Sch F** or **C**. This would be a small help, but a start.

Second: Simplify how & when dollars are received by Producers and their Landlords.

The CCP concept was a good idea, however the implementation is almost impossible to follow. Most of the farmers and especially the landlords that I work with admit to not having a clue whether they received the correct amount from the FSA office.

There are **19** different arrows on this the Flowchart I included with my notes. The local FSA office trying to simplify when and how the present program works provided this. I would challenge any on the committee to explain how, why and when an 80-year young landlord will be receiving their specific check from the FSA office.

The staff at the FSA office should be applauded and thanked for their ability to adapt to the ever-changing procedures due to regulations and USDA's changes.

How: Limit the number of payment periods to 4 maximum

Direct Payments	50% Jan. to March; 50% November
CCP Payments	Crops harvested prior to August 100% August Crops harvested prior to Dec. 31 100% December

Third: For 30 years I've had the unique experience of working with farmers of all ages and sizes, usually around their kitchen table, the past 25 years as Vice President of Farm Management Services Inc. Concordia, Kansas. I consider myself extremely blessed, to have been invited into the financial workings of so many farm families in North Central Kansas. The intergenerational workings of these farm businesses seem to be most challenging and rewarding. This experience brings me to third point of which I feel most strongly about.

Getting young people to come back to farm.

1. **Change the tax on the recapture of Depreciation from the first year to an installment sale provision that is used for land.**

Result; Older farmers could sell machinery and equipment on contract to younger farmers, without the extremely large first year tax. The same amount of tax will be paid, but over several years.

2. **Starter loans for farmers**. Somehow in the complicated budgeting process, figure out that FSA loans are just that loans. The only cost to the government is the interest expenses and the administration costs. The total amount of the loan is and should not be in the total spending budget annually. Most cities' & counties have revolving funds. When the money is paid back, it is reloaned. Make this fund large enough so it will help.

Result; Young farmers and ranchers would have much better idea of when and if the loan would and could be made. Today the loans can be approved, but it's anybody's guess when and if the money will be available.

Stability in Ag Programming. How else can we tell and show the young people that agriculture will be an excellent career choice?

Let me explain. When parents discuss their child's future career or anyone that you truly care about. What is one of the first things that come up? That job should have a future and be something they can succeed at. The job should not be constantly changing with regulation and government interference. The job would not be used as a political tool. The job's pay scale should be known and you should not be penalized for being successful.

I'm sorry to say, our past Ag Programs have told the potential farmers and ranchers exactly the wrong thing.

Why haven't Payment limitations been adjusted for inflation ($40,000 in 1985 = $77,673 in 2007)

1985 Farm Bill – 11 years
1996 Farm Bill - 6 years
2002 Farm Bill - 5 years
2007 Farm Bill - ? years

Why can't the target prices and loan rates be set know and adjusted for inflation as most other Government programs.

CCP payments will not be a liability to USDA for 2007. Where is that money going to go? Why can't these unused Budget funds be a part of a future CCP Fund set-aside for years when we unfortunately need CCP Payments?

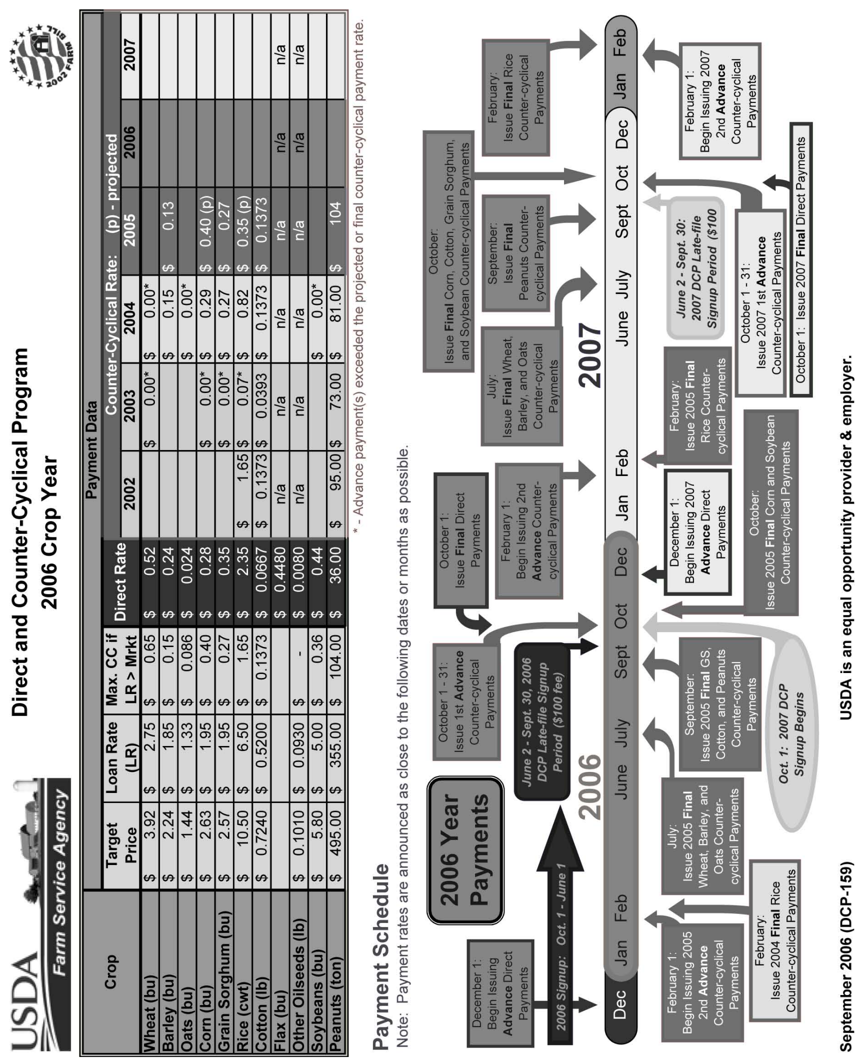
Do the same for LDP's (loan deficiency payments).

3. Any Future Legislation proposed, especially Ag legislation: Please consider the pros and cons and do all the research necessary, but before you decide, do one more thing. Make one more column along side the pros and cons. Title it **"Will this be a positive or a negative for the future generations of farmers?"** If it's a negative, don't pass it or even fight for it. If it would be a positive for future generations of farmers and send them a message that they are needed, pass it and fight for it. You will be able to explain to anyone why it is good legislation for the U.S. and for Agriculture.

Again, Thank you for this opportunity. We have entrusted you with a tremendous responsibility to draft and pass Ag Legislation. I think most people understand there will always be short-term wants and needs that must be addressed. With those decisions, always and without exception, you and your fellow congressman must determine whether that decision will be a **positive** or a **negative** for the future generations of Ag men and women. We cannot afford to lose another generation.

Thank you.

Barry K. Childs



USDA Farm Service Agency

Direct and Counter-Cyclical Program
2006 Crop Year

Crop	Target Price	Loan Rate (LR)	Max. CC if LR > Mrkt	Direct Rate	Counter-Cyclical Rate: (p) - projected 2002	2003	2004	2005	2006	2007
Wheat (bu)	$ 3.92	$ 2.75	$ 0.65	$ 0.52		$ 0.00*	$ 0.00*			
Barley (bu)	$ 2.24	$ 1.85	$ 0.15	$ 0.24			$ 0.15	$ 0.13		
Oats (bu)	$ 1.44	$ 1.33	$ 0.086	$ 0.024			$ 0.00*			
Corn (bu)	$ 2.63	$ 1.95	$ 0.40	$ 0.28		$ 0.00*	$ 0.29	$ 0.40 (p)		
Grain Sorghum (bu)	$ 2.57	$ 1.95	$ 0.27	$ 0.35		$ 0.00*	$ 0.27	$ 0.27		
Rice (cwt)	$ 10.50	$ 6.50	$ 1.65	$ 2.35	$ 1.65	$ 0.07*	$ 0.82	$ 0.35 (p)		
Cotton (lb)	$ 0.7240	$ 0.5200	$ 0.1373	$ 0.0667	$ 0.1373	$ 0.0393	$ 0.1373	$ 0.1373		
Flax (bu)				$ 0.4480	n/a	n/a	n/a	n/a	n/a	n/a
Other Oilseeds (lb)	$ 0.1010	$ 0.0930	$ -	$ 0.0080	n/a	n/a	n/a	n/a	n/a	n/a
Soybeans (bu)	$ 5.80	$ 5.00	$ 0.36	$ 0.44			$ 0.00*			
Peanuts (ton)	$ 495.00	$ 355.00	$ 104.00	$ 36.00	$ 95.00	$ 73.00	$ 81.00	$ 104		

* - Advance payment(s) exceeded the projected or final counter-cyclical payment rate.

Payment Schedule

Note: Payment rates are announced as close to the following dates or months as possible.

September 2006 (DCP-159)

USDA is an equal opportunity provider & employer.

Mr. ETHERIDGE. Thank you, sir. Appreciate it.

Mr. Parker.

STATEMENT OF GARY PARKER, SOYBEAN, WHEAT, AND MILO FARMER, MORAN, KS

Mr. PARKER. I thank you very much, Congressman Moran and Congresswoman Boyda, Chairman Etheridge.

I first would like to change one word in my written testimony. On page two or second page paragraph two, the bottom—the second paragraph up from the bottom, it says "recently"—when I'm speaking about a comment I'd made to Congressman Moran. Recent for me maybe isn't recent for him. As you get older time goes faster. So, Congressman, I do apologize. That was over in Emporia at one meeting and so I want to insert the words a few years back.

Mr. MORAN. I remember.

Mr. PARKER. Also, while I'm picking on Congressman Moran, we have a question whether Moran was named—Congressman Moran was named after the city or *vice versa*.

In my written testimony I discussed back in Earl Butz' tenure that we were encouraged to plant fence row to fence row mainly because of exports.

I am cautious about the fact that we're almost encouraging that for the recent avocation of alternative fuels and with ethanol and bio-diesel. So with caution I would want the Congress to consider some type of floor under crude oil so we have some protection for the people that are invested in these plants and then also because most of the plants are being built by farm monies or with an individual's money and not corporate farms and *et cetera*. I could see in 6 months all of those plants being closed or broke for the simple fact the OPEC nations could easily cut their crude oil down to $20 or $30 a barrel for 6 months and we'd be broke. So I do give caution there.

The other thing that concerns me about planting fence row to fence row and putting so much emphasis on our corn and soybeans and, *et cetera*, is debate over food and fuel. Where will a public rather put the corn: In their stomach or in their fuel tank when it comes to the pinch.

The importance on government fuel subsidies has to play a big part in where we go with alternatives fuels. Other things that are needed to be considered are alternate fuels such as hydrogen, electric, liquid coal and others. Just last Sunday Boone Pickens was in *The Wall Street Journal* saying that ethanol wasn't any good. And I suppose if I was an oil and gas producer I would probably say that too. The other point I thought was he's had natural gas—we've had natural gas for years, but we're not running our cars on it, if this is what he's proposing.

I would like us to think down the road also are the flex fuel vehicles that we're promoting now, will they be reliable in 10 more years or will we be looking at some other kind of an automobile or truck or tractor. I think we need to think that and I really am encouraged about the renewable fuel future right at this time because I have no other answer for our cars, trucks, combines and *et cetera*, but what we do have is using alternative fuel. But I do want you to keep these things in mind.

Another thing, the discussion about the low interest loans and grants and in my written testimony I have some criticisms about some of the loans that we're giving to young farmers and older farmers and the write-offs and *et cetera*.

I am an advocate of trying to keep young farmers on the farm. Ever since I was a young man and working in some farm organization this has been a thing that we've always tried to work for is let the farmers stay on the farms. However, I don't know what the criteria should be. I can recall back when I was a young farmer and my dad's neighbor said to him you might not be doing him a favor by giving him a farm. Maybe it's not the best possibility of him making an income.

Our U.S. Government must protect our food and fiber that we produce out here on the farm because it is a strategical defense for our country.

The one thing I recall back years ago was being at a Kansas State Board Agriculture meeting and a gentleman from a foreign country that was overtaken by the Nazis said the reason they were overtaken was because they could not feed their people. He said, "This will never happen again in our country because we don't care how much subsidy we have to give to our farmers. We want to have the food to feed them." So this has always kind of stayed with me and I think this is a valuable thing to be thinking about. We've been blessed in this country to always have food, but that's not guaranteed.

I do support the government's loan and grant for rural communities because I think that's one of the only ways we're going to keep a viable source of vital rural things going on.

Concerning bringing young farmers back, I just had—yesterday I was visiting with a farmer in his 40's and he was telling me his son just graduated from Kansas State. I said, "Well, you're sure fortunate to have your son come back to the farm." He's well established. He's inherited money and land. He says "I don't know if it's such a good deal or not. He's just not making money like he should if he was in another business." So I'm sorry to say I don't have any ideas of how we can track this other than the fact I do think I mentioned in my written testimony that I think the young farmers and the farmers that want to stay on the farm and they're smaller farmers, if we'd have some type of other type of employment in that community helps a lot. Maybe where they could stay on the farm, maybe one of the people work or *et cetera* and that will also take care of their—I'm sorry, I'm over time. I'm sorry, Mr. Chairman.

[The prepared statement of Mr. Parker follows:]

PREPARED STATEMENT OF GARY PARKER, SOYBEAN, WHEAT, AND MILO FARMER, MORAN, KS

Personal History

I take great pride in this opportunity to testify before all of you today. While I am a scholar on neither farm programs nor agricultural policy, my 52 years of farming experience provide me with some expertise that I offer as qualifications for my testimony today.

I began my farming experience in rural Jefferson County in the mid-1950s. I would likely still be there today were it not for the construction of the Perry Federal Reservoir. Both my farm and my parents' farm were consumed by the reservoir—offering ample motivation to pursue other options. My wife, Janice, and I moved our family to Allen County, where we have remained ever since.

We were blessed with six wonderful children—and six children total—and a wonderful life. Each of our children has graduated from college and begun successful careers and lives of their own. Rural life, I believe, has been a major contributing factor in the development of their work ethics and senses of responsibility.

Although my entire family has benefited greatly from a farm upbringing, I acknowledge that we have seen both the good and bad in agriculture. While my half-century in this profession has revealed many of the negatives in farm programs, I am not here today to criticize those programs.

History of Farm Programs

Yet it is important to note the sheer quantity of programs that have come and gone.

I recall former United States Secretary of Agriculture Earl Butz's tenure—a time when farmers were encouraged to plant from fence row to fence row.

I was fortunate to be a personal acquaintance of Secretary John Block, and to become intimately familiar with the programs enacted during the Reagan Administration.

I remember farm programs that attempted to entice people to continue farming, even when it was the wrong thing for the individual farmer to do.

I have seen poor production farmers acquire low-interest loans that they were unable to pay back. These loans were made to farmers struggling so mightily that, even when the loans were written off, many of the farmers still were forced out of business.

I have seen young farmers who managed to procure start up-loans, only to struggle for years to keep their heads above water.

These events are not necessarily all bad. But in hindsight, it seems that sometimes the government is not doing these farmers any favors. The many attempts to assist us remind me of a friend of my father, who offered this advice: "You might not want to give your child a farm; you might not be doing them any favors."

Doing farmers a favor, however, has been the intent of each farm program enacted. Many times it has succeeded—I could not begin to imagine the number of farmers such as myself who would not be farming today were it not for many of these farm programs. Furthermore, please note that no one forces us to live on the farm; we choose this way of life, and most of us would not trade it for anything.

To find continued success at the lives we have embraced, we must be skeptical of planting fence row to fence row. This was unsuccessful 3 decades ago, and probably will not be successful today or in the future. We must, therefore, consider carefully our current policies with an eye toward improvement.

Successes of Previous Bill

I realize you have heard a variety of suggestions on the upcoming farm program, and I am sure many of them are outstanding ideas. As a family farmer in Southeast Kansas, I have few problems with the current program. I appreciate the flexibility it offers and would change few things about it. There were several successes on which I would like to offer comment.

First, the farm programs that have been a real success are the conservation programs. I believe this has effectively aided farmers in the preservation of our resources, the purification of water supplies, elimination of soil erosion, and several other key areas.

I commend the Congress for providing additional funding to upgrade our waterways, as well as the locks and dams systems. This additional funding will not only upgrade river transportation in our country but provide safer communities to many served by these rivers.

The funding of the farm disaster program was critically needed. We absolutely need protection from disasters over which we have no control. The crop insurance program has been a safety net to at least help cover production costs. While I would applaud its expansion to cover additional operating expenses, I believe it was a huge step toward protecting farmers.

Suggestion: Modify Production Yield History Methodology

In and effort to protect farmers even further, however, I would like to offer a few criticisms and suggestions that could be potentially incorporated into the 2007 Farm Bill.

My primary concern is with the technique employed in determining production yield histories. This 4 year average calculation further penalizes farmers who already have suffered through extended hardships, such as droughts. As yields decrease, the production history continues to decline; consequently, insurance production yields and deficiency payments go down in lock-step.

Anecdotal evidence that I have observed firsthand points to the shortcomings of the deficiency payment system. If I produce a below-average crop, I get paid on a low yield; farmers producing bumper crops receive large deficiency payments. The allocation of deficiency payments simply is not equitable in many circumstances.

Furthermore, crop insurance programs are often handled inequitably. For example, farmers one county south of me can insure soybeans after wheat as a second crop. Farmers in Allen County are ineligible to insure a second crop, putting us a striking disadvantage to others only a few short miles away. Looking farther across the country, friends in Mississippi tell me second-crop milo can be insured for $190 per acre. Assuming this to be true, chances are many farmers are likely motivated solely by the allure of insurance money.

Suggestion: Keep Rural Communities Vital

As farmers, it is probably unfair to expect the United States Government to keep us in business any more than the mom and pop grocery stores or shoe stores. However, farmers play a strategic role that perhaps other small entrepreneurs do not—the American farmer serves the vital role of feeding not only our citizens, but citizens from around the globe. In these times of tragic but inevitable worldwide strife, food production is one of our country's best defenses. Maintaining this defense means maintaining the viability of our rural communities.

U.S. Representative Nancy Boyda has expressed her commitment to keeping rural communities vibrant. From the time I was involved with American Farm Bureau Young Farmers and Ranchers, this has been an overriding concern. Years of observation have convinced me that having more and smaller farms in our rural communities will not keep them vibrant on their own. Other opportunities must exist in a town to combat many rising costs today's farmers must face.

The rising costs of farm equipment—coupled with the tremendous cost of planting a crop—is prohibitive for many prospective farmers. Still, small farms and farmers can continue to survive, if not thrive, if there is additional employment in the area. To forge an acceptable living, many farmers must seek additional full- or part-time employment in non-farm-related venues.

American farmers are willing to adjust and embrace this additional challenge. To be able to do so, however, they need small industries to locate in rural areas and offer those employment opportunities. As many industries have moved overseas in search of low-cost labor, such opportunities have become increasingly difficult to find.

Suggestion: Ensure Continued Availability of Affordable and Local Health Care

The availability of affordable health insurance, health care facilities and local medical staff are essential to small American farmers. Health care is as important to farmers as many other farm programs.

A few years back I spoke with U.S. Representative Jerry Moran at a meeting in Emporia. Commodity prices, I explained, are not the only thing making it difficult for farmers to remain on the farm. Health insurance costs are a major problem. With such exorbitant costs, it is commonplace for at least one member of a farm family to find employment off of the farm to pay for the family's health insurance.

I am encouraged with the current proposal for funding of rural health care facilities. The present program provides funding for the continued operation of critical-access hospitals in rural communities across the United States. The continued availability of local health care services is paramount to keeping farmers productive in our country.

Suggestion: Address Bio-Fuel Industry Challenges

Alternative fuels from agricultural products provide us with an outstanding opportunity to address one of our country's most pressing energy crises. As we continue to make advances in this arena, I have an increasing sense of dread at the number of people—especially farmers—who are making significant and risky investments into bio-fuels.

My fear is that most of our ethanol and bio-diesel plants are being built using the money of rural farmers and other individual citizens. These investments are being made as Americans face ever-rising prices at the gas pump. A few strategic moves by OPEC to drop crude prices could bring financial ruin on this industry and many of its investors. In a short time, we would see these new plants would shut down. Avoiding such a disaster—as bio fuels struggle to become more financially viable—would require the implementation of a price floor in oil imports, ensuring that bio fuels can remain financially competitive in the short term.

Conclusion

I have been farming most of my life. American agriculture has been a blessing for me and my family, and provided more than most people could ever want. It is my sincere hope that great deliberation will be given to these ideas and the ideas of others in generating a new farm bill that builds on the many successes of past programs while improving upon their deficiencies.

Thank you for the opportunity to offer my thoughts on this topic. Please feel free to contact me with any additional questions.

GARY PARKER.

Mr. ETHERIDGE. Thank you, sir.

STATEMENT OF MARK MEISINGER, WHEAT FARMER AND COW/ CALF PRODUCER, MARION, KS

Mr. MEISINGER. My name is Mark Meisinger. I live in Marion. I farm wheat and I also have a cow/calf operation and three young boys that help me as much as they can on that. I'd like to begin my remarks by thanking the Committee for allowing me to testify this morning and for listening to the direct views of farmers and ranchers about the farm bill.

I am not coming before you today to plead for more Federal money for farmers and ranchers. Clearly we're going to have to learn to deal with less and we need to be aware of that. I believe most ag producers would much prefer to receive income from the value of the products that they produce. Unfortunately, in today's farm economy that is not consistently reliable enough to maintain financially sound farms and ranches without Federal support.

The past 10 years of farming have been very challenging as far as a Kansas producer is concerned. Low grain prices, exploding expenses and difficult weather have made it difficult to find the income needed for the family. This exposes the need for some kind of farm income stabilization so that we have a reliable source of food and fiber for our country.

Has the current farm bill been sufficient? Yes, it's been okay, especially the counter-cyclical support concept, but a revenue-based counter-cyclical program or possibly a savings account idea that I've heard proposed would be better in my opinion. These types of programs are necessary to stabilize income in difficult years.

The recent increase in grain prices has at least provided an optimistic view of the future, provided we have a crop to sell. The support of crop insurance programs needs to continue. We have the expanded use of ethanol to thank for this current jump in corn prices. Our country needs to become increasingly reliant upon ourselves for our energy and Federal support needs to continue in this area. I believe most Americans would rather fill up their vehicle knowing they are supporting a Midwest farmer instead of a Middle East terrorist. Please continue to support the growth of the ethanol industry.

I hope that our country can move away from direct support of farm programs. That clearly is what we see in the picture coming towards us in the future. But we do need crop insurance products and income stability products that maintain a reliable and healthy ag economy.

One side note I might add, just locally, recently on Friday in my local Farm Service Agency office, probably heard it before, but the computer system's running very slow. She said it was even a good day and yet we are waiting and waiting and waiting. So please do what you can to look into speeding up the number of servers or whatever needs to be done so that there's not so much time spent there. And what's more if that business is done at home, it's going to have to be faster because individuals aren't going to sit at home waiting and waiting and waiting to conduct business at home. Thank you.

[The prepared statement of Mr. Meisinger follows:]

PREPARED STATEMENT OF MARK MEISINGER, WHEAT FARMER AND COW/CALF PRODUCER, MARION, KS

I would like to begin my remarks by thanking the Committee for allowing me to testify this morning and for listening to the direct views of farmers and ranchers about the farm bill.

I am not coming before you today to plead for more Federal money for farmers and ranchers. I, and I believe most ag producers, would much prefer to receive my income from the value of the products that I produce. Unfortunately in today's farm economy that income is not consistently reliable enough to maintain financially sound farms without Federal support. The past ten years of farming has been very challenging as far a Kansas is concerned. With low grain prices, exploding expenses, and difficult weather it has been difficult to find the income to support a family. This exposes the need for some kind of farm income stabilization so that we have a reliable source of food and fiber for our country.

Has the current farm bill been sufficient? Yes, it has been okay, especially the counter-cyclical support concept. Whether that is left in place or we move to more of a savings account idea, it is necessary to have a method in place to stabilize income in difficult years.

The recent increase in grain prices has at least provided an optimistic view of the future, provided we have some product to sell. The support of crop insurance policies needs to continue. We have the expanded use of ethanol to thank for this current jump in corn prices. Our country needs to become increasing reliant upon ourselves for our energy, and Federal support needs to continue in this area. I believe most Americans would rather fill up their vehicle knowing they are supporting a Midwest farmer instead of a Middle East terrorist. Please continue to support the growth of the ethanol industry.

I hope that our country can move away from direct support of farm programs. But we do need crop insurance products and income stability support to maintain a reliable and healthy ag economy.

Mr. ETHERIDGE. Mr. Robbins.

STATEMENT OF LEE ROBBINS, DIRECTOR, KANSAS CATTLEMEN'S ASSOCIATION; COW/CALF PRODUCER, YATES CENTER, KS

Mr. ROBBINS. Honorable Congresswoman and Congressmen, I'm Lee Robbins, a fourth generation cow/calf producer from Yates Center, Kansas. I'm a Director for the Kansas Cattlemen's Association and USD 366 School Board Member. Thanks a lot for the opportunity to share with you some of my concerns about the beef business.

My biggest challenges are not with the production of beef because I know I can compete very well as a producer.

My big challenges lie in the marketplace.

Previous rules by USDA have been detrimental to rural communities. I'm convinced that the four major packers control USDA whenever a meat issue is at stake. For example, USDA not allowing Creek Stone Farms to individually test cattle for BSE for export to the Southeast Asia market as they had requested. The demand there is huge. Our best USA beef is cheaper on their retail shelves than their own locally produced beef.

Kansas State University did a study after losing our export markets to Southeast Asia and estimated it cost us 14 to 15 percent of our beef's value. In 2006 Kansas' value of beef production was \$2.9 billion times a 14 percent loss: \$416,000,000 of lost income to Kansas producers. The loss in Kansas income taxes, the \$416,000,000 times an average of 6 percent paid by producers for a total of approximately \$25,000,000 lost in state income taxes in 2006 alone. If you take the producers \$416,000,000 times an economic multiplier of five then approximately $2,000,000,000 was lost to our economies. These figures are just for 2006 in Kansas.

Imagine the loss to all USA producers and economies. In private business customers dictate what they will purchase, not the sellers. Recently a judge ruled in favor of Creek Stone Farms for individual testing and USDA says it's going to appeal so that it will still not be allowed. Simply put, it's not about economics because a $50 test yields approximately $150 in value.

Another recent example of USDA working against me as a producer is USDA trying to tie mandatory identification to country of origin labeling. A simple hot iron brand will suffice for COOL identification and cost producers very little. Individual ID would be much more expensive to producers, it's hard to implicate and it would stop COOL in the long run. Just as the packers have told USDA to do. Our beef customers and producers want mandatory COOL implemented in the USA and deserve to get what they want, whether they're here or overseas. So please support mandatory COOL. Current law prohibits ID use as verification for COOL so please don't let it happen. It's unnecessary and unintended.

Captive supplies by packers depress live cattle prices. As captive supplies go up, live cattle prices go down.

Without the use of captive supplies, packers will still have the same volume of cattle available to them as before. They would just have to bid on them in a true, live marketplace. I would encourage you to support legislation that limits captive supplies by meat packers because it will improve producer's profits.

Let me state in closing that consolidation and vertical integration has not been good, in general, for production agriculture on the rural economies. If we stay on the same trail as we've been on, then rural America will suffer even more. We must make some changes to improve profits. I'm not alone in my thoughts and opinions and thank you very much for your time and consideration.

[The prepared statement of Mr. Robbins follows:]

PREPARED STATEMENT OF LEE ROBBINS, DIRECTOR, KANSAS CATTLEMEN'S ASSOCIATION; COW/CALF PRODUCER, YATES CENTER, KS

Honorable Congresswomen and Congressmen,

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My biggest challenges are not with the production of beef, because I know I can compete very well as a producer. But instead, my challenges lie in the marketplace

Previous rules by USDA have been detrimental to rural economies. I am convinced that the four major packers control USDA whenever a meat issue is at stake. For example, USDA not allowing Creek Stone Farms to individually test cattle for BSE for export to the Southeast Asia market as they had requested. The demand there is huge. Our best USA beef is cheaper on their retail shelves than their own locally produced beef.

Kansas State University did a study after loosing our export markets to SE Asia and estimated it cost us 14–15% of our beef's value. In 2006, Kansas's value of beef production was $2,971,488,000.00 × 14% loss = $416,008,000.00 has lost income to Kansas producers. The loss in Kansas income tax = $416,008,000.00 × 6% average paid by producers = $24,960.000.00 in lost state income taxes in 2006 alone. If you take the producers loss of $416,008,000.00 times an economic multiplier of five, and then $2,080,040,000.00 was lost to our economies. These figures are just for 2006 in Kansas. Imagine the loss to all USA producers and economies. In private business customers dictate what they will purchase, not the sellers. Recently a judge ruled in favor of Creek Stone Farms for individual testing and USDA says it is going to appeal so that it still will not be allowed. Simply put, it's not about economics because a $50.00 test yields approximately $150.00 increase in value.

Another recent example of USDA working against me as a producer is USDA trying to tie mandatory identification to COOL. A simple hot iron brand will suffice for COOL identification and cost producers very little. Individual ID would be much more expensive to producers is hard to implicate and would stop COOL in the long run. Just as the packers have told USDA to do. Our beef customers and producers want *Mandatory COOL* implemented in USA and deserve to get what they want whether here or overseas. So please support Mandatory COOL. Current law prohibits ID use as verification for COOL, so please do not let it happen. It is unnecessary and unintended.

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Let me state in closing that consolidation and vertical integration has not been good in general for production agriculture and rural economies. If we stay on the same trail as we have been on then rural America will suffer even more. We must make some changes to improve producers profits. I am not alone in my thoughts and opinions.

Thank you for your time and consideration.

Lee Robbins

LEE ROBBINS.

Mr. ETHERIDGE. Thank you, Mr. Robbins. Let me thank each of our panelists for your comments and I will recognize myself for 5 minutes as we move to some questions now.

I want to first make a comment regarding the testimony of Mr. Childs and Mr. Parker. All of you mentioned in your comments and in your testimony about the challenges facing farmers in rural America as it relates to health care, about the growing costs of health care and health care insurance, how that affects Americans in the long run and how expensive it is. I wish there was something we could do in the farm bill to help that. I think all those in the audience would appreciate that as well. However, unfortunately, costs have gone up. However, that is not in the jurisdiction of those of us within this farm bill. That's not our jurisdiction.

But I do appreciate, let me say, because your testimony will be available to us and we appreciate you sharing your personal experiences. We can't solve it in the farm bill, but we have to find solutions to these problems, not just for farmers, but for all Americans. It is a real challenge and I just want to require all of us who work not only in agriculture, but in other areas as well, help Americans have the necessary insurance they need.

Mr. Pracht, to you and Mr. Childs, in both your testimonies you called for increasing market loan rates and consequently marketing of loan rates and loan deficiency payments. Some, including the Administration, caution that going in that direction is provocative and could increase new challenges to our farm programs in the WTO, World Trade Organization. What do you think about this argument and why do you think loan rates need to go up?

Mr. CHILDS. I'm not sure I understand your question totally. The loan rates and target prices, I'm not sure how they were set in

1996 and what basis they were. Were they based on cost of production, yield, revenue? I'm not sure how they were based so, therefore, I'm saying that the costs of that have gone up, I know, so if that's—if the target prices and loan rates were based on that, then obviously those should go up also.

Mr. ETHERIDGE. But when you move toward—the Administration's position on this is if you move toward higher loan rates then that tends to increase production in those areas. Even if they don't do it in the marketplace, they wind up under the loan which then creates the problem for the long term costs.

Mr. CHILDS. For the long term costs of the program?

Mr. ETHERIDGE. Yes, yes.

Mr. PRACHT. I mean, it's part of the safety net that needs to be around. You know, that's just one thing we'd have now that I don't want to lose, but if there's another better source of means for doing it, I'd be all for it. And, yes, what you're talking about would be cost—it's costly.

Mr. ETHERIDGE. That was the Administration's position in there.

Mr. CHILDS. What is the true cost of that loan to the Administration?

Mr. ETHERIDGE. And I don't know that number.

Mr. CHILDS. I don't either.

Mr. ETHERIDGE. And I don't know if there's anyone out there who knows how they set it in 1996. We need to find out as we start moving forward. With that I will yield to the gentleman from Kansas, Mr. Moran.

Mr. MORAN. Mr. Chairman, thank you very much. I'll try to be brief and get us, as best I can, back on time. On health care, one of the things that's in the Administration's proposal that makes a lot of sense to me is in regard to rural development outside our commodity title, but no interest loans to critical access hospitals across the country. And there's almost no community in Kansas that we don't rely upon access to health care through what's designated under Medicare critical access hospital. They have no additional money for building or for purchasing equipment and I have been very complimentary to the Administration at least in that proposal in regard to the farm bill.

Mr. Childs, you know my ag person, Aaron Pelka, well. Would you make sure the two of you get together. I want to explore further this land *versus* equipment sale because I'm certain I don't understand what you're telling me: about how if you sell equipment it's treated differently than if you sell land. And I think that's what you're telling me. Is that true?

Mr. CHILDS. Yes, if you buy equipment you depreciate it.

Mr. MORAN. The purchase of the equipment that we're talking about, not the tax consequences of the sale of that equipment.

Mr. CHILDS. I work with an older generation that would like to sell his machinery equipment to a young farmer. All right. If he does that, most of the time that equipment is depreciated down to zero. If he has a hundred thousand dollars worth of equipment, it's recaptured in depreciation. That is all taxed in the first year of that contract.

Mr. MORAN. And you're talking about the tax consequence to the seller.

Mr. CHILDS. To the seller, yes.

Mr. MORAN. Mr. Meisinger, I may borrow your line. You got a good political line: Midwest farmer *versus* Middle East terrorist. I don't have to give you credit for it. I'm going to use it regularly now. But let me ask you, you're a cattle producer and yet are talking about the benefits of ethanol. How do you see it as a cattle producer when your input costs are increasing due to the cost of corn or grain.

Mr. MEISINGER. I'll respond to that because a cattle producer raising cow/calf so the impact to me is not as direct as someone who would be feeding. But from my perspective an opportunity to finally see, from a grain producer's perspective, the opportunity to earn a profit for once on the product that we raise looks good finally for once that we can—I can support my family hopefully because of the increased price that we receive. Will it hurt the cattle producer? Yes, he's been making money and I've been making money on the cow/calves that I raise. Will some of that profit come out of the cow/calf? Yes, it will. But for me, the opportunity to see an increased income and a profit because of the grain that I produce is good.

Mr. MORAN. I have been very surprised. You know, the criticism of ethanol now is that it's increased the price of corn. That's exactly why we got interested in producing ethanol is because of the price of corn. And so I remain a strong supporter of renewable fuels for a number of reasons, but it originally started out, how do we help farmers have some profitability for the commodities they grow. In that regard about input costs, one of the reasons that the amount of money that's available to the commodity title in drafting the commodity title in the next farm bill is that commodity prices are higher. Therefore, as they score they create a baseline. The amount of money that we have to spend on this commodity title gets based upon the amount of money we spend today under the farm bill. It's less because of higher commodity prices. There ought to be a way we can change that and some of you suggested—Mr. Childs suggested about how we capture what we're not spending and save it for the future.

Let me ask this question because much of what the debate in Washington has been, we've heard a bit of this from USDA: is that everything in agriculture is going well with the commodity prices. But what I fail to ever hear anybody talk about is the increasing input costs. And so as a producer perhaps you could explain to me what the consequences are of higher fuel, fertilizer, natural gas and other input costs. Has the increasing commodity prices that you're receiving for your commodities, has that more than offset the increasing costs of production?

Mr. MEISINGER. Not yet because we haven't raised the crop to sell into that higher market yet. It will help, but the increase in costs that we've withstood the last 2 or 3 years is not going to be long term sustainable for us at the price that we were receiving for our products. It took out the profit margin. There was basically no profit. And \$1.70 corn across the scale, last year 40¢ nitrogen, it did not compute. So the increase in grain prices will hopefully—if we can have something to sell into that—hopefully help offset those extravagant prices because I don't see them coming down unfortunately.

Mr. MORAN. Yeah. We've tried to explain to the Administration and others that the consequence of higher prices unfortunately is lower prices in the future and we know the cycle will continue and you cannot base the farm bill upon commodity prices that they already take. Thank you, Mr. Chairman.

Mr. ETHERIDGE. The Congresswoman from Kansas.

Mrs. BOYDA. I'd just like to again thank you all for doing this in front of everyone and getting it on the public record. And I'd like to highlight some things that I've heard out in the field so we make sure that in the many comments that you've made, I'd like to pull out a couple.

We are working on an emergency haying provision in the conservation credit. And Jerry asked—Mr. Moran asked, too, if that's what we were talking about, yes. So your voice has been heard on that and that amendment is going in. And I'd like to make sure that each one of the panelists understand today what we're talking about and why we need some provision to allow some emergency haying. Thank you for helping. I didn't understand the depreciation either and I appreciate getting that done.

And then one thing that I have heard repeatedly, with the anxiety over the FSA and the NRSC offices is the computer systems and I'd like to make sure that that's duly noted that we really need to make some upgrades on our computer system. So as you're making trips back and forth and now over a few more counties that, in fact, we have computer systems that do work.

I'd like to talk about, when you were talking about, Mr. Robbins, competition and what—again this is one of the very, very pervasive things that I've heard up and down the district as I've been out talking—that our rural producers are lacking that truly competitive market. And I'd like for you to just again talk to me about when you can sell, how you sell, what the day to day looks like for you when you're trying to get out there and sell your cattle. Do you feel like you have an open and free market to do that; a competitive marketplace?

Mr. ROBBINS. Well, when I market my cattle I use Superior Livestock Auction which is the video auction and I also have a couple of local markets that are relatively close. And I market most of my production through those tools. I also hedge on the board of trade. So as far as my individual market there, I feel pretty well covered.

Now if I decide I want to take my cattle out West and feed them, that's where I get pretty scared because I'm at the mercy of, as I said, the packers. And you've usually—you're in a set time limit. When they're ready to go, if something bad happens in the market that's caused by who knows what, you've got only a limited amount of time to market those cattle. Now as far as if they're in my position at home, I can buy some time.

Mrs. BOYDA. Specifically what would you have the Agriculture Committee do?

Mr. ROBBINS. Well, pass country of origin labeling. I think that would definitely help us. And try to stop some of the consolidation in the packing industry. I think that would help tremendously. It's not an easy job to do, but I think that will help add to our profits and our profits are our profits.

Mrs. BOYDA. And what I hear again around, and I don't mean to be putting words in your mouth, but I hear often about captive supply and how in fact that's—could you address that or what would you have——

Mr. ROBBINS. Definitely.

Mrs. BOYDA. What would you have the Agriculture Committee do about that?

Mr. ROBBINS. I would hope that it could be legislated to where the packers can only purchase the cattle within 14 days of slaughter. They can't own them prior to that because it adds, like I said, to their captive supply and that's how they help manipulate the market and depress the market.

Mrs. BOYDA. Thank you. I would just come back on a different subject, too, we were talking about the three legs of our farm subsidies. We heard earlier in the first panel about the direct payments. I didn't hear that in this particular panel as much. Real quickly and I only have a few seconds left, do I hear that same from you about direct payments? Or are you again in the countercyclical *versus* the LDP's as the longer legs of that stool?

Mr. PARKER. I think personally that the direct payments are much superior because when you don't have crops it's hard. And I know I've been in situations where I've been with friends from Illinois raising 230 bushel crops and we've raised 40 or 50 on some drought and they get a huge LDP payment and we don't, and I just think it's a fairer way. However, I would like to comment on the LDP's because they are monies that come in the first part of the year and the last part and this year the government cut those percentages down where we only got 20 or 30 percent of the LDP at the first of the year, which is the time when you need the money.

Mrs. BOYDA. I yield back the lack of balance of my time.

Mr. CHILDS. I might comment that the total dollars and the stability of it is probably more important than the amount.

Mr. ETHERIDGE. The gentleman from Iowa.

Mr. KING. Thank you, Mr. Chairman. The solution for everybody out here is more dollars per acre. You just have to figure out how to get that. So we are trying to figure out how to get that all together and I appreciate that, but I wanted to comment, Mr. Childs, I think you said the single most important thing here and it's something that maybe you think that was redundant to us, but, you said: "We have entrusted you with a tremendous responsibility to draft and pass ag legislation." And I think it's important that that's reiterated because that needs to be on our conscience at all times. And even though we get involved in the policy side of this, but that little reminder brings that back up to the top. That's the purpose of this and it is a high responsibility. I wanted to just note that this panel heard this. And I appreciate that.

Now, Mr. Pracht, I wanted to talk with you a little, if I could, about COOL. A hundred percent positive producer, you're a hundred percent positive producers wouldn't have to pay for it. I mean, I appreciate that sentiment and that thought, but how in the world would we ever get there. So does that mean to me that you're—I mean, I have to interpret that means you're opposed to COOL because I can't imagine how we'd ever be a hundred percent positive that it wouldn't be passed on to the producer.

Mr. PRACHT. Yeah, I don't know either and that's a question nobody really knows. COOL is good. You know, putting the United States logo on our meat and stuff, there's nothing wrong with that at all, but I don't want to be the one that has to maybe, in the end run, pay for it as coming out of——

Mr. KING. But you don't really have advice for us on how we'd ever be sure that the producer isn't paying for it.

Mr. PRACHT. That's exactly——

Mr. KING. And when I look in the meat case in Washington, D.C. and I see Australian steaks that are porterhouses at $16.25 a pound and U.S. T-bones at, say, $12.25, what should I draw for my conclusion there; are they marketing Australian beef?

Mr. PRACHT. Yeah, they are.

Mr. KING. And so there are two sides to that coin. They may not be equal. I just want to point that out. And then, in trying to move along here at the request of the Chairman, and I appreciate everybody's testimony. I wanted, if I could, to turn to Mr. Robbins. I want to tell you, I agree with your view on USDA's prohibition on BSE testing at Creek Stone. The government should never intervene in a value added endeavor by a producer or a packer or a marketer, especially because there was no down side to that. It was their opportunity to add value to their product and USDA stepped in. So I agree with the court decision. I agree with you, Mr. Robbins. And I wonder, would you agree with that statement?

Mr. ROBBINS. Yes, sir.

Mr. KING. And then the Creek Stone operation today, is there anything that prevents any of the packers from adopting a COOL program voluntarily?

Mr. ROBBINS. Not to my knowledge.

Mr. KING. But you've got some figures here that show that the BSE testing, I presume that's what you're referencing, was $50 a head and there's $150 upside to the marketing and I don't challenge that. That seems reasonable to me. Creek Stone then could also do country of origin labeling on the livestock to pay a premium if they could find a marketing opportunity to compete against that Australian beef, could they not.

Mr. ROBBINS. They could and, in fact, now that I give it more thought, that's already being done. They just don't label it. Maybe they do label it as USA beef also, but they have their own logo just as Tyson has on his that identifies it as their meat product.

Mr. KING. At least Creek Stone, but does it say U.S. beef born, raised, fed and slaughtered.

Mr. ROBBINS. I can't answer that. I don't know that for sure.

Mr. KING. So the bottom of my question is if there's a marketing advantage to COOL, how come I don't see anybody using that out there now? I mean, it's clear when it's BSE testing and marketing to Asia. So why don't we have examples anywhere, even the smaller private packers, that have been at odds with some of the larger operations?

Mr. ROBBINS. I assume there probably is and I wouldn't say that Creek Stone is not labeled USA beef. I know it's identified as being produced in the United States and totally produced here and processed here.

Mr. KING. I think——

Mr. ROBBINS. The problem is they can't test and that's where you lose—that's where they lost their market to Japan.

Mr. KING. They can't actually even trace, though, today, can they?

Mr. ROBBINS. They can.

Mr. KING. Well, not in a market efficient fashion where you'd hang them on a hook and say these are U.S., these came from Mexico as feeders, these came from Kansas as feeders. I mean, we really can't do that effectively at a marketing situation, can we.

Mr. ROBBINS. They can. Yes, sir, they can.

Mr. KING. How are they doing that?

Mr. ROBBINS. They run it all through their plant primarily.

Mr. KING. How do they trace back to premises of origin?

Mr. ROBBINS. They're tied in real close with the individual producers.

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

Mr. ETHERIDGE. The gentleman's time has expired.

Mr. Smith, 5 minutes.

Mr. SMITH. Thank you, Mr. Chairman. Mr. Parker, if I might ask you some questions, and let me just begin by saying that as I crisscross the Third District of Nebraska I would say the biggest concern in agriculture is inputs right now. Doesn't matter how high the price of corn is, with the increasing amount of inputs there's a great concern. Now you advocated for a price floor for petroleum. Let me also say, just give you a background of my approach here I think it's in the consumer's best interests that we have good ag policy so we have an affordable, efficient and available food supply. Can you tell me how a price floor for petroleum would be in the best interests of the consumer.

Mr. PARKER. I'm sorry, I guess I don't know if the word advocate is proper. I have concerns about it. The people that have invested in petroleum plants, especially bio-diesel plants and ethanol plants; having any protection of not being sold out and by not having some type of a floor. And I'm not the original person that I heard it—actually I heard this from the Governor of Montana, I think, and he was concerned about liquid coal. But his concern and he said in his statement that you don't see Wall Street investing in these plants. You see individuals. And the reason they don't is because there's no protection for it. They're not going to put their money in where they could be sold out in a 6 months time and I—personally I can't see——

Mr. SMITH. Sold out as in closure.

Mr. PARKER. As if the OPEC nations decided that we were putting too much and weren't selling enough petroleum base to the United States, what would be the fastest way to increase that would be just to cut the production—increase the production or cut the price in crude oil in the United States, which our consumers would buy the cheapest regardless of the other economic advantages and put a real strain on the plants that we have and the people that have investments in these plants. I just think that we ought to be aware of that as other things.

Mrs. BOYDA. Would you yield, please, just a moment.

Mr. SMITH. Yes.

Mrs. BOYDA. But you're not suggesting that we have a price floor for oil. If the price of oil comes down that's a good thing. What you're suggesting is we have a price floor from an investment standpoint so people know if it goes below this that someway or another we are able to withstand that. Is that your suggestion?

Mr. PARKER. Yes, I'm talking, particularly, about imported oil, imported crude. Just protect the people that have their investments in ethanol plants. A number of people in rural areas have really invested heavily in these plants and I could see what 6 months would do.

Mr. SMITH. I mean, your written testimony, as well as your verbal testimony, did state the implementation of a price floor in oil imports. And I'm fearful of government intervening at the extreme cost to the consumer and especially ag producers. I was talking to a retailer the other day who talked about the price controls of the early 1980's saying that retailers could not make more than 30¢ per gallon. And when in actuality it was roughly a 5¢ margin and so what we found is everyone raising their margins up to 30¢ per gallon. That is extremely concerning to me and the advocacy of a price floor on oil imports does scare me. Thank you, Mr. Chairman.

Mr. PARKER. Can I make one comment, please.

Mr. ETHERIDGE. Sure.

Mr. PARKER. I guess, like I said, the Governor from Montana brought this up and I thought about it. I don't know if that is the thing that we need to use. I just think that you as Congress-people are really, you know, you're supporting bio-fuels and I am too, but I think we really need to be concerned about the investment we're putting in these plants and whether it's based on the floor of oil, we do have some type of a base on our wheat and our corn, *et cetera*, that is logical.

Mr. ETHERIDGE. Thank you. And let me thank each of our panelists today for coming and being—both panels. You've done an excellent job. I think this has been a good hearing and now I'm going to ask whoever will set the mic up. We're fortunate today to have with us the Kansas State Secretary of Agriculture, Mr. Adrian Polansky. And I would ask him to come forward and make any comments he would like to make before we close the hearing.

STATEMENT OF HON. ADRIAN J. POLANSKY, SECRETARY OF AGRICULTURE, STATE OF KANSAS, TOPEKA, KS

Mr. POLANSKY. Good morning, Chairman Etheridge and Members of the Subcommittee. Thank you for hosting the hearing today. Kansans are certainly proud to have two Members of this important Subcommittee: Ranking Minority Member Jerry Moran and Representative Nancy Boyda. Both have strong interests in success of Kansas agriculture.

As Kansas Secretary of Agriculture, an active farmer, father of an active farmer and daughter-in-law with two grandsons hopefully growing roots in that good Republic County soil for another generation, I represent a diverse agriculture that is a national leader in the production of wheat, corn, sorghum and soybeans. And as you know, we are a leader in livestock production. We're also moving toward leadership in cotton production. In 2005 we produced 87,700 bales of cotton placing us 17th in cotton production. We have also climbed to 18th in milk production. Cash receipts for our farm marketings were nearly $10,000,000,000 in 2005. And Kansas ranks 7th in food farm product exports, which were valued at $2.7 billion. I support the work of the Kansas Farm Bill Coalition and their consensus recommendations on the 2007 Farm Bill.

Kansas agriculture continues to be a significant contributor to the economic well-being of our state. We have an agriculture tradition and we believe the future lies in our fields.

Increasingly agricultural resources provide raw materials for a broad range of nonfood products such as chemicals, fibers, construction materials, lubricants and fuels. Bio-based and bio-energy products provide new and expanded markets for agricultural feed stocks. They will reduce our nation's dependence on petroleum and other imported materials and diversify our agriculture.

The farm bill is vitally important to the future of Kansas agriculture, to our nation's security and to our rural communities. Also, to be equitable, it must be tailored to fit diverse agriculture from Kansas to Florida to Alaska.

I will leave the budgetary issues to the Members of Congress and will focus on what I think deserves to be looked at to be a part of the legislation.

First and foremost, the provisions of the next farm bill must comply with the World Trade Organization rules of trade between nations.

After that we must ensure a viable safety net for farmers. Reducing the protection offered by the existing safety net is unacceptable. Production costs, including the cost of land, as you've heard, fuel, fertilizer and other inputs, have increased dramatically since the current farm bill was enacted. The reality is that we have already reduced dramatically the effective safety net since passage of the last farm bill. Crop farmers cannot survive in the future if we're going back to prices livestock producers were historically accustomed to, and that is a new reality.

Preparing for a new generation of farmers is a necessity, not an option. Beginning farmers are most at risk if the safety net is weakened. New farm policy must provide landowners with tax benefit for selling to beginning farmers. We must also streamline and enhance the Farm Service Agency beginning buyer finance program. Finally, we must allow beginning farmers equal crop insurance risk protection.

While the bulk of Kansas agriculture produces wheat, corn, soybeans, sunflowers and sorghum, the value of our specialty crop production has doubled in the last 5 years. The Specialty Crop Block Grant Program first established in the current farm bill should be enhanced. I also believe the Farmers Market Nutrition Program is worthy of enhancement, that risk management protection should be improved and that farm to cafeteria programs should be more firmly established. Risk management tools must continue to be improved and a permanent disaster program provision should be included in the next farm bill. Conservation costs to your program should be strengthened and a meaningful working lands program should be enacted.

It is time to look at enhancements to the Conservation Reserve Program. For the least fragile parcels of land enrolled in the CRP, USDA should allow up to ⅔ of those acres to be used to produce energy crops under no-till practices. I believe this has potential to enhance wildlife benefits and maintain the conservation impacts while providing an additional income for the farmer and freeing up additional Federal budget resources for CRP involvement of our most fragile lands.

Strengthening the viability of America's farm and ranch operations benefits the rural economy. A program that provides funding for local, state and farm level programs to encourage innovative marketing strategies, new business ventures and market or product development is needed. It is also imperative that we increase Federal investment in research of cutting edge technology to keep us competitive in the world market.

The farm bill also must make a strong commitment to an ongoing, aggressive, renewable energy initiative. We must move away from our dependence on foreign oil and reap the positive economic impact renewable energy holds for our environment and for our nation's farmers and rural communities.

Biotechnology can help answer the world's need for safer, more abundant and more nutritious foods. It can play a part in developing competitive cellulosic ethanol production and it can give us crops that require less water, important for states like Kansas.

USDA, FDA and EPA can help us reach those goals sooner with additional funding that will allow them to improve and speed up the permit approval processes.

Finally, we must eliminate the unfair prohibition on the interstate sale of state inspected meat to create new opportunities for small businesses in rural communities. It also is a matter of fairness, since our foreign meat processors that are considered equal to federally inspected plants may sell their products throughout the entire United States.

The upcoming debate on farm policy is an opportunity for us to develop policy that preserves existing food production, prepares for a new generation of farmers, and promotes new opportunities as agriculture continues to evolve to meet new needs. The challenge will be to accommodate many points of view without becoming polarized in our mission.

I thank you very much for the opportunity to be honored to present some comments this morning and certainly if there are questions, I'd be ready to stay after to address them. Thank you so much.

[The prepared statement of Mr. Polansky follows:]

PREPARED STATEMENT OF HON. ADRIAN J. POLANSKY, SECRETARY OF AGRICULTURE, STATE OF KANSAS, TOPEKA, KS

Good Morning Chairman Etheridge and Members of the Subcommittee.

Thank you for hosting this hearing today. We're proud to have two Members of this important Subcommittee: Ranking Minority Member Jerry Moran and Representative Nancy Boyda. Both have a strong interest in the success of Kansas agriculture.

As Kansas Secretary of Agriculture I represent a diverse agriculture that is a national leader in the production of wheat, corn, sorghum and soybeans. And, as you know, we are a leader in livestock production. We also are moving toward leadership in cotton production. In 2005 our growers produced 87,700 bales of cotton, placing us 17th in cotton production. We also have climbed to 18th in milk production.

Cash receipts for our farm marketings were nearly $10 billion in 2005, and Kansas ranks seventh in farm product exports, which were valued at $2.7 billion.

I support the work of the Kansas Farm Bill Coalition and their consensus recommendations on the 2007 Farm Bill.

Agriculture continues to be a significant contributor to the economic well-being of Kansas. We have an agricultural tradition, and we also believe the future lies in our fields.

Increasingly, agricultural resources provide raw materials for a broad range of nonfood products, such as chemicals, fibers, construction materials, lubricants and fuels. Bio-based and bioenergy products provide new and expanded markets for agricultural feedstocks. They will reduce our nation's dependence on petroleum and other imported materials, and diversify our agriculture.

The farm bill is vitally important to the future of Kansas agriculture, to our nation's food security and to our rural economies. Also, to be equitable, it must be tailored to fit diverse agricultures—from Kansas to Florida and Alaska.

First and foremost, the provisions of the next farm bill must comply with World Trade Organization rules of trade between nations. After that, we must ensure a viable safety net for farmers. Reducing the protection offered by the existing safety net is unacceptable. Production costs, including the cost of land, fuel and fertilizer, have increased dramatically since the current farm bill was enacted. The reality is that we have already reduced the effective safety net significantly.

Preparing for a new generation of farmers is a necessity, not an option. Beginning farmers are most at risk if the safety net is weakened. New farm policy must provide land owners a tax benefit for selling to beginning farmers. We also must streamline and enhance the Farm Service Agency's beginning farmer finance program. Finally, we must allow beginning farmers equal crop insurance risk protection.

While the bulk of Kansas agriculture produces wheat, corn, soybeans, sunflowers and sorghum, the value of our specialty crop production has doubled over the last 5 years. The specialty crop block grant program, first established in the current farm bill, should be enhanced. I also believe the farmers' market nutrition program is worthy of enhancement, that risk management protection should be improved, and that farm-to-cafeteria programs should be more firmly established.

Risk management tools must continue to be improved, and a permanent disaster program provision should be included in the next farm bill. Conservation cost-share programs should be strengthened, and a meaningful working lands program should be enacted.

It is time to look at enhancements to the Conservation Reserve Program. For the least fragile parcels of land enrolled in the Conservation Reserve Program, USDA should allow up to ⅔ of those acres to be used to produce energy crops under no-till practices. I believe this has the potential to enhance wildlife benefits and maintain conservation impacts, while providing additional income for the farmer and freeing up additional Federal budget resources for more CRP enrollment of the most fragile lands.

Strengthening the viability of America's farm and ranch operations benefits the rural economy. A program that provides funding for local-, state- and farm-level programs to encourage innovative marketing strategies, new business ventures and market or product development is needed. It also is imperative that we increase Federal investment in research of cutting-edge technology to keep us competitive in the world market.

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Biotechnology can help answer the world's need for safer, more abundant and more nutritious foods; it can play a part in developing competitive cellulosic ethanol production; and it can give us crops that require less water. USDA, FDA and EPA can help us reach those goals sooner with additional funding that will allow them to improve the permit approval process.

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The upcoming debate on farm policy is an opportunity for us to develop policy that preserves existing food production, prepares for a new generation of farmers and promotes new opportunities as agriculture continues to evolve to meet new needs. The challenge will be to accommodate many points of view without becoming polarized in our mission.

Mr. ETHERIDGE. Mr. Secretary, thank you for your comments and they will certainly be a part of the record. We appreciate that. Let me also thank again our panelists and all those who have been present. Before we close, I'm going to ask the Ranking Member, a good friend, if he has any closing comments he'd like to make.

Mr. MORAN. Mr. Chairman, thank you very much. Again I thank my colleagues for making the effort to be in Kansas and to listen to Kansas farmers and ranchers. I know that Nancy and I have very much appreciated the extra effort that you made to be here personally.

My assumption is that if anyone has any written testimony they would like to present to the Subcommittee, it will be made a part of the record and they need to present that to the Committee staff within the next 10 days; 30 days, 30 days it won't be too late. I started to believe those time frames in Washington; 30 days will be fine.

I also wanted to point out how much effort has gone in in Kansas to our farm groups, both Farmers Union and Farm Bureau, as well as all of our commodity groups coming together to create a coalition and to develop a uniform set of positions in regard to the next farm bill. That's very much appreciated.

We have three Kansans who are serving in national offices, national leadership: Greg Schelor is here. Just recently the National Chairman of the Grain Sorghum Producers. John Thaemert is here. He's the President of the National Association of Wheat Growers. And we have Ken McCauley, who is the President of the National Association of Corn. I didn't say the right words: National Association of Corn Growers. Thank you. And so Kansas is well represented on a national level, but I know again that Nancy and I would very much appreciate any input, advice and suggestions from any and all of you as we try to figure out what we do on behalf of Kansas agriculture.

And I know that not every Kansan is a farmer or rancher, but there is not a Kansan who will not be affected by this piece of legislation. And there is no more important piece of legislation, no more important bill that will work its way through Congress this year that will affect the Kansas economy than this one. And so any help that you can give us to make sure that we have our feet on the ground and an understanding of what's important and what matters to get the job done as best we can would be greatly appreciated.

And again I appreciate the dose of Kansas common sense and good judgment that we have right before we leave for our nation's capital. It's a good thing. Thank you very much, Mr. Chairman.

Mr. ETHERIDGE. Before we close, let me again thank each of you for coming. Thank Jerry and Nancy for their hospitality and for yours. They've done a lot of work in helping pull together witnesses for our staff and the hospitality of Kansas is as I'd always expected it to be when I visit here.

And let me, I guess, expand what Jerry said. He said—he was talking about Kansas. The truth is this bill will affect every American. Whether they farm or not, they are consumers in one way or another. And it really reaches outside the borders of the United States for people around the world who really depend on American food products to separate them from hunger. So this is an important piece of legislation and certainly your input is appreciated.

Under the rules of the Committee, the record of today's hearing will remain open for 30 days to receive additional material and supplemental written response from witnesses to any questions posed by a Member of the panel and any other materials you may want to share and with that ladies and gentlemen——

Mr. SMITH. Just briefly, I promise. I made a joke about the Nebraska/Kansas State rivalry, but a great example of how we can work together——

Mr. ETHERIDGE. That will cost you greatly.

Mr. SMITH.—is last year I toured the wheat research facility in Manhattan. Great opportunity not just for Kansas but to Nebraska wheat growers as well and we can share information. So I know that working together we can accomplish a lot. Thank you.

Mr. ETHERIDGE. He's trying to get out of the ditch. And when you're the state next door you want to get out of the ditch real quick.

Mrs. BOYDA. Amen.

Mr. ETHERIDGE. Okay. With that this field hearing of the Subcommittee on General Farm Commodities and Risk Management stands adjourned. Thank you.

[Whereupon, the Subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

PREPARED STATEMENT OF WILLIAM V. "BILL" HANSON, CHAIRMAN, CROP INSURANCE PROFESSIONALS ASSOCIATION, WASHINGTON, D.C.

Chairman Etheridge, Ranking Member Moran and Congresswoman Boyda:

I want to thank you for holding this important hearing here today. The policies that you have responsibility for have a direct and dramatic impact on so many people's lives, and I think it is appropriate that have this hearing among us, and greatly appreciate your listening to the needs and concerns of rural America.

I am Bill Hanson, and I have worked with and among farmers and the agricultural industry for most of my life. For the last 25 years, I have been involved with Crop Insurance at the state and national levels, working for FCIC/RMA and in the private industry as an agent, I also currently serve as Chairman of the Crop Insurance Professionals Association (CIPA), an association of agents from around the country who are dedicated to service and the success of the crop insurance program.

As you embark upon the writing of a new farm bill, I want to emphasize the importance of our Federal Crop Insurance Program, and urge the Committee to be very careful not to undermine the program which is providing incredibly valuable risk-management tools for farmers.

Before getting into this any further, I should note that whereas the farm bill expires in September of 2007, and therefore must be reauthorized, the Federal Crop Insurance Act does not sunset. Crop Insurance has been deliberately kept separate from the farm bill because: (1) it is not meant to be viewed as a government program like the farm bill; and (2) it is a complex public-private partnership that should be considered separately and carefully.

However, knowing that money (or lack of money in terms of the Federal budget) is an issue in the farm bill, and knowing that some are viewing crop insurance as a potential bank or source of offsets for other spending needs in the farm bill, I think that it is important people understand: (1) why the crop insurance baseline has increased; and (2) what are the potential ramifications of trying to take money out of the program—the point being that Crop Insurance is the wrong place to go for money needs in the farm bill.

The reason the crop insurance baseline has increased is two-fold. First, it is because of the success of the program—more and more farmers are purchasing higher levels of insurance. This is exactly what Congress intended in 2000 when it passed the Agricultural Risk Protection Act (ARPA). Second, the increased commodity prices that farmers are enjoying means more risk to insure, which means higher premiums and therefore more premium subsidy which the government provides. The fact is that if a corn loss is sustained this year, instead of being indemnified at $2.00 per bushel for non-revenue policies or $3.03 per bushel for revenue policies (last year's market), the producer will be indemnified at $3.50 per bushel for non-revenue policies or $4.06 per bushel for revenue policies (this year's market). It speaks volumes that even though premiums have increased this year, most farmers are still buying up at the same levels—they haven't dropped coverage levels to make up for the increased cost—to me this says that they still find insurance to be necessary and a good deal. In any case, it would seem unwise to penalize the program for its success.

The point is, to the extent you take away from either the delivery system, or the levels of support in the crop insurance program, the result could very well be a retreat from the ground we have gained since 2000, and an actual weakening of the farm safety net at the very time we are wanting to strengthen it. Is this really the goal of the farm bill?

Crop Insurance today is an incredibly valuable risk management tool for the farmers I serve. Don't misunderstand—the three-piece safety net of the 2002 Farm Bill is also important, but it is designed to provide a safety-net in times of low prices. Crop Insurance on the other hand is designed to be tailored to the particular risks on the individual farm, and the particular market risks of the day—and that is why it is so important for helping farmers mitigate and manage their real risks this year, when prices are generally high.

Revenue products (CRC, RA) have allowed farmers not only to cover production risks, but market risks (declining prices) as well. These products not only allow you to protect down-side risks on both the production and market side, but it also provides the security needed to capture opportunities in the market. For example, many farmers have contracted corn 3 years out at great prices—and it is the Crop Insurance products that give them the certainty to do this.

Finally, I think it is worth noting that the structure of the Crop Insurance program is no doubt a reason for its success—the partnership between the Federal Government and private companies which makes the products affordable; and the service-based competition among the agents who explain the products and provide essential advice in their service to farmers is critical.

Farmers generally have challenges enough in managing their farm—and so it is helpful to have an agent who is surveying the many policies and products that are available and helping tailor those products to the particular needs of the farm. Good agents are particularly critical when storms come—as they inevitably do—and the farmer sustains a loss. Having an experienced agent who can manage the claim during these times is invaluable.

In summary, while crop insurance isn't new, it is more important than ever to thousands of farmers. The ability to tailor coverage to each individual operation, obtain coverage at a meaningful level and affordable price, secure the coverage from a local, trusted insurance professional, and know that the coverage is in place and the fact that it can be counted on for financial planning purposes all combine to make crop insurance the cornerstone of many farmers' financial and risk management plans. These benefits of crop insurance always have and will continue to account for the success and acceptance of the program.

Again, I want to thank you for the opportunity to appear before you today and prepare these remarks for your consideration.

PREPARED STATEMENT OF JOE KEJR, PRESIDENT, KANSAS ASSOCIATION OF WHEAT GROWERS, BROOKVILLE, KS

Dear Honorable Chairman Etheridge and Subcommittee Members,

Thank you for the opportunity to provide written testimony regarding the 2007 Farm Bill on behalf of the wheat grower members of the Kansas Association of Wheat Growers (KAWG). We have several members in the audience today who recognize this legislation's large impact to the agricultural communities of Kansas. Our testimony provides an overview of our state's wheat industry, our policy recommendations for the programs of the commodity title programs, as well as several recommendations for crop insurance.

On average, Kansas is the largest wheat producing state. Nearly ⅕ of all wheat grown in the United States is grown in Kansas; this is why it is called the "Wheat State". Kansas is also the number one in flour milling in the United States.

Kansas produces hard winter and soft winter wheat. Winter wheat planting in Kansas takes place in the fall, from late September through October. In the spring, the wheat comes out of dormancy with the warm weather and spring rain and grows to maturity. Kansas wheat is harvested in the summer, from late May through early July.

Kansas wheat producers deliver enough wheat each year to bake 36 billion loaves of bread and enough to feed everyone in the world, over six billion people, for about 2 weeks. One acre of Kansas wheat produces enough bread to feed nearly 9,000 people for 1 day, and we plant more than 10 million acres per year.

The Kansas wheat industry is not only essential for feeding the world but looks forward to contributing wheat straw into cellulosic ethanol production in the near future. Maintaining our wheat industry contributes nearly 20,000 jobs, $1.9 billion to the state's economy and the heritage that comes with being the "Breadbasket of the World".

Through our policy development process, Kansas wheat growers participated in producing the National Association of Wheat Growers (NAWG) Title I Proposals which recommend a direct payment for wheat to be increased to $1.19 per bushel and that the target price be increased to $5.29 per bushel, while maintaining the marketing loan program as currently structured.

This level is needed to provide an adequate safety net for wheat. Since 2002, wheat growers have ONLY received direct payments, not counter cyclical or LDPs. Two-thirds of Kansas wheat producers surveyed identified the Direct Payment as the most important program for their wheat operation. These fixed, reliable payments are non-trade distorting, depended upon by lenders for farm financing, and do not evaporate in a drought.

According to USDA data, historical input costs for 2005 and 2006—the most representative of forecast production costs over the term of the next Farm Bill—averaged $215.79 per acre. The average yield, on the other hand, has stayed around 38 to 42 bushels. Using these numbers, the average cost to produce a bushel of wheat is around $5.29 while the average market price over the term of the 2002 Farm Bill has been approximately $3.40 (2003–2005). While most wheat growers purchase crop insurance and rely on it heavily, affordable coverage is typically limited to 65 to 70 percent of expected yield. Wheat growers expressed concern, therefore, about ensuring that a safety net exists for the other 30 to 35 percent of the crop. By providing a safety net to wheat growers of $1.19 per bushel in the form of a direct payment, Federal farm policy can assure growers, their families and their bankers that they have a predictable and dependable safety net.

KAWG has examined a number of revenue assurance programs but has yet to find one that will provide adequate support for wheat growers. These programs do not work well in areas like Kansas where we have widely variable climatic conditions and agriculture production yields. Because of those variable factors many Kansas crop acres are planted to wheat, a crop that endures those conditions. In order to meet WTO obligations, these programs are normally capped at 70 percent coverage—not viable coverage of risk from a business perspective.

In fact, if a revenue assurance program had been a component of the 2002 legislation, wheat growers would have received a small payment in only 1 out of the past 5 years. This is the same period of time that Kansas wheat farmers have incurred multiples crop disasters due to drought, flood and freeze. Thus none of the revenue scenarios that have been presented to this point provide any "safety net" for Kansas wheat farmers.

Over the past 7 years, Kansas producers have developed an intimate relationship with crop insurance and this year we continue to have that connection. These experiences have gone into these policy recommendations for crop insurance.

Through the drought western Kansas wheat producers have seen a significant decline in their t-yields. We join 20 other Kansas agricultural organizations in supporting that if a county is declared as a disaster, then the Risk Management Agency would plug in full t-yield or the farmer's actual production history (APH), whichever is higher. This drought has also brought forward concerns with production history that combine continuous and summer fallow fields in the same unit. These are two separate production techniques that result in their own production history and they should not be lumped together. Additional concerns regarding production history include the ability to keep this history in situations where producers develop a cash rent arrangement with their landlords as they do with a share rent relationship. Finally, we believe that longer production histories result in more stability with regard to crop insurance claims.

Through this year's Easter freeze to central Kansas' wheat crop, we have identified a need to redefine when a crop is heading vs. headed. In adjusting the crop for damage prior to the crop being headed, adjusters count every green tiller as tillers that will continue to produce to maturation. Wheat producers are well aware that this is never the case and that continued development of the plant will result in only a fraction of those tillers developing to full maturity. This procedure should be adjusted for scientific and actual production knowledge. Additionally, the RMA determination for a second crop on that field is too late. We would propose that RMA work with respected researchers to come up with more accurate date for determination of heading date.

Administratively, our producer members recommend that RMA have state offices, similar to the Farm Service Agency and the Natural Resources Conservation Service, for closer contact with producers rather than regional offices. We would also suggest the inclusion of a state producer review Committee for this agency.

Finally, we would like to share our support of Congressman Moran's proposed amendments to the Conservation Reserve Program (CRP) and Conservation Reserve Enhancement Program (CREP). CRP has had a large impact on the state of Kansas and our rural communities with 3 million acres enrolled over the 20 years of the program. By allowing the harvesting of biomass resources from CRP acres for ethanol production, we will further our country's goal of energy self-sufficiency as well as add to the economic development in our rural communities.

Additionally, our state has developed a CREP for water conservation of the Ogallala Aquifer. Our rural communities developed with irrigated agricultural production and this plan for conservation will have a dramatic effect on them. Allowing dryland agricultural production on acres enrolled into this CREP will accomplish the goal of reducing irrigation through retiring over-allocated water rights while transitioning these economies into this lower input production option. Dryland production will support the local rural economy through continued agricultural production.

Sincerely,

JOE KEJR,
President.

PREPARED STATEMENT OF PAUL PENNER, VICE PRESIDENT, KANSAS ASSOCIATION OF WHEAT GROWERS, HILLSBORO, KS

Dear Honorable Chairman Etheridge and Subcommittee Members,

Thank you for the opportunity to provide written testimony to the Field Hearing held Tuesday, June 5, 2007 at the Campus Center at KSU Salina, 2310 Centennial Road, Salina, KS. We would like to provide our response to further inquiry of the panelists regarding the 2007 Farm Bill on behalf of the wheat grower members of the Kansas Association of Wheat Growers (KAWG).

The discussion at the hearing included the impact of higher grain prices on operations with grain and livestock segments. As wheat producers we appreciate receiving higher prices for our crops in the marketplace but it does not lessen the importance of having a reliable safety net for agriculture production during low price cycles. During these up-cycles in crop prices, livestock producers choose wheat as feed grain and as a grazing option for livestock nutrition.

Much discussion was held on the impact of government program payments on land values. All the value of agriculture land whether from the marketplace, program payments or recreation is eventually capitalized into value and rents. Land is a highly valued asset in our country as a stable investment and as valuable collateral for production agriculture that depends upon financing. Wheat producers have identified direct payments as a reliable system of Federal support for maintaining agriculture production on our land.

The panelists clearly reiterated the importance of direct payments as compared to loan deficiency payments and counter cyclical payments. The wheat producers of Kansas have depended on these payments through the weather and market cycles of agriculture production and we insist that these payments be strengthened in the next farm bill.

Regarding the discussion about repealing capital gains tax, wheat growers support the reduction of capital gains taxes. Additionally, some of the discussion of the Subcommittee meeting focused on potential incentives for young and beginning farmers. We would support a lower capital gains tax for land transfers and capital purchases to qualified beginning farmers. A capital gains tax incentive to sellers who transfer land and capital to a beginning buyer would assist with one of our primary concerns in agriculture, the future generation of producers.

Regarding payment limits, wheat growers oppose further payment limitation reductions and would request a commensurate increase in the payment limitation to accommodate the direct payment increase.

Thank you for this opportunity to provide comments.

Sincerely,

PAUL PENNER,
Vice President.

PREPARED STATEMENT OF KEN WINTER, PRESIDENT OF THE BOARD, KANSAS CATTLEMEN'S ASSOCIATION, JUNCTION CITY, KS

On behalf of the Kansas Cattlemen's Association, I appreciate the opportunity to provide comments on the challenges of Kansas agriculture as it relates to the farm bill. Kansas has a rich history of agriculture and is the second largest cattle producing state in the country. With over six million head of cattle in production each year, producers have a vested interest in the farm bill and current legislation.

Background

Since 1994, more than 122,000 cattle ranches and farms have closed down or left the beef cattle business.[1] In 1997 the average family farm consisted of only 487, and farming and ranching families often depend on off-farm income for their livelihood.[2] The rancher's share of each retail dollar earned on beef was 47¢ in 2005, down from 56¢ in 1993.[3]

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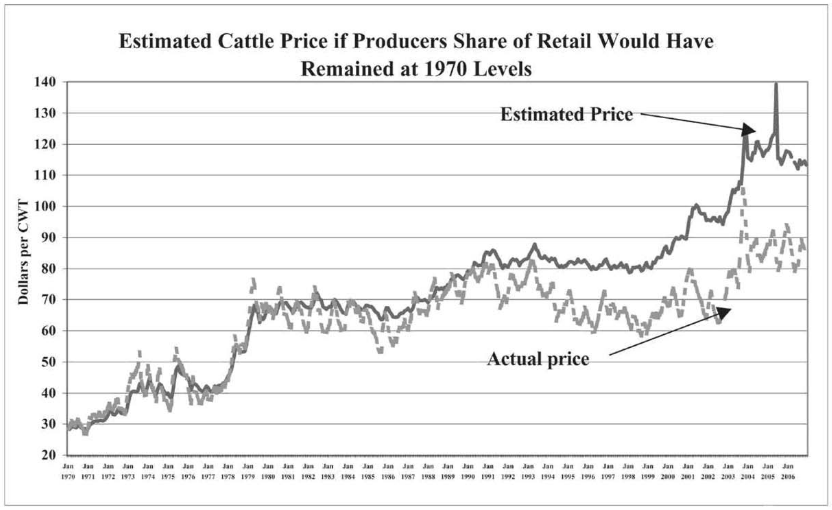
[1] U.S. Department of Agriculture, National Agricultural Statistics Service Agricultural Statistics Database, *U.S. and All States Data—Cattle and Calves*, 1994–2005.

[2] U.S. Department of Agriculture, Economic Research Service, July 9, 2002.

[3] USDA Economic Research Service, "Beef Values and Price Spreads," available on-line at*http://www.ers.usda.gov/briefing/foodpricespreads/meatpricespreads/*.



Source: USDA

Family producers are efficient; however, control of the agriculture industry by large corporations has adversely affected family production. Independent cattle producers are at the mercy of large corporate packers. The Packer's and Stockyards Act was introduced in 1921 to protect producers from of a small number of meat packers controlling the livestock markets. The act bans price discrimination and manipulation, and other unfair and deceptive practices; yet the Packers and Stockyards Act has not been enforced as acknowledged by the USDA Inspector General. His report detailed the failure on the part of the Grain Inspection, Packers and Stockyards Administration to enforce the Packer's and Stockyards Act.

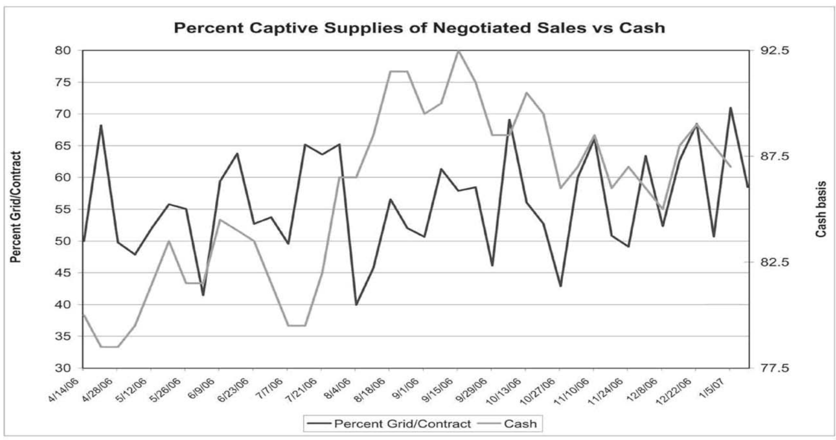
Examples Within the Feeding Sector

As a commercial cattle feeder I find it increasingly difficult to find real competition in the fat cattle markets. We are located in Dodge City, Kansas where there are two packing plants with in 2 miles of our front door, another located 70 miles to the south at Liberal, and one 60 miles West by Holcomb, Kansas. These plants have a slaughter capacity of well over 15,000 head per day. We have a thirty thousand head, one time capacity, feed yard and market from 1,000 to 3,000 head of live cattle to the packers each week. Our location would seem to be in the heart of demand for South West Kansas, but not so.

Each week we put out a list of market ready cattle for the three packers, Excel, Tyson, and Farmland, to look at and bid on. Twenty years ago when the same physical facilities were owned by Excel, Hy Plains Dressed Beef, National, and IBP, we had four bidders weekly in our yard. Sometimes sleeping out overnight just to be first to get a list and bid on our cattle. Today IF three buyers show up at the yard they will come in Monday, Tuesday, or Wednesday, and more to get an inventory of available cattle in the industry than to bid on cattle.

Excel is the only packer that consistently shows up each week with a bid on our cattle. National has not been to our yard for maybe 6 months, Tyson comes in most every week. Tyson and Excel show interest and indicate a willingness to buy cattle most every week, but when the trade takes place only Excel is timely with a true market bid while Tyson will call after the trade takes place to see if we have anything left over to sell at a discounted price. National would take all cattle that we would turn in on their grid or at the high of the week, but we refuse to sell that way. National's grid cattle must be turned in on Tuesday, before any trade takes place, National has the right to start slaughtering the cattle Wednesday, again before any trade has been established, and the cattle are then priced according to their performance in the packing plant but based off of the cash price to be established sometime later in the week. You give the cattle to the packer and have no idea what the price might be. This is a far cry from having packers camp out on your door step just to get in line to bid.

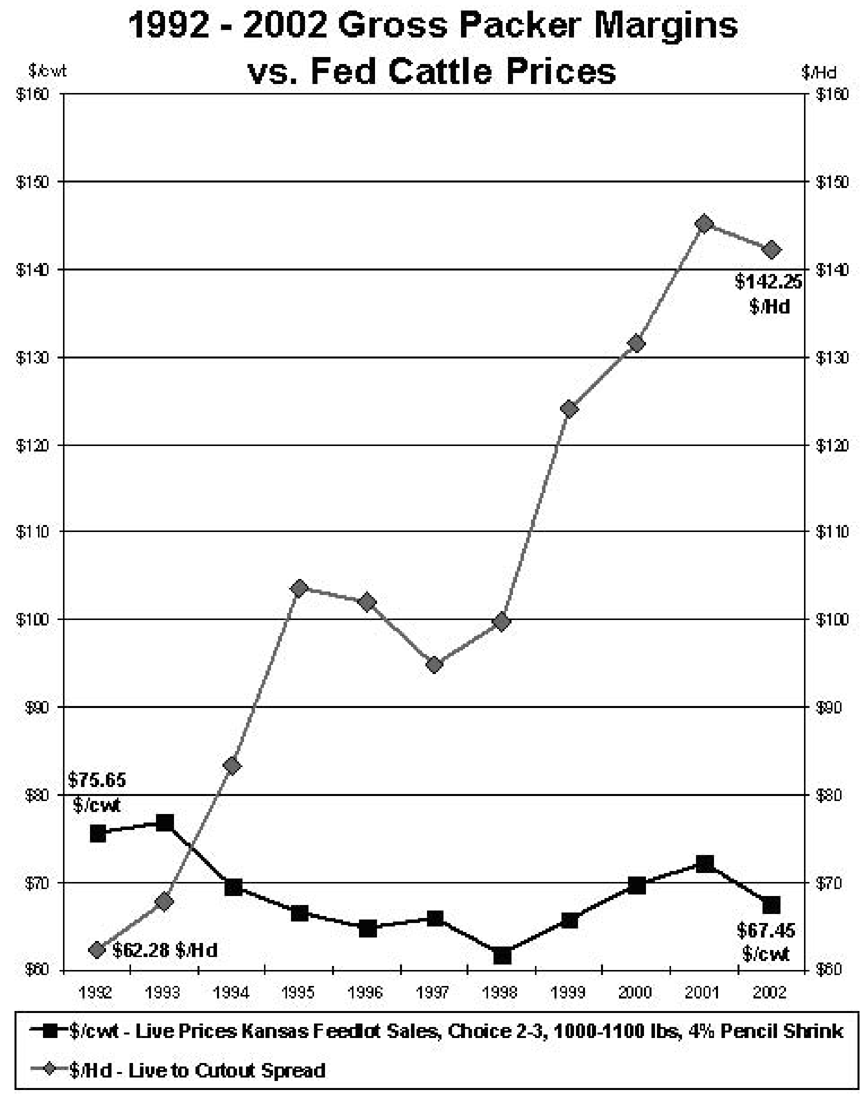
In the industry today there are many undisclosed deals between packer and producer all with the promise of getting more money for the producer who enters into these arrangements but with no regard to the overall lowering of the market through reduced competition. Branded products are an excuse used by the packers to justify their arrangements to procure a consistent supply and quality of cattle. When in fact what this does is keep the packer from competing in the cash market to out bid other packers for these cattle. Producers will supply through breeding, feeding, sorting, or verifying what ever the packer is willing to pay most for. But the packer has found out that if he pays the same price for all cash cattle regardless of quality that he can drive producers into grid, formula, and branded programs to receive a premium over cash which encourages the best cattle out of the cash market leaving the lesser quality cattle to set the price on all cattle.



Source: USDA

The reported cash market in my opinion/experience is much less than what is reported. When you take into consideration cattle sold at the high of the week and other similar undisclosed arrangements, cash may be as thin as 25–30% of cattle sales on any given week. If transactions took place like this on the CME or the CBOT people would go to jail, just ask Martha Stewart. When you drive on the highways across our country you must obey the laws for the protection and safety of all, as cattle producers we ask nothing more. We need enforceable rules that allow everyone to know what is going on. We need to know what is trading, to whom, at what price, and when. All need access to the market who have like product. Special deals, that include some and exclude others does not provide fair equitable access to the market place.

The Kansas Livestock Association always responds with "we are not going to tell our producer how to sell cattle" which is the same as promoting these under the table deals between packer and producer which limits what other producers can do. Cattle need to sell in an open market system, where all hands are on the table.



Opportunities for Congress

It is imperative that the Congress mandate and ensure the proper enforcement of the Packers and Stockyards by establishing an Office of Special Counsel at USDA to oversee both investigations under, and enforcement of the Act. It is essential that Congress amend the P&S Act to prevent unfair or deceptive practices, to define "unreasonable preference or advantage," and to correct a recent misinterpretation by the U.S. appellant court system: a meatpacker should not be allowed to avoid the P&S Act's jurisdiction by claiming it engaged in unfair market practices (that are harmful to the economic wellbeing of producers) in order to maintain competitiveness with other meatpackers, that are likewise engaged in the same unfair practices. Producers need to be assured that Congress will not allow unfair and anticompetitive market behavior to take place.

To maintain and increase the cash value of cattle, there needs to be an increase in competition and an enhancement of fair practices in the industry. Steps need to require a certain percentage of daily slaughter to be purchased from the cash market. Congress needs to ensure that there is transparency among contracts between packers and producers. Competition is imperative to the livelihood of independent producers.

PREPARED STATEMENT OF KURT KOCHER, CLOUD COUNTY PRODUCER, GLASCO, KS

July 5, 2007

To Jerry Moran and Nancy Boyda;

The farm bill expires in Sept. of 07 and several things need to be continued in the new draft. Winter wheat will be planted as the new bill will be implemented, it concerns me that the crop insurance program which is an integral part of **our** marketing program, may change. This change may affect the way we do our risk management. Some of the area farmers were not aware there was a possibility of doing away with the subsidizing of their premiums. Their initial response was dropping it all together. *I don't believe this is the right answer.* I equate it to a car that is out of gas and has a flat tire, you put in gas and fix the tire, you don't shove it off the cliff. The costs that producers have to cover have continued to increase dramatically in the last year or so. Current crop prices will help offset expenses, to hopefully realize a respectful margin. What about future expenses and prices?

The bottom-line is this: continue to support the crop insurance program and work to enhance it to make it a better risk management tool for producers to use. With good risk management by ALL producers a disaster assistance program would no longer be necessary.

Respectfully submitted.

KURT KOCHER,
Cloud County Producer.

PREPARED STATEMENT OF EDIE DAHLSTEN, VICE PRESIDENT, KANSAS FARM BUREAU, MANHATTAN, KS

Chairman Etheridge and Members of the Subcommittee on General Farm Commodities and Risk Management, welcome to Kansas! Thank you for the opportunity to appear before you today and share the views of Kansas' farmers and ranchers as we enter this critical time for American Agriculture. My name is Edie Dahlsten and I serve as the Vice President of Kansas Farm Bureau.

Kansas Farm Bureau is the state's largest general farm organization, having 40,000 members who actively earn their living from farming and ranching. Additionally, Kansas Farm Bureau is part of a nation-wide organization, the American Farm Bureau Federation, consisting of over six million members from all fifty states and Puerto Rico.

My husband and I operate a 3rd generation family farm in McPherson County, Kansas where we produce wheat, soybeans, milo and corn on a 100% no-till operation. In 2000 we closed out a successful farrow-to-finish swine operation and changed our grain operation entirely to the no-till system. We, like so many in this part of the state, understand the all too recent reality of the challenges Mother Nature—farming's best friend and worst enemy—can inflict on agriculture. Early this year we were optimistic and excited about the prospects for 2007. The wheat was beautiful, a full profile of moisture was ready for spring crops and in many parts of this state, agriculture was set for a banner year. The challenge began on Easter weekend, when much of the state experienced several days of crop-killing temperatures. The central part of the state—where you sit today—has been the most devastated with estimates of as much as 50% to 100% loss in many fields.

We are here today to talk about how you can help best position production agriculture across Kansas and the nation to combat the unknowns at home and in the world marketplace. With that in mind, I want to share with you several solutions that Kansas Farm Bureau supports as you move forward in your discussions about the reauthorization of the farm bill. It is important to note that we like many other groups support the basic structure of the 2002 Farm Bill—it has worked well for many and can continue to provide with us with a strong foundation going forward.

Supporting the Structure of Farming

Solid foundations are important to success. In farming, operators rely on direct payments, counter-cyclical support, and marketing loan payments as the foundation for their businesses. The three-legged structure of our current safety-net should be maintained.

Direct payments represent a $5.2 billion investment according to the CBO baseline. This investment helps farmers meet the day-to-day capital requirements on their farms and ranches and provides consistency in net farm incomes. Direct payments provide stability which insures production agriculture against the inconsistent nature of commodity prices caused by fluctuations in the world market or weather. In the end, U.S. consumers benefit in that their small investment provides consistently affordable food, fiber, and increasingly, fuel. We support continuation of this essential element of the current program.

While the Counter-Cyclical program of the 2002 Farm Bill has worked well in many instances, producers who have experienced yield reductions due to weather in times of higher prices have not benefited from the program. This is especially true in the northwestern counties of Kansas, where 6 to 7 years of drought conditions have resulted in few bushels harvested in a time where prices, especially for wheat, have been high, resulting in few payments when many producers needed them most. Likewise, at times, other producers have received payments when yields have risen but prices have been low so payments have been made even though farmers may not have needed the support.

For those reasons, Kansas Farm Bureau supports the implementation of a revenue-based counter-cyclical program where payments would be triggered by a shortfall in state crop revenue rather than a shortfall in the national average price. This modification would allow the counter-cyclical payment to fulfill its roll as a key component of the farm safety net.

Assistance for Those Who Need It

One need not travel far from here to see the impacts of weather related disaster and thus the need for permanent assistance for those producers impacted. As you're already aware, the current practice of ad hoc assistance seems to have run its course—they are difficult to pass and public perception is not necessarily well informed nor is it favorable. Kansas Farm Bureau supports the development of a county-based catastrophic assistance program available in counties with sufficient adverse weather to be declared disaster areas. The program, proposed by the American Farm Bureau Federation accomplishes several goals. First, by re-rating crop insurance and using a minimal producer fee, it provides coverage within existing budget baselines. As you all have heard as recently as the fall of 2006 from our President Steve Baccus, KFB is not completely enamored with the current structure or state of the crop insurance industry. We believe that in addition to the benefit of a permanent catastrophic assistance mechanism you also have the opportunity to inject competition and affordability into the crop insurance system during this process.

Second, the AFBF catastrophic assistance program would focus on losses below 50 percent of normal production for all crops—providing producers of any commodity with a baseline of coverage and protection. Additional crop insurance coverage could then be purchased up to traditional levels of coverage providing protection against production shortfalls.

Ultimately, we believe that ensuring farm revenue through the counter-cyclical proposal above when combined with the standing catastrophic assistance program just discussed will result in an integrated and affordable farm safety-net for American producers. A shift which makes our producers better positioned to succeed in a global agricultural market.

Accessing Markets and Trading Partners

Part of the challenge in farming and ranching, like any business, is in identifying and securing consumers for our products. That need for new and expanding markets implies our participation in the WTO process. While some have begun these discussions with the concept that the United States should re-align its farm programs in anticipation of compliance with a future agreement in the stalled talks, we believe that approach to be premature. One of the tenants of our farm policy has always been its ability to level the playing field in the global market. We should not amend that practice based on unknown outcomes of the negotiations. Farmers and ranchers are willing to lower farm program payments as part of the WTO negotiations only when we can secure opportunities to sell products overseas.

Second, until that agreement is finalized, we believe that it is critical to continue to provide Trade Promotion Authority to the President to facilitate our ability to identify and negotiate access to the markets of individual nations. Through this authority, we can continue to pursue opportunities in an efficient and effective manner until broader agreements can be reached.

Flexible Conservation and Energy Opportunities

While we realize that this is not the Subcommittee with jurisdiction over conservation or energy. However, it's not often that we have the opportunity to entertain Members of the House Agriculture Committee. Given that we wanted to mention several priorities of Kansas Farm Bureau in other areas.

First, it's important to note that our membership is well aware that stewardship of the land and success in today's market are linked. With the rising cost of fuel and fertilizer it only makes sense to employ farming practices that minimize those input costs. To that end, many of our members have and continue to employ no-till and minimum till practices, participate in CSP and EQIP, and to look for opportunities to maximize their values through enhanced water conservation.

It's the opportunity for water conservation that we are most concerned about today. The State of Kansas recently began negotiations with USDA to establish a Conservation Reserve Enhancement Program (CREP). The goal of that program was water conservation, and the target was an area of the state, above the Ogallala Aquifer, where water levels have declined to a critically low level. Part of the proposal would have allowed producers to dry land farm enrolled acres—this was rejected by USDA. We would ask for your assistance in clarifying the law so that where the goal of the CREP is water conservation, dry land farming could be allowed by USDA.

The second conservation issue that we wanted to mention today is the concept that bio-mass products such as switch grass could be grown and harvested from CRP acres. We're also supportive of this change which will facilitate continued expansion of the growing renewable energy segment.

Finally, KFB believes that the new opportunities in energy represent a part of the future of agriculture and rural America. We've signed on as a partner in support of the 25 X '25 initiative in hopes that as a nation we will continue to pursue this important initiative. We also believe that the current farm bill debate provides new opportunities to fund innovative research into cellulosic ethanol and other renewable sources.

Rural Development—Positioning for the Future

The need for new markets, development of new products, and identification of new economic opportunities has never been more prevalent than it is in rural America today. Many of our communities have experienced over a century of out-migration resulting in the loss of youth, leadership, and the reality that at the passing of the current generation, vast amounts of wealth will transition from rural areas to the cities and suburbs.

While current funding within the Rural Development Title benefits infrastructure and health care access—both important to rural communities, we believe that those dollars should be refocused to support development of entrepreneurial activity, identification and encouragement of leadership, recruitment and retention of young people, and the creation of opportunities for local wealth generation and philanthropic activity. These tools will enable rural communities to create a bright future using existing resources and human capital.

Conclusion

Thank you once again for the opportunity to share the views of our members. We realize that there are no easy solutions to many of these issues, and that there are many who simply favor shifting funding from currently successful programs that equip our members for success. We believe that there are workable solutions and that consensus can be reach in a way that maintains production agriculture as a vibrant and productive component of our economy and our nation. Kansas Farm Bureau stands ready to assist as you seek solutions for America's farmers and ranchers.

Thank you.

For more information please contact:

EDIE DAHLSTEN,
Vice President,
Kansas Farm Bureau,
Manhattan, KS 66503;

TERRY HOLDREN,
National Director,
Kansas Farm Bureau,
Topeka, KS 66612.

PREPARED STATEMENT OF DARYL A. LARSON, FARMER AND RANCHER, MCPHERSON, KS

June 5, 2007

Rep. Jerry Moran and the House Agricultural Committee,

In light of all the complaining from the large livestock and poultry producers as well as from some of the food processors and retailers about the price of corn and other grain and oil seeds being too high, I would like to offer the following suggestion. The powers to be in Washington, D.C. need to decide if they want to keep the price of agricultural commodities low so that feed and food stays a little lower or if they want the agricultural producers to get a fair price from the market. Just remember, as you probably already know, that our cost of production has increased dramatically because of the increase in price of fuel, fertilizer, equipment, insurance, etc. If you choose to try to keep the price of commodities low to please the people that are complaining, then remember we will have to be subsidized if you want to keep us in business so the USA does not become totally dependent on foreign countries for our food needs, which would be a horrible mistake. If this is the path you choose then I ask that you develop a media campaign explaining your actions to the taxpayers of the USA so they know it is not the farmers and ranchers that are getting rich from the subsidies, but that it is the people that buy and use our commodities that are benefiting.

DARYL A. LARSON,
Farmer and Rancher.

PREPARED STATEMENT OF GARY MELANDER, ASSARIA, KS

Farm Bill Comments

Current government farm programs tie subsidy price supports to farm production. Additional bushels equal additional subsidies. This emphasis on production subsidies ignores the wisdom of the marketplace. Farm decisions made on subsidy considerations distort grain markets and individual commodity supplies. These subsidies encourage and finance excessive application of fertilizers and other crop inputs, the farming of fragile lands, and the creation of crop surplus and low commodity prices.

At this point in history, when there is talk of global warming, a developing energy crisis, water shortages, and pollution, Americans are coming to the reluctant conclusion that our natural resources are finite. It is imperative that farm programs encourage resource conservation, not resource consumption.

Tax dollars that have been chasing crop production should be shifted into programs that stimulate and support conservation. We need to establish resource consumption standards for agriculture. If farmer Jones can meet the energy standard, or other critical standards, give him a serious subsidy award. When Jones discovers new farm tactics that reduce crop inputs while maintaining satisfactory yields, increase the subsidy. Give him tax dollars for efforts to protect the land, wildlife, and clean air and water. A healthy environment is as critical to the good life as is food production. We cannot expect the marketplace to recognize and reward this critical conservation work.

GARY MELANDER,
Assaria, KS.

PREPARED STATEMENT DON J. HINEMAN, WHEAT FARMER AND COW/CALF PRODUCER, DIGHTON, KS

To: Members of the Subcommittee on General Farm Commodities and Risk Management
Field Hearing—Salina, KS, June 5, 2007

My name is Don Hineman and I am a dryland farmer and cow-calf producer from Dighton in West Central Kansas. The multi-year drought on the High Plains was devastating to my crop production from 2000 through 2006. Like many of my neighbors, there were several years during that period that my net farm income would have been negative had it not been for farm program payments. Obviously production-based payments were of no benefit to me during this time. It was the direct payment component of the farm bill that supported me during those tough times and allowed me and most (but not all) of my neighbors to stay in business. I thank you for providing that support and I strongly urge you to maintain an adequate level of direct payments in the next farm bill.

As a wheat farmer and beef producer I am very aware of our need to export a significant portion of our agricultural production. Therefore I am quite hopeful that the new farm bill will be WTO-compliant and will not contain provisions that would jeopardize the U.S.' ability to export wheat and beef. The truth is that production-based program payments do a number of things wrong and do very little right. Such payments do not provide a safety net to U.S. producers during times of production shortfall, they distort market signals and stimulate overproduction of selected crops, and by doing so they have a significant negative effect on farmers in other parts of the world whose governments are unwilling or unable to play the price support game. As an American I worry about the negative sociopolitical implications of such a policy and as a Christian I am concerned about the humanitarian effects. It is possible to craft a farm bill that provides adequate support to U.S. producers without distorting market signals and adversely affecting our counterparts in other countries. I urge you to search for such a solution by reducing dependence on production-based support payments and moving toward direct payments and other forms of compensation that would be WTO-compliant.

Thank you for your consideration,

DON J. HINEMAN.

PREPARED STATEMENT OF STEVEN CLANTON, COMMISSIONER, KANSAS WHEAT AND SOYBEAN COMMISSIONS, MINNEAPOLIS, KS; ON BEHALF OF KANSAS ASSOCIATION OF WHEAT GROWERS; KANSAS WHEAT COMMISSION

Dear Honorable Chairman Etheridge and Subcommittee Members,

I am Steven Clanton. I currently am a Commissioner on the Kansas Wheat and Soybean Commissions. I would like to report to you on the work to which I was a part. Several Kansas agriculture groups met throughout last year to discuss the upcoming farm bill.

I know this was presented to our Kansas delegation and would like to now present it to this Subcommittee.

Thank you for this opportunity to present this to you.

Sincerely,

STEVEN CLANTON,
Minneapolis, KS.

Kansas Farm Bill Coalition (KFBC)

Mission Statement

A coalition of Kansas agricultural organizations working together to achieve agricultural policy, which creates and sustains a long-term, competitive and profitable agricultural industry; while providing a safe and secure food, fiber and energy supply for consumers.

The following were the organizations involved in this coalition:
Frontier Farm Credit
Great Plains Canola Association
Kansas Ag Retailers Association
Kansas Agri-Women
Kansas Association of Wheat Growers
Kansas Corn Growers Association
Kansas Cotton Association
Kansas Dairy Association
Kansas Farm Bureau
Kansas Farmers Union
Kansas Grain & Feed Association
Kansas Grain Sorghum Producers Association
Kansas Livestock Association
Kansas Pork Association
Kansas Seed Industry Association
Kansas Soybean Association
Kansas Wheat Commission
Kansas Women Involved in Farm Economics
National Farmers Organization
National Sunflower Assoc - High Plains Committee
State Association of Kansas RC&D Councils

Full Consensus Agenda

ADMINISTRATION
KFBC supports agriculture remaining primary responsibility of USDA.

KFBC believes USDA should continue to maintain an efficient cost effective service delivery system at local level.

KFBC believes USDA agencies should work together to best serve the needs of the producer.

KFBC supports local producer involvement through county, state, and federal oversight committees.

KFBC supports simplified, single program sign up.

KFBC supports single certification for crop insurance and Farm Service Agency programs.

COMMODITY TITLE
Planting flexibility
KFBC supports continued planting flexibility in addition to the removal of fruit and vegetable penalty.

Commodity loans – Non-recourse marketing assistance loans and Loan Deficiency Payments (LDP)
KFBC supports commodity loans at or above current rates.

KFBC believes the Farm Service Agency should constantly review and make public the formula used to set PCP to ensure they accurately reflect market conditions.

Dairy
KFBC supports a market oriented national dairy program that includes a national income assistance component.

KFBC supports the continuation of the dairy price support program at or above current levels.

KFBC supports a faster, more equitable method of reform to Federal Market Orders (FMOs).

Hard White Wheat Incentive Program
KFBC supports federal government programs that offer incentives that encourage production of grains with marketable characteristics offering new marketing opportunities beyond traditional commodity markets.

Payment Limitation
KFBC supports maintaining “person status” for qualifying spouses with regard to farm program payments.

Emergency Agriculture Assistance
KFBC supports disaster assistance programs.

KFBC supports the evolution of risk management products to better meet producer needs of all agricultural commodities, which may reduce the need for disaster assistance. Until risk management tools are improved, disaster assistance should be available to protect producers of all agriculture products.

Other
KFBC supports the concept of revenue assurance programs, which would be available to producers of all agriculture commodities.

CONSERVATION TITLE
General
KFBC supports separate and full funding for Conservation Title programs.

KFBC believes USDA conservation programs should be written and administered in a manner that
(a) provides equitable access for all producers;
(b) is designed to improve and enhance natural resources;
(c) provides flexibility to states for establishing statewide or regional priorities;
(d) minimizes bureaucracy;
(e) does not increase the regulatory burden or land management control by governmental agencies;
(f) provides applicants and participants timely notice of acceptance for the purpose of farm and ranch planning; and
(g) gives priority funding to natural resources in the most need of improvement.

Conservation Reserve Program
KFBC supports a form of Conservation Reserve Program (CRP).

KFBC supports the continuation of the CRP and the continuous CRP. Tenant farmers' rights must be protected. Reasonable limits on participation should be included to protect the economic stability of individual counties or regions. Highly erodible land producing all crops should be eligible for enrollment in CRP.

KFBC supports federal funding of voluntary incentive programs for water quality and quantity conservation projects.

CREDIT TITLE
Beginning farmers
KFBC supports reauthorization and/or modification of existing programs that provide for public-private partnerships to enhance opportunities for beginning farmers that could include mentoring, transition support, and access to capital.

RURAL DEVELOPMENT TITLE
KFBC supports comprehensive rural economic development programs that are based on five pillars of rural economic and community development; mobilizing local leaders; capturing wealth; energizing entrepreneurs; improving infrastructure and attracting youth.

KFBC supports the Value-Added Producer Grants Program at funding equal to or greater than previously authorized levels, ensures timely reimbursement and prioritizes projects that improve the profitability of small and mid-sized farms & ranches.

AGRICULTURAL RESEARCH, EDUCATION, AND EXTENSION AND RELATED MATTERS TITLE
KFBC supports a balanced Research Title that serves the research, extension, development and business needs of independent family farmers and ranchers.

KFBC supports the Initiative for Future Agriculture and Food Systems (IFAFS) as established in the Agricultural Research, Extension and Education Act of 1998 and amended in 2002 should be fully funded through the life of the legislation.

MISCELLANEOUS TITLE

Crop Insurance

KFBC supports the continuation of a federally supported crop insurance program in the next farm bill generally modeled on current policy.

KFBC supports the evolution of risk management products to better meet producer needs. We also encourage continued producer education of risk management alternatives; efforts to refine existing risk management tools; and the development of new crop insurance and other risk management products.

KFBC supports that if a county is declared as a disaster, then the Risk Management Agency would plug in full t-yield or the farmer's actual production history (APH), whichever is higher.

KFBC supports risk management coverage for crop quality losses.

Animal and Plant Protection

KFBC supports fair and defined policy of producer indemnification in the event of bioterrorism or catastrophic disease outbreak.

Commodity Credit Corporation (CCC)

KFBC supports accounting procedures that credit CCC for the money that is reimbursed to CCC on producer loans, commodity sales and aid.

KFBC supports full funding of the facility loan program for on farm storage.

Kansas Grain and Feed Association
Kansas Agribusiness Retailers Association
816 SW Tyler, Topeka, KS 66611
785-234-0461

TO: Chairman Collin Peterson
Members of the House Agriculture Committee

FROM: Tom Tunnell, President
Kansas Grain and Feed Association
Kansas Agribusiness Retailers Association

DATE: June 5, 2007

RE: Support for Congressman Jerry Moran's Amendment to the Conservation Title of the Farm Bill

On behalf of the members of the Kansas Grain and Feed Association and the Kansas Agribusiness Retailers Association, I am writing this letter in support of Congressman Jerry Moran's amendment to allow dryland farming on conservation reserve enhancement program (CREP) acres.

The CREP program dramatically differs from the traditional CRP program in that the Kansas CREP program is focused totally on water quantity or quality issues and how to address these issues, whereas the CRP program is focused on soil and land erosion. In Kansas, this program is aimed at dealing with a water shortage issue. In the CREP program, the soil type or whether the soil is erodible is not a driving factor. Thus a CREP program has the potential of idling a number of acres that are able to sustain a dryland crop for no environmentally sound or viable reason. The CREP program is focused on reducing the amount of water being used for irrigation. Thus we are asking that you support Congressman Moran's amendment to allow the flexibility on these acres where the irrigation has ceased, to allow dryland farming, and allow the producer the opportunity to maintain some level of economic revenue stream.

So that you understand why we are taking an interest in this issue, please let me explain about the members of these associations and how closely we are tied to production agriculture and the rural communities. KARA represents the ag retailers that provide chemicals, fertilizer, seed and other ag services and products to farmers. The Kansas Grain and Feed Association represent 98 percent of the licensed grain storage facilities in Kansas. In the proposed CREP area our members manage 45 million bushels of grain storage. Since these facilities usually turn the grain a couple times a year, the amount of storage capacity that will be potentially affected by the CREP is over 100 million bushels a year. This should highlight the significant agricultural production that occurs in this area and why the area is so dependent on production agriculture. We have 115 members that have their businesses located in this proposed area. Our members, like the vast majority of the other people that live in that area, are not only dependent on the agriculture sector for their business, they and their families live in this communities. Therefore, our members' ties to this area is significant.

The grain storage and agriculture input industry is just an example of the significant reliance in this area on production agriculture. The economy of this region is directly tied to agricultural activities. The result of removing 100,000 acres from production in this area would be devastating to the local economy. This statement is supported by the economic analysis done by Kansas State University in April, 2006. KSU's analysis revealed that a CREP program would result in a reduction of nearly $9 million even when the economists estimated that all but 10 percent of the CREP payments would stay in that area. We think the impact will be even more devastating since we believe more than 10 percent of the payments will leave the area since approximately 40 percent of all farm land in Kansas is rented to a tenant. Furthermore, the report states that when the CREP program is over, the negative impact to the area will be $13.4 million and that it will take approximately 40 years for the region to adjust and get back to a pre-CREP status.

While we acknowledge the water shortage issues in Kansas and other regions of the western and upper plains, we urge you to allow some flexibility in the CREP program so that while water is being conserved, the land can still be farmed or grazed. By passing this amendment, the water will still be conserved, yet the small rural communities who depend on agriculture will not be devastated.

Thank you for the opportunity to share our thoughts on this important matter. Once again, we respectfully urge you to support Congressman Moran's amendment to allow dryland farming on CREP land.

Sincerely,

Tom R Tunnell

Tom R. Tunnell
President

Kansas Cooperative Council

Kansas Cooperative Council
816 S.W. Tyler St., Suite 300
Topeka, Kansas 66612

Phone: 785-233-4085
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Toll Free: 888-603-COOP (2667)
Email: council@kansasco-op.coop

www.kansasco-op.coop

The Mission of the Kansas Cooperative Council is to promote, support and advance the interests and understanding of agricultural, utility, credit and consumer cooperatives and their members through legislation and regulatory efforts, education and public relations.

June 5, 2007

TO: The Honorable Collin Peterson, Chairman
and Committee Members
House Agriculture Committee

FROM: Leslie Kaufman, Executive Director
Kansas Cooperative Council

RE: **2007 Farm Bill - Support for allowing dryland farming on Certain Conservation Reserve Enhancement Program (CREP) acres where the CREP is initiated for water conservation/irrigation reduction purposes.**

Support for Congressman Moran's CREP amendment.

Thank you for the opportunity to enter comments today regarding the 2007 Farm Bill. The Kansas Cooperative Council represents all forms of cooperative businesses across the state -- agricultural, utility, credit, financial and consumer cooperatives. Approximately half our members are involved in agriculture co-ops. As farmer cooperatives, they are owned and controlled by their ag producer members and have a direct interest in how federal farm programs impact individual producer-owners, the overall agricultural economy and rural communities.

Congressman Jerry Moran proposed an amendment during the Conservation, Credit, Energy, and Research Subcommittee mark-up that would allow dryland farming on CREP acres when such CREP is initiated for water conservation purposes. We strongly support this amendment and respectfully request the House Agriculture Committee adopt this amendment.

There is a growing necessity to address water quantity issues in Kansas, particularly in the southwest portion of our state which overlays portions of the High Plains Aquifer. This area's economy is largely dependent on irrigated agricultural production. The ability to switch to dryland farming while still receiving some payment for curtailing irrigation can help maintain stability in our rural areas while meeting important water conservation goals. Maintaining agricultural production is critical to protecting the viability of western Kansas economies and communities. If the intent of a CREP program is to diminish irrigation, that goal can be accomplished without the need to curtail all crop production on enrolled acreage, especially when you consider some vegetative covers use as much water as certain crops.

One of the core principles of the cooperative movement is "Commitment to the Community". We are concerned that the Kansas CREP could significantly hurt the local rural economies, force main street businesses to close and further increase rural out-migration. The economic impacts for taking 100,000 acres of agricultural land out of production in a limited geographic area are significant. Kansas State University estimates the program will cost the region nearly $9 million in lost revenue for each of the 15 years of the program. That is after the influx of federal payments to participating producers is taken into account. The region is not expected to fully recover to pre-CREP economic status for 30-40 years following the programs initiation.

The state of Kansas is currently moving forward on a partnership with USDA that will result in placing up to 100,000 acres along the Arkansas River (southwest Kansas) in a Conservation Reserve Enhancement Program (CREP). This is one tool the state is employing to transition Kansas crop producers away from irrigated production.

A significant concern with CREP, among our members, is the requirement that enrolled acres must be planted to vegetative cover. We understand this is a standard requirement of the CRP program, but **we would like to see an allowance for dryland farming where a CREP is authorized for the purpose of addressing water quantity concerns/irrigation reduction.** We are not asking to change the rules for all CRP acreage, only CREP acres where reducing water usage (irrigation) is the goal.

Congressman Moran's amendment finds an appropriate balance between the needs of the environment and sustaining rural communities. Thank you for your consideration and we certainly hope you will look favorably on his proposal.

Sincerely,

Leslie Kaufman

Leslie Kaufman, Executive Director
Kansas Cooperative Council

June 5, 2007

The Honorable Collin C. Peterson, Chairman
House Committee on Agriculture
1301 Longworth House Office Building
Washington, DC 20515

RE: Kansas agriculture groups support ability to dryland farm certain CREP acres and support Congressman Moran's amendment.

Dear Chairman Peterson and Members of the House Agriculture Committee,

We are writing this letter in support of Congressman Jerry Moran's amendment to allow dryland farming on conservation reserve enhancement program (CREP) acres where the CREP program is aimed at reducing water usage/irrigation.

Kansas is one of several states working diligently to address water shortage issues and the CREP program is one of the tools being utilized to hopefully assist in this process by paying irrigators to enter into a contract and agreeing to not irrigate. In Kansas, we have taken the further step of requiring the water right holder to permanently forfeit their water right in order to participate in the CREP. The proposed Kansas program is focused on areas where we are experiencing ground water shortages and does not focus on the soil type of the land. Thus, some of the land that is being considered for enrollment is prime, fertile soil that is capable of producing non-irrigated crops.

Kansas, like most of the other states involved in CREP, is heavily dependent on production agriculture. Thus, the Moran amendment would allow some economic activity to occur on these acres instead of simply idling them, when such idling may have no greater positive impact on the environmental water conservation goal than merely ceasing irrigation. The amendment allows producers to meet a needed conservation goal while still preserving at least a degree of regional economic activity which is critical to the survival of our rural, agricultural communities.

We also understand that any farmer that opts to pursue dryland farming on these acres will receive a reduced payment compared to the farmer that totally idles the enrolled land. We think this reduction in payment is fair and equitable and support the reduction in the payment.

We strongly urge your support of Congressman Jerry Moran's amendment to allow dryland farming on CREP acres for those CREP programs aimed at water conservation or irrigation reduction so water can be preserved and the economic harm to the regional economy caused by the idling of these acres might be mitigated by allowing dryland production.

Sincerely,

Steve Baccus
Steve Baccus, President
Kansas Farm Bureau

David Cross
David Cross, President
Kansas Livestock Association

Tom Tunnell
Tom Tunnell, President
Kansas Grain & Feed Assoc.
Kansas Agribusiness Retailers Assoc.

Jere White
Jere White, Executive Director
Kansas Corn Growers Assoc.
Kansas Sorghum Producers

Leslie Kaufman
Leslie Kaufman, Exec. Dir.
Kansas Cooperative Council

Tim Stroda
Tim Stroda, President
Kansas Pork Association

Joe Kejr
Joe Kejr, President
Kansas Association of Wheat Growers

Chuck Stones
Chuck Stones, President
Kansas Bankers Association

Tom Palace
Tom Palace, Exec. Director
Petroleum Marketers and Convenience Store Association

Kenlon Johannes
Kenlon Johannes, CEO
Kansas Soybean Association

Doug Hofbauer
President/CEO
Frontier Farm Credit

Scott Stockwell
President/CEO
Farm Credit of Ness City

Doug Thurman
President/CEO
High Plains Farm Credit

Cc: U.S. Senator Pat Roberts
U.S. Senator Sam Brownback
U.S. Representative Jerry Moran
U.S. Representative Todd Tiahrt
U.S. Representative Dennis Moore
U.S. Representative Nancy Boyda
Governor Kathleen Sebelius
Tracy Streeter, Kansas Water Office
KS Sen. Carolyn McGinn, Chair, Senate Natural Resource Committee
KS Rep. John Faber, Chair, House Agriculture and Natural Resource Committee
Teresa Lasseter, FSA Administrator
John Johnson, FSA Deputy Administrator, Farm Programs
Charles Chadwell, CREP Program Manager, FSA-CEPD
Paul Harte, CREP Technical Program Manager, USDA-FSA-CEPD/KC

Kansas Plot of Human Protein-Producing Rice Risks Contamination of World's Safest Food

Contact: Ralph and Barbara Tomlinson, 506 Oak Leaf Ct., Baldwin City, KS 66006
(785) 594-2341: Home (913) 971-6889: Work (913) 787-4640: Cell

USDA's Animal and Plant Health Inspection Service (APHIS) recently approved a proposal by Ventria Bioscience to plant as much as 3,200 acres of rice containing human proteins in Geary County, near Junction City. The proposal was approved in spite of overwhelming public opposition to the risk of contamination of the world's safest grain.

While USDA has approved planting the rice, the U.S. Food and Drug Administration has not approved the rice-produced proteins for human consumption. In fact, Ventria withdrew a two-year-old request that its proteins be approved as "generally recognized as safe" in November 2006.

More than 20,000 comments were filed with APHIS; only 29 supported proposal. Among those opposing the plan were the U.S. Rice Federation, U.S. Rice Producers Association, Rice Producers of California, Missouri Rich Research and Merchandising Council, Riceland Foods, Mississippi Rice Council and Arkansas Rice Growers Association as well as thousands of individual citizens.

"It's an affront to democracy," said Ralph Tomlinson, who, with his wife Barbara, launched a campaign against the proposal in the Kansas City area. "Our 6-year-old son suffers from an auto-immune disorder and several allergies. Like millions of others with allergies, rice is the only grain he can eat safely. We make bread with rice flour, cookies with rice flour, and we pour rice milk on his rice cereal every morning. Should our nation's rice supply become contaminated, our son's extremely limited diet will shrink to almost nothing."

Ventria says it plans to use the human proteins produced by the genetically modified rice to combat diarrhea. But people in countries where diarrhea frequently turns deadly say there are cheaper methods to save lives, such as clean water and promoting breastfeeding for infants. "The real reason for this open-air experiment is to add the protein to high-dollar sports drinks, snack bars and yogurts, according to Ventria's proposal to the USDA. But the FDA has never approved drugs produced by plants for human consumption," Tomlinson said.

There is some indication that the human proteins harvested from the rice can cause allergies or exacerbate existing allergies. Ventria recently completed tests of its proteins on infants in Peru, and at least two children developed allergies from the tests. "There are also serious questions about testing the plant-produced drugs on people before conducting any animal tests," Tomlinson said. The Peruvian government is investigating the field study.

"We don't know the long-term impact of genetically modified foods. We're conducting the largest, open-air experiment ever undertaken without seriously investigating the results. Growing plants the produce drugs raises the risks to a new level," Tomlinson said. "Instead of supporting biotechnology, the USDA needs to support agriculture. We need national policies that prohibit growing drug-producing plants in the open-air." After rice growers stopped a proposal by Ventria to plant protein-producing rice in California, the state passed a law prohibiting future attempts at growing pharmaceutical plants. "More than 23 states have regulated the production of genetically modified foods. We need national policies that do the same," Tomlinson said. "We also need a new approval process for governmental regulations. The 30-day comment period doesn't give citizens to digest what industries have been researching for 30 years."

The Risks of "Pharming" Rice in Kansas

Ventria Bioscience recently received approval from the USDA to grow as much as 3,200 acres of rice implanted with human genes near Junction City, Kansas. The risk to our food supply, our environment and our health is too great to allow the plan to move forward.

- In spite of Ventria's claims that the rice will improve the area's economy and turn Kansas into a biotech hub, the Food and Drug Administration has never approved any drug produced from genetically engineered crops for human consumption. Ventria recently withdrew a two-year-old request that its proteins be recognized as "generally recognized as safe," the same status as food additives.

- USDA received more than 20,000 comments about Ventria's proposal; only 29 supported the proposal. While many of those opposed to the proposal filed their comments through web links created by advocacy organizations, there were nearly 1,100 negative comments filed the through the federal website or by other means.

- Recent contamination of the U.S. rice crop resulted in other nations rejecting the import of American rice. Those incidents led the U.S. Rice Federation, the U.S. Rice Producers Association, the Missouri Rice Research and Merchandising Council, Riceland Foods, the Mississippi Rice Council, Arkansas Rice Growers Association and other trade groups to oppose the Ventria proposal.

- USDA and other federal agencies must re-examine the 30-day comment period. Citizens need more than a month to examine policies and proposals that have taken years to draft, research and refine.

- Twenty-three states have regulated genetically modified organisms, including California, which has banned the outdoor planting of drug-producing crops. The Union of Concerned Scientists has called for a similar ban throughout the United States.

- USDA has downplayed the possibility that severe weather could spread the human protein-producing rice to other fields and contaminate other crops. But the area where Ventria will plant the rice has already been under at least one flash flood warning and at least one tornado warning. Kansas ranks third nationally in the number of tornadoes that touch down each year.

- The company has said that the rice will not require any more water than corn, but Kansas corn farmers irrigate their crops. Planting human-protein producing rice in Kansas will put more stress on the High Plains Aquifer, which stretches from Nebraska to Texas. Current rainfall can't keep up with the amount of water pumped out of the aquifer for irrigation and other uses.

- Geary County lies in a major flyway for migratory waterfowl, which could easily carry the drug-producing grains to rice fields in neighboring Missouri, Arkansas or Texas.

- Ventria has peddled its rice as a cure for diarrhea. But countries where diarrhea is a major health concern don't want the rice. It's too expensive and there are cheaper ways of combating diarrhea, including better hygiene, clean water and breastfeeding infants. Organizations in Africa, China, India, Japan and the European Union have voiced their opposition to the proposal.

June 5, 2007

Derek and Michelle Zongker
30600 W. Illinois Ave.
Sylvia, KS 67581

Dear members of the Agriculture Sub-Committee on Commodities:

I am the third generation of my family to farm in Reno County, KS. I am joined on this farm by my wife, Michelle, and two sons, Zack, 2, and Rex, 10 months. Our operation consists of 1,400 acres of custom farmed crop ground and over 600 acres of ground managed solely by the family. We are young farmers and have been managing independently for a little over a decade.

The reauthorization of the 2007 Farm Bill could have a great impact on our farming operation. Much of the ground that we manage has been converted to forages and grazing crops that do not fall under traditional risk management strategies such as crop insurance. Our land itself has a significant base of historical wheat acres. Direct payments have allowed us the flexibility to shift into other types of crops and enterprises. This was the intended use of direct payments when they were first formulated. They are decoupled from production and yet allow a safety net to be innovative and transition to other production models. Decreasing or eliminating direct payments would have a very negative impact on our management and profitability.

I currently serve on the management committee, and have been past chairman, of the Cheney Lake Watershed Project. This project coordinates and helps fund water quality agricultural projects in the watershed that provides water for the City of Wichita. Since this project relies heavily on helping producers access Conservation programs, I am concerned that we preserve and increase funding for programs like EQIP and CRP.

Finally, I am concerned that the formulas that established the target prices and loan rates in the 2002 Farm Bill were not equitable across the commodities. Cotton, especially, was assigned a target price and loan rate at a much higher percentage of the 2000 to 2004 Olympic average when compared to wheat and soybeans. This has meant that cotton acreage has expanded even as the market price has declined. On the other hand, wheat acreage in my area has declined in part due to subsidy levels. Addressing this inequity by lowering the rates assigned to cotton to a level more in line with other commodities could generate over a billion dollars per year which could be shifted to other programs.

Thank you for considering these remarks.

Sincerely,

Derek Zongker

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