STATEMENT BY DON LOUWAGIE, PRESIDENT OF THE MINNESOTA SOYBEAN GROWERS ASSOCIATION

Before the
COMMITTEE ON AGRICULTURE
U.S. HOUSE OF REPRESENTATIVES

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Good morning, Mr. Chairman and Members of the Committee. I am Don Louwagie, a soybean and corn farmer from Marshall, Minnesota. I serve as President of the Minnesota Soybean Growers Association.

I would like to express our appreciation to you, Mr. Chairman, for conducting these hearings on domestic farm policy alternatives for the next Farm Bill. We look forward to working closely with your Committee and your staff in developing effective legislation.

I would like to begin by briefly describing the policy environment facing soybean producers in recent years, and its impact on our consideration of various policy alternatives.

The FAIR Act's Unfinished Agenda

The authors of the FAIR Act did not expect the transition from government-dependence to market-orientation to take place solely as a result of changes in domestic farm policy. They made clear that the overall economic and trade environment of U.S. agriculture needed to be changed to reduce production costs and enhance the competitiveness of U.S. farm exports.

We appreciate that renewed efforts are underway in the new Congress and in the new Administration to focus on the problems facing agriculture, and to complete the FAIR Act's unfinished agenda. However, even if progress is made in the near future, these efforts must be viewed as long-term investments. As a result, we must assume that conditions during the next several years could remain much as they are today.

Policy Assumptions

Key elements of the FAIR Act should be maintained in the next farm bill. These include full and unrestricted planting flexibility, which proved to be extremely helpful to farmers in the Northwest corner of Minnesota, when disease wiped out the wheat crop.

In addition, Minnesota soybean farmers believe the following should also be maintained in the next farm bill: continuation of non-recourse marketing loans, no statutory authority to impose set-asides, and no authority to establish government or farmer-owned reserves.

Also, we oppose any limitations on marketing loan benefits, fixed income payments, or any counter-cyclical income support payments.

I will now briefly describe our recommendations for domestic farm programs.

Marketing Loan Program

Soybean growers support maintaining current oilseed loan rates for 2002 crops, and setting these rates as floors rather than ceilings under the next farm bill. The formula for adjusting loan levels to 85 percent of Olympic average prices in the previous five years should be retained, and discretion should be provided to the Secretary to set loan levels above the floor when prices warrant.

Contrary to what some have conjectured, MSGA does not believe the current national average soybean loan rate of $5.26 per bushel has been responsible for most of the expansion in U.S. soybean acreage since enactment of the FAIR Act. We attribute most of the growth to other factors.

First, the incentive to build bases for program crops under previous farm bills had created tremendous pressure to exclude soybeans and other non-program crops from rotations. Introduction of unrestricted planting flexibility and decoupled income support payments reversed this pressure, and allowed producers to achieve a more agronomically optimum crop rotation.

A second factor was the relatively high soybean prices between 1995 and 1997 compared to prices for other commodities that compete with soybeans for acreage.

Third, new soybean varieties have been developed in maturity groups that are far better suited for northern and western climates than before. Last year, virtually all of the expansion in soybean plantings occurred in North and South Dakota, Minnesota, Wisconsin, Michigan, Nebraska, and Kansas.

A fourth factor has been the prevalence of scab and other diseases affecting wheat and other crops in NW Minnesota. Flexibility provided these farmers the opportunity to plant soybeans instead.

Other factors have encouraged soybean plantings in place of corn. High costs or limited availability of natural gas and fertilizer have offset recent improvement in corn prices. Also, the continuing disruption of foreign and domestic U.S. corn markets resulting from the Starlink debacle may be contributing to this year's expected decline in corn plantings.

Global consumption of soybeans grew by 55.7 percent in the 1990s. This compares to 26.9 percent for corn and only 6.2 percent for wheat. As a result of continuing strong domestic and foreign demand, U.S. carryover stocks of soybeans this fall are expected to total about 12 percent of use. By comparison, corn stocks are projected at about 20 percent of use, and wheat supplies will be 32 percent of use. To the extent the soybean

loan rate is a factor in planting decisions, reducing it would increase production of crops that are already in greater surplus.

MSGA supports requiring oilseed loans to be repaid at the lower of the Posted County Price or an Adjusted World Price (AWP). The AWP would be set on a weekly basis in reference to prices of all oilseeds delivered at major foreign markets, including freight costs.

The purpose of using an Adjusted World Price is to ensure that U.S. soybeans and other oilseeds and oilseed products are competitive in both foreign and domestic markets under the next farm bill. U.S. crops are currently marketed at prices that reflect the domestic market, but not overseas markets. Basing loan repayment on values that directly reflect the prices of our competitors in foreign oilseed markets would address this situation, and would also help offset the negative effect of the high value of the Dollar on U.S. exports.

PFC (AMTA) Payments

Currently, soybeans are not included in the formula for determining payments under Production Flexibility Contracts (PFCs). MSGA strongly supports expanding the PFC program to include soybeans.

Counter-Cyclical Income Support

Oilseed producer organizations support replacing ad hoc emergency economic assistance payments, which have included an oilseed payment, with a counter-cyclical income support program. After three years of improvisation, farmers and their lenders need longer-term assurances that a safety net is in place to protect against low prices and provide income stability.

The concept of compensating producers for low income based on acres complements the marketing loan program, under which benefits are tied to actual production. It addresses a perennial shortcoming in the federal crop insurance program. Every year, many producers experience below-average yields, but not low enough to qualify for crop insurance coverage. This low-yield gap in income support would be at least partially offset by providing payments on harvested acres.

In our view, this proposal will not count against U.S. commitments to reduce trade-distorting domestic support in the WTO. Paying producers on 85 percent of their current year acreage would support classification as a production-limiting ("blue box") program, which would be exempt from discipline under the Uruguay Round Agreement.

Other Farm Bill Priorities

Mr. Chairman, there are other important priorities that need to be addressed in the next Farm Bill.

MSGA, along with its national organization, the American Soybean Association, has endorsed the Conservation Security Act, introduced in the House last year by Representative Emerson and in the Senate by Senator Harkin.

We also support a significant increase in funding for agricultural research in the next Farm Bill. In the past, soybean checkoff dollars have provided valuable research dollars for diseases specific to Minnesota. As farm prices drop, so, too, do soybean checkoff collections. With less dollars for research on soybean disease, pests and production, we stand to lose additional dollars to yield loss.

Specifically, we encourage the Committee to provide annual funding of $1.5 billion for conservation payments and $1.0 billion for research.

Additionally, we support increased funding of export assistance, market development, and food aid programs that are critical to expanding demand and improving commodity prices.

To address market access, regulatory, and marketing issues in agricultural biotechnology, MSGA recommends establishment of a biotechnology and agricultural trade program.

River Transportation

An area of particular concern to MSGA is the maintenance and upgrading of the Mississippi River. Minnesota soybean farmers are at the end of the export line and therefore depend heavily on the river to deliver our crops to our overseas customers.

River transportation can move more goods with less air pollution, less noise and less fossil fuel usage than any other means of transportation. It is the most environmentally friendly form of shipping goods and commodities that exists today. But most of the current locks and dams on the Mississippi River date back more than 60 years and are only 600 feet long. This means tows must break in half and “double lock” to get through, increasing locking time by nearly three times what it should be.

Since more than two-thirds of all U.S. grain exports are shipped down the Mississippi on the way to foreign markets, these delays end up costing farmers. By modernizing the locks and dams along the Mississippi River, Midwestern farmers would save $364 million annually. River transportation helps Minnesota be competitive on the world grain market. We ask for your support regarding modernization of the Mississippi River.

Alternative Plant-based Fuels in a National Energy Plan

Another promising arena for soybeans and other oilseeds is in the area of alternative fuel development. Minnesota led the way in the development of ethanol production.

The Minnesota Soybean Growers Association is leading the way in the promotion of biodiesel, an alternative diesel fuel. We appreciate the efforts of Minnesota Senators Paul Wellstone and Mark Dayton, and Representatives Gil Gutnecht, Collin Peterson and Mark Kennedy for their commitment to plant-based alternative fuels. We urge the administration and Congress to include plant-based alternative fuels, such as biodiesel, in its National Energy Plan.

Conclusion

That concludes my statement, Mr. Chairman. I want to again thank you for convening these important hearings, and for inviting me to testify. I will be glad to respond to questions.