STATEMENT BY JOHN HOFFMAN, FIRST VICE PRESIDENT AMERICAN SOYBEAN ASSOCIATION

on behalf of

American Soybean Association
National Sunflower Association
U.S. Canola Association

before the

COMMITTEE ON AGRICULTURE
U.S. HOUSE OF REPRESENTATIVES

September 20, 2006

OILSEED PRODUCER PERSPECTIVES ON THE 2007 FARM BILL

Good morning, Mr. Chairman, and Members of the Committee. I am John Hoffman, a soybean and corn farmer from Waterloo, Iowa. I currently serve as First Vice President of the American Soybean Association. ASA represents 25,000 producer members on national issues important to all U.S. soybean farmers. I am also appearing today on behalf of the National Sunflower Association and the U.S. Canola Association. I very much appreciate the opportunity to present the views of U.S. oilseed producers on the 2007 Farm Bill.

Mr. Chairman, oilseed organizations are very much aware of the challenges you and your Committee face as you prepare to write the 2007 Farm Bill. These challenges include working with limited funding available under the CBO baseline, defending against the possibility of additional budget reductions, proposals to reallocate resources to other farm bill priorities, and concerns about compliance with WTO requirements and future WTO rulings. Each of these challenges will generate pressure to change the structure and funding of various programs authorized under the 2002 Farm Bill. They will also affect efforts to adjust or even maintain current commodity support levels under the farm program. As this process goes forward, the Committee will need to decide whether current programs are viable, or whether there may be other approaches that could provide a more effective safety net. Oilseed producer organizations are fully committed to working with you, Mr. Chairman, as you and your Committee make these decisions over the coming year.

Oilseed producer priorities for the 2007 Farm Bill are to strengthen the current safety net for oilseed crops, support responsible conservation policies, develop new opportunities for expanding production of energy crops, and maintain funding for existing nutrition, research, and trade programs. To achieve these goals, we strongly endorse maintaining the current level of agriculture funding under the CBO baseline. We oppose any efforts to reduce this level of spending, or to shift resources from farm programs to other priorities. We also support enactment of new omnibus farm legislation, rather than a slightly modified one or two-year extension of the 2002 Farm Bill. Farmers need to make long-term economic decisions, and conditions in agriculture have changed sufficiently in the last four years to justify a comprehensive review of farm policy.

Within the commodity title, we support the basic structure of farm programs under the 2002 Farm Bill, but believe adjustments are needed in oilseed support levels in the event these programs are reauthorized. Global demand for protein meal for animal feed and for vegetable oil is growing rapidly as the populations and living standards of developing countries rise. We are also seeing a sharp increase in the use of vegetable oils for production of biodiesel, both in the U.S. and abroad. U.S. oilseed producers need to be able to respond to these market signals. So it is important that farm program support levels not have the effect of discouraging producers from planting oilseed crops. We believe low oilseed support levels in the

2002 Farm Bill relative to supports for other crops and crop market values could discourage producers from planting oilseed crops.

Oilseed producers have strongly supported the Marketing Loan as the most effective tool for ensuring that U.S. crops are competitive with foreign oilseed exports and for supporting producer income when world prices decline. However, loan levels should be established with reference to both recent average prices, and to loan levels for other crops, to avoid distorting planting decisions.

The Counter-Cyclical program provides a viable method for supporting farm income, while decoupling payments from current year production. Current Target Prices for oilseed crops are too low to have triggered oilseed payments under the 2002 Farm Bill. If this program is reauthorized, these levels need to be adjusted, taking into account the Target Prices for other crops.

Direct Payments are a legacy of the 1996 Farm Bill, when Congress decided to phase out income support by establishing Production Flexibility Contracts and reducing AMTA payments over time. Since they are fixed and attached to a farm’s historical crop base acreage, Direct Payments are factored into land values, which raises cash rents and makes U.S. producers less competitive in world markets.

The support levels for program crops established in the 2002 Farm Bill are not proportionate to their recent market value, and should be brought within a closer range to reduce the potential for planting distortions. The table attached to my statement compares crop support levels as percentages of the Olympic average of prices for these crops in 2001-2005. As indicated, current Marketing Loan rates for program crops vary from 75 percent to 120 percent of recent average prices. Target Prices range from 90 percent to 180 percent. Direct Payments range from less than 2 percent to 40 percent. In the case of the Marketing Loan and Target Price, disparities of this magnitude can significantly influence planting decisions, particularly when prices are at or below support levels.

The Target Prices and Direct Payments established for oilseed crops in the current farm program are disproportionately low compared to other program crops. As indicated in the table, the Target Price for soybeans is 110 percent of recent average prices, canola is at 101 percent, and sunflower is only 90 percent. The current Target Prices for minor oilseeds are so low that the counter-cyclical mechanism is meaningless. In the case of Direct Payments, the soybean payment is 8.3 percent of recent average prices, canola’s payment is 8.0 percent, and sunflower is only 7.1 percent. Both Target Prices and Direct Payment levels for soybeans and other oilseed crops are well below supports for most of the other program crops, and should be adjusted in the event these programs are reauthorized in the 2007 Farm Bill.

In addition, the Marketing Loan rate for minor oilseeds, at 82.0 percent of recent average sunflower prices, is well below loan levels for other crops. This has resulted in sharply reduced plantings of sunflower and canola under the 2002 Farm Bill. Minor oilseed organizations strongly support adjusting their loan rate to a level that is proportionate to loan levels for other crops. Using recent average sunflower prices and the current soybean loan percentage of 95 percent, the minor oilseed loan rate would be $10.71 per hundredweight, up from the current level of $9.30 per hundredweight.

In the event competition for limited resources prevents equitable adjustments in oilseed support levels, or would result in cuts in existing levels of support, our organizations support consideration of an alternative structure for supporting farm income that could provide an improved safety net for all crops.

One program alternative we have explored with other farm organizations would guarantee a percentage of program crop revenue, as opposed to offsetting low prices or yields. A 70 percent revenue guarantee would be considered non-production and non-trade distorting, or “Green Box,” for WTO purposes. In addition, a net income guarantee would protect a higher percentage of total crop revenue than a gross income guarantee. This approach could be combined with one or several existing programs, including federal crop insurance, or with permanent disaster assistance, to provide an improved safety net. We encourage the Committee to consider a revenue guarantee approach in the event limited resources prevent addressing our concerns with current oilseed support levels.

I would also like to comment on the potential influence of the WTO on the development of farm programs in the 2007 Farm Bill. As we know, the WTO panel ruling in the cotton case may require Congress to eliminate the current planting restriction on fruit and vegetable crops if the Direct Payment program is to be continued. We also are aware that producers of these crops are demanding to be "compensated" to offset the potential for lower prices resulting from expanded production of fruits and vegetables on program crop acres. Oilseed producer organizations are concerned about the impact such compensation could have on our effort to seek improvements in the support levels for oilseed crops. Depending on the extent of compensation required, we believe the Committee should consider shifting resources out of Direct Payments to other forms of support for program crops.

Finally, oilseed producers support a farm program safety net that will serve as the basis for long-term economic decisions over the next several years. Accordingly, we believe the Committee should consider the possibility of future WTO challenges to current U.S. farm programs in deciding whether they should be reauthorized or restructured as programs that are less likely to be challenged and are WTO compliant.

Beyond the commodity title, oilseed organizations support reauthorizing and maintaining funding for existing conservation, nutrition, research, energy, and trade programs in the 2002 Farm Bill. However, any proposal to increase funding for these programs should not come at the expense of commodity programs. To the extent practicable, programs that have been vulnerable to budget reductions in the past should be restructured as entitlements or as front-loaded contracts to minimize the possibility of future cuts.

In the area of conservation programs, oilseed organizations support reducing the acreage enrolled in the Conservation Reserve Program by restricting eligibility criteria to environmentally valued lands. There is growing demand for the viable farmland currently locked up in the CRP, including for production of energy crops. Given the significant advances and acceptance of minimum and no-till farming methods in the 20 years since much of current CRP land was first enrolled, we believe a significant portion of the land currently locked in the CRP could be farmed in a completely environmentally sustainable manner. According to USDA, between 4.3 and 7.2 million acres currently enrolled in the CRP could be used to grow corn and soybeans in a sustainable way. At the average CRP rental rate of $52 per acre, the savings from reducing CRP enrollment by 7.0 million acres would total $364 million per year. These savings could be used for other conservation programs, for research or trade expansion programs, or to promote production of energy crops, possibly through an energy payment, including on former CRP land.

We also strongly support reauthorization and increasing the current funding levels for the Foreign Market Development Program and the Market Access Program. FMD and MAP are key tools in our efforts to keep U.S. oilseeds and oilseed product exports competitive. With no alternative WTO-legal export incentives available, we urge the Committee to preserve these important foreign market promotion programs.

Mr. Chairman, oilseed producer organizations continue to develop specific positions on these and other programs in advance of Congressional debate on the 2007 Farm Bill. We appreciate the opportunity to present our views today, and would welcome similar opportunities to participate in this process over the coming year. I will be happy to respond to any questions.