



**STATEMENT BY VAREL G. BAILEY**

**Before the  
United States Senate  
Committee on Agriculture, Nutrition and Forestry**

**“Iowa and Nebraska Views on Federal Agriculture and Rural Policies  
In the 2007 Farm Bill”**

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Good morning, Mr. Chairman and Members of the committee I am pleased to speak before you today. I appear today in four roles. First, my son and I operate a corn, soybean, grass, beef cattle, hog and sheep operation at Anita, Iowa. Second, I work as an agriculture policy consultant for American Farmland Trust. Third, I have been involved in farm bill debates since the late ‘70’s. Fourth, I am a taxpayer. In my role as farmer, I am looking for public policy that helps to buffer my farm from the wild market and weather gyrations, protects fair markets and provides infrastructure that creates new technology to keep my farm competitive in the world market. In my consultant role, I am looking for strong leadership in Congress and the Administration that seizes the opportunity to write a Farm Bill for the future, not the past. In my role as a policy wonk, I find that the opportunity to significantly improve farm policy only happens about every twenty-five years. The current political, budget and market environment provide that opportunity. In my taxpayer role, I am looking for a wise investment of my taxes.

My long term agriculture policy experience, my forty years of farming experience and my participation in the American Farmland Trust policy program the last two years makes me believe that the 2007 Farm Bill should be a pivotal policy improvement. The current Farm Bill is seriously outdated to protect and improve agriculture and rural America in the future.

The rate of change in farm country is unprecedented. Renewable energy, globalization, the internet, global electronic markets, genetic engineering, WTO, GPS and consumer empowerment are a few items that are driving change in agriculture at warp speed. Let me be more specific. In this dynamic environment, for Congress to set commodity loan and target prices in the farm bill ignores reality. Further, based on our experience to date on the suits filed against the U.S. cotton program and corn program, government warehousing schemes, marketing loans, loan deficiency payments, and counter cyclical payments are going to be eliminated. To perpetuate these programs under the guise of increasing bargaining leverage in the WTO, instead, hold the negotiations hostage and ignores an opportunity to significantly improve the taxpayers investment in the food, fiber and fuel industry. That investment should provide a platform of programs that is more than a safety net or disaster relief but a platform that continuously improves agriculture and rural America.

I will discuss two Farm Bill titles: Conservation and Commodity.

## **Conservation**

Continuous improvement of conservation programs is critical for the long term future of agriculture. Nearly half the land in America is working land—farms and ranches. The use of this land to produce food, fiber and energy has an enormous impact on the natural and human environment. Most farmers are good stewards—they want to leave the land better for their children and grandchildren than when they got it from their parents and grandparents—frankly producers want to do more to conserve and protect their land and resources, but they need help. Voluntary, incentive-based conservation programs for farmers and ranchers are therefore the key to cleaner water, improved air quality, expanded wildlife habitat and protected farmland for future generations. American Farmland Trust and I propose a combination of improvements.

### **Increase the investment in working lands conservation programs.**

The nation must invest more resources in conservation so that we deliver the benefits of healthy land to all Americans. There is a significant backlog of needs reported by USDA and producers. During the last several years, three out of four farmers and ranchers have been turned away when applying for financial assistance for conservation programs. Increasingly, many are simply not bothering to apply due to the lack of funds and the confusing and often redundant application process

**Improve effectiveness with cooperative conservation partnerships and competitive grants.** We can revolutionize how conservation happens on the ground by establishing a competitive grants program that promotes multi-producer, cross-jurisdiction collaborative efforts to better focus conservation assistance resources to critical natural resource concerns. Cooperative conservation partnerships will improve the effectiveness of existing conservation programs by focusing conservation implementation efforts—getting the *right practices*, in the *right places*, at the *right time*—and by attaining critical mass—getting enough producers doing the right things in a particular place so that their *collective effort* is enough to improve environmental quality.

**Increase implementation through a conservation loan guarantee program.** The 2007 Farm Bill should create a conservation loan guarantee program to help farmers and ranchers finance conservation measures on their lands. Loan guarantees, which would reduce the effective interest rate for producer borrowers, provide a highly leveraged way by for federal dollars to boost implementation of conservation practices. The program would complement and not compete with private financial markets such as the Farm Credit system.

This new program fills a void in the current system for producers unable to qualify for cost-share assistance whether it be lack of cost sharing dollars, different needs compared to current year's conservation priorities, or because the producer would exceed the cost-share caps. Loan guarantees for bonafide conservation measures would enable amortization of costs over time, even for the producers own share of costs in the event financial assistance is available from USDA.

**Redefine conservation programs to target environmental improvements at the least cost.**

Existing conservation programs must be refined to improve cost effectiveness and environmental performance, thereby producing more environmental benefits for each dollar invested. For example, in the Environmental Quality Incentives Program (EQIP), priority should be given to offers with the most efficient means of producing the intended environmental benefits. Priority also should go to projects that comprehensively treat resource concerns and achieve advanced levels of management.

**Improve technical assistance.** USDA staff resources are stretched to the limit by the growing workload for applying conservation systems. The increased use of competitively bid, third party technical services providers (TSPs) can help address these needs. Use of multi-year agreements with TSPs will help stabilize technical assistance for producers

**Simplify assistance for producers.** The current onerous paperwork process—involving multiple forms, redundant entries of information and confusing program regulations and multi agency conflicts take away from the land management activities of farmers and ranchers. Advanced technology and streamlining of the process could save manpower, improve accuracy and simplify the process for producers.

**Commodity**

The 2007 Farm Bill is an opportunity to repair a hole in the farm safety net. Existing commodity programs are narrowly focused on supporting prices, not revenues, and as such, large numbers of producers have fallen through the safety net. Let me be more specific, in situations when yields are low but prices are high, the current programs do not make payments even though they are needed. Thus, in years of drought or flood, while a farmer might have a significant drop in the yields; if prices remain high, a serious drop in revenue for a farmer is not covered by the program. I'm sure that many producers in western Nebraska who have experienced year after year of drought can attest to this major hole in the safety net. Proof positive of this gap in the safety net is the repeated requests and need for ad hoc disaster assistance—if the safety net were working well these problems would not occur.

Farm policy always has had a role in helping provide a safety net of steady, reliable income assistance when disaster hits and tools to manage risk. In order to fix the hole in the safety net, it should target revenue (price multiplied by yield). The government would provide a per acre payment based on projected national revenue, which would be forecast each year before planting. After harvest, government payments are made to farmers based on the difference between the actual national average revenue and the earlier projected revenue. Under such a system, the government covers nationwide drops in revenue due to natural disasters and/or price fluctuations during the course of the growing season based on actual market conditions. By removing these market-wide risks, we can also gain tremendous efficiencies in the crop insurance sector—the result of which will be lower taxpayer costs and reduced producer premiums on individual insurance coverage. Producers can protect themselves against individual/local risk through crop insurance and the government will protect against global or national risk via a government payment. Creating such a system will build upon experiences we have learned and provide greater protection to producers

**Example of Average National Revenue Deficiency  
(Government) Payment: Corn**

USDA Expected U.S. Yield: 150.0 bushels/acre  
 Planting RMA Price: \$3.00/bushel  
 Expected or Target U.S. Revenue: \$450/acre  
 Realized U.S. Yield (October): 160.0 bushels/acre  
 Harvest Insurance Price: \$2.50/bushel  
 Realized U.S. Revenue: \$400/acre  
*REVENUE DEFICIENCY PAYMENT = \$50/acre (\$450-\$400)*

Individual farm adjustment of the Nat'l Revenue Deficiency

	Farm A	Farm B
Farm yield	130 bu/A	180 bu/A
Local planting price	\$2.70/ bu	\$3.10/ bu
Farm target revenue	\$351/A	\$558/A
Farm adjustment factor	78%	124%
Farm revenue deficiency payment	\$39/A	\$62/A

**Examples to Illustrate Integration of National Revenue Deficiency  
Payment with Individual Farm Revenue Insurance: Corn**

Farmer's Expected Yield: 140.0 bu./acre  
 Planting Insurance Price: \$2.90/bushel  
 Farmer Expected Revenue: \$406/acre (90.2% of Nat'l Revenue)  
 Farmer Selected Insurance Coverage Level 75%  
 Farmer's Nat'l Revenue Deficiency Payment: \$45.10/acre (90.2% x \$50)

	Situation 1	Situation 2
Farmer's Realized Yield:	120 bushels	100 bushels
Harvest Insurance Price:	\$2.20/bushel	\$2.20/bushel
Farmer's Realized Revenue:	\$264/acre	\$220/acre
Farmers Revenue Def Pmt	\$45.10	\$45.10
<i>FARMER INSURANCE PAYMENT:</i>	<i>\$0/acre</i>	<i>\$39.40/acre</i>

Calculation - Situation 1:  $(\$406 \times 0.75) - \$264 - \$45.10 = -\$4.60$  (no payment)

Calculation - Situation 2:  $(\$406 \times 0.75) - \$220 - \$45.10 = \$39.40$

This concept was developed by Dr. Carl Zulauf and has been taken up by American Farmland Trust as a replacement for the LDP and CCP programs. As you know, a variation of this idea is also being championed by NCGA, and the Administration's Farm Bill proposal has also put forward a revenue-based safety net. We look forward to developing this concept as the Farm Bill debate moves forward.

I wanted to add one final thought, Mr. Chairman. When the 2002 farm bill was signed into law, many in the farming community believed that Conservation Security Program (CSP) had great potential to be a broad based stewardship reward program - a way to support those farmers who are good stewards of the land and to inspire others to reach higher levels of environmental performance. Unfortunately, for a variety of reasons, CSP has not fulfilled that promise. I believe the concept of a rewards program is still valid; and urge the Committee to re-commit itself to finding a workable "green payments" program to reward producers for their stewardship of our nation's natural resources.

Mr. Chairman, I thank you again for this opportunity to appear before this committee and discuss our goals and priorities. I welcome questions and discussion today and in the future.