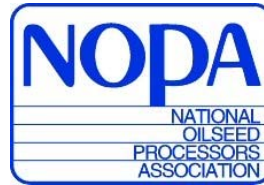


National
Grain and Feed
Association



North American
Export Grain
Association, Inc.



December 8, 2004

Director
Conservation and Environmental Programs Division
Farm Service Agency
Room 4714-S Stop 0513
1400 Independence Avenue, SW
Washington, D.C. 20250-0513

Dear Sir/Madam:

The National Grain and Feed Association (NGFA), the North American Export Grain Association (NAEGA), the National Oilseed Processors Association (NOPA) and the North American Millers' Association (NAMA) are pleased to submit the following comments in response to the August 10, 2004 Federal Register notice requesting comment on the long-term policy for the Conservation Reserve Program (CRP). We have provided some additional comments we believe should be taken into consideration as the Department considers the future of the CRP.

Congress has capped the program at 39.4 million acres, however, continued expansion of the CRP will hamper U.S. agriculture's ability to produce and compete in global market's. The size of the CRP has an impact on the availability of land to build and grow an economic foundation for the grain, livestock, milling and processing sectors of the U.S economy.

- 1. How should CCC address the large number of expiring CRP contracts and their associated acres in a manner that achieves the most environmental benefits but is also administratively feasible and cost effective? What methods should be pursued that would address the large acreage expiring beginning in 2007 (for example, how could CCC stagger the contract expirations over several year intervals, and what criteria could CCC use to select and extend contracts)?**

The USDA has stated a commitment to maintain the environmental benefits of CRP. However, we question whether simply offering re-enrollments or contract extensions for those contracts expiring on 2007 and 2008 as proposed would contribute to meeting that commitment. While large numbers of the acres due to expire are highly erodible and environmentally sensitive there are also large tracts of farmable land that are neither erodible nor sensitive and in some cases have been idled for 18 years already. Additionally, many of those acres that are due to expire entered the program under less stringent environmental benefits measurements. Using CRP acres for this type of land rather than focusing on filter strips or riparian buffers appears to run counter to maintaining the environmental benefits of CRP.

We encourage an approach that reflects the Administration's commitment to free enterprise and support for U.S. agricultural growth. The concern for the large number of acres expiring in 2007 and beyond is

real – but the approach must be balanced. Assisting with administrative realities, early re-enrollments should be matched by early opt-outs of contracts without penalty. This would ease some of the burden of dealing with large numbers of contract extensions in 2007 and beyond. USDA should consider allowing a large number of the contracts to expire and only reenroll or extend those, which can provide the most significant environmental benefits. This would elevate the agency’s concerns over workflow keeping in mind that the 39.2 million acres prescribed by Congress is a cap and not a mandate. By letting contracts expire USDA could focus the program to provide better environmental targeting of idled land and limit the negative economic consequences of keeping large tracts of land out of production. Not permitting the bulk of the contracts to expire would only serve to push the perception that the government is involved in a permanent land idling scheme with economic damaging impacts very similar to the discounted resource idling schemes that have been discontinued.

2. What factors should be considered in determining the acceptability of offers for CRP to provide an equitable balance between soil erosion, water quality, and wildlife benefits, and why?

Any consideration of offers should balance the listed improvements with the economic impact of idling land on the local economy and U.S. agriculture’s ability to compete in a global market. On-farm techniques and new technology are already helping soil erosion. To make a significant long term impact on soil erosion conservation programs should be targeted to working lands and assisting farms to implement soil conservation practices.

The benefits of land idling on wildlife should be more carefully weighed versus the negative impact of taking land out of production. A common argument used to defend the CRP is that it is creating niche industry catering to hunters and fisherman – our members are certainly involved in and support these activities, but should those activities be subsidized through government payments.

To enhance the intended benefits of the program, idled acres should focus only on filter strips, buffers and the most environmentally sensitive lands with a strong emphasis on substantially improving the water quality. Water quality is one of the most critical issues facing commercial agriculture, and the CRP can be structured to make a strong contribution to its improvement. Water quality may be the single biggest challenge to the future growth potential of U.S. agriculture, yet, USDA’s own analysis indicates that enhanced water quality represents only 8% of “non-market” benefits of the program. This low number may be the best evidence of the need for the program to be substantially redirected away from whole farms and toward more filter strips.

3. How could the Environmental Benefits Index (EBI) be modified?

The current EBI gives equal weight to soil erosion, water quality and wildlife benefits. Given the environmental challenges facing U.S. agriculture equating wildlife benefits to the issues of soil erosion or water quality is irresponsible and not a good use of scarce economic resources. Water quality is one of the most critical issues facing U.S. agriculture and this is where the CRP can make a significant contribution by focusing enrollment on buffers and filter strips.

4. How could the program be better targeted, whether to certain practices (e.g., filter strips, riparian buffers), geographically, or on some other basis?

Filter strips and riparian buffers should be the primary target of the CRP. Consideration must also be given to the impact of certain acres on the local economy and care should be taken to target the program

in a manner which enhances those areas most important to production agriculture; water quality and soil erosion.

- 5. If CCC offered CRP re-enrollment without competition, how could it ensure that program goals are achieved in a manner that results in the most environmental benefits but is also administratively feasible and cost effective? How could CCC determine which contracts and acres would be most environmentally valuable to re-enroll into CRP without competition through a standard EBI ranking process?**

Enrollment without competition should be avoided and should be granted on only the most environmentally sensitive land. Competition to enroll land is key to ensuring that only the land that provides the most significant environmental benefits are idled leaving potentially productive cropland available to farm. Additionally, the USDA should avoid mass reenrollments which give a perception that the CRP is a permanent land idling scheme similar to those that have been discredited in the past.

- 6. In what ways and for what purposes could acreage be set aside to assist local areas to meet local priority concerns?**

Proper implementation of the CRP which targets water quality and soil erosion concerns should be sufficient in assisting local areas meet local priority concerns. If additional acres are deemed necessary to be set aside to meet local concerns, choosing them should be no less rigorous than any other acres enrolled in CRP. Additionally, establishing criteria to fairly evaluate various kinds of local priorities could be a very challenging undertaking. "Local concerns" could cover a large range of issues.

- 7. Because CCC is concerned about the supply, quality, and cost of seed and tree stock, how can the agency manage large CRP enrollments in future years to address the need to seed and plant vegetation on newly enrolled acres?**

This represents a limiting factor to the program and this should be taken into consideration when determining the number of acres to be enrolled. If there is concern over the "supply, quality, and cost of seed and tree stock" the enrollment should be limited to the available supply rather than compromise for lower quality and spend exorbitant amounts of program funds on seed and tree stock.

- 8. How can Geographical Information System (GIS) technology be used more effectively?**

Utilization of GIS technology is fine in so far as it helps to target the program to the most environmentally sensitive areas, but it does not abrogate FSA's responsibility to make a complete assessment of potential CRP acres. This includes its impact on rural economies and the domestic and global demand situation for grains. These factors should play a primary role in making determinations as to the number of acres enrolled in the CRP. The supply impacts of this program, given the aggressive subsidization of ethanol production, can no longer be ignored

- 9. How can local adverse economic impacts, if any, be mitigated?**

One of the most surprising conclusions of the recent ERS study on CRP impacts was that in counties that had high percentages of cropland enrolled in CRP, there generally was not, on average, a long-term

negative impact on jobs, the local economy and local services, such as schools, hospitals and local government revenues. There are numerous other studies that draw dramatically different conclusions. The anecdotal information received from our members that live in some of these counties, and frankly common sense economics, is strongly at odds with the USDA's study findings. Intuitively, when productive farms are idled for 10-20 year periods, and the community is largely dependent on agriculture to drive economic activity, economic damage would be an obvious expected outcome. Regardless of whether you are talking about farming, a manufacturing facility or any other business, it's hard to shut down a major part of the local business economy without losing jobs and foregoing economic opportunity. The USDA study found that some areas were able to economically "recover" from the initial negative impact of CRP. The study did not conclude that the areas would have experienced greater growth had the CRP acres been smaller and other non-agricultural enterprises simultaneously created. We submit this is an important distinction.

There are many real-world examples of the economic damage to local economies caused by high enrollment of productive whole farms in the CRP:

- In Ellis County Oklahoma land now in the CRP totals 63,000 acres. Harvested cropland is only 97,000, suggesting that the effective "cap" on CRP in that county is not 25% but nearly 40% of normal cropland acres. Since 1988 the town of Shattuck in Ellis County has lost 23 local businesses.
- Harmon County Oklahoma has been awarded the dubious distinction in that state of losing population at the fastest rate of all 77 counties in Oklahoma. Total harvested crop acres in that county are only 84,000, while CRP ground totals 51,000, suggesting an effective CRP cap of about 38% of normal cropland acres. Go to a county in the U.S. somewhere that is solely dependent on a local manufacturer and ask them to sacrifice 40% of their productive capacity.
- In North Dakota, a recent study shows that recreational revenues from activities related to CRP such as hunting averaged returning only 26% of the lost revenues from agriculture.
- The Red River Valley and Western Railroad, a regional railroad in North Dakota notes that two branch lines in that state had been abandoned in areas that had a high concentration of CRP ground. The Burlington Northern Santa Fe Railroad just announced the abandonment of another 50 miles of track in North Dakota. Loss of such infrastructure means that it becomes more expensive to move the remaining grain to market. Rail lines, once abandoned, are rarely rebuilt.
- A Co-op manager in Moscow, Idaho writes, "USDA's CRP program is a major reason for the downfall of our company. Over 45,000 acres in our service area is now in CRP."
- In the state of Washington, an elevator manager from Lind, in Adams County, says that about 1/3 of the acres in his marketing area are out of production, much due to CRP. The population has dropped nearly 30%. School enrollment has dropped 40%. They've lost two farm equipment dealerships, a bank, an insurance broker, and a hardware store.

To be sure, some of the "environmental damage" of CRP that doesn't appear in the researchers' formal analysis is the reduced quality of life for those that do remain in local communities where large numbers of houses are just abandoned, store fronts are boarded up and local infrastructure falls into disrepair.

Impact of CRP on Tenant Farmers

At a recent Washington D.C. farm policy conference, ERS economists noted that current farm programs--including all types of farm programs---were having the unintended consequences of artificially inflating land values and creating benefits that largely flow to land owners rather than farm operators.

In this respect, the CRP program has the same shortcomings as all other farm programs. However, the CRP is more pernicious for tenant farmers than any other farm program, because it not only benefits solely the landowner, but also increases the economic pressure on tenant farmers. While CRP rental rates

are intended to reflect local market conditions, the program puts the U.S. government into active competition with tenant farmers bidding for the use rights to land. For farmers that are trying to put together an economic-sized farming unit, this may make available rental land scarcer and more expensive. The National Farmers Organization in 2001 noted this in testimony stating, “CRP is widely utilized by retiring farmers and investors as an income source that artificially inflates land rental costs and discourages retired farmers from renting land to beginning farmers for a 10-year period.”

A former president of the American Soybean Association has noted that the CRP program added as much as 75 cents per bushel to the average cost of growing soybeans in some areas where CRP enrollment is high. When we are trying to compete against aggressive growing agricultural economies, such as those in South America, we don't need our policies to be inflating production costs for U.S. farmers that rent a large portion of the land they are planting.

The Overall Market Impacts of CRP

The United States has used acreage idling programs since the 1930s in an attempt to raise prices. When the U.S. held a more dominant position in global agriculture, the U.S. could temporarily raise prices by shorting the market with heavy resource idling programs. However, in the last 25 years, because of expanded global competition and the decline of U.S. domination in production (which to some degree has been self-inflicted), unilaterally trying to raise prices through idling schemes is futile. In a recent policy conference, two noted ERS economists, Edwin Young and Paul Westcott, stated that one of the major lessons learned over 7 decades of farm policy is that “supply controls are unworkable.” It has become abundantly clear that in an open world economy, what the U.S. does not plant on productive U.S. soils will be planted elsewhere---Europe, Canada, South America, Australia, India, Ukraine, etc.

Not only does acreage idling no longer have a lasting price impact in the U.S. or anywhere else around the globe, because it forces the agricultural economy to spread fixed costs over fewer acres, it raises the average production cost per unit. Idling schemes thus inhibit U.S.'s global competitive position in two significant ways—bidding up land costs and increasing average production costs by reducing the total units of output over which fixed costs can be spread.

The major commodity that has been most affected by CRP buyout of whole, productive farms has been wheat. A majority of the CRP ground has been concentrated in wheat states. The large number of acres in the CRP in the Northern Plains has impacted the U.S.' ability to produce adequate quantities of oats and certain classes of wheat, and imports have become critical. Predictably, wheat imports into the U.S. have accelerated over the life of this program and the U.S. has struggled to grow enough for our own domestic mills. Additionally, as ethanol production increases, driven by both government subsidies and market factors, the corn acres will move west, exacerbating the U.S. competitive position in wheat.

It also needs to be recognized that conservation, improved water quality and other benefits are now technologically feasible through methods other than whole farm idling programs. Given that the overall policy dialogue on farm programs is about to ensue, we would encourage the administration to proceed cautiously and not lock in vast amounts of idled acres for another 10-15 years. This would severely limit program options.

Capturing the Growth Opportunities in U.S. Agriculture

We are entering a period in U.S. and global agriculture that has a lot of similarities with the early 1990s when global food markets experienced dynamic growth from expanding economies and improved diets.

During that period, global food production truly struggled to keep pace with the growth in demand, and we may again face similar market conditions.

Global meat and poultry demand is growing at a 2.5% annual clip. Export markets for beef, pork and poultry have been one of the most dynamic growth markets in the last 15 years, and given the U.S.'s continued strong production of feed grains, we have the comparative advantage to grow this export business more---provided we have the grain and protein supplies to fuel that growth.

Soybean crush has been expanding at a rapid pace around the globe as well. In the last five years, soy crush has increased more than 6 percent annually. The Chinese economy growing at an 8-10% annual rate across multiple years coupled with a decline in agricultural production in that country is a big reason for the growth spurt in soybean products. The future Chinese demand is not limited to oilseeds, as two recent ERS reports on future Chinese wheat and corn markets project that country will remain a net importer of both of those important grains. The fact that the U.S. dollar is declining and remains under pressure to assist in rebalancing global trade flows suggests that the U.S.'s competitive position may also be enhanced by currency markets.

Fuel ethanol production in the U.S. is projected to absorb increasing quantities of corn – estimated to be more than 1.3 billion bushels in 2004. Of course, some of that industrial demand will be determined by tax and other government incentives and future legislation, but if crude oil markets stay firm near the levels they are today we will no doubt maximize output from existing ethanol facilities, and very likely give further investment incentives to build much more capacity. Again, the growth potential will depend on whether the U.S. has the grain production capacity to facilitate the growth. Creating overall growth opportunities for agriculture will be much more difficult if the U.S. becomes a big importer of necessary feedstocks for animal, ethanol and processed commodities.

Conclusion


The evidence is compelling that the optimal structure for the CRP program is not simply an extension of the past program. A substantial move away from enrollment of whole productive fields is needed for several reasons:

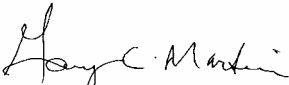
- There is a need to focus more of CRP resources on soil conservation and water quality. Deteriorating water quality is one of the most significant long-term challenges to a prosperous U.S. agriculture.
- Fewer whole farms enrolled in the program will lessen the economic pressures on farmer tenants, and allow them to have more flexibility in correctly sizing their operation to be competitive with both U.S. and international farmers. As tenant farmers make up 70% of all U.S. production today, the economic structure of that tenant farmer's business will do much to determine whether the U.S. can remain competitive.
- Reducing the current CRP cap and allowing some of the whole farm tracts to be bid back into active production will allow the U.S. to respond to today's growing demand. We think it would make some sense to ease some of the acres back into production prior to the mass expiration of program acres in 2007 and 2008, to allow a smoother transition and to extend it over more than two years.
- Conservation needs to be a priority going into the future, but there are other ways of accomplishing conservation without idling productive resources that can contribute to higher income and economic performance.


In the interest of supporting local rural communities more strict attention should be paid to the rule that no more than 25% of available land in a county be enrolled in the program. Because of measurement error or other mistakes in policy implementation, the effective acreage cap is much higher than 25% in a number of counties. While the number of counties in the U.S. that rely heavily on a production agriculture economy has been reduced in the last two decades, there are rural communities that remain highly dependent on an active agricultural sector to drive the local economy. In a recent policy conference, one USDA economist defined a county dependent on agriculture as one with a “lack of success in all other business enterprises.” The way we shape policy needs to reflect this reality where it exists. Our policies need to be chosen very carefully so we don’t take away the lifeblood of communities that are still closely tied to production agriculture.

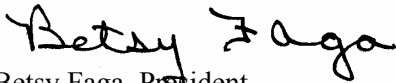
Thank you for the opportunity to present our views and we look forward to working with USDA as this important issue continues to play a major role in agricultural economics.

Sincerely,


Kendell Keith, President
National Grain and Feed Association


Gary C. Martin, President and CEO
North American Export Grain Association


Thomas Hammer, President
National Oilseed Processors Association


Betsy Faga, President
North American Millers’ Association

NGFA – 1250 I St. NW, Suite 1003, WDC 20005 Ph: 202-289-0873 Fax: 202-289-5388 Web: www.ngfa.org
NAEGA – 1250 I St. NW, Suite 1003, WDC 20005 Ph: 202-682-4030 Fax: 202-682-4033 Web: www.naega.org
NOPA – 1300 L St. NW, Suite 1020, WDC 20005 Ph: 202-842-4168 Fax: 202-842-9126 Web: www.nopa.org
NAMA – 600 Md Ave. SW, Suite 450 E, WDC 20024 Ph: 202-484-2200 Fax: 202-488-7416 Web: www.namamillers.org