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Senate Agriculture Committee approves new farm bill package

By Sara Wyant, Agri-Pulse Editor

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The Senate Agriculture Committee unanimously approved a massive new five-year farm bill today that will provide about \$283 billion in assistance to farmers, ranchers and the millions of Americans who participate in federal food and nutrition programs. Chairman Tom Harkin (D-IA) said floor consideration, where the bill will be combined with the Senate Finance Committee's \$5 billion revenue package, would start perhaps as early as next week.

"After months of negotiations, we were able to work within a very strict budget allocation to complete our work and **pass a farm bill that is good for agriculture, good for rural areas and good for the health of Americans**" said Chairman Harkin. "Our Committee was able to use budget offsets and report a bill that makes major investments for the future and is still fiscally responsible. This is a forward-looking farm bill with greatly strengthened initiatives to support renewable energy, conservation, nutrition, rural development and to promote better diets and health for all Americans."

Ranking member Saxby Chambliss (R-GA) described the measure as "a good bill and it deserves the support of the entire Senate. **The package we put together is notable in that it does not raise taxes to pay for new programs or deny our farmers and ranchers a strong safety net.**"

During a press conference this afternoon, Chairman Harkin made it perfectly clear that the package is likely to be amended on the floor as Senators try to make additional modifications that were not addressed by committee members as they worked to keep their compromise package intact. However, he said there were no "deals" cut in committee that would bind any Senators' votes during floor consideration.

"**The committee is one thing, the floor is another,**" he added. "I may even be involved with some amendments on the floor myself," he added, without providing any specifics.

Harkin expects an amendment by Senators Chuck Grassley (R-IA) and Byron Dorgan (N-ND), which would place a "hard cap" of \$250,000 on farm program payments to easily pass the Senate

with more than the 66-31 margin that they achieved in 2002. However, that limit was later rejected by the conference committee.

Harkin said he also **expects amendments to increase funding for conservation, rural development and nutrition**, as well as efforts to modify the Average Crop Revenue (ACR) program. Asked about immigration reform, Harkin said he would oppose any amendments dealing with this topic.

Where will the offsets come from to keep the bill budget neutral? Harkin would not give specifics, but suggested that a lot of people will be looking at the \$5 billion in disaster funding that will be “going to just a handful of states.”

Key provisions in the Senate Agriculture Committee’s bill:

Producer Income Protection and ACR: The bill includes a newly named Producer Income Protection title of that continues much of the 2002 farm bill commodity provisions, with “rebalanced” target prices and loan rates and gives producers the option, beginning with the 2010 crop year, of participating in a state-level revenue protection system. **The Average Crop Revenue program** was approved today after the committee reached a compromise on an amendment offered by Sen. Pat Roberts (R-KS). This concept is modeled after legislation introduced by Senators Dick Durbin (D-IL) and Sherrod Brown (D-OH), and supported by groups such as the National Corn Growers Association and the American Farmland Trust.

After starting in 2010, this amendment would require farmers opting into the new program to continue participating for the life of the farm bill, rather than having the ability to opt in or out each year. Also, the amendment would reduce the percentage of base acres on which farmers could collect payments from 100% to 85%. However, the committee agreed to consider increasing that percentage back to as high as 100% if, after the Congressional Budget Office produces another estimate of the cost, there are sufficient finds to increase the level.

Another key part of the ACR, the crop insurance integration portion of the plan, was also deleted by the amendment. NCGA President Ron Litterer said he was “deeply disappointed” with the changes because it makes the revenue proposal a much less attractive option to growers.” However, he was optimistic that needed improvements could be made on the Senate floor or in conference committee, which will be chaired by Sen. Harkin.

“This is the first time a revenue option has ever been considered in a farm bill so it’s an important first step,” added Litterer.

Conservation: The conservation title extends key conservation programs and increases funding. The Conservation Security Program (CSP) – **now renamed the Conservation Stewardship Program** –will be authorized to enroll more than 13 million acres nationwide each year. With the 15 million acres already enrolled, Harkin says the program will attract 80 million acres in 5 years. This funding will also continue to allow increased enrollment in the Wetland Reserve Program, the Environmental Quality Incentives Program (EQIP) and the Grassland Reserve Program.

Renewable Energy: The energy title provides investments in farm-based energy by creating initiatives with financial incentives to help farmers transition into biomass crops, and supports the construction of biorefineries from cellulose ethanol with a loan guarantee program that will provide up to 80 percent of total project cost with a loan cap of \$250 million. The bill expands markets for biobased products, and invests in farm-based energy R&D.

Nutrition: The nutrition title updates nutrition program rules, increases Food Stamp benefit levels, and stops the erosion of benefits that Harkin says have gone unchecked since 1996. It expands the Fresh Fruit and Vegetable Program to reach nearly 4.5 million children in elementary schools nationwide.

Specialty crops: The bill offers about \$3 billion in assistance to growers of fruits, vegetables and other specialty crops --- providing almost double the funds that were included in the House package, when you include disaster assistance. Senator Debbie Stabenow (D-MI), who helped push for much of the increased funding within both the Agriculture and Finance Committees, on which she serves, provided the following funding comparison.

Specialty Crop Subtitle	<u>House Bill</u>	<u>Chairman's Mark</u>
Block Grants	365	270
Pest and Disease	200	200
Tree Assistance	0	120
Clean Plant Network	20	20
Organics	25	27
Asparagus	0	15
Farmers's Markets	35	30
Trade Assistance	0	19
Healthy Food Enterprise	0	7
Nutrition Title		
School Snack Program	305	1.133
Community Foods	0	50
Seniors Farmers Markets	0	50
Research Title		
Specialty Crops Research	215	80
Organic Research	25	80
Trade Title		
Market Assistance Program	97	94
Total Mandatory Spending	\$1.6 billion	\$2.195 billion
Plus Disaster Relief		\$850 million
Total		\$3.045 billion

Livestock: The bill's livestock title strengthens enforcement of the Packers and Stockyards Act and would prohibit packers from owning livestock for more than 14 days before slaughter. This title also strengthens the mandatory Country of Origin Labeling, with minor changes.

Rural development: This title provides \$400 million in budget authority for a variety of initiatives that will promote economic growth and create jobs in rural communities. Programs will help provide quality, affordable day care as well as improved access to broadband and more loans to rural hospitals.

Editor's note: We are still working on a more detailed summary of all titles. Keep an eye on our web site for more updates: www.Agri-Pulse.com

New study looks at credit needs for growing U.S. renewable energy

If the Senate-backed proposal to increase the production of renewable fuels to 36 billion gallons by 2022 is approved, **a new study suggests that \$105.5 billion (2007 dollars) in private capital investment would be required to finance the industry's growth.**

The analysis was completed by John Urbanchuk, a biofuels industry analyst and a director for LECG, LLC, a global expert services consulting firm and financed by the Farm Credit Council. For the first time, the report **quantifies the major role that Farm Credit banks have played in advancing renewable energy development across rural America**, as well as the impact on rural communities.

The Farm Credit System has been a major source of financing for the ethanol industry for several years and reported, at June 30, 2007, \$1.668 billion in loans outstanding relating to biofuels products and another \$2.238 billion in loan commitments to extend credit to the industry. These outstanding loans represented 1.3 percent of the Farm Credit System's total loan portfolio, according to the analysis.

Urbanchuk's analysis shows that the Farm Credit System's support for the ethanol industry over the years has helped provide \$23.2 billion in gross economic output, \$5.5 billion in household income and 136,345 new jobs in the construction of ethanol plants; \$317 million in annual transportation revenue to ship ethanol; \$24.8 billion in gross economic output, \$3.6 billion in household income and 99,188 new jobs in the operation of the plants; as well as \$4.3 billion in annual farm revenue for corn to make ethanol.

"Providing the Farm Credit System with greater flexibility to support the financial requirements of the biofuels industry by enabling them to provide financing to a wider range of borrowers will facilitate ethanol and biodiesel industry expansion and achievement of the national renewable energy goals established by Congress," the study said.

Now that Congress is looking to agriculture and the renewable fuels industry to make a major contribution to our Nation's energy independence, it is important that this experienced lender be able to continue to support the industry going forward," said Ken Auer, President & CEO of The Farm Credit Council (FCC).

As part of this year's farm bill debate, the FCC has proposed an expansion of their lending authority to meet these growing demands, **but the concept is adamantly opposed by state and national banking associations.** A provision to expand lending authority for the Farm Credit System was included in the House version of the farm bill, but deleted on the House floor. **A similar amendment is expected to be introduced on the Senate floor during Farm Bill consideration.**

"This new study shows that **community bank opposition to changes in Farm Credit's authority is very shortsighted,** because community bankers and rural communities benefit when Farm Credit brings capital from the nation's money markets to support agriculture-based projects that the typical community bank can't finance due to lending limits," adds Auer.

The study identifies how a 50-million-gallon per year ethanol facility employs 40 people with about a \$1.9 million annual payroll. Such a plant will create nearly \$89 million in demand for local business and an additional \$31.5 million in household income. These "Main Street" business activities largely will benefit local community banks with increased deposits of payrolls and lending as local business activity increases.

The Urbanchuk study also reviews the capacity of community banks to support the industry, noting that: "...the debt cost for a new ethanol plant can easily exceed \$130 million. If a typical community bank has a lending limit of \$2 million, it would require a syndicate of 65 community banks to fund one new plant.

"It would take another 290 plants, each with 100 million gallons of capacity, to achieve the production capacity recommended in the Senate version of the energy bill (H.R. 6)."

The study also highlights how the rising cost of new ethanol facilities has changed the composition of the equity partners. A typical plant today requires investors to come up with about \$95 million before going to the credit markets for the other \$130 million in debt necessary to construct a plant, the study said.

The ability of the Farm Credit System to provide financing to this broader base of owners that include more non-farmers will be crucial to the ability of the industry to expand to meet the legislated target of 36 billion gallons by 2022, the Urbanchuk study points out.

Mark Scanlan, Vice President, Director of Agriculture and Rural Policy at the Independent Community Bankers Association (ICBA,) had not yet reviewed the study, but suggested that it was not an accurate assessment because **community banks currently work with a "Bankers' Bank" to enable several lenders to participate in a single loan.**

Scanlan said a “Bankers’ Bank that has worked on several ethanol projects told him that they **have put together a syndication as large as nearly 65 community banks to finance an ethanol plant.** “We would also question the assumption that the typical community bank has a lending limit of \$2 million,” he added.

Scanlan says current statute has ample flexibility for FCS loan making for biofuels and already requires FCS to engage in participations with banks for loans that have less than 50% farmer ownership, so their proposal does not “help community banks” as the study suggests. “There is no lack of capital available for this industry, which USDA sources recently predicted will double in capacity within the next two years.

“The industry is growing rapidly and FCS themselves have warned of saturation. This is not the time to put further pricing pressure on farmer-owned ethanol plants just because FCS wants expanded powers,” added Scanlan.

The Urbanchuk study is available for download on the Farm Credit Council’s Web site at www.fccouncil.com

Best regards,

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Editor

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