Testimony of

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Committee on Agriculture

To Review U.S. Agriculture Policy in Advance of the 2012 Farm Bill

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Introduction

Chairman Peterson, Ranking Member Lucas, and Members of the Committee, thank you for holding this hearing to review farm policy in advance of the 2012 farm bill.

We appreciate the opportunity to offer testimony before the Committee on Agriculture concerning the view of rice farmers relative to current farm policy and the development of the 2012 farm bill.

My name is Joe Mencer. I am a rice, cotton, corn and soybean farmer from Lake Village, Arkansas and have been farming for 30 years. My family farms 6,300 acres in the southeastern corner of the state on land that has been in my family since 1936. I serve on the Arkansas Rice Producers' Group board and the USA Rice Producers' Group board and also chair its Crop Insurance Task Force.

U.S. Rice Industry Overview

The U.S. rice industry is a multibillion dollar industry that provides jobs and income for not only producers and processors of rice, but for all involved in the value chain. Much of this economic activity occurs in the rural areas of the Sacramento Valley in California, the Gulf Coast region of Louisiana and Texas, and the Mississippi Delta region where 3 million acres of rice, on average, are produced annually.

Arkansas is the largest rice producing state in the U.S., growing about 1.5 million acres on average, or about half of the total U.S. crop. Rice is also produced on another 1.7 million acres in the other five rice growing states, including California, Louisiana, Mississippi, Missouri, and Texas.

The U.S. rice industry is unique in its ability to produce all types of rice, from long grain, medium grain, and short grain, to aromatic and specialty varieties. Last year, U.S. farmers produced a rice crop of nearly $3.1 billion as measured in farm gate value.

Today, about 85 percent of all the rice that is consumed in the U.S. is produced here at home. And, despite significant trade barriers to exports, the U.S. remains the largest non-Asian exporter of rice and the third largest exporter worldwide.

On average, between 40 to 50 percent of the annual rice crop is exported as either rough or milled rice. The top U.S. export markets for rice include Japan, Mexico, Canada, Haiti, and most of Central America. In 2009 we exported $2.2 billion in rice to markets around the world.

Americans consume 25 pounds of rice per year. Of the rice produced by our famers that remains in the domestic market, 53% is bound for direct human food use, 16% is dedicated to processed foods, 15% is used to produce beer, 14% is for pet food, and the balance is used for industrial purposes.

The 2005 Dietary Guidelines and MyPyramid recommendation, published jointly by the Departments of Agriculture and Health and Human Services, call for 5 to 10 servings of grains daily, with half the servings coming from whole grains, such as brown rice, and 45 to 65 percent of calories coming from complex carbohydrates, such as rice. Rice is a wholesome source of nutrition, with no sodium, no cholesterol, no glutens, and no trans or saturated fats.

Beyond the substantial economic and nutrition benefits of rice is the environmental dividend from winter-flooded rice fields that provide critical habitat for migratory waterfowl and other wetland-dependant species. In point of fact, all of the major rice-production areas in the U.S. host important waterfowl activity during winter months.

Rice-growing areas provide surrogate habitats for hundreds of wildlife species that rely on wetland conditions for species survival, some of which would be threatened but for the wetland environments provided by flooded rice fields.

Without rice farming, wetland habitats in the U.S. would be vastly reduced. A loss of this magnitude would have a disastrous effect on waterfowl, shore birds, and a host of other wetland-dependant species. In the Delta region of Arkansas, Mississippi, Missouri, and northeast Louisiana, at least 70 wildlife species rely on our rice fields for habitat.

2008 Farm Bill Review

The Food, Conservation, and Energy Act of 2008 (the Farm Bill) continued the traditional mix of safety net features consisting of the non-recourse marketing loan and loan deficiency payment program and the direct and counter cyclical payment program.

The farm bill also includes the addition of Average Crop Revenue Election (ACRE) as an alternative to counter cyclical payments for producers who agree to a reduction in direct payments and marketing loan benefits. The bill also added Supplemental Revenue Assurance (SURE) as a standing disaster assistance supplement to federal crop insurance.

The 2008 Farm Bill made very substantial changes to the payment eligibility provisions of the safety net, establishing an adjusted gross income (AGI) means test and, albeit unintended by Congress, resulting in the very significant tightening of “actively engaged” requirements for eligibility.

USDA is still in the process of implementing many of the provisions of the 2008 Farm Bill, and the final payment eligibility rules were only announced in January of this year. As a consequence, we are still adjusting to the many changes contained in the current farm bill, even as we begin the process of developing policy recommendations for the 2012 farm bill.

Regarding ACRE and SURE, frankly, neither policy has proved much value to the rice farmer in any of the major growing regions. Specifically, in the first year of ACRE signup, only 8 rice farms representing less than 900 acres were enrolled in the program nationwide. And SURE has provided little, if any, assistance to rice producers, including those producers in the Mid South who last year suffered significant monetary losses due to heavy rains and flooding occurring prior to and during harvest.

Regarding the traditional mix of safety net features, the nonrecourse marketing loan and loan deficiency payment program and countercyclical payment program have not yet provided payments to rice farmers under the 2008 Farm Bill because of the new price paradigm which has, as a practical matter, greatly limited the protections afforded to producers under these two features.

In fact, if the protections provided were ever to trigger for rice farmers, the protections would help stem some of the economic losses but, frankly, not enough to keep most rice farms in business even through one year of severely low market prices.

As such, whatever its imperfections, the Direct Payment alone has assisted rice producers in meeting the ongoing and serious price and production perils of farming today.

For rice producers, as for most other producers, the existing safety net protection levels have simply not kept pace with the significant increases in production costs. It is for this reason that rice farmers believe strengthening the safety net would be helpful in ensuring that producers have the ability to adequately manage their risks and access needed credit.

Another area that we believe needs attention is the Farm Service Agency (FSA) direct and guaranteed loan programs. These programs have proved invaluable over the years in ensuring producers have access to necessary production financing in times of financial stress due to crop losses. We urge the committee to work with your colleagues on the Appropriations Committee to ensure adequate funding for these programs and with USDA to ensure the program is administered in a streamlined manner for both producers and their lenders.

In sum, despite what one may read in the newspaper or hear on the radio or television about Uncle Sam lavishly spending money on the farm safety net, rice farmers are certainly not seeing any windfalls and, I would respectfully submit, neither are our brethren who produce other crops. The public perception about government largess in farm policy, so carefully and diligently created and nurtured by critics, is quite divorced from reality on the ground. Spending on the rice safety net in the Farm Bill has declined from $1.2 billion to about $400 million annually, which is largely made up of only the direct payments.

Crop Insurance

Even risk management products offered under Federal Crop Insurance have been of minimal value to rice farmers to date due to a number of factors, including artificially depressed actual production history (APH) guarantees, which I understand is also a problem for many other producers; high premium costs for a relatively small insurance guarantee; and the fact that the risks associated with rice production are unique from the risks of producing many other major crops.

For instance, since rice is a flood-irrigated crop, drought conditions rarely result in significant yield losses as growers simply pump additional irrigation water to maintain moisture levels to achieve relatively stable yields. However, drought conditions do result in very substantial production cost increases connected to the pumping of additional water.

As such, what rice farmers need from federal crop insurance are products that will help protect against increased production and input costs, particularly for energy and energy-related inputs. For example, fuel, fertilizer, and other energy related inputs represent about 70 percent of total variable costs.

In this vein, the USA Rice Federation has been working for over a year now to develop a new generation of crop insurance products that we hope will provide meaningful risk management tools for rice producers in protecting against sharp, upward spikes in input costs. Our objective is to gain approval from the Risk Management Agency (RMA) of at least two new products that could be available to growers in time for the 2012 crop year. Without these products in place, rice producers enter the 2012 farm bill debate at a serious disadvantage, having just one safety net feature to which they have effective access. We believe that there is the authority within the current federal crop insurance statute to greatly expand access to higher quality coverage and we hope that USDA will aggressively use that authority given the constraints Congress faces in pursuing this end.

One of the products is a concept called Crop Margin Coverage (CMC) that would provide three levels of protection: yield coverage, price coverage, and margin coverage. The new component, margin coverage, is intended to provide some degree of protection against rising production costs, focused on the major inputs of fuel and fertilizer. We are seeing significant interest for such a product from rice producers and are hopeful that RMA will work with us to gain approval for full development of this concept.

The second product we are working on is a "downed rice" endorsement for existing policies. This would be an add on to existing insurance policies and is intended to help offset some of the additional harvest costs that rice producers experience due to rain and flooding at or near harvest. In such situations, harvest costs can increase two to three times of normal and the existing crop insurance products and SURE provide no protection for this peril.

Concerning crop insurance as it exists today, we should note that the enterprise unit discount provision contained in the 2008 Farm Bill did help remove at least some obstacles to better coverage, making Crop Revenue Coverage (CRC) policies more affordable and effective for some rice farmers. Thanks to this provision, we saw an increase in participation in the 2009 crop year and we anticipate additional participation again this year. We thank you for including this provision in the 2008 Farm Bill and we hope that this pilot program can be universally expanded and made permanent.

Conservation Policies

Rice producers are excellent conservation stewards and, as such, we strongly support and participate in voluntary, incentive-based USDA conservation programs.

Rice producers contribute to beneficial conservation efforts through a number of initiatives including the Environmental Quality Incentives Program (EQIP), the Conservation Security Program (CSP), and the Wetlands Reserve Program (WRP), among others. Through our participation, rice producers are maintaining and enhancing the natural resources of not just our family farms, but that of our communities, states, and our nation as well.

Rice producers support administration of conservation programs primarily at the local level. We appreciate the emphasis Congress has placed on technical assistance to producers and we value these services from NRCS officials and NRCS-certified third-party providers.

In regard to the current farm bill, we believe that release of final conservation program rules is extremely important, as is their consistent implementation and application nationwide. In particular, with the strong interest in the 2008 farm bill's expanded national-level Conservation Stewardship Program (CSP) and in the absence of a final CSP rule to date, we are hopeful that the Administration will quickly complete and release the CSP final rule.

When the 2002 farm bill's Conservation Security Program was being implemented, rice producers played a proactive role in working with NRCS. More recently, in 2009, the USA Rice Federation filed CSP comments with NRCS, including some concerns about provisions in the interim final rule. Of specific concern to rice farmers are provisions that would administratively impose a payment limit of $40,000 per year and a $200,000 contract limit despite the fact that the Farm Bill does not impose either.

Also, of specific concern are restrictions on the number of individuals who may apply or contract for CSP. Earlier this year, only one entity per contract was allowed, regardless of whether an operation was signed up at the Farm Service Agency (FSA) as a multi-entity operation. Moreover, only those listed on the FSA's documents as farm operators were eligible to apply and, if deemed eligible, enter into a CSP contract. Finally, the rule states that, to be eligible, a CSP applicant must have documented control of the land for the proposed contract term unless an exception is made by NRCS. However, a CSP applicant may not have a five-year lease on every acre he or she farms. Landowner-tenant relationships include many types of arrangements. Requiring a 5 year or longer lease is unrealistic in most circumstances, both from the perspective of the landowner and the tenant.

In short, rice farmers take very seriously our responsibility to care for our land and our natural resources. They are our economic lifeblood and an integral part of the legacy that we will leave behind to our children and grandchildren. As has been said many times, farmers often find themselves cash poor but relatively land rich. As such, we have an economic as well as an altruistic motivation to properly care for our land.

But there is also very substantial benefit accruing to the general public as a result of the conservation efforts we undertake on the farm, including cleaner air and water, wildlife and wildlife habitat, reduced soil erosion, and wetlands protection. Accordingly, we believe these highly successful, voluntary conservation cost-share efforts are properly a shared responsibility.

Finally, given the fiscal constraints expected in the context of the 2012 farm bill, I would be remiss not to mention that conservation funding is an essential part of any successful farm policy, but it should not come at the expense of the farm safety net. A farmer and rancher must still be profitable in order to properly care for his or her land. The safety net doesn’t translate into profitability but it does take out some of the deep economic valleys producers would otherwise face.

Environmental Policy Challenges

Unlike conservation efforts under the farm bill, Federal and State environmental regulations, which are growing in number, frequently appear to put more focus on the means of achieving a desired outcome than the outcome itself, thus creating unnecessary inefficiencies and added costs to conservation.

Policy makers should consider working to avoid these less efficient regulatory frameworks where effective cost-share conservation efforts are proven more effective, while making the cost-share dollars available to assist in meeting Federal and State regulatory regimes when they are nevertheless imposed on producers.

Of serious and ongoing concern to rice producers is the economic impact of climate change legislation on the U.S. rice industry and American agriculture in general. From our vantage point, the cost of pending legislation heavily outweighs any potential benefits.

One of the key areas of focus in our analysis of pending legislation is the impact on rice production costs as a result of higher costs for major inputs such as fuel, electricity, fertilizer, natural gas, and propane. As noted earlier, rice is a flood-irrigated crop, requiring energy to pump either ground or surface water. In addition, rice is a high yielding crop, utilizing nitrogen fertilizer which, in turn, is made using natural gas. Rice must also be dried before it can be stored. And, finally, beyond the increased costs of field production, rice must be milled before it can be consumed or utilized in products, an expense which is also borne by producers if they are part of a cooperative. All of these already significant costs are expected to substantially increase under pending climate change legislation, both in the short and long term, and this does not even take into account increased transportation and other costs expected to rise as a result.

We fear that these increased input costs will make us less competitive vis-à-vis our major global competitors, such as Vietnam, Thailand, Pakistan, and India, whose producers already benefit from heavy government protections and which will not likely bind their economies to the same level of commitments to reduce greenhouse gas emissions, if they will bind themselves to any at all.

In sum, we are confronted with no economic upside under pending climate change legislation but plenty of economic downside. For instance, an analysis by the Agricultural and Food Policy Center at Texas A&M University estimates that due to the increase in input costs for rice and the likelihood of no opportunity to meaningfully participate in an offset program, at least at this time, all fourteen (14) representative rice farms analyzed would experience lower average annual net cash farm income. Moreover, the American Farm Bureau Federation estimates that the ***increase*** in rice production costs per acre could reach as high as $153.00.

Beyond climate change legislation, our industry is also facing numerous additional rules and regulations from the Environmental Protection Agency (EPA), including new spray drift guidance, potential National Pollutant Discharge Elimination System (NPDES) permits for the application of pesticides, Endangered Species Act (ESA) and pesticide re-registrations concerns, and additional air quality regulations at both the farm and processing stages. Clean Water Act legislation currently pending in Congress is also troubling because of the legal uncertainty that it would create on the farm. Food Safety and Chemical Security legislation also needlessly create anxiety for producers by failing to address basic concerns over fairness, including, in the case of Food Safety, the failure to provide for a simple indemnification program for producers in the case of an FDA-error.

Trade Policy Challenges

Another key policy focus for our industry is trade since we are greatly dependent on export channels to market nearly half of our annual production. While many previously negotiated trade agreements have promised market access gains for agriculture, much of what was promised has yet to materialize or is continually threatened by artificial sanitary, phytosanitary (SPS) and other non-tariff barriers.

In terms of new agreements, rice was completely excluded from the free trade agreement negotiated with South Korea, foreclosing any new markets for U.S. rice producers in that country. And, the Colombian Free Trade Agreement (FTA), which would provide significant new market access for the Mid-South rice industry, is stalled.

Moreover, one market that has the potential to become a top five export market almost immediately is Cuba. Unfortunately, the U.S. government maintains restrictions on our agricultural exports to this country. Cuba was once the number one export market for U.S. rice prior to the embargo and we believe it is potentially a 400,000 to 600,000 ton market if normal commercial relations are established. In this regard we wish to commend Chairman Peterson and Congressman Moran for your leadership in introducing legislation to open agricultural trade as well as remove travel restrictions to Cuba. We look forward to working with you to see this legislation enacted into law.

I would be remiss if I did not at least touch on the Doha Round negotiations of the World Trade Organization (WTO). It suffices to say that we are greatly outgunned by high foreign subsidies and tariffs and, at least so far, we have seen nothing in the Doha Round negotiations that would change any of this. In fact, instead, in many ways Doha would make matters worse. Yet, enshrining in our trade agreements decisive advantages for our trading partners, including such countries as China, India, and Brazil, may be marketed as trade liberalization or free trade in Washington or Geneva but we in the countryside see it for what it really is: picking winners and losers in the global economy based on politics.

Given rising future global demand for food, the U.S. should exercise caution in negotiations so as not to arbitrarily forfeit America's domestic production to less efficient competitors.

It is also in light of our highly protected and subsidized competition and the importance of trade to our industry that we believe it is critical that the U.S. maintain adequate funding and resources for our export promotion and market development activities, particularly the Market Access Program, Foreign Market Development program, and the General Sales Manager (GSM) 102 export credit guarantee programs.

Budget Challenges

As we look ahead to the development of the 2012 farm bill, we are deeply concerned about the deteriorating budget baseline for agriculture.

As you know, today, less than one quarter of one percent of the federal budget and less than 17% percent of the USDA budget is dedicated to the farm safety net.

Yet, the re-negotiation of the Standard Reinsurance Agreement (SRA) by USDA and the crop insurance companies could result in another baseline reduction of nearly $7 billion. Clearly, agriculture cannot afford this kind of hemorrhaging in advance of what we understand may be a baseline farm bill and at least the potential of another budget reconciliation effort. Of equal concern is the adverse impact of such cuts on a safety net component that producers are told by lawmakers and lenders alike that they will have to rely on more and more.

As you know, the farm safety net sustained cuts in 2005 during budget reconciliation and, again, in 2008 in the context of the Farm Bill even as other policies administered by USDA received funding increases, some very substantial. The success of farm legislation has always depended upon carefully balanced legislation and coalition-building. We are deeply concerned that singling out the farm safety net for additional cuts may upset this fragile balance.

2012 Farm Bill Development

The rice industry is working internally to analyze all the existing safety net policies and to evaluate their effectiveness in providing a measure of protection in the most efficient manner.

We believe that a strengthening of the farm safety net is important. But we also believe that any improvements should be accomplished in a manner that does not cause disruption and upheaval in the U.S. agriculture production system which continues to provide our country and millions around the world with a safe, abundant, and affordable supply of food, fiber, and fuel.

With regard to a whole farm revenue concept, we have serious concerns about how such a program would perform for rice producers, especially if it has some of the same components as the existing SURE program, which is not working for our industry. In general, whole farm approaches don't work well for rice farmers, particularly those that are diversified with several crops.

At this time, we would like to share with you the key principles that are guiding our work in analyzing the current farm bill policies.

1. The farm safety net should be strengthened for rice producers by the 2012 Farm Bill.

2. The Direct Payment Program, or any variant, should confer a stronger safety net for rice producers.

3. The Marketing Assistance Loan/Loan Deficiency Payment Program should be extended with at least current loan rate levels as a base level safety net for producers and lenders.

4. The Countercyclical Payment Program, or any variant, should better reflect current market conditions for rice.

5. ACRE, or any variant, needs to effectively serve all eligible commodities.

6. SURE, or any variant, needs to effectively serve all eligible commodities and regions.

7. Crop insurance needs to effectively serve all eligible commodities and regions.

8. The 2012 Farm Bill should create long-term certainty regarding payment limitations, adjusted gross income requirements, and other eligibility criteria.

9. There should be no further reduction in pay limits or adjusted gross income requirements or further restrictions on eligibility relative to the current mix of safety net components or the equivalents under any variant.

10. There should be no further reduction in funding levels for the farm safety net nor any reduction in that safety net funding specific to rice producers.

Conclusion

In closing, we would like to thank you once again for this opportunity to share our views on the current state of the rice industry, the diverse challenges we face, and our initial thoughts on the development of a 2012 farm bill that can help meet the needs of producers.

We look forward to working with you in this regard and I would be happy to respond to any questions the Committee may have.