USA Rice FEDERATION

US Rice Producers association

Testimony of

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On behalf of

US Rice Producers Association

and

USA Rice Federation

Before the
Subcommittee on General Farm Commodities and Risk Management
Committee on Agriculture
U.S. House of Representatives
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Introduction

Good morning, Chairman Etheridge, Ranking Member Moran, and Members of the Subcommittee.

I am Dan Gertson, a rice farmer from Lissie, Texas and the Chairman of the US Rice Producers Association. I have been farming rice for 50 years, and I am blessed to have four sons and two sons-in-law who I have helped begin farming as well.

I am pleased to appear today on behalf of both the USA Rice Federation and the US Rice Producers Association.

Mr. Chairman, we thank you for holding this hearing and for the opportunity to express our views on the farm bill.

The U.S. rice industry supports maintaining an effective farm safety net that includes the marketing assistance loan program, countercyclical and direct payments, and planting flexibility.

Farm Bill Budget

We would like to thank Chairman Peterson, Ranking Member Goodlatte and members of the Agriculture Committee for the bipartisan effort they have made to obtain additional budget resources to help in developing the best farm policy possible. We are well aware of the difficult budget situation we are facing, but also fully agree with the position taken by the Committee in its budget views and estimates letter sent to the House Budget Committee.

The fact is that U.S. farm policy will have saved about $25 billion since passage of the 2002 Farm Bill. As a result, the commodity program budget baseline according to the Congressional Budget Office has *fallen* by about 43 percent since 2002. At the same time, input and production costs for rice producers has *risen* by more than 42 percent since 2002. As such, the Agriculture Committees should be given some credit for this savings and provided an additional budget allocation for maintaining a farm program safety net in the farm bill.

We recognize the many competing interests that must be considered when assembling a farm bill. New needs have been identified since passage of the 2002 Farm Bill. However, the safety net we have today is still vitally important to farmers and rural America—as important as when the 2002 farm bill was written.

Commodity Programs

Overall, the rice industry strongly supports the continuation of the current farm programs within the commodity title of the farm bill. We believe the structure of the 3-prong safety net of a non-recourse marketing loan program, direct payment program and counter-cyclical program are working as designed to ensure a safety net for producers. When prices increase, program expenditures decline because less support is needed. This has resulted in the approximately $25 billion in actual and projected savings from the commodity programs over the course of the 2002 farm bill.

Payment Limitation Policies

The U.S. rice industry opposes any further reduction in the payment limit levels provided under the current farm bill. We also oppose any government policies that attempt to "target" payments or apply a means test for agricultural production payments. Payment limits have the negative effect of penalizing viable family farms the most when crop prices are the lowest and support is the most critical. To be a viable family farm, we must use economies of scale to justify the large capital investment costs associated with farming today. It is essential that rice producers maintain eligibility for all production to the non-recourse loan program. Arbitrarily limiting payments results in farm sizes too small to be economically viable, particularly for rice, cotton, and peanut farms across the Sunbelt. When the issue of payment limits is brought up, oftentimes opponents of production agriculture attempt to use misleading statistics taken out of context for the purpose of making their argument. Here are some key points that I know we are all probably aware of, but it's important to be reminded of so that we see the real picture of production agriculture.

Statistics skewed by "Rural Residence Farms": "Rural residence farms" as defined by USDA represent about two-thirds of the 2.1 million "farms" in this country. Excluding these farms where farming is not the primary occupation of the family results in a very different picture about the percentage of "farms" receiving farm program payments. The universe of farms actually producing this nation's food and fiber is much smaller than 2.1 million. In fact, 38% of farms produce 92% of our food and fiber and receive 87% of farm program payments.

While we support the overall structure of the current commodity programs, there are some rice specific legislative adjustments within the structure of the programs that are needed to address some issues that have arisen relative to rice.

Rice Program Support Levels

Within the current marketing loan program, the statutory loan rate for rice is set at a national average rate of $6.50 per hundredweight of rice (about 2.22 bushels). The loan rate for rice has remained unchanged since 1989. However, over that time period production costs and operating expenses have increased exponentially and continue to escalate. As a result, since the enactment of the 2002 Farm Bill the support provided by the rice loan compared to the variable cost of rice production has fallen by a whopping 33 percent! In 2002 the rice loan rate represented about 150 percent of the variable cost of producing rice. Today that same loan rate represents only about 100 percent of the variable cost of producing rice. This represents a greater effective *reduction* in the support level for rice than for any other program crop since 2002, and is now *lower than for any other program crop.* As such, we are seeking a very modest increase in our rice loan rate from the current level of \$6.50/cwt to \$7.00/cwt.

In the 2002 farm bill, when the target price and counter-cyclical payment system was established, the target price for rice was set at \$10.50/cwt and remains at that level today. Again, due to the continued increase in production costs, we are seeking a \$.50/cwt increase in the target price to \$11.00/cwt.

Loan Rates by Class

The current statutory loan rate for rice is set at \$6.50/cwt, but there are currently 3 distinct loan rates for rice by class that are set by USDA for each crop year: long grain, medium grain, and short grain. The average of these three loan rates must equal the \$6.50/cwt national average set by current statute in the farm bill for rice. Over the course of the marketing loan program operation, there has been a differential between the loan rates for the several classes of rice, while the statutory loan rate has been set at one level for all rice. USDA has recently undertaken efforts to "rebalance" these loan rates by class. We have concerns with the approach being used by USDA in this process. After studying and analyzing the issue we believe that the most appropriate course is to set the loan rate at the same level for all classes of rice—long, medium, and short grain.

Analysis of the impact of the changes proposed by USDA suggests that the modifications would have a significant impact on the rice industry. At first glance, changes in class loan rates would appear to cancel each other out, assuming that the method to report adjusted world prices remains unchanged. If so, the result would basically be a transfer of loan support from long grain rice producers to producers of medium and short grain.

However, these changes in payments could be large enough to generate a round of false market adjustments as producers shift acreage in response to the change in the program and markets react to the resulting larger medium and short grain supplies and smaller long grain supplies. In other words, this new "equilibrium" envisioned by USDA will not have been achieved without causing significant economic pain.

Arriving at a new "equilibrium" between long and medium/short grain loan rates will likely entail significant adjustments along regional lines. Within the long grain sector, the higher cost producers that are already operating at low rates of return would suffer the greatest burden. Losses in revenues would be concentrated in the areas where producers have the lowest ability to take advantage of changes in loan rates by shifting between varieties, such as Missouri, Mississippi, and Texas. Any gains in revenue would be concentrated in California where producers would receive a higher return on their existing production, and the potential to expand more profitable operations.

The current method of setting loan rates by class has allowed for the orderly production and marketing of rice that has provided ample supplies to the market without generating excessive stocks in either the public or private sectors. Although domestic prices for medium grain varieties have over time appreciated at a rate much faster than long-grain varieties, much of this increase reflects market forces unique to particular markets and even to particular medium grain varieties.

Therefore, we urge this Committee as you draft the farm bill to include statutory language directing USDA to set the national loan rate for each class of rice at the same level as established by the farm bill, with the only adjustment continuing to be reflective of milling yields. There should be no further loan rate differentials by class or location.

Making such a change to an "all rice" loan rate would, based on the current rice loan rate of $6.50/cwt, result in a slight reduction in the long grain loan rate of $0.09/cwt compared to the 2007 crop loan rate and an increase in the medium grain loan rate of $0.30/cwt and an increase of $0.22/cwt for short grain. Of note, long grain rice accounts for approximately 80% of total rice production, and medium and short grain rice accounts for approximately 20% of total production on average.

Adjusted World Price Calculation for Rice

Many in the industry are also concerned with the current methodology and formula used by USDA in calculating the "adjusted world price" (AWP) for rice. The AWP is set and announced each week by USDA as part of the marketing loan program. The AWP largely determines the level of loan program benefits (if any) provided to producers, based on the world prices for rice adjusted back to U.S. location and quality.

The current process employed by USDA is essentially a "black box" approach that provides little, if any, transparency in the process. This method worked well overall for a number of years after the marketing loan program was first established. However, over the course of the last few years, the AWP as announced by USDA has varied significantly at times from what was believed to be the true price relationships in the world market place. This has reduced U.S. competitiveness in the world market and diminished the producer safety net.

To help address this issue, the industry is working to develop a more transparent formula that would be representative of the prices in the major world rice markets. Such an approach would work in principle similar to the method used for calculating the AWP for cotton, which utilizes a rather specific formula calculation for certain markets.

We believe by putting in place a transparent, verifiable formula and method for calculating the AWP for rice, producers and others in the industry will have greater confidence in the process. It should also help USDA to better calculate the AWP on a weekly basis.

As the several industry producer, processor, and other organizations further define and reach consensus on a proposal for a transparent method of calculating an AWP for rice, we look forward to working with the Committee to include legislative language in the farm bill to bring this much needed transparency to the process.

USDA Proposal

We have reviewed the Farm Bill Proposal developed by USDA and released in January. While it is clear a great deal of effort went into developing the proposal, it is unfortunate that many of the proposed changes, particularly in the commodity title, would have the damaging effect of weakening and in some cases practically eliminating the safety net the farm bill is intended to provide. However, the USDA proposal does call for an additional $5.0 billion in funding for the farm bill over the next 10 years, which is a positive and necessary part of the farm bill development.

Commodity Title

It is important to note overall that USDA's commodity program proposal recommends maintaining the key components of the safety net—non-recourse marketing loan program, direct payment program, and counter-cyclical program—although some of the changes within the programs are problematic, as described below.

The proposal to set loan rates based on previous 5-year Olympic average prices and to include a loan rate cap but not a floor would be especially damaging. This would essentially remove any real safety net that the marketing loan program is intended to provide. If market prices for a certain commodity begin to decline and continue that downward trend for several years, the result could be a loan rate significantly below the current loan rate levels. Loan rates should be set in statute at the appropriate level to provide a basic safety net level and not be altered during the life of a farm bill. This level of certainty and predictability is necessary for producers to obtain production financing and make long-term planning decisions.

Also, the proposal by USDA to modify the counter-cyclical program from a price-based trigger to a revenue-based trigger at the national level is also problematic for rice producers and the rice industry. Given the unique nature of rice production, we experience very little variation in yield or production, but can experience significant changes in market prices. Therefore, using market prices as the basis for counter-cyclical payments is important for our industry and something we continue to support. We would note that the justification for this change – helping producers when they have production losses – is not even accomplished by the proposal because producers in an entire region could lose their crop and so long as other producers made their crop and prices were strong, no payment would be made.

The current law adjusted gross income (AGI) provision prohibits commodity program payments from being made to individuals with greater than a $2.5 million AGI, excluding those individuals who earn at least 75% of their income from farming, ranching, or forestry. A major concern with the USDA proposal involves the reduction of the AGI test to only $200,000, and the repeal of the farmer safe harbor for those whose income principally comes from farming, ranching, or forestry.

We believe the idea of means testing for commodity programs in general is bad policy. A farm safety net – no matter how good it may be – is not worth anything to thousands of farm and ranch families if they cannot access it. The AGI proposal unfairly penalizes full time farmers who have diversified and expanded for purposes of achieving economies of scale in order to compete with foreign competitors that enjoy huge subsidies, tariffs, and questionable non-tariff barriers. This rule would injure U.S. farmers and ranchers as they fight to compete on a very lopsided global playing field.

The proposed AGI rule would make U.S. farm policy unpredictable, inequitable, and punitive for American farm and ranch families, especially tenant and beginning farmers and ranchers, as well as lenders, landowners, Main Street businesses, and rural communities.

This provision would also have serious consequences as it relates to rental agreements between landowners and producers. It would force landowners to cash rent their land rather than share production risks with their producer tenants. This will only hurt the "real producers" farming or ranching on the land. Large or wealthy landowners who are the apparent targets of this proposal will not suffer, but will simply cash rent their land to other producers who are likely eligible for program benefits.

The proposed AGI rule also makes it difficult or impossible for lenders to measure with any certainty the future cash flow of farm and ranch families in order to make both short and long term lending decisions. Uncertain whether the producer will be eligible for farm policy benefits, lenders – whether banks, farm credit system institutions, equipment dealers, or others offering business credit – will be unable to estimate producer cash flows with any level of certainty.

It is understandable why this type of rule has not been proposed for conservation programs under the Farm Bill. Or under the JOBS Bill that helps U.S. manufacturers compete globally. Or for doctors under Medicare. They didn't include this kind of a rule because it would have hurt the cause, not helped it. Similarly, farm and ranch families should not be means-tested out of farm policy based on their AGI because this, too, would undermine a fundamental purpose of farm policy: the provision of the safest, most abundant, most affordable food and fiber supply in the world to the American consumer.

We urge you to oppose the above provisions of the USDA farm bill proposal due to the severe consequences that would result from any one or combination of them. America's farm and ranch families are already facing enough uncertainty and difficulty without unnecessarily weakening the safety net as proposed by USDA.

Conclusion

Overall, the rice industry supports a continuation of the basic commodity programs structure, with the changes referenced above as it relates to rice: 1) Modestly increase the program support levels for rice to a loan rate of $7.00/cwt and a target price of $11.00/cwt.; 2) Set loan rates for all classes of rice at the same level, with no differential by class or location; and 3) Develop and implement a more transparent formula for the calculation of the AWP for rice.

We continue to believe that our current farm programs are a fiscally responsible approach to farm policy and provide a safety net when needed. They have resulted in $25 billion in savings from the estimated costs of the farm commodity programs of the 2002 Farm Bill.

Furthermore, any unilateral reduction of the current programs and funding levels of the farm bill will result in the effective "unilateral disarmament" by the U.S. when it comes to World Trade Organization (WTO) negotiations that the Administration is continuing to pursue. Such action would effectively weaken our negotiating position with other countries. We certainly do not agree that the pending WTO negotiations should dictate or steer our domestic farm policy. Farm policy should be directed by what's best for America's farm and ranch families.

Thank you again for the opportunity to testify and share our views with you as it relates to the commodity provisions of the farm bill and the Administration's farm bill proposal. We look forward to working with this Subcommittee and the full Committee in crafting the strongest farm policy possible to continue to provide an effective safety net for American agriculture.

I would be pleased to respond to any questions at the appropriate time.

Committee on Agriculture
U.S. House of Representatives
Information Required From Non-governmental Witnesses

House rules require non-governmental witnesses to provide their resume or biographical sketch prior to testifying. If you do not have a resume or biographical sketch available, please complete this form.

1. Name: Peter D. (Dan) Gertson Jr

2. BusinessAddress: 1005 Co. Rd 271
P.O. Box 608, Lissie, Tx. 77454

3. Business Phone Number: 979-234-2364

4. Organization you represent: US Rice Producers Assoc.
USA Rice Federation

5. Please list any occupational, employment, or work-related experience you have which add to your qualification to provide testimony before the Committee:

50 yrs. Farming Rice and other crops. I have four sons and two son-in-laws I helped start Farming.

6. Please list any special training, education, or professional experience you have which add to your qualifications to provide testimony before the Committee:

7. If you are appearing on behalf of an organization, please list the capacity in which you are representing that organization, including any offices or elected positions you hold:

Presdent - US Rice Producers Association

PLEASE ATTACH THIS FORM OR YOUR BIOGRAPHY TO EACH COPY OF TESTIMONY.

Committee on Agriculture
U.S. House of Representatives
Required Witness Disclosure Form

House Rules* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2004.

Name: Peter D. (Dan) Gertson Jr

Address: Box 608, Lissie, Tx 77454

Telephone: 979-234-2364

Organization you represent (if any): U.S. Rice Producers - USA Rice Federation

1. **Please list any federal grants or contracts (including subgrants and subcontracts) <u>you</u> have received since October 1, 2004, as well as the source and the amount of each grant or contract. House Rules do <u>NOT</u> require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:**

Source: ______________________ **Amount:** __________

Source: ______________________ **Amount:** __________

2. **If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) <u>the organization</u> has received since October 1, 2004, as well as the source and the amount of each grant or contract:**

Source: ______________________ **Amount:** __________

Source: ______________________ **Amount:** __________

Please check here if this form is NOT applicable to you: ✓

Signature: [signature]

* Rule XI, clause 2(g)(4) of the U.S. House of Representatives provides: *Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof. In the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include a curriculum vitae and a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by any entity represented by the witness.*

PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY.