Testimony of

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Committee on Agriculture

Hearing to Review the Future of U.S. Farm Policy and the Formulation of the 2012 Farm Bill

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Introduction

Chairman Lucas, Ranking Member Peterson, and Members of the Committee, thank you for holding this hearing concerning farm policy and the 2012 farm bill. I appreciate the opportunity to offer testimony on farm policy from the perspective of a producer who comes from an area that produces many different crops and where we have a number of cropping options.

My name is Paul T. Combs. I raise rice, soybeans, cotton, corn, and wheat in Dunklin and Pemiscot counties in the Missouri boot heel. In addition to our farming operation, my family and I also own and operate farm equipment dealerships in both Missouri and Arkansas.

I recently completed two terms on the board of the Federal Reserve Bank of St. Louis. I also serve on several boards and committees for farm organizations, including the USA Rice Federation.

Effects of Strong Farm Policy

As a producer who is involved in both production agriculture and as an agribusiness supplier, I come to the table with a somewhat unique perspective.

As a producer, I need long-term certainty in Federal farm policy that will allow me to make business planning decisions on my farm. For this reason, I believe it is imperative that Congress pass a five year farm bill this year, not a short-term extension that leaves me in limbo as to what policy will be in place. We are trying to grow our farm by purchasing land when opportunities arise. We are trying to improve our marketing options by expanding on-farm storage capacity so we can better market our crops. These types of decisions require not only long-term policy, but policy that will allow us to tailor our risk management options to the needs of our farm.

As an agribusiness owner, I see firsthand the impact that uncertainty and inadequate farm policy can have on producers when it comes to their decisions about investing in new equipment for their farms. Right now prices are decent for most of the crops in our area, but we all know how cyclical commodity prices are, and every grower needs a policy that will provide some downside price protection if (and likely when) we see a steep decline in commodity prices. Without this type of certainty, farmers, like any businessperson, will take steps to minimize their exposure to risk, resulting in a pullback in investments for their farm. This pullback starts first with their suppliers of inputs (equipment, grain storage facilities, fertilizer) and then begins to impact the majority of businesses in rural America. We've seen this cycle play out over and over and I hope we will not repeat the mistakes of the past by putting in place a farm policy that assumes good prices are here to stay, and then we find out it is ill-equipped to deal with the decline in prices that is sure to come.

Effective farm policy gives producers the confidence we need to continue to invest in our farms and the confidence that lenders need to extend the financing to producers to make these investments. During my time on the Federal Reserve board, I saw the importance of not hindering this access to credit.

2008 Farm Bill Review

The traditional mix of farm policies that were continued in the 2008 Farm Bill including the nonrecourse marketing loan, loan deficiency payment, and countercyclical payments have not triggered for most crops due to the current market price levels. Yet the cost of inputs have increased in step with the rise in commodity prices so the current levels of price protection afford very limited protection to producers. However, I would note the importance of maintaining the existing marketing loan which plays an important role in marketing of our cotton and rice in particular.

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

Because the Direct Payment has been singled out for elimination in the next farm bill, I believe that we must strengthen the remaining policies in the 2012 Farm Bill to ensure that producers have the ability to adequately manage their risks and access needed credit.

Crop Insurance

The current suite of risk management products offered through Federal Crop Insurance has provided limited value to producers in the Mid-south.

What 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. Because crop insurance does not cover the margin risk that some producers face, we must work to develop a new generation of crop insurance products that will provide more meaningful risk management tools that will aid in protecting against sharp, upward spikes in input costs. I am aware that the rice industry is currently pursuing development of such a product, but it is important to stress that even if a new product is approved this year, it takes several years to conduct a pilot to ensure the policy is functioning properly. And it will be a long road to explain the new product to producers and encourage evaluation of the policy, particularly in areas like mine where we have not historically seen high levels of participation in crop insurance. The bottom line is that even if crop insurance is made effective one day for rice and other crops currently underserved, insurance cannot replace the need for farm policy under the Farm Bill for any crop.

Conservation

Conservation policies play an important role in production agriculture by providing financial cost-share and technical assistance to producers in their continual efforts to conserve water, soil, air, and wildlife habitat. I support maintaining a strong conservation title in the farm bill, in particular one that emphasizes working lands conservation incentives, but not at the expense of the commodity policies.

Voluntary, incentive-based, and science-based conservation initiatives are needed, as is technical assistance. The Conservation Security Program (CSP), Conservation Stewardship Program (CSP), and the Environmental Quality Incentives Program (EQIP) are important working lands initiatives that assist producers with protection of the environment and conservation of natural resources and should be reauthorized.

Rice producers in my area were some of the early participants in the original CSP and we saw real benefits from this and the other conservation initiatives.

I support the efforts undertaken last fall by the Agriculture Committees to streamline and consolidate the conservation title as part of the Select Committee process, and I urge you to continue with this approach in developing the conservation title in the 2012 Farm Bill.

I would like to note that rice farming is one of the few commercial enterprises that actually promotes wildlife habitat and improves biological diversity.

Since the very nature of rice production requires that fields be flooded for many months of the year, evidence shows unequivocally that it plays a vital role in supporting common environmental goals, such as protecting freshwater supplies and providing critical habitat for hundreds of migratory bird species.

Without rice farming, wetland habitats in the United States would be vastly reduced. A loss of this magnitude would have a disastrous effect on waterfowl and a host of other wetland-dependent species.

The clear and positive benefits that commercial rice production has for migratory birds and other wildlife species contribute not only to a more interesting and diverse landscape, but also provide economic benefits that support local economies and create jobs.

By providing an environment favorable to wildlife advancement, rice production clearly generates positive benefits to the economy and society.

Farm Bill 2012

Farm policy should be designed to support a strong and dynamic U.S. agriculture sector.

As noted earlier, the 1996 Farm Bill's Direct Payments have provided critical help to farmers in the Mid-south – offering capital farmers could tailor to their unique needs.

However, given the pressure to move away from this policy to more counter cyclical policies, I support the following priorities:

- The triggering mechanism for assistance should be updated to provide tailored and reliable help should commodity prices decline below today's production costs, and should include a floor or reference price to protect in multi-year low price scenarios.
- Second, as payments would only be made in loss situations, payment limits and means tests for producers should be eliminated.
- Third, federal crop insurance should be improved to provide more effective risk management for rice in all production regions, beginning with the policy development process.

Price Protection is Imperative

Given the price volatility for the crops I produce, and the fact that most crops in my area are irrigated, most of the risk that I face is on prices, not necessarily production. This is very true for my rice, which is fully irrigated, but most of my others crops are irrigated as well. To address this primary risk, I believe providing effective levels of price support for all crops should be the central focus of this farm bill, and honestly this is what farm policy has historically been focused on and that should continue.

I hear some contend that a revenue-based policy with no reference or floor price is the right approach to take in this farm bill and is all that is needed when coupled with crop insurance. It seems to me that this approach is flawed in several ways. First, this assumes that crop insurance works equally well for all crop and regions, which I can assure you is not the case today. Second, this assumes that we won't face another 1998 through 2002 scenario where we have good commodity prices that quickly fell to catastrophic levels dues to global factors. Third, this assumes that if commodity prices fall then input costs will decline in sync and proportional to the decline in prices. I have to say that if history is any guide, then I believe all three of these assumptions will prove wrong. And by not planning now for this type of scenario, we are setting ourselves up for another situation where farm policy will not be equipped to respond to this price decline. The result will be a significant economic downturn in rural America, followed by calls for Congress to provide additional economic assistance in a time of large Federal budget deficits and debt.

In addition, what happens if the price of only one or two commodities decline sharply? I can't imagine that input costs are going to decline in this scenario, so producers of these crops are forced to deal with a severely depressed price environment where our options are to either stop producing all together, or shift into the other crops with higher prices. This could have severe implications to the infrastructure for the crops with depressed prices and reduced production. We have seen this occur in some areas with both rice and cotton infrastructure and I believe we can ill-afford a farm policy that would not provide us with effective down side price protection to forestall any further contraction of these industries.

For example, based on the farm bill process last fall, I believe the reference price for rice should be increased to $13.98/cwt ($6.30/bu). This level would more closely reflect the significant increases in production costs for rice. And this reference price should be a component of both the price-loss policy and the revenue-loss policy to ensure downside price protection.

Producer Choice

In addition, there should be true options for producers that recognize that a one-size-fits-all approach to farm policy does not work effectively for all crops or even the same crop in different production regions.

Here in the Mid-south where I farm, a price-based loss policy is viewed as being most effective in meeting the risk management needs, again largely due to our consistent production as a result of large investments in irrigation infrastructure and being blessed with adequate water resources. Specifically, this policy should include a price protection level that is more relevant to current cost of production; paid on planted acres or percentage of planted acres; paid on more current yields; and take into account the lack of effective crop insurance policies for many crops in my area.

Using rice as an example, this is a crop grown in a fairly limited geographic area, yet there are distinctions between growing regions that make a difference in what policy will work best for rice. In the California production region, although the existing revenue-based policy still does not provide effective risk management, efforts to analyze modifications which will increase its effectiveness continue. Since rice yields are highly correlated between the farm, county, crop reporting district, and state levels, we believe the revenue plan should be administered for rice at either the county or crop reporting district level to reflect this situation rather than lowering guarantee levels to use farm level yields. By setting loss triggers that reflect local marketing conditions, delivering support sooner, and strengthening revenue guarantees that account for higher production costs as well as the absence of effective crop insurance, California rice producers are hopeful that an effective revenue option can be developed.

While I have focused on the need for a choice for rice producers in different regions, this also applies for producers of most other grains. I support having policy options available for corn, soybeans, and wheat, which I produce, and believe that both a price-based policy and a revenue-based policy should be offered as options for these crops.

I indicated earlier that I am also a cotton producer. I want to encourage the Committee to include the cotton industry’s area wide, risk management proposal in the new farm bill. It has been designed to fit the new budget constraints, while providing a reasonable and sustainable safety net for cotton producers. While it is certainly not perfect and is not comparable to our current policy, it represents the substantial reform necessary to provide a basis to resolve the longstanding Brazil WTO case. It does fit the cotton industry’s situation far better than the revenue plans designed by Mid-western interests for grains and oilseeds. And it preserves the marketing assistance loan, with modifications, that is so important to our entire industry. It is imperative that the Brazil case be resolved by the end of 2012 to eliminate any possibility that Brazil will impose the prohibitively high tariffs authorized by the WTO. Retaliation in the form of high tariffs will disrupt US exports and adversely impact US businesses across the board.

Bankability— SURE is not tailored to the multiple business risks producers face. ACRE, while offering revenue-based protection, is complicated by requiring two loss triggers; providing payments nearly two years after a loss; and provides no minimum price protection — it is not bankable. For example, on farms I enrolled in the ACRE program I just received this month the ACRE payments for the 2010 crop. This is not a policy I can take to a lender and show that it will provide a meaningful and timely safety net. The marketing loan and target prices are plain and bankable — unfortunately the trigger prices are no longer relevant to current costs and prices.

Defendable—It makes sense to provide assistance when factors beyond the producer's control create losses for producers. I believe that tailored farm policies are more defendable. For this reason, updating bases and yields or applying farm policies to planted acres/current production and their triggering based on prices or revenue, depending on the option a producer chooses. However, policy choices should not result in severe regional distortions in commodity policy budget baselines from which reauthorized commodity policies must be developed. Whatever is done should allow for proportional reductions to the baseline among commodities.

Building a safety net to withstand multi-year low prices— Whether in a revenue-based plan, or a price-based plan, reference prices should protect producer income in a relevant way in the event of a series of low price years. Ideally, this minimum could move upward over time should production costs also increase, this being of particular concern in the current regulatory environment.

No distortion of planting decisions—Any commodity specific farm policy that is tied to planted acres must be designed with care so as to not create scenarios that incentivize farmers to plant for a farm policy. As I have followed the current farm bill debate since last fall, I am amazed at some of the assertions about a price-based policy distorting planting decisions and resulting in large acreage shifts. The price levels that I understand were developed last year and how they were factored based on acreage and yield percentages would have meant they were well below our costs of production for all crops. This idea that maintaining a price-based policy is somehow distorting, and that a revenue-based policy that is based off historically high prices is non-distorting is misleading.

Payment Limitations and Means Testing

I strongly oppose any further reduction in the payment limit and adjusted gross income (AGI) levels provided under the current farm bill. Payment limits have the negative effect of penalizing viable commercial size, family farms the most when crop prices are the lowest and support is the most critical. To be a viable farm, we must use economies of scale to justify the large capital investment costs associated with farming today. It is essential that producers maintain eligibility for all production to the non-recourse loan. Arbitrarily limiting payments results in farm sizes too small to be economically viable, particularly for rice, cotton, and grain farms across the Sunbelt. The current payment limit and AGI provisions have created significant paperwork burdens and costs to producers to comply and remain in compliance. As oppressive as these limits are, at a minimum Congress should not make any further reductions or limits that further penalize commercially viable farms.

2011 Efforts for Submission to the Joint Committee on Deficit Reduction

I believe that the package prepared for recommendation for the Budget Control Act of 2011 is a good framework on which to build the 2012 Farm Bill. The choice of risk management tools that producers can tailor to the risks on their own farms, providing under each of those options more meaningful price protection that is actually relevant to today's production costs and prices. I appreciate the hard work of the House and Senate Agriculture Committees and their staff to address the budget constraints you are under, while working in a bicameral and bipartisan fashion to achieve workable solutions for the Farm Bill.

Conclusion

Again, thank you for your leadership and for the opportunity to offer my testimony this morning. I look forward to working with you and your staff as we move forward in this process. I would be happy to respond to any questions you might have.

PAUL T. COMBS

Paul T. Combs is President of Combs Farming Company and Sunrise Land Company, which together own approximately 6,000 acres of farmland in Dunklin and Pemiscot Counties in Missouri. Crops produced on these farms include rice, soybeans, corn, cotton and wheat. He is also President of Baker Implement Company, a family-owned retail farm equipment dealership with ten locations in Southeast Missouri and Northeast Arkansas.

Mr. Combs is Vice President of the Board of Supervisors of The Little River Drainage District, which is largest agricultural drainage district in the country. He is a member of the Board of Directors and Executive Committee of the USA Rice Federation and previously served as Chairman of the USA Rice Producers Group. Mr. Combs has provided testimony on farm policy numerous times before the Agriculture committees of the U.S. Senate and the U.S. House of Representatives. He is a member of the Executive Board of the Greater St. Louis Area Council Boy Scouts of America. Mr. Combs served two terms as a Director of the Federal Reserve Bank of St. Louis from 2005-2010. In 1995, Missouri Governor Carnahan appointed Mr. Combs to a six-year term on the Board of Curators of the University of Missouri System. During his tenure on the Board of Curators, Mr. Combs served as both Vice President and President of the Board.

Mr. Combs earned his B.S. in Accountancy from the University of Missouri—Columbia in 1987 and is a Certified Public Accountant. Prior to joining his family business, Mr. Combs was a tax associate at the Price Waterhouse accounting firm in St. Louis.

Mr. Combs and his wife Holly have two children, Meredith (19) and Hayden (16) and make their home in Kennett, Missouri and Memphis, Tennessee.

Committee on Agriculture
U.S. House of Representatives
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House Rules* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2009.

Name: ____________PAUL T. COMBS ____

Organization you represent (if any): ____

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1. **Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2009, as well as the source and the amount of each grant or contract. House Rules do NOT require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:**

Source:__________NONE______________________________ Amount:________________

Source:____ Amount:________________

2. **If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) the organization has received since October 1, 2009, 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: Paul T. Combs ____

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