

**Testimony of**

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**Before the U.S. House of Representatives**

**Committee on Agriculture**

**Subcommittee on General Farm Commodities and Risk Management**

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## **Introduction**

Chairman Crawford, Ranking Member Nolan, and Members of the Subcommittee, thank you for holding this important hearing to examine the farm safety net. I am honored to have the opportunity to offer testimony on behalf of the USA Rice Federation, the global advocate for the U.S. rice industry.

My name is Blake Gerard. I'm a fourth-generation farmer and grow more than 2,000 acres of rice and soybeans on my family's operation in Southern Illinois. I serve as the Chairman of the USA Rice Farmers Board of Directors, Chairman of the USA Rice Government Affairs Committee, and as an active member of other state and national industry-related boards and committees. I am honored to be here today representing U.S. rice farmers.

Rice planting is currently underway on my farm and throughout the rice growing regions in the U.S and nearly completed in the southernmost regions of Louisiana and Texas. 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, up and down the Mississippi River Basin starting in Illinois, down the Bootheel of Missouri, through the Grand Prairie of Arkansas and in the Mississippi Delta region. All combined, these areas plant rice on three to four million acres on an annual basis.

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, rice farmers produced a rice crop directly generating \$5.6 billion that was reinvested in local economies. This production and subsequent sales of rice generated \$34 billion in total value added to the U.S. economy from rice production, milling, and selected end users. The industry provides jobs and income to more than 128,000 people within the U.S. labor force.

Today, about 81 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 within the top five largest exporters worldwide. On average, about 50 percent of the annual rice crop is exported as either rough or milled rice. The top U.S. export markets for rice include Mexico, Canada, Japan, and throughout Central America and the Middle East. Of the rice produced by our farmers that remains in the domestic market, 53 percent is bound for direct food use, 16 percent is dedicated to processed foods, 15 percent is used to produce beer, 14 percent is for pet food, and the balance is used for industrial purposes.

Beyond the substantial economic and nutritional benefits of rice is the environmental dividend from winter-flooded rice fields that provide critical habitat for migratory waterfowl and other wetland-dependent species. All of the major rice-production areas in the U.S. host important waterfowl activity during winter months. 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-dependent species. In the Delta region of Arkansas, Mississippi, Missouri, and Louisiana, at least 70 wildlife species rely on rice fields for habitat. In California, rice fields provide unparalleled habitat for 230 species of wildlife, and provide

wintering habitat for some seven million ducks and geese that winter each year in the Pacific Flyway. So critical is this habitat to the flyway that experts estimate we would lose more than one million ducks if California rice acres were cut in half. Rice production areas in Texas correspond with the bird migration corridor known as the Central Flyway, providing important habitat to hundreds of bird species that rely on these artificial wetlands during their migratory journey. The cost of replacing existing rice habitat with managed natural wetlands would be more than \$3.5 billion.

### **State of the Rice Industry**

Recent analysis conducted by Texas A&M's Agricultural and Food Policy Center concluded that on average, each rice farmer in the U.S. generates more than \$1 million of economic activity in his or her local economy on an annual basis. While rice farming and the associated production and processing industries continue to act as economic drivers in rural communities, many of our growers have been struggling with rice prices at or below the cost of production for the last three years. As commodity prices continue to sink, the certainty of remaining in business for many growers is also sinking. Farmers rely on good years to help support them through the bad years. This is especially challenging for young and beginning farmers, who have not yet had an opportunity to build reserves.

When the current Farm Bill was enacted in early 2014, U.S. rice prices across all grain lengths averaged \$16.30 per hundredweight. The USDA's most recent forecast for the 2016/17 prices show an average price of \$10.50 per hundredweight – a ten-year low for the industry, and an overall decrease of 36 percent. Even more extreme, California's Temperate Japonica rice was averaging \$21.60 per hundredweight for the 2014/15 marketing year, and is now forecast at \$13.60 per hundredweight – a 37 percent decline in just two years. In addition to the low prices we are witnessing, the rice industry has been severely impacted by natural disasters. Over the last four years, our national average yields have taken a significant hit and decreased annually due to extreme flooding or drought throughout the rice-growing regions. The U.S. rice industry is clearly not in a great place due to factors far outside of our control. Weather events will continue to impact our yields and other major rice producing countries, many of which do not abide by World Trade Organization (WTO) rules, will continue to overproduce and artificially depress world market prices for rice. A robust safety net is necessary to protect American farmers from not only extreme weather events but also multiple year price declines.

### **Trade and Export Factors Influencing U.S. Markets**

The industry heavily relies on exports. Approximately 50 percent of our annual crop is exported to more than 120 countries around the globe, accounting for 10 percent of global rice trade. These exports are critical to rice farmers, millers, and merchants. The volatility of the global rice export market makes it difficult to project sales beyond several months and the levels of U.S. rice exports have been inconsistent over the last decade, adding to the uncertainty in our markets. We are also seeing a consistent increase of imported foreign rice, growing from 5 percent to nearly 20 percent over the last two decades, putting domestic growers at even more of a disadvantage. These growing imports are mostly originating from our global trade competitors that are frequently in violation of their WTO obligations.

According to a 2015 study on the global competitiveness of the U.S. rice industry by the U.S. International Trade Commission (USITC), rice is considered the most government-interfered with crop in the world. U.S. farmers simply cannot compete with foreign government treasuries, like that of India, Thailand, and Vietnam. Producers in these and other countries overproduce as a result of the lucrative subsidies they are provided that encourage them to plant rice even when the market tells them otherwise, distorting the world market price. Thankfully, last year the U.S. Trade Representative finally initiated two cases against China at the WTO, both involving rice. We appreciate this Committee's recognition of these WTO violations and for holding several Congressional hearings to bring the issue to the forefront. We are confident that the U.S. has a strong case and will win. While these WTO cases take some time to run their course, we are already seeing other bad actors take note of the case against China. Two weeks ago, India, another notorious violator of WTO commitments, requested "observer status" on the case out of concern that the U.S. will soon challenge their illegal subsidies. It is critical that the U.S. government continue to go after the bad actors that put American rice growers at an unfair disadvantage and threaten our livelihood.

The USITC report lays out these problems in great detail. The key conclusions are well known to our industry and my fellow producers. It outlined the pervasive extent of foreign government involvement in global rice markets and the high levels of foreign tariffs that keep U.S. rice from competing in those markets. USITC analysts concluded that U.S. rice production would be 1.3 million metric tons (mmt) higher in the absence of global tariffs. Removing foreign tariffs not only leads to higher production in the U.S. but would also increase U.S. exports by slightly more than 1.3 mmt or approximately 25 percent. Please keep in mind that U.S. import duties on rice are essentially zero.

### **Examples of Export Challenges**

The U.S. rice industry continues to face a number of challenges in exporting our safe, nutritious, and cost-effective crop. Several examples include:

- No access to the Cuban market.
  - With the appropriate statutory changes, the U.S. could regain 30 percent of the Cuban rice business within two years. That is an estimated 135,000 metric tons of new demand. We anticipate the U.S. share of the market would exceed 50 percent within five years, and it could reach 75 percent or more within ten years with full commercial relations. That is equal to somewhere between \$40 and \$60 million worth of new demand from Cuba within those first two years of lifted sanctions. We are thankful for the efforts of Chairman Crawford along with a number of other Members of the House Committee on Agriculture that sponsored a bill to remove private financing barriers for agricultural commodities with Cuba.
- No access to the Chinese market.
  - The USDA and the Chinese government have been in negotiations for nearly a decade on a phytosanitary agreement. Finally, in the fall of 2015 they finalized the text with industry support. The Chinese government has refused to finalize the

deal and we need your support to urge the Chinese to sign the protocol and allow us access to this important new market.

- Irregular/non-transparent tenders for rice to be shipped to Iraq.
  - The U.S. State Department worked with the Iraqi government to sign a memorandum of understanding that supports regular U.S.-specific tenders for rice. While we have seen some positive movement, this large export market remains inconsistent and intergovernmental corruption in Iraq often acts a barrier to selling our rice. Iraq at one time was the largest market for U.S.-grown rice but in recent years has been sourcing much of its rice from Thailand – one of the leading, cheating competitors of the U.S. in terms of rice exports.
  
- Lack of meaningful, quality access to Japan.
  - While the Trans Pacific Partnership (TPP) trade deal would have provided some new access for U.S.-grown rice to Japan, the real gains were unclear and volume remained below what we felt was fair. The industry sought a higher volume tariff rate quota (TRQ) for U.S.-grown rice going into Japan. We support a bilateral trade deal with Japan that revisits the TRQ level for U.S.-grown rice and provides the additional assurances we need on quality of access.
  
- Little to no access to the European Union (EU) and the United Kingdom (UK).
  - The U.S. rice market was effectively destroyed because of EU biotechnology policies beginning in 2006 and the market never recorded beyond a small quantity shipped largely to the UK under an existing trade concession. EU duties applied on U.S. rice outside the concession are high but unfortunately they provide favorable trade concessions for our global competitors. USA Rice is seeking substantive market access gains in Europe. That is why we support a U.S.-UK bilateral trade deal once the UK has formally exited the EU in 2018 and why we support returning to talks surrounding the Transatlantic Trade and Investment Partnership.

## **U.S. International Food Aid Programs**

In addition to trade and export challenges, USDA and the U.S. Agency for International Development (USAID) international food aid programs continue to be a target for cuts and statutory revisions by Congress, the administration, and others. These international food aid programs have long been a critical component to our diplomatic success. They are supported by farmers, shippers, processors, mills, and humanitarian organizations long known for saving lives in the face of daunting emergency situations and preventing crisis through effective monitoring and response. The programs have an extensive history of measurable successes reducing hunger and malnutrition while also supporting education, democracy, and agricultural development in vulnerable populations throughout the world. This year in particular, our food system is projected to face unprecedented demand, especially in nations across Sub-Saharan Africa and the Middle East.

Rice is one of the primary commodities utilized by a number of these programs, whether it is by direct aid or through monetization. Unfortunately, the administration's recent budget proposal

threatens to reduce or even eliminate that already small market for U.S. rice farmers through cuts in funding. The U.S. rice industry has invested a lot of time and capital into developing fortified rice and rice products recently approved for use in food aid that are aimed at reducing global hunger and malnutrition, particularly in women and children. Despite only serving as a one to five percent share of all rice exports. It is important to the industry that we continue to play a strong role in providing our nation's agricultural bounty to those in need by fully funding the USDA's Food for Progress and McGovern-Dole Food for Education programs and USAID's Food for Peace program.

### **Export Marketing and Development Programs are Worth the Investment**

Trade and exports are not self-sustaining without regular, strategic marketing of our products. The majority of U.S. agricultural products are promoted globally through the USDA's Market Access Program (MAP) and Foreign Market Development (FMD) program that provide annual allocations to commodity organizations through an extensive application/request process. These programs are vital to both growth and new opportunities for our agricultural exports and have a long track record of measurable success throughout their lifespan.

USA Rice is able to not only effectively utilize our annual allocation, but we contribute \$7 in private industry funds for every \$1 in federal funding through MAP and FMD, making them true economic drivers. Unfortunately, funding for these programs through the farm bill has remained flat for a number of years and the rate of increase for our exports are increasing has declined. Without additional funding the programs will become less effective and eventually suffer. We would like to see a significant increase, potentially doubling funding for these programs to help grow agricultural exports amid this turbulent trade atmosphere. We believe providing additional resources will help to elevate commodity prices, thus offsetting the costs of the Commodity Title.

### **Increasing Costs for Production**

According to USDA's Economic Research Service, the 2018 crop year is forecast to have some of the highest production costs on record – nearly \$1,000 per acre for rice. Our operating costs plus labor exceed every other crop covered by the Commodity Title. To put that into perspective, the production costs forecast for 2018, including labor, are: \$679 per acre for corn; \$479 per acre for soybeans; \$312 per acre for wheat; and \$317 per acre for sorghum. Folks may question why rice farmers do not typically choose to grow something else, and the answer is multiple fold. Weather, water availability, and soil type all play a role in whether it is agronomical to grow rice in a region. But, most importantly, it is economics. The initial investments for rice farmers including equipment, infrastructure for irrigation, conservation measures that have been installed, etc. are so specialized that it is difficult to economically justify a shift from year to year.

According to USDA's February Agricultural Prices Report, the Prices Received to Prices Paid ratio in January for food grains, including rice, was at 62.9 percent, down 15 percent from a year ago. With rising input costs and decreasing rice prices, our reserves, if we have them, are going to continue to dwindle for the foreseeable future.

## **Price Loss Coverage and Other Safety Net Policies**

It is safe to say that the reason I am still in business today is because of the safety net provided by the 2014 Farm Bill and, specifically, Price Loss Coverage (PLC). When prices were as high as they were during the last farm bill's development, USA Rice advocated for a safety net to protect us during multi-year price declines (i.e., PLC) instead of shallow losses. We appreciate this Committee's recognition that the farm safety net is not one-size-fits-all and for including PLC, which, by and large, is working as intended. It is this Committee's foresight and work on our behalf that has helped to safeguard much of America's rice industry.

The 2014 Farm Bill allowed growers to choose between PLC and the Agriculture Risk Coverage (ARC) within Title I. While a small number of rice farmers elected to use ARC, the vast majority enrolled in PLC. In total, 99 percent of long grain rice farms and 94 percent of medium grain rice farms selected PLC as their safety net of choice.

Rice is unique in that it has different market prices for Southern-grown long grain and medium grain rice types and California's Temperate Japonica-type rice. Since the current farm bill has been in place, a small number of insubstantial ARC payments have been made to rice farmers in select counties. PLC has been the primary safety net for rice farmers. Long grain rice prices settled below the reference price after the 2014 and 2015 crop years and growers received the much needed assistance. Southern medium grain rice growers only received support through PLC for the 2015 crop year.

USA Rice appreciates this Committee recognizing a higher than average cost of production for California's Temperate Japonica rice by designating it a separate multiplier for the PLC reference price. Unfortunately, the multiplier that was used to calculate the Temperate Japonica reference price is not sufficient in capturing the full cost of production. California's rice market has fallen at a more rapid rate than the rest of the country while under a drought situation, causing additional challenges without receiving any assistance under PLC.

While, overall, we feel that PLC is working the way Congress intended, the reference price for Temperate Japonica needs to be increased to reflect the higher than average cost of production, incorporating the unique needs of the growing region. USA Rice is working with the California Rice Commission to develop a more accurate accounting of the operating cost for Temperate Japonica using on-farm data so that we can provide the most current and accurate recommendation to this Committee in advance of the farm bill's reauthorization.

We acknowledge the political and budgetary considerations at play in writing the last farm bill, and the subsequent need to shift assistance timing for Commodity Title benefits until the crop year is fully completed. If triggered, USDA issues PLC assistance to long and medium grain rice growers in the South in November based upon the previous crop year's Market Year Average price. For Temperate Japonica rice growers in California, PLC assistance is issued in February based on the Market Year Average price for two crop years prior.

There are multiple problems created at the farm level as a result of this delay. The bills for our input costs ahead of planting season do not wait until a year after the crop is harvested before

coming due. When farmers go to the bank after harvest, it is nearly impossible to predict a year and a half in advance what kind of assistance they may qualify for – making it impossible to accurately predict cash flow. That has a big negative impact on the ability of farmers to access capital through financing.

We request that this Committee look into mechanisms to accelerate at least a portion of the PLC assistance which growers are anticipated to receive. I believe that the assistance will be more effective if producers can start utilizing it sooner during the year. More importantly, bankers would be more apt to approve our annual operating loans if the PLC assistance is advanced or accelerated.

### **Actively Engaged in Farming**

Actively Engaged in Farming regulations brought forth a lot of confusion and disruption throughout farm country following the publication of USDA's proposed and final rule in 2015. The industry requested a grace period to allow for growers to meet with their attorneys and actively work to restructure the way they managed their operations. These regulations were burdensome and costly for the affected operations, primarily in the Mid-south where rice is most produced. There are, unfortunately, no safeguards in the USDA's final rule that protect entities from maintaining "family farm" status following the death or retirement of a lineal family member, such as a parent or grandparent. It was not the intent of Congress to force family farms out of eligibility as a result of family transitions. As a son, a grandson, and a father, I can truly attest to the importance of estate planning activities to ensure the continued operation and viability of a family's farm. We are requesting that this Committee revise the statute to provide an exemption or safeguard to protect hardworking farm families against unforeseen linkage breaks in their operating structure.

In addition, the regulations should not include a cap on active personal farm managers. Invoking an arbitrary limit of one to three farm managers completely ignores the diversity and unique needs of farming operations across different crops and regions. Southern family farming operations are often larger than three individuals, and are most affected by this limit. While a family operation can have as many farm managers as required to manage the complexity and scope of the operation, it is irrational to then limit the number of eligible farm managers in similar operations that involve non-lineal family members, friends, or neighbors. The diverse sizes and scopes of farming operations across the nation require different types of expertise and numbers of individuals to adequately manage such operations. A limit ignores economies of scale, the increasing need to achieve efficiencies in agricultural production, and the complexity of such operations.

### **Adjusted Gross Income and Payment Limitations Should be Eliminated**

USA Rice opposes additional eligibility requirements based on a producer's adjusted gross income (AGI). In fact, we firmly believe that this AGI limit should not exist at all. Farmers need to build up reserves in good times in order to weather bad times. But, an AGI test that excludes farmers from the Farm Bill in a given year due to the AGI of the farmer in previous years turns this fact of life on its head.



Additionally, a \$125,000 payment limit seemed like a farfetched problem when the 2014 farm bill was written and prices were higher. Unfortunately, in current market conditions, many growers are at or close to the payment limits. If a farmer is limited at \$125,000 and his losses are \$200,000 across his operation, there is a serious problem with the effectiveness of the safety net. It seems counterintuitive to maintain policy that provides full assistance to producers when they experience some losses but only partial assistance to those that are hit the hardest and experience deep losses.

### **Crop Insurance Needs Improvement**

Crop insurance has not been as valuable a risk management tool for rice as it has been for other crops and areas. Rice farms are 100 percent irrigated, and on average, our yields are very consistent. Our financial problems occur with higher production costs due to irrigation or as the result of a weather event in the fall that disrupts our harvest and affects the quality of our crops.

Revenue Protection policies work well when prices are high and were increasingly utilized by rice farmers through 2014, but have faced challenges and diminished sales in recent years. Revenue-based insurance uses averages from the Rough Rice Futures Contract in the fall to set the expected price used to calculate revenue. Unfortunately, because rice is a thinly traded commodity in the futures market, in 2015 there was not an adequate amount of activity for RMA to determine an expected price. Therefore, revenue policies were not available for that year and producers were forced to use Yield Protection coverage, which did not provide adequate protection.

Though rice yields do not tend to be as variable as other crops due to our irrigation practices, crop insurance rates remain high relative to other crops. For example, a 75 percent Revenue Protection policy for corn in Floyd County, Iowa on a slightly above average Actual Production History would cost the farmer \$9 per acre — that is \$1.70 out of pocket for every \$100 in coverage. The same policy on rice in Richland Parish, Louisiana would cost \$23 per acre — that is \$4.87 for \$100 in coverage. So in this example, the rice insurance is nearly three times as high as the corn insurance – and this is reflective of the cost across the rice belt. With the price guarantee of \$10.30 per hundredweight of rice this year, it is easy to see why standard Revenue Protection insurance is not as useful of a tool as we had hoped it would be for rice farmers.

The 2014 Farm Bill created a county-wide insurance-based policy called Supplemental Coverage Option (SCO) that we had hoped, coupled with PLC in the Commodity Title, would provide a complementary set of risk management tools for our growers. However, after the product was rated by USDA's Risk Management Agency (RMA), in most counties it was economically infeasible to purchase for most producers.

USA Rice spent several years working with consultants to develop an insurance product that would provide coverage for drastic changes in margins based on rising input costs. This product was finally approved in 2015. However, in the course of its development it was merged with a product designed to cover margins in other crops, and the resulting changes did not meet the needs of the rice industry. Participation in the Margin Protection insurance product have been very low, with the number of policies sold in the single digits last year. For all of our investment

and efforts, the product is simply not functioning as an adequate risk management tool. However, this does not mean the concept is without merit. Because of our investments in the initial product structure and the need to cover our margins as input costs rise in the future, we would be very supportive of this Committee looking into ways to revise Margin Protection to be more affordable and to better fit the needs of rice farmers.

Finally, we have made attempts to improve crop insurance for rice farmers through the promotion of a downed rice policy that indemnifies producers for increased harvest costs associated with late-season storms that lay the rice down. This policy has been fairly successful in certain areas but problems with the overall range of the policy persist. As an industry, we plan to continue to work to improve crop insurance coverage and options for rice farmers and will continue to utilize basic coverage options to, at least partially, insure our crop in the event of catastrophic losses due to weather.

### **Farm Policy is Necessary for National Security**

Our nation's strong farm safety net would not be what it is without all of the pillars that make up farm policy. Agriculture is not a partisan issue. We divide ourselves by region and sector but not by political beliefs. Fortunately, the Commodity Title and other titles make sure that each of our different sectors and regions have something that works. Without the certainty of this legislation, our already high-risk career would take on a new level of risk.

While some of the factors affecting the farm economy are within the control of the farmers themselves, most of them are not. Illegal and over-subsidizing of rice production by our foreign competitors, phony sanitary and phytosanitary barriers, lack of private financing options, etc. all play into the need and justifications for strong farm policy to protect our basic agricultural infrastructure.

The average U.S. farmer faces more and different risks than any other business we could point to. We are affected by global futures and cash markets, weather, pests and disease, and any number of other factors that could cause our crop to fail and our farms to go bankrupt. We are at the mercy of our bankers who have to be able to justify giving us our annual operating loans and determine if the lenders can absorb the unique risks associated with farming. The business of agriculture is high stakes. Most farmers borrow more money in one year than the average family borrows in an entire lifetime.

When threats are made to cut or eliminate funding and policy for the farm safety net, the very existence of the full-time family farmer is put in jeopardy. Without a strong and predictable safety net, only a small number of truly consolidated operations would survive. These would not be the competitive family enterprises we know today.

Please keep in mind that if it were up to us as farmers, we would prefer to prosper solely on the great prices our crops bring at the market. Unfortunately, commodity markets are not always kind, and agricultural markets are distorted by our foreign competitors. The simple fact is that right now our crops are not bringing enough at the market to pay our loans and buy our supplies for next year without the assistance provided by the farm bill.

I am here to ask for this Committee's consideration in not only maintaining our Commodity Title policies, but strengthening them by using our recommendations as you prepare to reauthorize the farm bill.

I want to again thank you, Chairman Crawford, Ranking Member Nolan, and the Members of the Subcommittee for inviting me here today to provide insight on behalf of the U.S. rice industry.