Testimony of

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Before the U.S. House of Representatives
Committee on Agriculture

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

Galesburg, Illinois
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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 diversified grain producer.

My name is Blake Gerard. I raise rice, soybeans, wheat, and corn in Alexander and Union counties in southern Illinois and I have been farming on my own now for 16 years. I am the fourth generation in my family to farm this land and this is my 13th year to farm rice in Illinois. I am also co-owner in a seed conditioning facility that does contract seed production, conditioning, packaging & warehousing. All of our soybeans are raised for seed along with about 75% of our rice. In addition to my farm and seed business, I also serve as the commissioner for the East Cape Girardeau/Clear Creek Levee & Drainage District, the Illinois Crop Improvement Association and am a member of the USA Rice Producers' Group Board of Directors.

Importance of Agriculture and Cost-Effective Farm Policy

U.S. agriculture shares a certain amount of pride for what we do for the nation's economy. Agriculture still matters.

Over the course of the current economic downturn, here is an excerpt of what objective sources ranging from the Federal Reserve to *The Wall Street Journal* had to say about what America's farmers and ranchers have been doing to help get our nation back on track and people back to work:

"In 2010, rural America was at the forefront of the economic recovery… "[R]ising exports of farm commodities and manufactured goods spurred job growth and income gains in rural communities…If recent history holds true, rural America could lead U.S. economic gains in 2011." *Federal Reserve of Kansas City, 2010 report.*

"Growers' improved lot is rippling out to other industries." *The Wall Street Journal, October 12, 2010.*

We read the same kinds of reports during the last recession when the manufacturing sector was in crisis:

"Farm Belt Is Becoming a Driver for Overall Economy…The present boom is proving that agriculture still matters in the U.S. Rising farm incomes are helping to ease the blow of the loss of manufacturing jobs in Midwest states…'The farm sector is a significant source of strength for the U.S. economy,' says Sung Won Sohn, chief economist of Wells Fargo Bank…Although farmers themselves are a tiny part of the population, they have an outsize impact on the economy because farming is such an expensive enterprise. A full-time Midwest grain farmer often owns millions of dollars of equipment and land, and spends hundreds of thousands of dollars annually on supplies." *The Wall Street Journal, December 17, 2003*.

And, for those old enough to remember the 1980s, publications such as *The Economist* recalled the impact on the rest of the economy when agriculture was not doing well:

"The 1990s were so good [for Chicago] partly because the 1980s had been so bad. 'Everything that could possibly have gone wrong did' says William Testa, the senior economist at the Federal Reserve Bank of Chicago. The region was hit by a crushing combination of high energy prices, a strong dollar, high interest rates, and a farm recession." *The Economist, May 12, 2001*

Last year alone, U.S. farmers and ranchers spent nearly $320 billion in communities across the country to produce agriculture products valued at some $410 billion. Put in perspective, the value of total U.S. agriculture production was greater than the 2010 GDP of all but 25 nations, and total production cost was greater than all but 28. And, according to the Department of Agriculture, U.S. agriculture is expected to positively contribute $26.5 billion to the U.S. balance of trade in fiscal year 2012 after having contributed over $40 billion just the year before.

And, one of the reasons we are here today, I expect, is because while U.S. agriculture is critically important to America, farm policy is also critically important to U.S. agriculture.

Without farm policy, U.S. producers would be unilaterally exposed to global markets distorted by withering high foreign subsidies and tariffs, and have no comprehensive safety net. In fact, DTB & Associates issued a report last fall, similar to the study on tariffs and subsidies developed and maintained by Texas Tech University (http://www.depts.ttu.edu/ceri/index.aspx.), which found that:

"U.S. subsidies…have dropped to very low levels in recent years. In the meantime, there has been a major increase in subsidization among advanced developing countries… Since the countries involved are major producers and consumers of agricultural products, the trade-distorting effects of the subsidies are being felt globally. However, because the run-up in subsidies is a recent development, and because countries have not reported the new programs to the WTO or have failed in their notifications to calculate properly the level of support, the changes have attracted little attention. We believe that when trade officials examine these developments, they will discover clear violations of WTO commitments."

This aggressive increase in foreign subsides and tariffs might also explain why foreign competitors worked to derail WTO Doha Round negotiations, causing then Chairmen and Ranking Members of the Senate Finance Committee and House Ways & Means Committee to register their opposition to pursuing a lopsided agreement against the U.S. interests:

"Since the WTO Doha Round was launched in 2001, we have supported the administration's efforts to achieve a balanced outcome that would provide meaningful new market access for U.S. agricultural products…particularly from developed and key emerging markets. Unfortunately, the negotiating texts currently on the table would provide little if any new market access for U.S. goods, and important developing countries are demanding even further concessions from the United States." *Ways & Means Committee Chairman and Ranking Member Rangel and McCrery and Finance Committee Chairman and Ranking Member Baucus and Grassley.*

Moreover, while many successfully 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. This is why programs such as the Market Access Program and Foreign Market Development Program are of vital concern to the rice industry and must be reauthorized in the 2012 farm bill. It has not gone unnoticed that budget reductions currently being considered (such as the elimination of the Direct Payment) will result in a dollar for dollar loss in farm income. Producers must be provided the tools not only to attack these obstacles to trade but to increase exports through market promotion and thereby increase farm income through increased open and fair trade.

But, beyond even these barriers that are imposed by foreign competitors are barriers to exports imposed in whole or in part by the U.S. government. For example, rice was completely excluded from the free trade agreement negotiated with South Korea, foreclosing for the foreseeable future any new market access for U.S. rice producers in that country. Iraq, once a top export market for U.S. rice, has instituted restrictive specifications on rice imports that have led to a 77 percent drop in sales of U.S. rice to that country. In the pending Trans Pacific Partnership (TPP) negotiations, Japan has indicated an interest in joining. The U.S. rice industry supports Japan joining the negotiations, but only if additional market access for U.S. rice into Japan is part of the agreement. Our industry cannot support an agreement where market access for our product is categorically off the negotiating table. Another 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 agricultural exports are allowed to resume.

In total, U.S. rice exports to date for the current marketing year are down 24 percent compared to last year.

And, while the rice industry is still a long ways off from having a crop insurance product that is relevant to rice producers, the general need for federal involvement in insuring crops where losses are highly correlated is also obvious, as even the American Enterprise Institute has admitted:

"The empirical evidence on the viability of either area-yield or multiple-peril crop insurance seems clear. When normal commercial loading factors are applied, the premiums required by insurers to offer an actuarially viable private crop insurance contract are sufficiently high to reduce the demand for such contracts to zero…Thus, private markets for multiple-peril crop insurance are almost surely infeasible, and the weight of the empirical evidence indicates that area-yield contracts are also not commercially viable…" *American Enterprise Institute, "The Economics of Crop Insurance and Disaster Aid, 1995.*

Fortunately, for the American taxpayer, in addition to all of these justifications on why we have a farm policy in this country, we can add to the list at least one more reason: farm policy is cost-effective.

In fact, U.S. farm policy has operated under budget for over a decade and accounts for only one quarter of one percent of the total federal budget. Not including additional cuts scheduled under sequestration, U.S. farm policy has, to date, been cut by about $18 billion over the past 9 years, including in the 2004 and 2010 Standard Reinsurance Agreements (SRAs), the FY2006 reconciliation package, and the 2008 Farm Bill.

In the most recent five years, average funding for U.S. farm policy, based on real funding levels, including crop insurance, was $12.9 billion per year, which is 28% less than the previous five-year average of $17.9 billion and 31% less than the average of $18.8 billion that incurred in the preceding five years. In the current year, the Congressional Budget Office (CBO) estimates that crop insurance policy will cost slightly more than the current commodity policies. And according to CBO projections for the next 10 years the estimated annual cost for commodity policy in the farm bill is $6.6 billion on average (before the expected reductions are made as part of this farm bill process), while the estimated annual cost for crop insurance policy is $8.8 billion on average. With the current suite of crop insurance policies not working effectively for rice producers, this puts our industry at a further disadvantage and highlights the need to maintain an effective commodity policy in the farm bill that will work for rice.

Funding of that portion of farm policy that assists rice producers has declined from $1.2 billion a decade ago to about $400 million annually, with this amount largely reflecting Direct Payments.

Meanwhile, U.S. consumers are paying less than 10% of disposable income on food, less than consumers in any other nation.

This is why I believe so firmly that future cuts must focus on areas of the budget outside of farm policy that have not yet contributed to deficit reduction yet comprise a significant share of the federal budget. This is also why I would urge lawmakers to reject cuts to U.S. farm policy that would exceed the level specified by the House and Senate Agriculture Committee Chairs and Ranking Members in their letter to the Joint Committee on Deficit Reduction last fall.

2008 Farm Bill Review

The Food, Conservation, and Energy Act of 2008 (the Farm Bill) continued the traditional mix of policies consisting of the non-recourse marketing loan, loan deficiency payments, and the direct and counter cyclical payments. The farm bill also included 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, establishing an aggressive adjusted gross income (AGI) means test and, albeit unintended by Congress, resulting in the very significant tightening of “actively engaged” requirements for eligibility. USDA was still in the process of implementing many of the provisions of the 2008 Farm Bill in 2010, and the final payment eligibility rules were only announced in January of that same year, a mere two years ago. As a consequence, we are still adjusting to the many changes contained in the current farm bill, even as Congress considers the 2012 farm bill.

Regarding ACRE and SURE, frankly, neither policy has proved much value to rice farmers. Specifically, in the first year of ACRE signup, only 8 rice farms representing less than 900 acres were enrolled nationwide. With changes, this revenue program may provide more value for some rice growing regions like California. And SURE has provided little, if any, assistance to rice producers, including those producers in the Mid South who suffered significant monetary losses in 2009 due to heavy rains and flooding occurring prior to and during harvest, or the significant losses last year as a result of spring flooding in the Mid South. SURE’s inability to provide disaster assistance for such catastrophic events further highlights the continuing gap in available programs designed to help producers manage or alleviate their risk.

Regarding the traditional mix of farm policies, the nonrecourse marketing loan, loan deficiency payment, and countercyclical payments have not yet provided payments to rice farmers under the 2008 Farm Bill. The new price paradigm has, as a practical matter, greatly limited the protections afforded to producers under these farm policy 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 through even a single 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 levels of price protection have simply not kept pace with the significant increases in production costs, costs such as energy and fertilizer that are exacerbated by escalating government regulations. It is for this reason that rice farmers believe strengthening farm policies in the 2012 Farm Bill would be helpful in ensuring that producers have the ability to adequately manage their risks and access needed credit.

Crop Insurance

Risk management products offered under Federal Crop Insurance have been of very limited value to rice producers 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 example, 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 as a result of pumping 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, many in the rice industry have been working for over the past four years now to develop a new generation of crop insurance products that might provide more meaningful risk management tools for rice producers in protecting against sharp, upward spikes in input costs. I serve on a rice industry task force that has been working to develop and improve crop insurance products for rice, and although the objective was 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, this has not materialized. But, it is important to stress that even if these products had become available this year, we do not believe that they would have put rice producers anywhere near on par with other crops in terms of the relevance that crop insurance has as a risk management tool.

As such, rice producers enter the 2012 farm bill debate at a very serious disadvantage, having only a single farm policy that effectively works and that farm policy being singled out for elimination.

2012 Farm Bill

With the foregoing as a backdrop, the U.S. rice industry developed a set of farm policy priorities in September of last year to guide us during consideration of the 2012 Farm Bill. The U.S. rice industry is unified in its firm belief that farm policy designed to support a strong and dynamic U.S. agriculture sector is absolutely vital. We also believe that the planting flexibility provided under the 1996 Farm Bill and the countercyclical policies that have been in place for more than a decade now have served this nation and its farmers well. In particular, as we noted earlier, the 1996 Farm Bill's Direct Payments have provided critical help to rice farmers – offering capital farmers could tailor to their unique needs. We are very proud to stand by this farm policy.

However, given budget pressures and other considerations facing Congress that have caused policymakers to consider altering this approach in favor of more directed and conditioned assistance, we developed the following priorities:

- First, we believe 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.

More specifically relative to each of these points, we believe that:

Price Protection is a Must

Given price volatility for rice is the primary risk producers face that they do not have other good means of protecting against, with price fluctuations largely driven by global supply and demand; given rice is one of the most protected and sensitive global commodities in trade negotiations, thus limiting access to a number of key markets; given costs of production have risen to a point where the current $6.50 (loan rate)/$10.50 (target price) assistance triggers are largely irrelevant, we believe the first priority should be to concentrate on increasing the prices or revenue levels at which farm policy would trigger so that it is actually meaningful to producers, and would reliably trigger should prices decline sharply.

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 we believe this reference price should be a component of both the price-loss policy and the revenue-loss policy to ensure downside price protection.

Options for Different Production Regions

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 such as rice in different production regions.

In the Mid-south and Gulf Coast production regions, a price-based loss policy is viewed as being most effective in meeting the risk management needs of producers. 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 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 program 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.

Whatever is done should be plain and bankable. The current SURE has too many factors and is not tailored to the multiple business risks producers face — it is not plain. The current ACRE, while offering improved 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. The marketing loan and target prices are plain and bankable — unfortunately the trigger prices are no longer relevant to current costs and prices.

Whatever is done should be tailored and defendable. We believe it makes sense to provide assistance when factors beyond the producer's control create losses for producers. We generally think more tailored farm policies are more defendable. For this reason, we like the thought of 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 be built to withstand a multi-year low price scenario. 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.

Whatever is done should not dictate or distort planting decisions. Direct payments are excellent in this regard. SURE or similar whole farm aggregations tend to discourage diversification, which could be a problem for crops like rice. Any commodity specific farm policy that is tied to planted acres must be designed with extreme care so as to not create payment scenarios that incentivize farmers to plant for a farm policy. Whatever is done should accommodate history and economics and allow for proportional reductions to the baseline among commodities. Some commodities are currently more reliant on countercyclical farm policies (ACRE/CCP) while others are receiving only Direct Payments in the baseline. Generally, the least disruptive and fairest way to achieve savings across commodities would be to apply a percentage reduction to each commodity baseline and restructure any new policy within the reduced baseline amounts.

There have been concerns raised about higher reference prices distorting planting decisions and resulting in significant acreage shifts including for rice. We are unaware of any analysis that shows significant acreage shifts resulting from the reference price levels included in the 2011 Farm Bill package. In fact, for rice specifically, a reference price of $13.98/cwt that is paid on historic CCP payment yields and on 85% of planted acres results in a reference price level well below our average cost of production, so I find it hard to imagine why someone would plant simply due to this policy given these levels.

Pay Limits/Eligibility Tests Should Be Eliminated

The likely outcome of new farm policy is that it will provide less certainty for the producer (a likely decrease or elimination of Direct Payments). Since it will likely be designed to provide assistance only in loss situations, the second priority is that the policy should not be limited based on arbitrary dollar limits. Assistance should be tailored to the size of loss. A producer should not be precluded from participating in a farm policy because of past income experience. Any internal limits on assistance should be percentage-based (i.e. 25% of an expected crop value) and not discriminate based on the size of farm.

Crop Insurance Should Be Maintained and Improved

Although crop insurance does not currently work as well for rice as it does for other crops, the third priority would be to improve availability and effectiveness of crop insurance for rice as an available option. I would also support improvement to the product development processes (we have struggled with two 508(h) submissions for over 4 years and are still not completed with the process), and to the APH system such that any farmer's insurable yield (pre-deductible) would be reflective of what that farmer actually expects to produce. In no case should the crop insurance tools, which are purchased by the producer, be encumbered with environmental/conservation regulation or other conditions that fall outside the scope of insurance.

2011 Budget Control Act Efforts

Although the details of the 2011 Farm Bill package that was prepared by the House and Senate Agriculture Committees in response to the Budget Control Act were not disclosed, based on discussions and reports we believe that that package at least represents a good framework on which to build the 2012 Farm Bill. The 2011 package included a 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. It also included provisions to improve crop insurance and expedite product development for underserved crops such as rice.

We are concerned that effective support for rice producers under the price-based option was set well below cost of production that late changes to the revenue-based option minimized its potential as an effective risk management tool for rice producers, and that pay limits and AGI rules would still serve as an arbitrary constraint upon U.S. competitiveness, globally. Still, even with these areas for improvement, the U.S. rice industry very much appreciates the Members and staff who put enormous time and effort into what we believe represents a good blue print for ongoing Farm Bill deliberations and we thank you.

Again, thank you for this opportunity to offer my testimony. We certainly look forward to working with you on an effective 2012 Farm Bill we can all be proud of.

BLAKE GERARD

EXPERIENCE

2002 to present — GERARD&CRAIN FARMS, INC. dba RIVERBEND RICE SEED CO.– McClure, IL
President/Manager

- Founded this Agribusiness Company specializing in rice seed production. The primary goal is to provide a superior quality seed supply to the Mid-South rice producer.
- Began processing soybeans in 2005 for regional seed companies. Grew from zero units to over 450,000 units in 6 years.
- Oversee 6 employees and 2 seasonal employees
- Grew market from 0-80,000 bushels of seed rice in 4 years
- Manage production, storage, processing and packaging for all seed rice.
- Manage storage, processing and packaging for soybean seed. Assist in distribution.
- Train and monitor contract producers, purchase seed from producers, devise production contracts, monitor seed production, maintain genetic purity for individual seed varieties, maintain seed in storage, clean seed, package seed, and market seed.
- Market rice seed directly to farmers and through 8 wholesale locations in southeast Missouri.

1996 to present — BLAKE GERARD FARMS – McClure, IL
Owner/Operator

- Operate 2000-acre Rice, Corn, Soybean, and Wheat farm.
- Make all management decisions involved with the farm from planning to producing, to harvest and marketing.
- Utilize cash, hedge to arrive, futures and options contracts to market products.
- Oversee 2 full time employees and 6 seasonal employees
- Maintain computerized accounting records using AgriSolutions and Ag Manager software producing detailed five year financial forecasts
- Produce seed beans for Delta Grow Seed Company & Morsoy Seed co., Stine Seed Co., Armor Seed Co., and Steyer Seed Co.

MEMBERSHIPS AND SERVICE

1992 to present — *Commissioner* - East Cape Girardeau/Clear Creek Levee & Drainage District

August 2004 — *Guest Speaker* – Middle Mississippi River Management Conference at Southern Illinois University on "*Potential for Rice as Wildlife Habitat in the Middle Mississippi River Valley*"

Member - Illinois Crop Improvement Association

December 2008 — *Member* – USA Rice Producers Group Crop Insurance Task Force

Board Member – Missouri Rice Producers Group

2011 — Member - USA Rice Producers' Group Board of Directors
Member- USA Rice Producers' Group Farm Policy Task Force
Member – USA Rice Federation Marketability and Competitiveness Task Force

EDUCATION

1999 — Southeast Missouri State University – Cape Girardeau, MO
B.S. Agriculture with emphasis in Agronomy

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, 2009.

Name: BLAKE GERARD

Organization you represent (if any): N/A

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: — N/A **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: N/A **Amount:**

Source: **Amount:**

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

Signature: Blake Gerard

* Rule XI, clause 2(g)(5) 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.