Testimony of

John Owen

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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 diversified producer.

My name is John Owen. I raise rice, soybeans, corn, and cotton in Richland Parish in northeastern Louisiana and I have been farming in partnership with my wife Anne for thirty years. In addition, I serve as president of the Louisiana Rice Growers Association and on several boards and committees of the USA Rice Federation, including the USA Rice Producers' Group.

Importance of Agriculture and Cost-Effective Farm Policy

The U.S. agriculture sector should be proud of our contributions to the U.S. economy. In a time of economic downturn, agriculture producers have managed to remain profitable, create new jobs, and provide consumers in the U.S. and all over the world with a safe and abundant supply of food and fiber.

While U.S. agriculture is critically important to America, farm policy is also critically important to U.S. agriculture.

I would urge lawmakers to reject cuts to U.S. farm policy that would exceed the level specified in the letter by the House and Senate Agriculture Committee Chairs and Ranking Members to the Joint Committee on Deficit Reduction last fall. I am concerned that an attempt to write a farm bill with budget reductions greater than the $23 billion proposed last year will result in farm policy that is inadequate to meet the risk management needs of producers.

2008 Farm Bill Review

The 2008 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. This past farm bill made substantial changes to the payment eligibility provisions, establishing an aggressive adjusted gross income (AGI) means test and significant tightening of "actively engaged" requirements for eligibility. The 2008 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

To be honest, neither ACRE or SURE has proved much value for the crops I grow on my farm. With some changes, a revenue-based policy may be workable for some crops in some growing regions. But for crops that I produce, I haven't seen a revenue-based proposal yet that would be effective in the Mid-south. And particularly as it relates to rice production in my part of the country, forcing me to depend on a revenue policy for risk management will leave me with little to no price protection, which is the main risk I face in rice. SURE has provided little, if any, assistance to 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 policies designed to help producers manage or alleviate their risk.

Whatever its imperfections, the Direct Payment alone has assisted producers in meeting the ongoing and serious price and production perils of farming today. Direct payments have provided critically important capital to farmers that they could tailor to their unique needs. This capital was used to help finance production costs, cover shallow losses, and purchase crop insurance or to make capital improvements to farming operations. While other options to direct payments are being considered, we believe it will be very difficult to improve upon their effectiveness.

I believe we must focus on strengthening farm policies in the 2012 Farm Bill to help ensure that all producers have the ability to adequately manage their risks and access needed credit.

Crop Insurance

Crops grown in the Mid-south have traditionally been underserved by crop insurance. As a result, we have on average lower coverage levels and higher premium costs for most of our crops. This situation has been improving in recent years, but we are still far from the day when I as a Mid-south producer can say that crop insurance is the most important part of farm policy for me. In fact, I think it is inappropriate to believe that crop insurance can ever be the sole policy producers rely on for risk management. Crop insurance is designed to cover production shortfalls or price declines in a single year. It is not designed to protect against price declines over multiple years. And I find myself asking the question, and let me be clear I hope we don't see this happen, but if crop prices decline again in a scenario like we saw in the late 1990's how effective is crop insurance going to be then? If corn prices are $2.50/bushel and soybean prices are $5.00/bushel it is clear that a crop insurance revenue policy is not going to be of much help to me as a producer with prices at these levels.

From a rice grower's perspective I have additional concerns about crop insurance. The risk management products offered under Federal Crop Insurance have been of very limited value 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; a lack of convergence between the cash and futures prices for rice; and the fact that the risks associated with rice production are unique from the risks of producing many other major crops.

What rice farmers like I 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.

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.

Commodity Futures Market

Another risk management tool that is becoming more important for me as a producer is the use of the commodity futures market to hedge my price risks for the crops I produce. As we see the coming changes in the farm bill, I think the ability to effectively use the futures market to price and market our crops will become imperative. Today I have the ability to hedge the corn and soybeans I produce, but with rice I am limited in the opportunity to hedge the crop due to issues with the rice futures contract. The contract has suffered from a lack of convergence between cash prices and the futures prices, and in some cases there has been a negative basis as wide as $4/cwt. For the other crops I produce, I am able to hedge my prices successfully, but for the rice we grow, I am unable to do so.

2012 Farm Bill

First and foremost, I believe that the 2012 Farm Bill should be reauthorized this year.

I know that due to budget restrictions, it will be necessary to write the upcoming farm bill with fewer resources than have been available in the past. Furthermore, some farm policies must be modified to satisfy specific trade objectives as a result of the U.S. - Brazil WTO case. The continuation of a multi-legged stool that includes the marketing loan, countercyclical payments and the best mix of risk management tools for producers.

I 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 addition, the non-recourse marketing loan still serves an important function by allowing producers the ability to utilize the loan for the marketing of their crops. This is particularly important in both the rice and cotton industries.

Given the aforementioned budget pressures and other considerations facing Congress, I believe that the following priorities represent the needs of producers in crops here in the Mid-south:

- First, 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, or at a minimum not tightened any further.
- Third, federal crop insurance should be improved to provide more effective risk management for all crops in all production regions, beginning with the policy development process.

Price Protection is Key

I believe the main purpose of farm policy is to provide protection in the event of price declines, which are beyond the control of producers. As noted earlier crop insurance can't provide this protection across multiple years, and only protects against price declines within a growing season. My understanding of the farm bill package developed last fall by this committee and your counterparts in the Senate is that it included reference prices at levels more relevant to today's cost of production and this reference price would provide a floor for both a price-based option and a revenue-based option. I think this is the most critical component of the next farm bill and must be included in any policy option.

To use rice for an example, price volatility 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. Rice is one of the most protected and sensitive global commodities in trade negotiations, thus limiting access to a number of key markets. Costs of production have risen to a point where the current $6.50 (loan rate)/$10.50 (target price) assistance triggers are largely irrelevant. So I 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 on our farm. And 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

Another important concept that I believe should be reflected in the next farm bill is producer choices or options. It is easy to see that not only are there significant differences in the policy needs of various crops, but there are different risk management needs for the same crop in different growing regions.

Whether it is the rice or corn on my farm in northeast Louisiana, I have a different view of what policy will work best on my farm relative to corn in Iowa or rice in California. Again, using rice as an example, here in the Mid-south and the Gulf Coast production regions, a price-based policy is viewed as being most effective in meeting our risk management needs. 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 commodities like rice.

However, my friends producing rice in California have analyzed the potential for a revenue-based policy that could work better in their area to provide effective risk management. Efforts to analyze modifications which will increase the effectiveness of revenue plan continue. Since rice yields are highly correlated between the farm, county, crop reporting district, and state levels, a 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.

Different perils confront producers of different crops. Producers need a choice, just as producers were also allowed choices in the 2008 Farm Bill. A necessary part of providing a real choice is to ensure that each option, revenue-based or priced-based, provides effective protection in the event of price declines, particularly in multiyear low price scenarios.

Tailored and Defendable Policy

I believe it makes sense to provide assistance when factors beyond our control create losses. Generally more tailored farm policies are more defendable. For this reason, I 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.

Planting Flexibility

Direct payments are excellent in this regard. SURE or similar whole farm aggregations tend to discourage diversification, which could be a problem for farms in my area and across the Mid-south where we tend to have very diversified farms. 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.

I know there have been concerns raised about higher reference prices distorting planting decisions and resulting in significant acreage shifts including for rice. I have not seen 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 my average cost of production, so I find it hard to imagine why someone would plant simply due to this policy given these levels.

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 I believe 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.

I would note that the effective support for rice producers under the price-based option was set well below cost of production and that late changes to the revenue-based option minimized its potential as an effective risk management tool for any 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, I want to express my appreciation to the Members and staff that put enormous time and effort into what I believe represents a good blue print for ongoing Farm Bill deliberations.

Thank you for this opportunity to offer my testimony today and I will be pleased to respond to any questions.

Committee on Agriculture
U.S. House of Representatives
Information Required From Nongovernmental Witnesses

House rules require nongovernmental 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: John E. Owen

2. Organization you represent: John and Anne Owen Farms

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

   I have been a rice, cotton, corn, and soybean producer in Northeast Louisiana for thirty years.

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

5. 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:

   I am representing my own business at this hearing. However, I serve on numerous boards and committees for the USA Rice Federation including:

   Vice President – USA Rice Producers Group
   Chairman - USA Rice Federation Rice Futures Contract Working Group
   Board Member – USA Rice Counsel
   Board Member – USA Rice Federation
   Committee Member – Rice Sustainability Task Force
   Committee Member – Rice Crop Insurance Task Force
   Committee Member – USA Rice Federation Farm Policy Task Force
   Committee Member – USA Rice Federation Audit Committee

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, 2009.

Name: John E. Owen

Organization you represent (if any): ______________________

____

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: John E. Owen

* 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.