Testimony of

Gary Murphy
On Behalf of US Rice Producers Association and USA Rice Federation

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

To Review U.S. Farm Safety Net Programs in Advance of the 2012 Farm Bill
Washington, D.C.
June 24, 2010

Introduction

Chairman Boswell, Ranking Member Moran, and Members of the Subcommittee, thank you for holding this hearing to review farm safety net programs in advance of the 2012 farm bill.

We appreciate the opportunity to offer testimony before the Subcommittee on General Farm Commodities and Risk Management concerning the view of the entire rice industry relative to U.S. farm safety net programs.

My name is Gary Murphy. I am a rice farmer from Bernie, Missouri. My son and I farm about 7,000 acres of rice, cotton, corn, popcorn, and soybeans in Stoddard, New Madrid, and Dunklin counties where five generations of the Murphy family have farmed. I serve as Chairman of the Board of the US Rice Producers Association, and today I appear on behalf of both the US Rice Producers Association and the USA Rice Federation. Our organizations represent rice producers in all of the major rice producing states—as well as rice millers, merchants, exporters, and allied businesses.

U.S. Rice Industry Overview

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, and the Mississippi Delta region where about 3.2 million acres of rice are produced annually.

The majority of rice is planted in six states, including Arkansas, California, Louisiana, Mississippi, Missouri, and Texas. 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, U.S. farmers produced a rice crop of nearly $3.1 billion as measured in farm gate value.

2008 Farm Bill Review

The Food, Conservation, and Energy Act of 2008 (the Farm Bill) continued the traditional mix of safety net features consisting of the non-recourse marketing loan and loan deficiency payment program and the direct and counter cyclical payment program.

The Farm Bill also includes 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 of the safety net, establishing an adjusted gross income (AGI) means test and, albeit unintended by Congress, resulting in the very significant tightening of “actively engaged” requirements for eligibility. Unfortunately, these changes disproportionately affect rice producers because of the economies of scale needed to run a successful rice operation. Operations that are unable to reorganize cannot avail themselves of the farm safety net and face serious competitive disadvantages.

USDA is still in the process of implementing many of the provisions of the 2008 Farm Bill, and the final payment eligibility rules were only announced in January of this year. As a consequence, we are still adjusting to the many changes contained in the current farm bill, even as we begin the process of developing policy recommendations for the 2012 farm bill.

Regarding the traditional mix of safety net features, the nonrecourse marketing loan and loan deficiency payment program and countercyclical payment program have not yet provided payments to rice farmers under the current farm bill. In fact, if the protections provided were to trigger due to low prices for rice, the protections would help stem some of the economic losses but, frankly, not enough to keep most rice farms in business even through one 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. The Food and Agriculture Policy Research Institute (FAPRI) estimates that at current projected prices, only the fixed direct payment program will make a significant payment to rice producers.

For rice producers, the existing safety net protection levels have simply not kept pace with the significant increases in production costs. It is for this reason that rice farmers believe strengthening the safety net would be helpful in ensuring that producers have the ability to adequately manage their risks.

While some of the problems with the ACRE and SURE programs can be traced to their general design, others are more specific to rice and other sunbelt crops. Below is a listing of some of the key problems with the respective programs.

ACRE

ACRE has not been favorably received by rice farmers in any of the major growing regions. In the first year of ACRE signup, only 8 rice farms representing less than 900 acres were enrolled in the program nationwide. ACRE payments occur when state level revenues fall below trigger levels and participating producers must give up some traditional farm program benefits and enroll all crops on a farm. Because ACRE payments depend on prices and state yields, they are inherently uncertain. FAPRI analysis shows that for corn and most other crops grown in northern states, the average ACRE payments over time are likely to exceed the payments that program participants must forego. Unfortunately in the southern States the opposite is true. Only in Arkansas and Oklahoma in some years but not in others do ACRE payments exceed the traditional payments that participating producers must forego.

Specific Problems with ACRE:

- It is not tailored to the needs of the individual farm. This is, in our view, a problem with the general design. While we like the higher price targets that can be provided in a revenue-based program, they are of little value to the individual farmer when they are tied to state production. The lender cannot pencil in a minimum price when setting up an operating loan, and the farmer has to operate in fear that he is not on the bad side of the average (but the fact is half the farmers are always on the bad side of average). In these times of fiscal crisis in our nation, we think the safety net needs to be more tailored to the individual needs of the farm rather than less tailored.

- It asks farmers to give up certain assistance that they can bank on for a possibility of a payment if the state revenue for the crop is down (something they cannot bank on). This is both a problem of design for all crops, and an especially large and unique problem for rice. There is an old saying that a bird in hand is better than two in the bush. This could not be more applicable. Some crops were able to look at the 2009 situation and know that they were going to receive more payments from ACRE in one year than they gave up over 4 in direct payments. These are by and large the producers who signed up for ACRE. This was not the case in rice, where our direct payments are higher relative to other crops due to our higher fixed cost structure.

- The 35% reduction to marketing loan rates – a bedrock of farm policy – is particularly problematic. While in recent years we have enjoyed market prices for rice well above our $6.50 loan rate, the bankable certainty that the marketing loan provides is still of great value. While we hope and want to believe we will never see commodity prices below loan rates again, we are not willing to scrap the program. Two years ago wheat was selling for over $12 per bushel, but last week in Texas the cash price was down in the mid $2's. The same could happen to rice again, and if it does, we want the loan to be there as there is no more effective tool.

Despite these major problems with the design and functionality of ACRE for rice, we do strongly believe that we need a good counter-cyclical program in addition to the marketing loan to protect producers from systemic risks, and we would acknowledge that the traditional price-based counter-cyclical program with its old acreage bases and outdated yields is also less than perfect. Indeed, the most attractive portion of the ACRE option for some rice growers was the updating of acreage and yields, and we would suggest that – being mindful of WTO obligations -- these emphases be kept to the greatest extent possible in whatever new counter-cyclical program might be devised.

Crop Insurance

Although risk management products offered under Federal Crop Insurance are of vital importance to many crops, such as corn, wheat, soybeans, and cotton, the program has been of minimal value to rice farmers due to a number of factors, including artificially depressed actual production history (APH) guarantees; 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.

Rice is an irrigated crop. Rice farmers generally "insure" their production against drought, for example, not through insurance but through reliable access to adequate water supply. Conversely, rice also has a fairly strong natural defense mechanism against most flooding. As a consequence, there are fewer instances of production losses relating to drought and flooding and such losses tend to be shallower when they do occur, meaning lower yield variability and a smaller probability of an insurable event under policies generally made available under the Federal Crop Insurance Program.

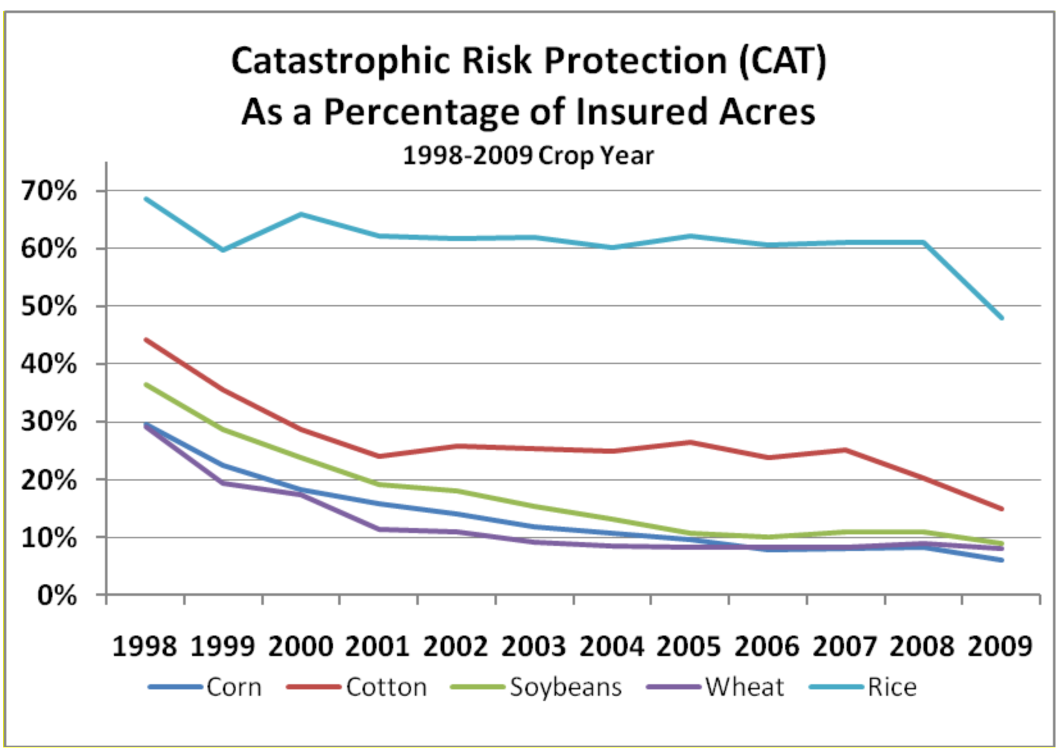
Nevertheless, U.S. rice farmers do face serious production perils due to weather, including, at times, severe quantity and quality losses and increased production costs. Hurricanes and associated high winds and rain that result in the shattering and lodging of rice, saltwater intrusion and excess moisture on rice fields, and crop disease are serious production perils.

Unfortunately, when severe losses occur most U.S. rice farmers find themselves either underinsured or uninsured. To the extent that a rice producer purchases crop insurance at all, the coverage level purchased is commonly the lowest level of coverage, known as catastrophic risk protection or CAT coverage. CAT coverage, which can be obtained for an administrative fee, requires that a 50 percent loss occur before an indemnity will be triggered with respect to any losses above and beyond the 50 percent, and then at only 55 percent of the value of the crop, or about 27 cents on the dollar. Buy-up or additional coverage, offering protection above the CAT coverage level, has not been viewed as cost effective for most rice farmers who operate on small margins.

Importantly, this is not imprudence on the part of rice producers but rather a rational economic decision based on cost effectiveness, not unlike a homeowner who opts not to purchase flood insurance since his or her home is not in a flood plain. It does not mean that the homeowner will never suffer flood damage, nor does it mean that the homeowner does not face perils outside the coverage made available under the policy. It simply means that the homeowner, in working to make ends meet, had to make choices within his or her budget. The same is true for a rice producer.

In short, the coverage available under the current mix of Federal Crop Insurance Program policies is not as well suited to rice farmers as compared to producers of other crops. The amount of buy-up or additional coverage above CAT level coverage purchased by producers is strong evidence. For instance, buy-up coverage constitutes 93 percent of all insured corn acres, meaning only 7 percent is covered at the CAT coverage level. Moreover, fully 70 percent of corn acreage is covered at levels of 70/100 or higher, meaning a 100% indemnity triggers on production losses above 30 percent. Conversely, for rice, 48 percent of insured acres are protected under minimum level CAT coverage.

The graph, immediately below, offers a comparison between rice and other major crops in terms of their reliance upon the lowest level of crop insurance coverage, catastrophic risk protection, historically and in the 2009 crop year.



Beginning in 1998, Congress passed a series of ad hoc emergency economic relief bills, and the Clinton Administration initiated new levels of incentives for producers to purchase buy-up coverage beyond that which the 1994 crop insurance reform legislation had provided.

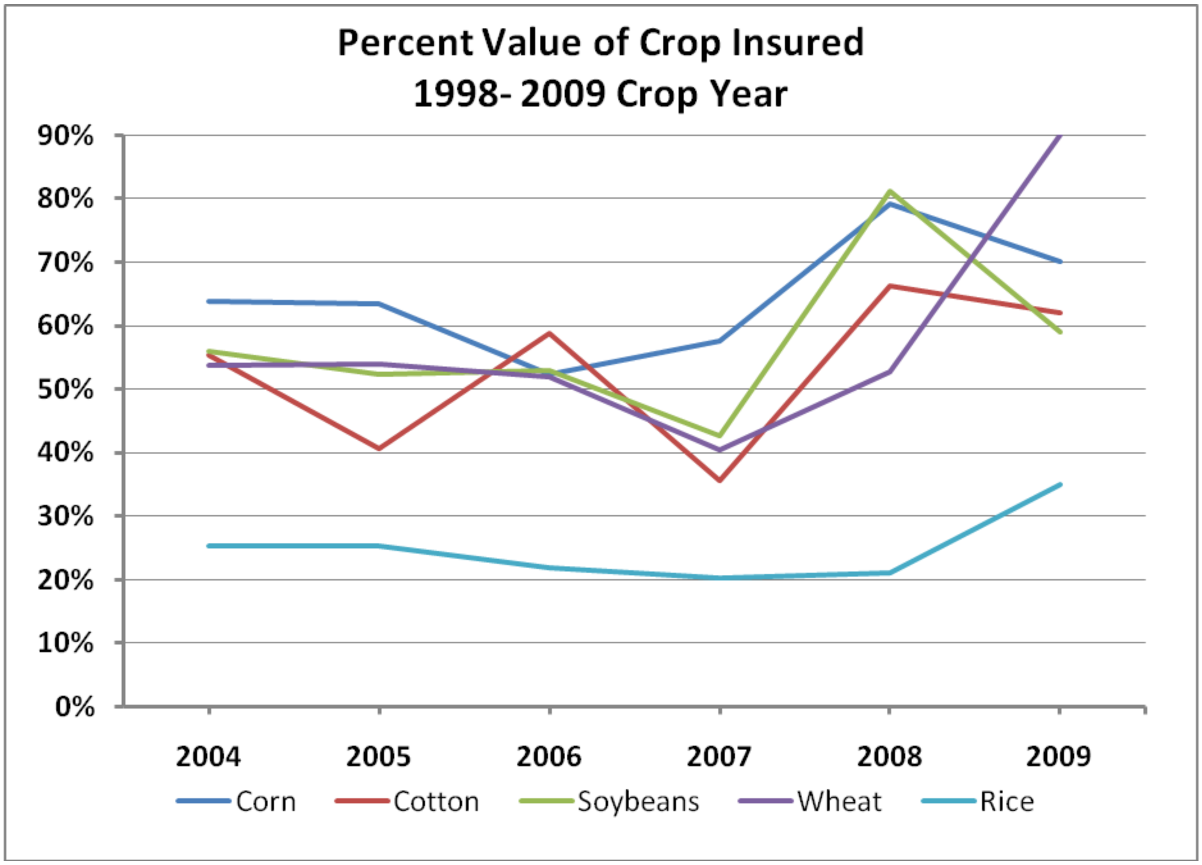
The effort culminated in the passage of the Agricultural Risk Protection Act, signed into law in January of 2000. The bill substantially increased the buy-up coverage incentives to encourage greater participation and higher coverage levels.

Since 2000, virtually all major field crops have seen a dramatic increase in the purchase of buy-up coverage at higher coverage levels. The percentage of acres covered by CAT coverage for corn and wheat, for example, has correspondingly dropped from nearly 30% in 1998 to less than 10% since 2005. Cotton CAT coverage has dropped from 45% to under 15% in 2009.

Rice, however, is the one very notable exception to this trend as CAT coverage in 2009, though improved, was still the dominant policy for rice farmers, covering 48% of all insured acres. A more attractive CRC/RA price and the enterprise unit discount that was included as part of the 2008 farm bill were significant drivers that helped influence producers to improve their insurance coverage, but more still needs to be done.

The fact remains that current buy-up policies for rice are not working as Congress intended. The unfortunate result, as demonstrated in the chart, immediately below, is that rice farmers have not benefited from the Agricultural Risk Protection Act as have the producers of other crops.

Given so much of rice acreage is insured under CAT coverage and with that acreage which is covered under buy-up policies generally covered at the lower levels of coverage, only a very small portion of the total value of the U.S. rice crop is insured.



In 2009, the nation's corn crop had an estimated value (NASS estimate) of $ 44 billion and the total liability for insurance covering corn was nearly $31 billion, meaning more than 62% of the value of the crop was insured.

Contrast this to rice, where in 2009, we had a crop valued at $3.0 billion, but less than $1.1 billion – only 35% -- was insured.

What rice farmers need from federal crop insurance are products that will help protect against price risk and 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.

The USA Rice Federation has has been working for over a year now to develop a new generation of crop insurance products that we hope will provide meaningful risk management tools for rice producers in protecting against sharp, upward spikes in input costs. There are two new products that show great promise and we are optimistic that the Risk Management Agency (RMA) will approve at least these new products which could be available to growers in time for the 2012 crop year.

The first product concept under development is a Crop Margin Coverage (CMC) policy that would allow rice producers to insure or guarantee a percentage of their expected margin on a per unit basis. The CMC coverage would focus on the two categories of input costs that are most significant in rice – energy and fertilizer. We believe this product has tremendous potential in many regions of the rice belt to serve as an effective complement to the existing safety net programs. It is important to note that we do not envision this, or any crop insurance product, as serving as a replacement for the traditional safety net programs, but rather to help enhance the protections those programs provide.

The other product concept under development is an endorsement to existing rice crop insurance policies to help cover losses associated with "downed" or "lodged" rice in situations where weather events are the cause. Hurricanes, flooding, and high winds can all result in this peril, which can increase rice harvest costs by two to three fold of normal, yet there may be minimal yield and quality losses. Rice producers need a product to help offset the higher harvest costs of downed rice due to weather events.

Without these or similar products in place, rice producers enter the 2012 farm bill debate at a serious disadvantage, having just one safety net feature from which they have effective assistance. We believe that there is the authority within the current federal crop insurance statute to greatly expand access to higher quality coverage and we hope that USDA will aggressively use that authority given the constraints Congress faces in pursuing this end.

SURE

SURE has provided little, if any, assistance to rice producers, including those producers in the Mid South who last year suffered significant monetary losses due to heavy rains and flooding occurring prior to and during harvest.

SURE is tailored to compliment the Federal Crop Insurance Program by providing higher levels of assistance under the SURE program to producers electing higher crop insurance coverage levels. The higher the crop insurance coverage level, the higher the SURE benefit. Thus, rice farmers suffer twice under the system. First, they lack effective, affordable crop insurance, thus electing the lowest coverage available, if any at all. Second, they are then penalized under the SURE program by receiving the lowest protection that corresponds with lowest crop insurance coverage.

Perhaps the best way to illustrate this compounding effect is by using the same "percent of value of the crop covered" statistic from above.

SURE is a fairly complex program in terms of how it works. But the essence of it is that the dollar value of crop insurance coverage on a farm is multiplied by 115% to arrive at the SURE guarantee. Because crop revenue and insurance benefits are counted against the producer's SURE guarantee, the value of the SURE program is essentially the SURE guarantee less the crop insurance coverage.

Accordingly, if a producer has 50% of the value of his or her crop covered by insurance (i.e., a 50/100 buy-up policy, a giant leap up for many rice farmers), then the SURE guarantee would be 57.5% and the potential value of the SURE program would be 7.5% of the value of the crop.

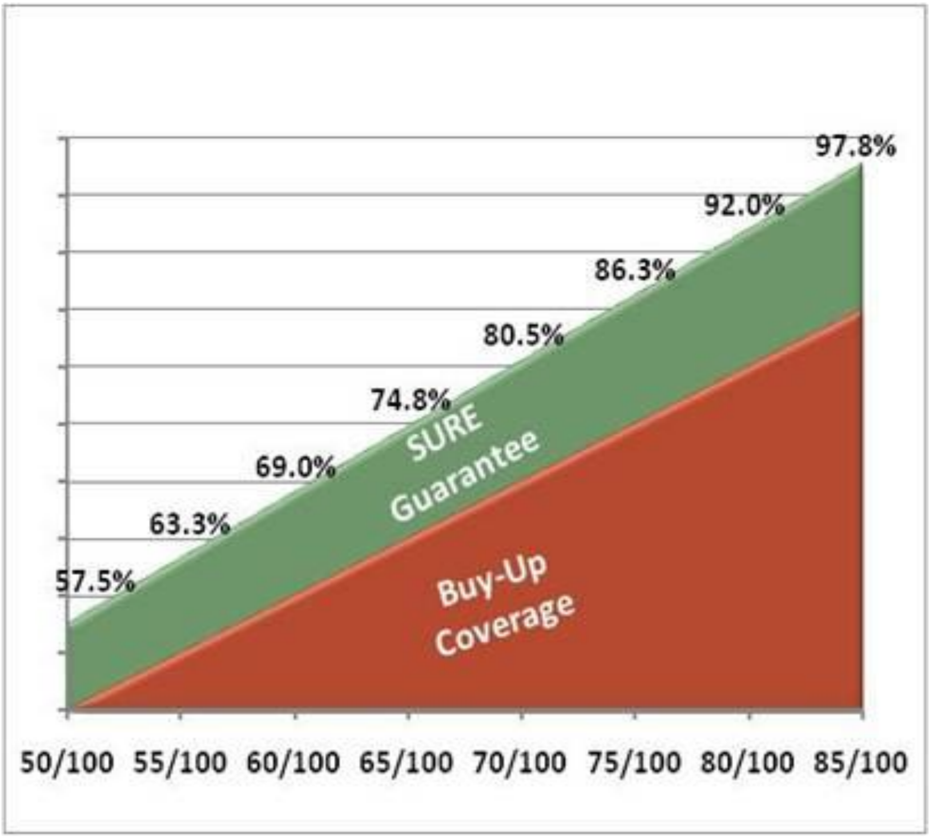
In contrast, if a producer has 75% of the value of the crop covered by insurance, then the SURE guarantee increases to 86.25%, meaning the potential value of the SURE benefit is 11.25% of the value of the crop.

On this basis, it is obvious that the primary beneficiaries of the new SURE program will be the exact same producers for whom crop insurance has proved such an effective risk management tool.

Problems with SURE –

- The fundamental problem with the SURE program is that it is not true to its acronym. Because of the whole farm aggregation and the moving price factors, there is simply no way that a farmer can sit down with his banker, looking at worst case scenarios, and say, "well if this happens on this farm, at least I know I will receive some help." Again, we want to emphasize that the value of these farm programs, like crop insurance, is not the amount of money that is eventually paid out, but how much baseline certainty is provided to the farmer who is putting his operation on the line each year.
- The whole farm calculation presents real problems for larger, share rent farms that dominate much of the sunbelt.
- Whole farm revenue presents a difficult challenge as many farmers have many economic units that have to service their own debts within an aggregate operation.
- Moving price factors work against the farmer who has a loss – those a "disaster program" is supposed to help.
- Building on crop insurance, while probably right in theory, creates a bias for those crops that are best served by crop insurance, and against those that are least served, such as rice.
- The inclusion of direct payments in the calculation again presents biases against rice given its larger direct payments.

SURE Benefit Increases with Coverage



While the motive behind SURE is to encourage producers to insure at higher levels and reward those producers who do, we are concerned that there is something very wrong about creating a disaster program to fill the void left by crop insurance in a manner that provides the least benefit to those for whom crop insurance also provides the least.

2012 Farm Bill Development

The rice industry is working internally to analyze all the existing safety net policies and to evaluate their effectiveness in providing a measure of protection in the most efficient manner.

We believe that a strengthening of the farm safety net is important. But we also believe that any improvements should be accomplished in a manner that does not cause disruption and upheaval in the U.S. agriculture production system which continues to provide our country and millions around the world with a safe, abundant, and affordable supply of food, fiber, and fuel.

At this time, we would like to share with you the key principles that are guiding our work in analyzing the current farm bill policies.

1. The farm safety net should be strengthened for rice producers by the 2012 Farm Bill.

2. The Direct Payment Program, or subsequent program, should confer a stronger safety net for rice producers.

3. The Marketing Assistance Loan/Loan Deficiency Payment Program should be extended with at least current loan rate levels as a base level safety net for producers and lenders.

4. The Countercyclical Payment Program, or subsequent program, should better reflect current market conditions for rice.

5. ACRE, or any variant, needs to effectively serve all eligible commodities.

6. SURE, or any variant, needs to effectively serve all eligible commodities and regions.

7. Crop insurance needs to effectively serve all eligible commodities and regions.

8. The 2012 Farm Bill should create long-term certainty regarding payment limitations, adjusted gross income requirements, and other eligibility criteria.

9. There should be no further reduction in pay limits or adjusted gross income requirements or further restrictions on eligibility relative to the current mix of safety net components or the equivalents under any variant.

10. There should be no further reduction in funding levels for the farm safety net nor any reduction in that safety net funding specific to rice producers.

Conclusion

In sum, despite what one may read in the newspaper or hear on the radio or television about Uncle Sam lavishly spending money on the farm safety net, rice farmers are certainly not seeing any windfalls and, I would respectfully submit, neither are our brethren who produce other crops. The public perception about government largess in farm policy, so carefully and diligently created and nurtured by critics, is quite divorced from reality on the ground. Spending on the rice safety net in the Farm Bill has declined from $1.2 billion to about $400 million annually, which is largely made up of only the direct payments.

In closing, we would like to thank you once again for this opportunity to share our views on the current state of the rice industry, the diverse challenges we face, and our initial thoughts on the current farm safety net programs in advance of developing the 2012 farm bill.

Both the US Rice Producers Association and USA Rice Federation look forward to working with you in this regard and I would be happy to respond to any questions the Subcommittee may have.

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

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

1. Name: Gary Murphy

2. BusinessAddress: 20910 CR 780
Bernie, MO 63822

3. Business Phone Number: (573) 293-6163

4. Organization you represent: US Rice Producers Association

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

I have farmed for 44 years.

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

B.S. Agricultural Economics - University of MO

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

Chairman, US Rice Producers Association

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

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

House Rules* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2007.

Name: Gary Murphy

Address: 20910 CR 780 Bernie, MO 63822

Telephone: (573) 293-5769

Organization you represent (if any): US Rice Producers Association

1. **Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2007, 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: ______ **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, 2007, as well as the source and the amount of each grant or contract:**

Source: Market Access Program **Amount:** $1,780,170.87

Source: Quality Samples Program **Amount:** $75,000.00

Emerging Markets Program $63,128.67

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

Signature: Gary Murphy

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PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY.