

Good morning, Chairman Chambliss, Senator Talent and Members of the Committee.

I am Paul T. Combs, a rice, cotton, wheat, and soybean producer from Kennett, Missouri.

I serve on the Missouri Rice Council and as Chairman of the USA Rice Producers' Group. My testimony today is on behalf of both the USA Rice Federation and the U.S. Rice Producers Association.

Mr. Chairman, we thank you for holding this hearing and for the opportunity to express our views on the farm bill.

As Congress holds these hearings in preparation for the next farm bill, the U.S. rice industry supports maintaining an effective farm safety net that includes a marketing loan program, as well as income support payments and planting flexibility.

At this time, rice producers and others in production agriculture face an uncertain farm policy and financial future due to repeated proposals to cut our farm programs and the ongoing Doha Round World Trade Organization (WTO) negotiations.

In this regard, we support the efforts of U.S. negotiators in Geneva earlier this month in holding firm for greater market access in the Round. Gaining greater, assured market access is a must if rice producers are to see any net trade gains from the Round.

For these and other reasons, the U.S. rice industry supports an extension of the 2002 Farm Act in its current form until such time as the World Trade Organization provides a multilateral trade agreement that is approved by the U.S. Congress.

2002 Farm Act Extension

There are a number of key factors that support extending the 2002 Farm Act until a final WTO agreement is in place.

1. Any reduction of the current programs and spending levels of the farm bill will result in the effect of "unilateral disarmament" by the U.S. and ultimately weaken our negotiating position with other countries.
2. Writing a new farm bill in advance of a final WTO agreement could result in a very short-term bill that must be rewritten should the WTO negotiations be concluded and new trade rules are in place. Multiple farm bill authorizations in a short timeframe will weaken the predictability and stability that are key components of any effective farm safety net. This predictability is a key requirement for the lending community that provides financing for production agriculture. Any changes that inject uncertainty into this safety net will lead to financing difficulties.
3. It is a fiscally responsible approach to farm policy and provides a safety net when needed. As such, Congressional estimates of commodity program (CCC) spending through 2005 reflect outlays ranging from \$13 billion to \$19 billion below the levels estimated by the Congressional Budget Office (CBO) when the farm bill was approved in 2002. Total commodity spending for 2002-2007 is projected to be approximately \$10 billion below the total

level estimated in 2002.

Certain WTO decisions ruling against U.S. programs make clear that crafting a WTO compliant Farm Bill is not easy, even when a good faith effort is made over an extended period of time. Rice producers disagree with those who argue that a WTO compliant farm bill can be written concurrently during ongoing negotiations or Congressional consideration of a negotiated WTO agreement. Ignoring this fact while rushing to write a bill will do a disservice to all of U.S. agriculture.

My Senators, Jim Talent (R-MO) and Kit Bond (R-MO), along with Senator Blanche Lincoln (D-AR) and 5 other Senators, have introduced a measure in the Senate to extend the current farm bill through the crop year after Congress approves a WTO agreement (S. 2696). We support such practical legislation that recognizes these realities while still respecting the multilateral trade negotiating process.

Another concern is the timelines for trade-distorting domestic support and tariff reductions in trade agreements. Any timeline for reductions in trade-distorting domestic supports should be concurrent with the timeline for reduction and elimination of tariffs and duties. Otherwise, how will producers manage their operations in the interim after support is reduced and increased market access is not obtained for several years? It only makes sense that similar timelines for the phase-in of measurable market access gains and for any reductions in U.S. trade-distorting domestic support should be required in future trade agreements.

To the extent that there is a successful WTO round that involves a reduction in so called trade distorting support, rice producers strongly believe that the amount of the reduction should be captured and dedicated to providing a more WTO compliant safety net of equal benefit to U.S. agricultural producers. There will always be a need for a safety net in production agriculture, even in a world with expanded trade opportunities, due to the many trade barriers other countries will continue to employ against certain commodities, including rice.

Critical Needs of Rice Farming Families

For the typical family farm that produces rice, economic survival is dependent upon several key factors:

- ? An effective farm program that provides basic support through marketing loan eligibility for all production and income support through counter-cyclical and direct payments;
- ? The maintenance of eligibility for farm program benefits for rice operations of all sizes; and
- ? The development and expansion of global markets for crop off-take.

While U.S. rice yields are among the highest in the world, our production cost per acre is significantly higher than that for other grains.

Even with the safety net in place, much higher production costs, in particular for fuel and fertilizer, have reduced and will continue to reduce rice profitability far below levels previously expected.

These higher costs of production had a direct impact on 2005 crop returns and have impacted

producers' 2006 crop planting decisions and returns. In fact, current USDA indications are that U.S. rice plantings this year are down 14% from last year, and are at the lowest levels in 10 years.

While overall rice acreage is down this year in the U.S., over the last 20 years, rice acreage here in Missouri has increased by more than 300%, from 68,000 acres in 1986 to 216,000 acres this year. Our rice industry has grown significantly in Southeast Missouri, particularly in the last 10 years, as growers have looked for alternatives to some of the traditional crops grown in this area. While some of this acreage and production expansion was included in the base and yield updates of the 2002 Farm Bill, there are still significant acres of rice produced in Missouri on acreage with no rice base. While most of these acres have other crop bases, growers would prefer to update their bases to more closely reflect their current production mix. Many Missouri rice producers would welcome the opportunity to update bases given the significant expansion of production in this area. We would encourage this Committee and Congress to carefully review this issue and consider what appropriate action could be taken with regard to a base and yield update in the future.

It is important to note that the marketing loan levels were not increased for rice or soybeans in the 2002 Farm Act, while the loan levels for all other major crops were increased. Rice has maintained the same loan rate since 1989.

Regarding the rice marketing loan program, there was an initiative by USDA this year to adjust the loan rates for long and medium/short grain rice just as planting was starting in some parts of the rice belt. While there were several options under consideration, the ultimate effect would have been a reduction in long grain loan rates and an increase in medium/short grain rates.

The industry raised its concern over this proposal and the poor timing of such a change with USDA and Members of Congress. USDA ultimately chose to set rice loan rates by class for the 2006 crop year as they have consistently for the past 18 years. We greatly appreciate the willingness of USDA to work with the industry on this issue, and to forego any changes in the loan rates for the 2006 crop year. This will allow time for further study and analysis of the production and market impacts of such changes in the loan rate.

We look forward to continuing to work with USDA on this issue prior to the start of the 2007 crop year. However, given that 2007 is the last year of the current farm bill, it may be appropriate to address any adjustments in rice loan rates by class during the debate on the next farm bill.

Payment Limitation Policies

To be a viable family farm, we must use economies of scale to justify the large capital investment costs associated with farming today. This is especially true for rice farming, which has the highest cost of production of any major grain crop. Payment limits have the negative effect of penalizing viable family farms the most when crop prices are the lowest and support is the most critical.

The U.S. rice industry opposes any further reduction in the payment limit levels provided under

the current farm bill. We also oppose any government policies that attempt to "target" payments or apply a means test for agricultural production payments. It is essential that rice producers maintain non-recourse loan program eligibility for all production. Arbitrarily limiting payments results in farm sizes too small to be economically viable, particularly for rice farms.

The Real Facts on Farm Statistics

When the issue of payment limits is brought up, oftentimes opponents of production agriculture attempt to use misleading statistics taken out of context for the purpose of making their argument. Here are some key points that I know we are all probably aware of, but it's important to be reminded of so that we see the real picture of production agriculture.

1) Statistics skewed by "Rural Residence Farms": "Rural residence farms" as defined by USDA represent about two-thirds of the 2.1 million "farms" in this country. Excluding these farms where farming is not the primary occupation of the family results in a very different picture about the percentage of "farms" receiving farm program payments. The universe of farms actually producing this nation's food and fiber is much smaller than 2.1 million. In fact, 38% of farms produce 92% of our food and fiber. While producing 92% of our food and fiber these farms receive only 87% of farm program payments. We appreciate the efforts by the chairman and members of this Committee to cut through the rhetoric of those who apparently would like to see reductions in support of rice and other farm families and for your efforts to continue to focus on the realities of the U.S. food and fiber production system.

2) Sector-wide "Averages" Hide Unhealthy Subsectors: Using only averages for the farm sector as a whole when it comes to income data can be misleading about the true condition of various sectors of the agriculture economy. Certain sectors may be squeezed between high costs and low prices while others are experiencing high prices and average costs. Since program crops are being asked to make the cuts, when statistics are given on Net Farm Income, program crops should be examined individually and separate from other agricultural sectors (i.e.: livestock, fruits, vegetables, etc.). A healthy farm economy as a whole does not necessarily translate into all sectors of the farm economy being healthy.

Economic Contributions of the U.S. Rice Industry

The regional concentration of rice production makes it an extremely important crop in key producing states. Rice production is an important economic driver in all states and regions where inputs for rice production are manufactured and where rice is grown, milled, or processed for food or other uses.

Rice production ranks in the top 8 most valuable crops produced in each of the six major rice-producing states (Missouri, Arkansas, California, Louisiana, Mississippi, and Texas). In 2004, rice was the seventh most valuable of all crops produced in Missouri.

Given the high costs of producing rice compared to most other basic agricultural commodities, the contribution to general economic activity from land devoted to rice production tends to be much higher than for other crops.

High input expenditures for rice production imply significant economic activity for the sectors that supply those inputs in the regions where rice is produced.

Each dollar's worth of rice produced in the United States generates about 90¢ worth of revenue for the industries that supply variable production inputs.

Based on state estimates of production costs and rice acreage planted in 2005, U.S. rice farmers spent nearly \$1.7 billion to produce 3.38 million acres of rice, including both variable costs and basic ownership costs associated with rice production.

Even modest adjustments to the levels of current support could create a significant reduction in rice acreage. These effects would be even more acute when combined with the current spike in fuel, fertilizer, and other energy input costs.

A reduction in rice acreage would reduce the total economic activity in the region where the reduction occurred due to the impact on the processing, transportation, marketing, and input supply sectors. Some of this reduction in economic activity would occur regardless of whether or not an alternative crop is planted, because rice contributes disproportionately to the revenues of various input sectors due to its higher production costs.

Economic Contribution to Key Industries

In addition to the economic activity generated from rice farming, an extensive transportation and processing infrastructure has evolved alongside farm-level rice production. These allied industries are highly dependent on the continued supply of rice to support their economic contribution to the overall economy.

Mills: The U.S. rice milling industry performs the important function of processing rice into forms useful to the food and feed industries. The U.S. Census Bureau estimates that the rice milling industry employs more than 4,000 people, and supports an annual payroll in excess of \$135 million.

Ports: At major Gulf ports, for example, rice accounts for about 35% of all food products shipped. Studies have suggested that each ton of rice handled by major ocean ports generates \$50 to the local economy and \$75 to the state economy.

Environmental Contributions of the U.S. Rice Industry

Water Quality

Modern rice production is critically dependent on a reliable supply of water, a resource readily available here in Missouri, to flood fields. However, the use of this water in responsible rice farming actually produces several environmental benefits that simple irrigation of alternative crops cannot match. For instance:

? Much of rice irrigation water is returned to its original source. About 25%-35% percent of the water used for irrigating rice is "recycled" back into the environment. Outflow irrigation water is either reused, percolates to groundwater to recharge aquifers, or drains back into rivers,

thereby conserving water that could otherwise be lost from future beneficial use.

? Modern rice cultural practices preserve water quality. The practices widely adopted by rice farmers are credited with preserving water quality and minimizing ground and surface-water contamination relative to many alternative crops. The flooding of rice fields is itself a powerful means of weed management that decreases the need for herbicide use, and timely planting and rapid establishment of rice plants at the proper spacing also suppresses weeds by eliminating the space and light that weeds need to grow. When pesticides are applied, water retention in the flooded fields helps to biodegrade the remaining chemical substances and minimizes the potential for contamination.

Wetlands, Waterfowl, and Wildlife

Rice farming is one of the few commercial enterprises that actually promotes wildlife habitat and improves biological diversity.

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

Rice fields are typically flooded for at least five months a year, during which time they become temporal wetlands with enormous significance to bird populations wintering and breeding in the rice-producing states of Missouri, Arkansas, California, Louisiana, Mississippi, and Texas. Like natural wetlands, these agricultural wetlands are also indispensable to wetland-dependent bird populations.

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

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

By providing a favorable habitat for migratory birds that in most cases would be much smaller without active rice farming, rice production is directly responsible for a very significant proportion of wildlife-related revenues generated in these states.

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

As commercial development and urban sprawl continue to pressure existing agricultural and wetland resources, rice farming provides an environmental counterweight in the form of "surrogate" wetlands that directly support waterfowl and a wide range of species that would otherwise be even more threatened by habitat destruction. These widely noted environmental benefits accrue not only to current and future generations of wildlife enthusiasts, but also

produce economic benefits that support recreational industries and, ultimately, local economies.

Taking rice acreage out of production in favor of other crops would eliminate the environmental benefits of wetland creation and habitat protection. Farmers are good stewards of the land and operate in an environmentally sensitive manner. With regard to rice production, the clear and undisputed benefits of it rank the commodity among the top of all agricultural systems in terms of a positive environmental impact.

Trade Policy Impacts on the U.S. Rice Industry

The U.S. market for imported rice is virtually an open-border market, with U.S. tariffs on rice imports almost non-existent. The U.S. rice industry supports the elimination of all rice duties in other importing countries, and equitable tariff treatment for all types of rice.

Despite the general continuing trend towards market liberalization, rice outside the United States has remained among the most protected agricultural commodities. The level of government intervention in the international rice market through trade barriers, producer supports, and state control of trade, is substantially higher than for any other grains or oilseeds. High tariff and non-tariff barriers, such as discriminating import tariffs on U.S. paddy and milled rice exports, also are used.

These are major factors contributing to price volatility in the international rice market and a fundamental reason why the U.S. industry needs the stabilizing influence of current federal rice programs.

Because the U.S. rice industry exports between 40 and 50 percent of annual rice production, access to foreign markets is fundamental to the health of our industry. We believe that multilateral negotiations through the WTO are a way to bring down trade barriers worldwide. However, the Doha Round negotiations are also about agricultural domestic supports. If an agreement is made, the U.S. proposal tabled in late 2005 will substantially reduce Amber Box support for the rice industry. It will also substantially reduce the potential for providing support to rice through the Blue Box. Therefore it will be necessary for a Doha Round agreement to foster an open market that provides for the opportunity of a substantial increase in the world price of rice. Only such enhanced market opportunities can begin to make up for the price and income support we will be losing.

Merely shifting support to the Green Box in the form of conservation payments will likely not work for commodity support. Currently 63% of U.S. conservation funding goes to operators whose primary occupation is not in agriculture. Conservation support is mostly cost share funding and not price or income support. In addition, we are concerned about the number of countries that will declare rice a sensitive product to block or delay rice imports.

Many of the details of any eventual agreement are still very much under negotiation, and the overall effect of the final agreement on our industry will depend on the overall package that emerges. We recognize the difficulty in reaching an agreement with 149 countries in the Doha Round that will be beneficial for the US rice industry. But Free Trade Agreements on a bilateral

or regional basis may be as important an avenue to increase market access.

The United States' share of world rice exports has averaged between about 10% and 13% over the last 10 years, down from a peak of about 30% as recently as 1975.

This decline in world export share reflects increased supplies from traditional exporters like Thailand and Vietnam, among other factors. U.S. sales are also constrained by market access barriers in high-income Asian countries like Japan, Korea, and Taiwan, and the European Union and Latin American countries.

Remember the type of governments we are dealing with when signing trade agreements. We must realize that, unfortunately, they are not always reliable. The U.S. really has limited recourse against a country that fails to follow through on its trade commitments. The EU withdrew a trade concession on brown rice in 2004. It took six to nine months to resolve and they imposed a higher tariff than originally agreed to. Mexico has imposed anti-dumping tariffs on milled rice imports from the U.S., contrary to WTO rules, and is playing the review system as a way to continue these tariffs. Time is of utmost importance when controlling grain inventories. If a surplus arises due to a country's refusal to open its market as agreed to, then our prices start to fall due to over supply.

U.S. Trade Sanctions Unfairly Impact the Rice Industry

In addition to the distorted international markets faced by the U.S. rice industry, U.S. policies intended to punish foreign nations or encourage regime change disproportionately harm U.S. rice producers.

Unilaterally imposed U.S. trade sanctions have played a key role in destabilizing the U.S. rice industry and in constraining its long-term market potential. U.S. sanctions have and continue to place downward pressure on market prices to U.S. producers.

Trade sanctions have caused disproportionate harm to rice among U.S. commodity groups. At various times within the past four decades, our number one export markets were closed because of unilaterally imposed U.S. trade sanctions policy:

Cuba: Prior to 1962 Cuba was the largest market for U.S. value-added rice, but since then this important market has been largely closed to U.S. exporters. As a result, China, Vietnam and Thailand have emerged to become major suppliers of the roughly 500,000 metric tons of rice that Cuba imports annually. Recent efforts to ease restrictions on U.S. sales of food and medicine to Cuba under the Trade Sanctions Reform and Export Enhancement Act of 2000 have allowed the United States to regain a share of this market, with U.S. rice exports to Cuba reaching nearly 177,000 metric tons in 2004, valued at more than \$64 million. However, even these important gains are threatened by restrictive regulations imposed by the U.S. Treasury Department that have resulted in the volume of rice exports to Cuba declining by 25% in 2005. The United States has a considerable freight cost advantage over other exporters, which suggests that the further easing of the restrictions that remain in place could provide substantial opportunities for much larger rice exports to Cuba.

Iran: Similarly, in the 1970's the U.S. rice industry exported on average 300,000 metric tons of value-added rice to Iran. This was the largest U.S. rice export market for value-added rice, and it also was eliminated through the unilateral imposition of U.S. trade sanctions on Iran. But Iran's demand for imported rice continues to grow. In 2004 Iran imported 973,000 metric tons of rice valued at nearly \$300 million, mainly supplied by Thailand and Vietnam.

Iraq: In the 1980's, U.S. rice exports to Iraq averaged about 400,000 tons. United Nations sanctions eliminated the market for U.S. producers even while this market grew to nearly 1 million metric tons (\$200 million) supplied primarily by Thailand, Vietnam and China through the U.N. Oil for Food program. In 2005, U.S. rice sales to Iraq were resumed with exports of approximately 310,000 metric tons. We appreciate the efforts of our government to reopen this vital market.

The total of these three markets represents more than 2.5 million metric tons of market potential per year that the United States had lost for decades, and that in many cases remains restricted today far below its full potential. This is equivalent to approximately 25% of current U.S. production.

In light of significant market access barriers in many key rice-consuming countries, U.S. rice farmers are denied the opportunity to compete openly and fairly. These further restrictions imposed by our own government interfere with the industry's opportunity to discover a market price structure that could reduce the need for government support.

Conclusion

U.S. farm policy must provide a stabilizing balance to markets and a reliable planning horizon for producers.

We urge you to recognize how well the current Farm Act is working for U.S. agriculture, and to consider ways to maintain its structure as we begin the debate on the next farm bill.

Rice producers:

- ? contribute a highly-nutritious food product for the nation;
- ? contribute to the nation's food security;
- ? contribute to the local, state, and national economies and the nation's balance of trade;
- ? contribute to conservation efforts and the environment.

Rice producers call on Congress to continue sound, fair agricultural policies in the next farm bill, including those policies in the current farm act that help to provide:

- ? producers with stability and reliability; and
- ? consumers with an abundant, affordable, stable, safe, and secure food supply.

Rice producers look forward to working with Congress and the Administration in the development, enactment, and implementation of a sound, equitable farm bill and rice program.

In the interim, however, in light of the need for a strong safety net as part of U.S. farm policy, the U.S. rice industry supports extending the 2002 farm bill in its current form until such time

as a Doha Round trade agreement is negotiated to completion and approved by Congress.

Thank you, Mr. Chairman, for holding this hearing.

This concludes my testimony.