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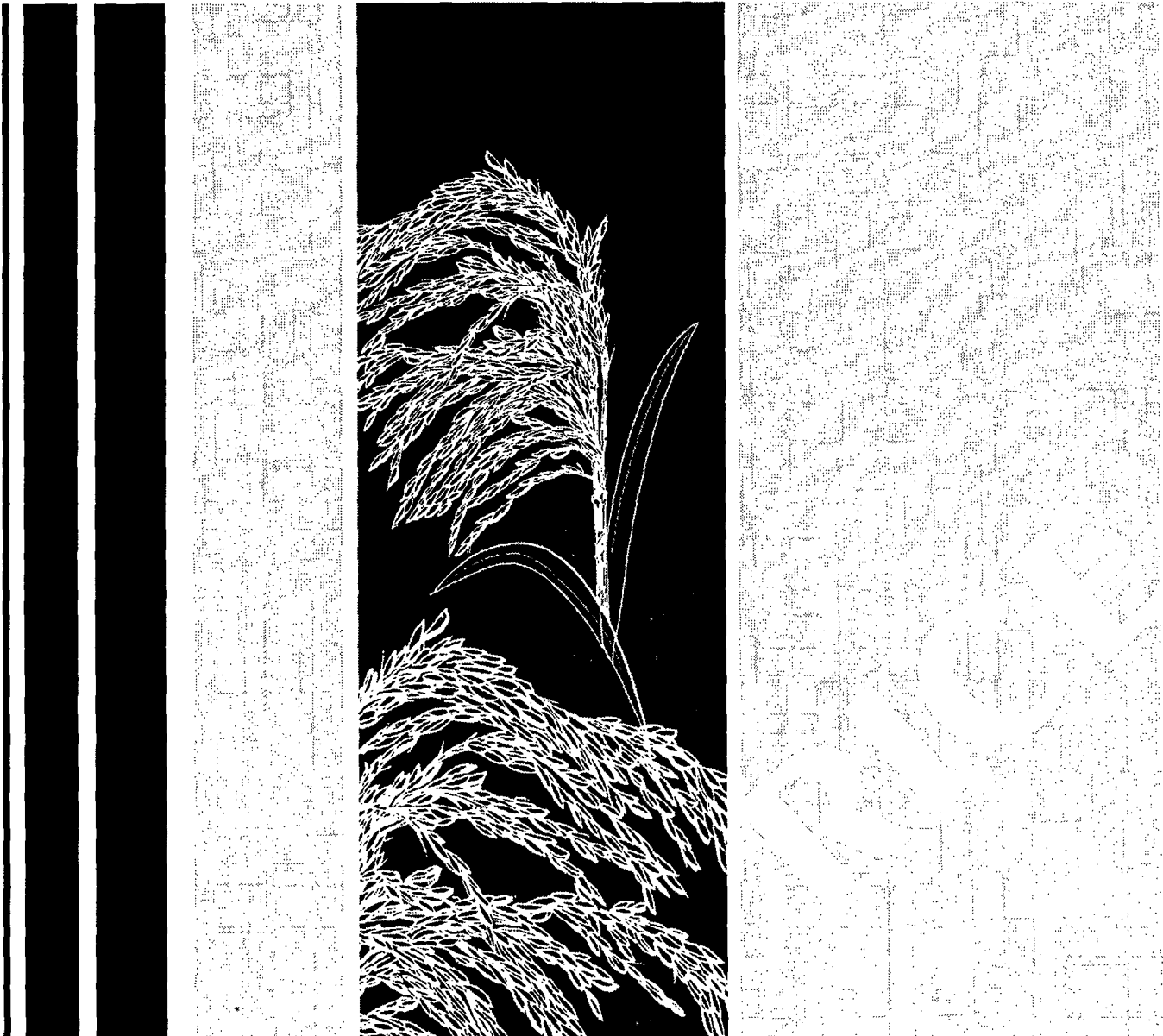
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An Economic Research Service Report

Rice

Background for 1995 Farm Legislation

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Abstract

U.S. rice sector income has shown steady growth in recent years, reaching \$2.1 billion in 1993/94. However, Government program payments have also grown in importance. Since 1985/86, rice program outlays have averaged \$733 million per year, 42 percent of all returns from rice farming. Farm and industry economic health are linked to costs of production which vary significantly across the six rice-producing regions. Because of inflation in the cost of production since the early 1980's, frozen payment yields, reduced target prices, and continued reductions in farm program benefits due to budgetary pressures, some rice farmers have been operating at a loss. Any reductions in current rice program support levels would probably accelerate the trends of a declining number of U.S. rice farms, increasing farm size, and a shift of rice growing from the high-cost production regions along the gulf coast to the upper Delta States, while reducing both the participation rate and dependency on government program revenue.

Keywords: Rice, farm programs, farm returns, farm cost-of-production, program effects, domestic use, prices, world trade

Foreword

Congress will soon consider new legislation to replace the expiring Food, Agriculture, Conservation, and Trade Act of 1990. In preparation for these deliberations, the U.S. Department of Agriculture and other groups are studying previous legislation and current situations to see what lessons can be learned that are applicable to the 1990's and beyond. This report updates *Rice: Background for 1990 Farm Legislation* (AGES 89-49), by Nathan W. Childs and William Lin. It is one of a series of updated and new Economic Research Service background papers for farm legislation discussions. These reports summarize experiences with various farm programs and the key characteristics of the commodities and the industries that produce them. For more information, see the Additional Readings at the end of the text.

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Summary

Currently, a typical U.S. rice farm is likely to benefit from two types of government program outlays: target price deficiency payments and marketing loan gains. Since the inception of the marketing loan program for rice in the 1985/86 marketing year, government outlays for the rice program have averaged \$733 million per year, or 42 percent of all returns from rice farming.

Some rice farmers have been operating at a loss, because of inflation in production costs since the early 1980's, coupled with frozen government payments, reduced target prices, and continued reductions in farm program benefits because of budgetary pressures. Additional costs are being placed on rice farms by increasing environmental regulations, including restrictions on the registration and use of pesticides, wetland regulations, and concern for the quality of both ground water and surface water. Gulf coast and California rice producers are particularly vulnerable to cost increases.

Any reductions in current rice program support levels would probably accelerate the trends of a declining number of U.S. rice farms, increasing farm size, and a shift of rice growing from the high-cost production regions along the gulf coast to the upper Delta States, while reducing both the participation rate and dependency on government program revenue.

Domestic rice acreage, production, and income have increased in recent years. Since 1990, rice plantings have averaged slightly more than 3 million acres per year, up from an average of 2.8 million in the 1980's. Most of the increase has been in the areas where production costs are lower—along the Mississippi River and in the nondelta areas of Arkansas. Domestic rice production has averaged 160 million hundredweight (cwt) since 1990, up from 140 million cwt during the 1980's. Total returns to the rice industry have averaged \$1.9 billion since 1990, up from approximately \$1.6 billion during the 1980's.

The U.S. domestic rice market has been growing at more than 4 percent a year for the past 25 years and has now overtaken the international market as the principal outlet for U.S. rice. Direct food use is the largest domestic use. However, with numerous new products and effective marketing, use of rice in processed foods is the fastest growing area of the domestic market. Despite its small area and value relative to other field crops, U.S. rice production plays a major role in those States in which it is grown.

U.S. rice growers are younger than farmers on average, more likely to be part-owners and tenants, and more likely to participate in government programs. Farm profitability and industry viability are linked to costs of production, which vary significantly across rice-producing regions.

Movements in and out of rice farming tend to occur more slowly because all rice farms are irrigated and therefore tend to require greater start-up expenses. Expanding production outside the government program has larger risks for rice farmers than for growers of other field crops because of

- (1) the large investments in machinery and irrigation equipment required;
- (2) the growing potential for further constraints being placed on agricultural water uses; and

(3) a dependency on export markets and their inherently volatile international prices.

New technology tends to be more readily adopted by rice growers than other grain producers. The rice industry is smaller than other grain sectors and since rice growing is concentrated in six States (Arkansas, California, Louisiana, Mississippi, Missouri, and Texas), market information is more quickly disseminated.

The United States is the world's second-largest rice exporter, supplying 17 percent of the world's rice exports in 1991-93. The United States depends on exports for more than 40 percent of total rice disappearance. However, U.S. rice traditionally trades at a significant price premium to foreign rice. As a result, most rice-importing countries view the United States as a residual supplier, implying that international trading patterns and prices strongly affect the U.S. supply and use situation.

The U.S. rice industry competes in a policy-dominated international marketplace where prices are kept artificially low by rigid trade and production policies that have combined to decrease import demand, while increasing exportable supplies from major competitors. Policies oriented toward self-sufficiency have closed the large rice markets of Indonesia, Japan, South Korea, and Taiwan, while allowing only limited access to the European Union's large market.