United States
Department of
Agriculture

Economic
Research
Service

Commodity
Economics
Division

Rice

Background for 1990 Farm Legislation

Nathan W. Childs
William Lin

It's Easy To Order Another Copy!

Just dial 1-800-999-6779. Toll free.

Ask for *Rice: Background for 1990 Farm Legislation* (AGES 89-49).

The cost is $8.00 per copy. For non-U.S. addresses, add 25 percent (includes Canada). Charge your purchase to your VISA or MasterCard, or we can bill you. Or send a check or purchase order (made payable to ERS-NASS) to:

ERS-NASS
P.O. Box 1608
Rockville, MD 20849-1608.

We'll fill your order via 1st class mail.

Can You Use an Electronic Database?

An electronic database containing data associated with this report is available. The database is in the form of Lotus 1-2-3 (Release 2) worksheet files on a MS-DOS and PC-DOS compatible, 5.25 inch DDSD diskette. The database costs $25.

Write to the above address and ask for *Rice Yearbook* (order #89001). **Or use our toll-free number, 1-800-999-6779.**

For further information on this database, write Janet Livezey, Room 1034, 1301 New York Avenue, NW, Washington, DC 20005-4788 or phone 202-786-1840

Rice: Background for 1990 Farm Legislation. By Nathan W. Childs and William Lin. Commodity Economics Division, Economic Research Service, U.S. Department of Agriculture. Staff Report No. AGES 89-49.

Abstract

Rice ranks ninth among major U.S. field crops in terms of value of production. All U.S. rice production is irrigated, providing more stable yields than many other crops. Three classes of rice are produced in the United States--long, medium, and short grain--with long grain predominant. Domestic use and exports of U.S. rice have increased in recent years due in part to the implementation of the marketing loan program in the mid-1980's following declines in both domestic use and exports in the early 1980's. As a result, carryover stocks have declined from a record high of 77.3 million cwt in 1985/86 to 32.4 million cwt in 1988/89. Costs of rice programs, however, rose to an estimated record $1 billion in fiscal year 1989 due to marketing loan costs and increased deficiency payments. Rice growers in the southern rice growing States are rapidly adopting high-yielding, semidwarf varieties of long-grain rice which could raise U.S. production. Rice issues facing farm legislators relate to rising production capacity, stagnant world trade, multilateral trade negotiations, high costs of marketing loans and other rice programs, loan rate differentials between long and medium/short grains, and adjusting the world price formula to further enhance U.S. competitiveness in the world rice market.

Keywords: production, domestic use, farm programs, farm returns, rice, prices, program effects, world trade

Foreword

Congress will soon consider new farm legislation to replace the expiring Food Security Act of 1985. In preparation for these deliberations, the Department of Agriculture and many groups throughout the Nation are studying preceding legislation to see what lessons can be learned that are applicable to the 1990's. This report updates Rice: Background for 1985 Farm Legislation (AIB-470) by Barbara C. Stucker. It was updated by Nathan W. Childs and William Lin with contributions from Andrew Novick. This report is one of a series of updated and new Economic Research Service background papers for farm legislation discussions. These reports summarize in a nontechnical form the experience with various farm programs and the key characteristics of the commodities and the farm industries which produce them. For more information, see the Additional Readings listed at the end of the text.

Washington, DC 20005-4788 November 1989

Contents

Summary

The Food Security Act of 1985 will expire at a critical time for the U.S. rice industry. The industry faces underutilized production and processing capacity, unstable foreign demand, depressed farm prices below target levels, stiffer foreign competition, increasing Government costs, and potential trade liberalization.

These issues will become more urgent as new high-yielding varieties of rice become more prevalent in the United States. Already, use of one new variety--Lemont--has produced yields 25-35 percent higher than the record achieved in 1981. Arkansas could have produced nearly 90 percent of the 1983 U.S. rice crop had it planted this variety.

Three classes of rice are produced in the United States and there is relatively little substitution between classes by users. Problems arise when the market for one class of rice is in disequilibrium. The entire rice sector may appear to be burdened with excess supplies even though this is true for only one class of rice. Since the rice program treats all rice the same, government programs are often unable to address excess supply problems that arise for just one class.

Rice ranks ninth among major field crops in value of production, followed by oats, sunflower seed, flaxseed, and rye. Government payments for rice, including the value of deficiency payments and marketing loan certificates, accounted for more than 40 percent of total producer receipts from the 1987/88 crop.

Rice growers tend to be younger, more inclined to be part-owners and tenants, and are generally heavier program participants than other grain producers. New technology is often more readily adopted by rice growers. The rice industry is smaller than other grain industries and, since rice growing is extremely concentrated in five Southern States and California, market information is more quickly disseminated.

Domestic demand for rice tends to be unresponsive to changes in prices. This limits domestic surplus disposal program options. Small swings in foreign demand can exert relatively quick and strong impacts on rice prices. One negative consequence of this is that the industry is more vulnerable to shocks reverberating from unstable foreign demand than other crop sectors. This was especially true in the early 1980's after a period of rising exports drew specialized resources with few alternative uses into rice production.

Some of the issues likely to surface during the upcoming rice policy debate include the following:

- o The role of U.S. rice in world trade. Should the United States be a passive residual supplier or aggressive exporter? Since 1986/87, the marketing loan provision of the 1985 Act has allowed the United States to regain some of the world rice market share it lost after 1980/81. However, this program has been very costly to taxpayers. Will public support for subsidized exports continue?

- The current round of multilateral trade negotiations being held under the auspices of the GATT are focusing on removing all protective and trade-distorting policies in the industrial market economies. This would include eliminating subsidized export programs. How well could the U.S. rice sector compete in a freer trading environment?

- Does the entire rice sector need comprehensive Federal price and income support or are some components of the sector more in need of protection from price risks and income enhancements than others?

- If support is to be continued, at what level should it be set and how flexible should it be? Could price and income support be decoupled from production?

- If support should be segmented--possibly by type of rice or by farm income situation--how can it be done without requiring severe resource adjustments by the rice industry?