

The Kiplinger Agriculture Letter

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Dear Client:

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USDA will move fast with the farm bill, wasting no time in getting a barrage of new food and farm programs up and running. Though the Bush administration opposed the bill as wasteful, Ag Secretary Ed Schafer wants to make sure that programs are set up right before his term ends, probably early next year.

**FARM
BILL**

Crop programs will pose a few problems. The Farm Service Agency must write regs for more than 30 new and revised programs. Included: Permanent disaster aid, an option for insurance that protects total crop revenue and new limits on subsidies a farmer can get. The farm bill's tardy finish and the progress of the crop season leave 2008 advance payments on crops already six months late, for example, as the agency scrambles to complete rules for program sign-up that'll begin this summer.

But high crop prices give USDA a break on the rules for some crop and dairy subsidies that aren't paid out while prices remain high.

One part of the bill warmly welcomed by USDA: Rural development, especially to bring broadband to rural businesses, institutions and farms. USDA will gladly use the \$25 million a year earmarked for rural IT, loans and grants for R&D to better connect rural Americans to the world plus funds for drafting a national strategic plan for rural broadband. Ironically, the bill provides scant money to upgrade USDA's own computers, and that'll become a hindrance at times to implementing the farm bill.

Also cheered...the focus on biofuels: Making cellulosic ethanol, biodiesel, etc., as central to USDA's role as food has been historically. USDA will receive \$1 billion for a slew of R&D in the clean energy arena.

On trade issues, the farm bill presents USDA with some challenges in the World Trade Org. from those opposed to U.S. subsidies. For example, the WTO ruled in 2004 and again this month that U.S. cotton subsidies distort trade and are illegal, yet the farm bill adds another one. Overall, increased subsidy levels in the farm bill will complicate efforts by Schafer to help negotiate an agricultural agreement in the WTO.

But the legislation also opens a new chapter in foreign food aid. The outlook for years of very pricey ag commodities and shipping rates is pushing the U.S. to shift spending toward buying food near the areas of distribution instead of from U.S. farmers. The farm bill begins with \$60 million for such purchases and requires \$375 million for food aid to assist long-term development, instead of for disaster relief. Also, Schafer will expand help for farmers in poor nations to produce more food.

ECONOMIC INDICATORS

↓	GDP Growth Slowing to 1% this year
↑	U.S. Ag Exports Soaring to \$112 bil. for 2008
↓	Workforce Job Growth Plunging to 10,000
↓	Employed Ag Workers Falling to near 900,000, leaving farmers short of help
↔	Inflation Holding at 4% for '08
↔	Prime Lending Rates Staying at 5% to year-end
↓	Farm Operating Loans Rates now at 6.7%-7.6%, with more loans below 7% by fall
↓	USDA Crop Loan Rate 2.6%, slipping to 2.5% by fall

CROPS

June and July will be exceptionally critical for U.S. corn.

If the growing weather is poor, the U.S. will run out of corn before the 2009 crop arrives...unfathomable for the world's top grower of corn. Persistent spring rain severely delayed corn planting from Mo. and southern Ind. and Ill. through Ohio and Pa., reducing overall acreage to around 87 million acres, or 2 million acres short of what is needed for livestock, exports and ethanol production until fall 2009. Worse, tardy seeding means late maturity, shaving yields. Then, the same fields may pollinate as summer heat reaches its peak...a huge risk for the crop.

Odds of market panic are 50-50 with June 30's corn acreage report from USDA, though nervous traders have already run the price over \$6/bu. USDA projects that even with a normal yield...impossible this year... stocks will fall to a 21-day supply before Sept. 2009. That's far below the usual 100-day supply at the marketing year's end just before harvest.

Growers are keeping their fingers crossed for normal weather to avert severe shortages. They can take some solace in the fact that the Southwest and the South will receive healthy rains once more.

ENERGY

Expect Bush to waive a portion of 2008's ethanol mandate.

He will want EPA to bend the mandate before the July 24 deadline set by law for a decision on the requests for the waiver. However...

He'll first assess the corn shortage as projected by USDA.

Yet some adjustment is on tap for 2008's 9-billion-gallon quota, to be filled almost entirely from the country's compromised corn crop.

Why? The mandate won't be needed to meet this year's quota... gasoline at \$4 a gallon is creating abundant demand for cheaper ethanol.

And a corn price spike would prompt action for livestock owners, who have been strapped by prohibitive grain prices since late last fall.

The ethanol supply's impact on world crude oil prices: Hefty.

One expert says oil would cost \$36/bbl. more if not for ethanol, which will add 20 billion gallons to the 610 billion gallons of gasoline made from crude this year. Even counting ethanol's lower energy content, the biofuel boosts gasoline supplies by 2.2%...enough to slash oil prices about 28%, or hike them 28% (to \$165 a barrel) if ethanol were removed.

Another assessment: Ethanol cuts 29¢-40¢/gal. off gasoline prices in the U.S. due to blending, based on an analysis by Iowa State Univ.

Congress will rein in biodiesel tax breaks to the U.S. shoreline.

The House and a Senate panel have voted to end the \$1/gal. credit on fuel that's exported and on foreign biodiesel that's being mixed with a bit of diesel at U.S. ports to get the credit. Expect passage by year-end.

The European Union will push the U.S. to make those changes.

European biofuel makers will probably win an upcoming EU antidumping case against the \$1/gal. applied to all U.S. biodiesel entering their market, resulting in punitive duties against U.S. exports if the credits remain. U.S. biodiesel makers say the EU also discriminates against U.S. biofuel, but Congress will limit the credit to only biodiesel used within the U.S.

Already pricey natural gas will rise higher this fall and winter, when farmers need the fuel to dry corn and heat buildings. Average prices will be about \$12 per million Btu...even \$15/MMBtu in a supercold winter.

Next year won't bring any relief for folks who rely on the fuel: 2009 prices will average about \$11/MMBtu...up to 25% more in the winter.

INSECTS

A likely harbinger of future nontoxic insecticides:

A gene that controls growth in termites. Researchers have created a near replica of the gene, but with a slightly altered RNA molecule. When the RNA, which transfers DNA's growth messages, was fed to termites, it created excessive deformities that neutralized them. Because the RNA is specific to termites, the discovery won't pose a risk to other species.

A new Web site is a ready reference on insects for farmers, livestock owners and nurserymen. Operated by Cornell University, the interactive pest manager provides a slew of cross-references to ID common pests and find remedies. See kiplinger.com/letterlinks/bugs.

Colony collapse disorder affecting honeybees remains a mystery.

Ozone may spell some relief for them. It can kill some insects that attack bees but also breaks down residues of pesticides used on mites that destroy colonies. Such residues can be harmful to honeybees.

MARKET TRENDS

Run a green business? Uncle Sam wants to keep you honest.

The Federal Trade Comm. will start to police "greenwashing"... hyperbole or outright lies that tout goods as environmentally friendly.

And state attorneys general will lend a hand. Many states regularly adopt FTC standards into their own statutes. As the feds challenge companies about their overstated claims of recyclable content or greater energy efficiency, etc., state AGs will attack with lawsuits. Calif., N.Y., Mass. and Fla. will lead, with others joining the fray. Such checking will help the credibility of legitimately green products, but it'll result in additional costs and red tape for manufacturers.

Ranchers will raise more cattle for Hispanic palates:

The beef won't be as marbled as what's generally prized by most American consumers, who prefer their steaks to contain some fat. Hispanic consumers typically want lean beef. Plus many of the leaner cuts are cheaper. Also a hit with Hispanic shoppers: Bilingual food labels. The beef industry will be responding to those preferences of Hispanics, whose share of the U.S. population will climb past 16% in a year or two.

IMMIGRANT WORKERS

Avoid losing workers to federal immigration action this summer.

Enforcement levels are up this year. And with more than half of agricultural workers undocumented, agribusinesses will be targets of such action, so farmers will lose workers when they need them most.

Here's a handy employer's immigration enforcement checklist:

Complete a firm, clear policy on immigrant workers, confirming your commitment to observing immigration law. Include a prohibition on any and all casual discussion about any employee's legal status.

Develop a consistent process for handling "no match" letters from the feds challenging farmworkers' Social Security numbers.

Consider using the feds' E-Verify program to settle no-matches, but weigh pros and cons. Note the program's possible sunset this fall.

Avoid attention from the feds. Workers known to falsify IDs or employment records related to legal status should be dismissed.

Assign a competent person to verify employment eligibility on federal I-9 forms, and file those forms apart from personnel files. Establish a retention period for the forms and have them audited.



SHIPPING

Container shipping is gaining a stronger foothold in the Midwest. It's long been a limited option there because containers unloaded on the coasts are usually refilled there and returned abroad... few reach the heartland. But Canadian National Railway, which serves the central U.S., now ships containers from Midwest hubs to New Orleans and Canadian ports. It'll compete with a major intermodal shipping center in Elwood, Ill., operated by Burlington Northern Santa Fe Railway.

For grain and soybeans, containerized exports are rising rapidly: 2008's volume is double 2007's so far this year and will come to 10% of those crops shipped to Asia this year. That's mainly due to rate hikes for bulk cargo, making containers tempting, and to a need to segregate more orders...organic, quality traits, etc...to meet importers' wishes.

UP NORTH

More Canadians are selling wheat the same way U.S. farmers do. The Canadian Wheat Board, which controls sales of wheat for food and export, will offer growers another marketing option starting June 23. It'll let farmers commit any part of a crop to a program called FlexPro and sell it when they wish. Their prices will be tied to futures prices in markets where the CWB sells wheat, discounted for risk and handling.

CRP

Planning to take land out of the Conservation Reserve Program? Check first on USDA conservation compliance rules... imposed since the 1985 farm bill...to see if they restrict cultivating your land. Highly erodible land must be protected: Violators can lose USDA benefits. Meanwhile, USDA cost-share programs may help you transition out of CRP.

LIFE ON THE FARM

The graying of farmers spells a turnover bubble in coming years. A survey shows Iowa farmers over 75 years old own 29% of farmland in that state, up from 19% in 1992. Those over 65 have 56% of the land. Life expectancy has risen, and the ages of U.S. farm owners and operators have been creeping up for decades: USDA's 2002 census reported that 33% were over 65 and running 26% of the land. Expect larger shares next year when USDA reports results of its 2007 census. But the larger percentages will soon be constrained by a bulge in deaths and retirements.

Anything to the claims about healthy farm lifestyles? You bet, say research results on allergy resistance for 18 babies whose mothers grew up on farms and 59 whose mothers did not. The farm-raised moms bequeathed superior T regulatory cells, which control immune responses, to their babies, tests of the babies' blood showed. In fact, the moms who drank fresh milk and spent time with livestock had the best T cells, though broad conclusions can't be drawn from a single small sample.

FUEL HEISTS

With motor fuel, propane and other energy prices soaring... Locking up fuel supplies is a basic precaution: Even tax free, farm diesel fuel runs over \$4000 for a 1000-gallon tank. Lock the gates to fuel depots and farmsteads, too, and get locking caps for fuel tanks on trucks and farm vehicles. Fuel is going to be high priced for years.

Yours very truly,

The Kiplinger Editors
THE KIPLINGER WASHINGTON EDITORS

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