

Grains & Oilseeds Luncheon

Beyond the Agricultural Economy: Macroeconomic Forces Moving the Sector Today February 27, 2009

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Speaker: Bob Young, Chief Economist, American Farm Bureau, Washington, DC

MODERATOR: I have the great honor today of introducing our guest speaker. My name is Joy Harwood, and I work for the Farm Service Agency. And I hope you all have enjoyed your lunch and enjoyed the sessions so far at the Outlook Forum.

I'll tell you for me the highlight of the Outlook Forum almost invariably is the Grains and Oilseeds lunch speaker. And I am sure I will say to people next year as well, it's one of the highlights of last year's session as well.

Our speaker is Dr. Bob Young, who I have known for many years as being a very entertaining and engaging speaker. And he's going to be talking about the forces shaping agriculture, with special focus on the macro-economy, the financial situation, and all other sorts of pressures that producers are facing.

Let me tell you a little bit about his background. He is currently Chief Economist for the American Farm Bureau Federation. He has been there for several years now. I have known Bob since he was chief economist for the Senate Agriculture Committee during the 1990 Farm Bill debate. And after that he was co-director of the Food and Agricultural Policy Research Institute at the University of Missouri in Columbia.

So please help me in giving Bob a very warm welcome.

[Applause]

DR. BOB YOUNG: First off, let me thank you for the opportunity to be in front of you today. This is a real privilege and real honor to get this request to be asked to come in and visit with you. I will tell you that when he request came in I said, what is it you'd like me to talk about?" And the response was, "Well, you can pretty much talk about whatever it is you want to talk about."

So I'd like to visit with you today on, instead of the macro-economy and all that other good stuff, let's talk about the Tenth Hole at Hunters Glen over on the Eastern Shore and the ways that one actually comes into that green, because it can be pretty tough.

[Laughter]

No, we won't do that. I will say though that, you know, my kind of stock speech that I'm giving at this stage of the game does deal an awful lot with the macro economy, and I probably go through about 30, 40 different slides, or whatever, in an hour-long

presentation. And quite frankly, up until about last Thursday or so of last week, that was kind of fully what I intended to talk to you guys about today.

But at that point in time, after some things that had unfolded last week, I kind of thought, ‘You know, I’m not going to do that.’

I’d also say that, you know, in the last day or so you guys have been exposed to I don’t know how many different versions of supply and use tables—I apologize; I had to be down in Louisiana yesterday—but talk about the rest of this marketing year and how the 2009 crop year is going to work out. And so consequently it would probably serve only a very limited purpose for me to stand up here and talk about supply and use tables for corn to move a few million bushels from one category to the other.

But you know, as long as I got the opening, I will say that the conversation that we’ve had with our producers for the last week in particular would suggest that our producers are probably thinking much more about declining their corn plantings, cutting back on their corn plantings, certainly cutting back on their cotton plantings, and talking about a move more than likely into soybeans.

Also it won’t surprise me to just see maybe a little bit less acres planted this year at the end of the day than what we maybe would have suspected earlier in the year.

So rather than just focus on corn and sorghum, barley, oats and oilseeds and sunflowers, etcetera, I thought I’d visit instead with you about what I would see as some of the real major issues that are driving the sector as a whole, not just the feed grain, oilseed sector, but the sector as a whole here over the course of the next few minutes or so.

I talked about one of the reasons I was able to have lots of conversations with our producer members last week is, we just came off of a week of our Commodity Advisory Committee session. This is a group that runs over a full week. They come in at about three different tranches (isn’t it amazing how that word has kind of just filtered through our vocabulary so well?) -- three different tranches of producers over that week. There are about 23 committees and about, oh, 230, 240 or so producers that are in for that week.

We typically began each session with presentations by outside experts on topics of kind of general interest and then moved into a set of breakout sessions on a particular interest for a particular commodity or special interest group, because they kind of push on their short and longer-term problems.

This process literally brings producers together from Maine to Hawaii, from North Dakota to the southern part of Texas. We talk about commodities, from apples to aquaculture, and I can come up with wisteria to wheat. I’m sure there’s some Zs in there, but I just couldn’t think of some right at the moment.

Frankly, the views and challenges expressed during that week and the reason that I decided to kind of change topics was, frankly that was one of the most down weeks that I’ve been through in most of my life. When you talk about the different pressures, the different fronts that farmers are being confronted with at this point in time—(you know, just from continuous fire from regulators, from editorial boards, concerns about food safety; frankly, some very definite misunderstandings about the structure of agriculture

today from myths about modern farming practices, from activists whose not-so-hidden agenda is basically to kind of eliminate entire sections of our industry)—it just kind of got to be a very tough week by the time you were through with that week.

Frankly, the guilt picture that's being painted for production agriculture seems to be growing, both in terms of the number of fronts but also in terms of the shrillness of the voices that are being raised. And this is the thing that I think really put me over the top was that as we kind of came through one of our general sessions and I saw a producer who I have a great deal of respect for kind of drop down, put his elbows on his knees, and kind of dropped his head down between his knees, not necessarily all the way down, but you could see him kind of sag a little bit and kind of raised up and looked at me and he said, "You know, I thought we were trying to feed the world."

And when producers that I respect as much as I do this particular individual that are this quality of an individual, you know, is beginning to feel that way, a very solid, market-oriented guy, the whole nine yards – when they are beginning to give you back that kind of comment, do we not maybe think we've gone too far, that maybe we're kind of beating this horse just once or two times too many?

So what I want to talk with you today is: how we kind of try to deal with some of those misunderstandings and misconceptions about production agriculture and how they've arisen around the United States and where we are today.

I want to start with corporate farming. And I want you to know, I'll be clear on this – I had this part written at the end of last week; you can figure out the rest of the timing from there and why that's important. But I had this written last week, that one myth that seems to be growing in the popular culture is this idea that farming in the United States is predominated by factory farms and corporate agriculture. And you've got to say those both with kind of a little sneer in your voice when you say "factory farms," you know. Corporate Agriculture. Agribusiness. You know, you got to say it that way. You know you can't just say it the way you might want to.

In fact, I've been amazed. We had some producers in the office the other day from Ireland; these are folks who should know better. I mean, you know what their corporates, what their farm structure, their business structures look like. You know, that they were convinced that most of production agriculture in the United States today was a corporate farm, "corporate farm," a corporate farm structure. You know?

And if you look through Economic Research Service 2007, Family Farm Report, 98 percent of the farms in the United States, 85 percent of the production in the nation, comes from family-owned operations.

These operations have to be in some form, all kinds of business structures from S corps to LLCs to partnerships to single individuals. And you know, our tax policies today pretty well dictate that you will have some kind of corporate structure. But that doesn't mean, just because they've taken these steps and that the press and other activist groups have pushed this notion of "corporate farms," sneering that they are not family farms, and therefore are not deserving of government safety nets, etcetera, etcetera, etcetera, that 'we need tighter payment limitations or more stringent definitions and in order to ensure that we only provide benefits to, quote/unquote "family farms."

But the facts remain that the vast, vast majority of farming in this country is still performed on operations where the bulk of the management, the labor, the financing and certainly the risk is borne by the family. A family operation may run to several thousand acres with today's technology. In fact you can certainly run 1,500 or 2,000 acres as you know, if you're just in farming kind of nights and weekends. That's the technology that we have available to us today. A family operation may include several hundred cows or several hundred sows that may have sales well in excess of \$1 million. But it's still a family operation.

And USDA's own numbers are there to back this up. USDA shows that less than 10 percent of the nation's corn, soybeans and wheat come from, quote, "non family" farms. We need to remember this, we need to realize that, and quit this notion that everything that we do in the United States has come from "factory farms" or "corporate agriculture" or "agribusiness." You know? That's what we are. It's how we're made. It's how we're structured.

Does it have a corporation logo around it? Probably so. And it probably has to. We told them they have to for decades and decades.

Let's move from there to the environmental footprint of production agriculture, because popular media has certainly been reporting for years on the environmental degradation that supposedly is created by production agriculture. We can talk about dead zones in the Gulf of Mexico, greenhouse gas emissions, pesticide run-off, groundwater contamination; the list could go on and on for some time.

To counter this argument, farmers and ranchers will be very quick to point out, correctly I might add, that they oftentimes drink from the wells that sit under the land they farm. Their children breathe the air. And they want to provide an operation to their grandchildren when the time comes. In short, there's been quite a bit of rhetoric on both sides of this issue.

Farm Bureau about two years ago joined an initiative being coordinated by the Keystone Center out in Colorado. And if you've not been out to their offices out in Keystone, it's pretty nice. The Field to Market Initiative is a broad-based coalition literally running the gamut of the food chain from input suppliers to producers, from grain handlers to food processors. Key to the initiative is a regular and equal participation by conservation groups such as Conservation International and the World Wildlife Fund. Together the group has worked to first identify the state of play; or, in other words, is production agriculture getting better or getting worse?

The group started with the notion of using a fully transparent approach to the problem and in relying on publicly available data. There were four commodity groups involved initially: the National Corn Growers, American Soybean Association, National Cotton Council, the National Association of Wheat Growers. And thus the focus has been on those particular commodities.

I'd also say one of the challenges that I think we face is that it's easy to talk about sustainability and sustainable agriculture when you're talking about fruits and vegetables or products that are very easy to talk about identity preservation. Number 2 yellow corn, once it leaves the farm, is number 2 yellow corn. And how do we talk about sustainability

measures back to a commodity based agriculture such as what we have in the United States today?

After several efforts and much reliance on data from NRCS and other USDA agencies, Geological Survey, etcetera, the Initiative released a peer-reviewed report at the end of January of this year that backs up many of the claims that farmers have been making.

We are getting better; we have gotten much better over the course of the last 15 to 20 years. Take corn production: soil loss above T – remember ‘T’ for those of you that are worried about that kind of stuff – soil loss above T has fallen by 67 percent for corn production over the course of the last 20 years. Irrigation water usage in terms of overall corn output has fallen 27 percent, energy use by 37 percent, and greenhouse gas emissions have declined by 30 percent.

Cotton soil loss figures have declined by 34 percent. The irrigation water use per pound of output fell by nearly 50 percent, energy by 66 percent of pound lint produced, and greenhouse gases by a third over the last 20 years.

Similar stories and numbers can be told for soybeans, with a 65 percent decrease in energy needs per bushel of beans produced between 1987 and 2007. Wheat figures are still substantial, particularly in terms of soil loss. But some of the other factors like greenhouse gas reductions are not as significant, due mainly to just the low growth we’ve had in wheat yields over the course of the last 15 to 20 years or so.

This group is very focused on outcomes-based reporting and measurement. The first report is going to be followed by further work on water quality measures as well as on financial performance indicators. The group has said more than once that ‘if you don’t have financial sustainability, you don’t have any kind of sustainability.’ And I think it’s very critically important.

Beyond these kinds of financial measures, the effort will be rolling out a beta test version of a grower self-assessment tool literally this week at the Commodity Classic. It’s going to be very similar to the major conservancies carbon footprint calculator, a set of relatively easy questions that a producer can answer and then talk about where they stand relative to national averages and regional averages and things of that nature.

The bottom line is that farmers and ranchers do live and work on the land that they work. They drink the water, they breathe the air. I’m convinced and all our members that I visit with are convinced that if you can show a producer an alternative method to grow the crop in a more environmentally benign way that generates the same amount of revenue, producers are very willing to sit down and have a conversation. They are very willing to talk about alternative ways to come at the problem.

Tell them how to farm, ignore their economics, and they will turn you off faster than a New York minute.

This next session, a challenge I’d like to visit with you about – I really hesitate to bring up. But I think it’s too big of an issue to ignore. It’s also an issue that I think a lot of folks in feed grains and oilseeds may be kind of turning a deaf ear to at this point in time as well. And that’s the whole animal welfare issue and the challenges that we face there.

Passage of Proposition 2 in California, efforts by the Humane Society of the United States now being mounted in Illinois and Ohio for slaughter bans, and the recent end of PETA's eight-year truce with McDonald's are but a sample of the wall of challenges that our livestock producers are facing today. The goal of many of these activists is unambiguously the elimination of livestock production in the United States. Indeed, HSUS's mission statement reads as follows: "The HSUS promotes replacing meat and other animal-based foods in the diet with plant based foods." I don't think you can be any more clear than that statement and that approach to the problem, or their view of the problem.

Facts don't seem to play much of a role on this front. The National Veterinary Institute, and I'm going to pronounce this wrong, Dan, I know this – in Uppsala, Sweden found that hens housed in modern cage systems were less at risk of mortality, cannibalism and disease than free-range and cage-free housed birds.

A large animal welfare organization has championed the horse slaughter ban in 2007 said there would be no increase of abandonment of horses when they said we can't slaughter horses. Now in 2009 in Oregon the same organization is considering making abandonment of a horse a felony.

And in particular in response to testimony on a significant upsurge in horses being turned out on roads and parks and golf courses, I got another one of these anecdotal reports last week in our Commodity Advisory Committee meeting. A guy had had a horse; he sold it off about six, seven, eight years or so ago. But the identity tattoo was tattooed into the inside upper lip of the animal. And so when the horse was found wandering around, they were able to identify that at some point in time in its life it had belonged to this guy. So they bring the horse back to the guy, delivered it to him. It's been sold two or three times since he sold it. Doesn't matter. They could trace that ID back to him. 'Here's the horse, it's yours, you deal with it.'

So he gets in the truck and he's decided he's going to take it up to Canada for obvious reasons.

[Laughter]

And somewhere or another the animal rights group in the state of New York found out that he was driving; that's what he was doing. They blockade him, they stop him, everything else. He finally got away and got it up and all that good stuff. But you know, you just – what do you think is going to happen?

And I think maybe that's kind of one of the real challenges that we face today.

Farmers understand that if their animals, be they two-legged or four-legged, if they are under stress will not gain as well as when they are not under stress. There have been years and years of research conducted by USDA, by the land grant institutions, to find production practices that lower animal stress. Are there some bad actors out there? Of course. But the vast, vast, vast majority of this industry recognizes the importance of making sure animals are well cared for. It makes no economic sense to put the animal under stress.

Last issue area that I'll visit with you about is the National Cotton Council versus the

EPA, the decision that came out of the Sixth Circuit Court on January 7, which basically has issued a ruling that effectively takes the application of pesticides, plant nutrients, practically anything applied to the soil back to the drawing board from a legal or regulatory standpoint.

You know, for years producers were able to apply pesticides according to label instructions provided for under the Federal Insecticide Fungicide and Rodenticide Act, or FIFRA. Producers who applied the product following these rules were then exempted from worrying about regulations and permitting required under the Clean Water Act, which prohibits the discharge of any pollutant into navigable waters from a point source without a national pollutant discharge elimination system or NPDS permit.

The Sixth Circuit Court in their decision essentially threw that out and went on to indicate that farming applications should be considered point sources of applications and therefore NPDS permits should be required. Application of a pesticide or other plant nutrient without a NPDS discharge permit would then be eligible for a civil suit.

I can't imagine why anybody would want to bring one of those suits. I can't imagine. The issue is still very much in the courts, and respecting that I won't say very much further on the topic. But assume for a minute that this ruling stands. What then? Somebody is going to have to pay for all those NPDS permits, both in terms of the time and money. And producers will still be required to meet all the requirements and obligations and limitations placed on them by FIFRA.

So what is it that we've really accomplished by this, or will accomplish by this, other than—again, you just kind of wonder some days.

So where do we go from here? We could have listed a number of other challenges I think that the industry is facing at this point in time. Exactly what the details might be in the future for climate change legislation will frankly be I think of great concern. It has the potential to generate some financial opportunities for some, agreed. But it's also going to force some considerable cost on others. And I think it's likely that it will affect the general economy in ways that will probably surprise everyone at the end of the day once it finally gets on the ground and we're moving forward in that direction.

This speech, and I apologize for this, descended into something of a moan and groan session. Agriculture has certainly faced challenges in the past, and we'll get through this rough stretch.

What is probably more concerning, however, is the growing sense of disconnect between the general public between they have between their lives and the realities of agricultural production. Recognizing that the population is moving further away from their generational links to the farm, I think we need a renewed emphasis on letting people know just what is involved in farming today and the real miracle that modern day agriculture represents.

For example, we need to get the general population to understand that there is a need for producing eggs the way that the vast majority are produced in the United States today. Laying eggs in the litter means that somebody, and think about that, means somebody is going to have to go out and pick them up. And also the egg itself, the exterior of the egg

at the very least is going to be a lot more contaminated in that kind of a production system than it's going to be in a battery cage system.

I'd also say that hens will jump down from roosting, jump up and down from roosting ledges. They are going to risk broken limbs in that process.

And you know, we call it hen-pecked for a reason.

[Laughter]

We need to get the general population educated again that farming is in fact a biological process. When you plant a crop, it needs to be fed; it needs to have nutrients underneath it for it to grow. People need to realize that weeds and bugs happen. How would they like for us to control for these particular problems? The production systems we use today, as we talked about in the Keystone Study, are much easier on the soil than was the case in times past. No-till agriculture is a prime example. When you think about greenhouse gas emissions from conventional tillage as opposed to no-till systems, again a very classic example.

But it doesn't work if you can't spray, because if you can't spray, you can't control for the weeds, etcetera, etcetera, etcetera.

Consumers also need to realize that there are costs associated with lifestyle food production choices. One California farmer at last week's conference said he went to his local grocery store and without really thinking about it went to buy some eggs. He opens the case, and he noticed somebody coming in right behind him bought another dozen of conventionally produced eggs. The farmer without really thinking about it turned around and asked the consumer, 'Did you vote for Proposition 2?' And the guy said, 'Well, yeah.' And so the farmer asked the consumer, 'Well, why aren't you buying those cage-free eggs right there?'

'Those suckers are expensive; I'm not buying them!'

[Laughter]

So the producer takes it upon himself to stand there and interviews, he says, the next 10 people that came through the store that bought conventionally produced eggs. And yeah, about 7 out of the next 10 had voted for Prop 2. Do you believe that story? Do you not? I don't know. That's how he told it, and so I'm reiterating it to you. Could there have been a little exaggeration? I don't know. But I think the point is: How do we get this connection to folks in the real world to recognize that there is in fact cost associated with making these lifestyle production decisions. And they need to recognize that.

You know, if they want us to farm using Sytem X as opposed to System Y, I don't have a problem with that, as long as they are willing to pay us. And I think that's where the real crunch really gets down to.

As a general farm organization, Farm Bureau at the national, state and county levels are trying several ways to try to get this connection back to folks. We recognize that much of the communication on this point is going to have to be done one-on-one. We are training an educated cadre of producers all over the country in an effort to try to put a real

personal face on the farmers and ranchers that are producing our nation's food supply every day.

On the livestock side, on the animal care side, our website "Conversations on Care" is focused on helping people understand how these modern livestock production systems work. There's a young lady on there who actually comes out of North East Missouri, [Pat Westoff was sitting in the back of the room]; her name is Chris Chin (sp). And she lives on the farm; they raise about 1,500 sows. Just an outstanding, excellent, very articulate young lady. And I would strongly recommend you go out on the website. They have put together their own You Tube video of how they farm. It's just a very, very well-done system, and I would highly recommend that to you.

This website that we have actually allows for free and open dialog. There's blogs on there. And quite frankly, some of the dialog can get a little testy at points; it is very definitely free and very open. As I say, if you've not been out there, I would recommend it.

I'd also very much welcome efforts by the Department to help get all these messages out as well, from the farm structure side, to again show just the reality of what it takes to make production agriculture happen.

The members of Farm Bureau, and I think farmers around the country, are very proud people. They do something that very few of us in this room probably in particular are able to say anymore. They actually produce something. They do help feed the world. So all the negative press aside, all the cuts and criticism, the misinformation laid bare, I work for American farmers, and I'm proud to say that I do so.

With that, I'll take whatever questions that you may have.

[Applause]