

# NEDLT Newsletter

## From the Desk of Bob Gray

### • **After Spending Tons of Money Congress Takes a Break**

I guess I would be tired too after the spending spree Congress has been on since February. So starting today – Good Friday – Congress will take a one week recess before it returns on April 20th. The spending levels have been mind boggling over the past ten weeks. First it was the \$787 billion Economic Recovery - or Stimulus Bill - as it was called. Next it was another \$350 billion additional funds for TARP, the Troubled Assets Relief Program. Then it was the \$410 billion FY2009 Omnibus Budget Bill and most recently it was the \$3.5 trillion (now keep in mind I said trillion with a T) Budget Resolution Bill.

Well, let's look at things on the bright side. The cherry and magnolia blossoms were in full bloom over the past several days and Washington, D.C. looked in fine form as almost every other spring flower and shrub were in their color mode which really means that spring has finally arrived here in the nation's Capitol. And, of course, most importantly baseball season has opened.

### • **The \$500,000 Cap on Gross Sales Is Dead!**

As you will recall, the Administration had proposed limiting direct farm commodity payments to any farms with gross sales over \$500,000. I don't know who did the math on that at the Office of Management and Budget but they better send them back to the Wharton School of Economics for a refresher course. You all know it doesn't take a very large farm to have sales of \$500,000 or more. In fact, when farm milk prices are good a 100 to 125 cow dairy can exceed \$500,000 in gross annual sales of milk. What we want to tell the folks at OMB is that it is the bottom line that counts, not gross sales. You could have gross sales of more than \$10 million and still be losing money and certainly not be rich by any standard. People who don't understand agriculture should not be dabbling in farm policy matters.

The gross sales issue had a stake put right through its heart last week when the House and Senate Budget Committees were preparing the Budget Resolution (which sets the parameters for spending next year) put language in both the House and Senate bills that would ensure no gross sales cap was implemented. Senator Kent Conrad of North Dakota, a major wheat state, made sure these provisions were included.

### • **Budget Resolution Remains a Partisan Issue**

When the House and Senate passed their respective Budget Resolutions last week they received no Republican support at all. In fact, on the House side twenty Democratic members, most often identified as Blue Dogs (fiscally conservative Democratic members) joined with the Republicans to oppose the Budget Bill as did two Democrats on the Senate side. The House and Senate bill both pared discretionary domestic spending by \$7 and \$16 billion respectively, which

in the broader scheme of things are very slight cuts.

Most importantly neither the House nor Senate Bills include proposals on how to pay for the President's health care reform plan and his Cap and Trade Carbon Emissions proposal. And as mentioned in last week's newsletter there will be a major battle when the House and Senate conference their two Budget Bills after the recess on the issue of what is called "reconciliation instructions" for health care and education spending. The House version would allow the health care and education spending to be passed in the Senate with just a simple majority of 51 votes instead of 60. The Senate Bill rejects that approach. If the Senate prevails in conference it will make it much more difficult to pass health care reform this year since getting the 60 votes will not be easy.

- **More on the Estate Tax Issue**

As you recall, the Administration would like to continue the Estate Tax or Death Tax as it is often called. The previous Administration planned to phase the Death Tax out at the end of 2010. During the Budget Bill debate two Senators, Blanche Lincoln (D-AR) and John Kyl (R-AZ) passed an amendment on a very close vote to reduce the Estate Tax from 45 to 35 percent and increase the exemption for a couple from \$7 million to \$10 million. Right now the exemption for an individual is \$3.5 million. Concerns remain in Congress that the Estate Tax hurts family farms and therefore should either be totally eliminated or have the tax rates reduced and the exemption levels increased.

- **TEA**

This is not a story about some English ladies sitting around in the afternoon and talking about the latest events in the community but it relates to one of the driving issues that caused the American Revolution in 1776. Taxes! You all remember the Boston Tea party when citizens impersonating local Indians boarded a British ship and threw boxes of imported tea overboard to protest the higher taxes being imposed by the King of England. Well, TEA now stands for "Taxed Enough Already" and on April 15th (Tax Day), groups from all over the country have planned rallies to protest legislation that has been passed that will likely create higher taxes. The difficulty, of source, is that the new Administration has a number of legislative priorities such as Health Care which are going to cost money. And given declining federal revenues as a result of the Global Recession, additional money is going to be hard to find. So we will be hearing more from the TEA groups in the future.

- **Farm Bill Implementation Timetable**

Secretary Vilsack now has a confirmed Deputy Secretary as well as an Under Secretary for Farm and Foreign Agriculture Services. The Secretary's office is now beginning to lay out timetables for the implementation of various provisions of the 2008 Farm Bill. The Department plans to issue rules this month on Value Added Producer Grants and Rural Co-op Development Grants as well as its Rural Energy for America Program. Other Farm Bill provisions will be coming out in the months ahead.

- **A Glitch in the Farm Service Agency Software**

Many of you are probably wondering where your MILC checks are as USDA's Farm Service Agency started to send them out last week. But glitches occurring in the software that FSA is

using to calculate the checks and to get them out have held things up. However in defense of the Farm Service Agency, most of our county offices have very old computers and they have not been updated for some time. Every time additional money is appropriated to upgrade these out-dated computers, the money often gets funneled off for use somewhere else.

My understanding is that as of yesterday the software glitch was fixed and that the checks should now start to be sent out to those producers who are still waiting to receive them.

### • **MILC Payments on the Way**

After a long and rather frustrating time lag, USDA released the MILC payments to dairy producers on Wednesday, April 1st. This is not a belated April Fools joke as payments will come by mail or electronically in the days ahead. In many ways the Farm Service Agency found itself in a Catch 22 situation as the 2008 Farm Bill required that they incorporate a “feed adjuster” in calculating the MILC payments. As you know the feed adjuster includes corn, soybeans and alfalfa in a ratio of 51%, 8% and 41% respectively in determining the monthly feed index which in turn affects the \$16.94 trigger price in the MILC payment calculation. When USDA wrote the rules on the newly configured MILC program they utilized the final price figures on corn and soybeans as determined by the National Agricultural Statistical Service. These price figures are not available in final form until the end of the following month. In other words, the February price figures are not available until the end of March. USDA could have chosen to utilize the “preliminary” price figure which would have been available in mid-March. But they chose to utilize the final numbers, hence the delay in getting the MILC payments out. The February MILC payment will be \$1.51 per hundredweight. Projections of MILC payments for the months ahead are as follows: March, \$2.05; April, \$1.55; May, \$1.57; June, \$1.29.

Projecting what the payments might be beyond that is somewhat dicey. A modest recovery in farm milk prices is projected for later on this summer and fall. However, given the volatility of the market anything can happen.

The MILC payments certainly do not come close to covering dairy farm costs but they will be a help. And for those producers who “cap out” in a few months, they would have been wise to select the months of February, March, April and May in order to maximize their total MILC payments.

### • **NMPF Announces CWT Herd Retirement Program**

A lot was happening on the dairy front this week. On Wednesday NMPF announced it would commence taking bids on its CWT herd retirement program starting on April 1st and continuing to May 1st. The thinking here is that dairy producers who are considering exiting the business will be much more inclined to sell their herds to the retirement program this spring. In addition, with lower milk prices the value of dairy cattle has decreased making the CWT program a viable option. Culling rates have been going up for the last several weeks anyway. All of these actions will certainly help to get supply back in line with demand.

### • **House Ag Committee Holds Hearings on the State of the Farm Economy**

Well, those of you in the dairy business could summarize the state of the farm economy in one word — Terrible!

Joe Glauber, the Chief Economist for USDA, noted the stark difference between the outlook

for commodity prices a year ago and today. Last year global demand was peaking and exports of US commodities were very strong – and, of course, that included dairy products. But in the last 12 months, Glauber noted that prices for most commodities fell 40 to 50 percent from their mid-year peaks in 2008. In 2008 US export sales surged by an unprecedented \$33 billion to a record \$115.4 billion. And again dairy was part of that surge. USDA forecasts that exports will decrease to \$95.5 billion for 2009 -- \$20 billion lower than in 2008.

Glauber pointed out that the dairy sector is being challenged by both weakened global and domestic demand for dairy products. This uncertain demand coupled with relatively high feed prices has caused dairy producers to pull back and the Department projects milk production nationally will decline by 0.8 percent in 2009. In addition, the Chief Economist pointed out that sharp decline in farm milk prices that started at the end of 2008 has continued on into 2009. He further stated that the all-milk price for 2009 is forecast to decline in the range \$11.25 - \$11.85 per hundredweight, the lowest since 1978.

Glauber also noted declines in farm real estate values and that collateral requirements for non-real estate farm loans are becoming more restrictive.

No projections were made on when there would be an economic recovery for agriculture in the future.

### • **Food Safety Is Also an Issue with the House Agriculture Committee**

Another hearing was held yesterday by the House Agriculture Committee on Food Safety. The panel of witnesses included representatives from various segments of the food industry including growers and packers of vegetables; a large grocery chain; a beef processor as well as university specialists in food safety and a representative from the Consumer Federation of America.

The emphasis in the hearing was on ensuring that any food safety gaps in our food safety system are identified and dealt with. The witnesses discussed their interaction with the federal food safety agencies, including the Food and Drug Administration and USDA's Food Safety Inspection Service. This hearing was preliminary in nature and was a fact-finding effort by the Committee. There have been several food safety bills introduced in both the House and Senate and the jurisdiction for various federal agencies charged with administering food safety is spread out among several authorizing committees in Congress. It is clear, however, that some type of food safety legislation will emerge this year.

### • **The Battle in Congress over Climate Change and Health Care Legislation**

An interesting battle is shaping up on both these issues and the first volleys were fired this week. Given the interest in both the Obama Administration and the leadership in Congress, in passing a Cap and Trade provision as well as major Health Care legislation this year, two views are emerging on how to achieve this. The Administration and the Democratic leadership in Congress would like to include Climate Change legislation and their Health Care Bill in the Budget Reconciliation Bill that will be considered by Congress in the weeks ahead. The reason for this is that passage of a Budget Reconciliation Bill does not require a super-majority vote in the Senate (60 votes) but merely a majority (51 votes). The Republicans are saying "no dice" to this and they are getting support from some Democrats. In fact the Senate voted this week to require that any Cap and Trade legislation on carbon emissions require at least 60 votes to be considered. This battle of legislative strategy will continue.

- **An Innovative Idea in Massachusetts**

Last summer the Governor of Massachusetts signed into law a dairy bill that would establish a tax credit for dairy producers in the Bay State. The law is now in the process of having regulations prepared that would implement the tax credit. Dairy producers have been assured that the tax credit will be available for 2008 taxes. The intention of the tax credit is to provide an additional safety net to producers in the Commonwealth and it is estimated that the tax credit could provide \$1.319 per hundredweight of milk produced. The regulatory review process in Massachusetts requires public hearings and they are scheduled to start soon. This concept of a tax credit to dairy producers follows up on a similar approach that was started in the state of South Carolina.

- **And Maine Dairy Producers Fight for their Three-Tier Dairy Stabilization Program**

In these days of low milk prices and reduced budgets at the state level dairy producers have to push hard to maintain funding levels for dairy pricing programs. Maine has a very good one that was started in 2004. Target prices are set for small, medium and large farmers when federal milk prices fall below the cost of production. However there is a state budget short-fall of \$4-6 million needed to maintain the program in 2009. Dairy producers are trying to work with state officials and legislators to resolve the budget short-fall.