

Plenty to ponder in troubling times

THE upshot of all the economic calamity still moving through the system may be a return to more conservative times.

Easy credit, which was the norm leading up to the collapse, might be a thing of the past. It may be that the big banks who received a bailout are just too big to risk failure. The same could be said of agriculture. Policies are in place for agriculture for good reason.

But a return to more grounded fiscal practices may be in order.

The future is likely, however, to be one where more onus is placed on the producers to show rather than tell. That's the word from at least one economist from Purdue University and one that bears repeating.

"At a minimum, producers are going to have to do a better job of showing their lender what kind of profitability

Cut & Dried

they've had and what kind of income they're generating," says Michael Boehlje, a Purdue ag economist.

That may require more work on the part of the producer. You will likely have to provide more detail on the inventory side of the balance sheet and a reckoning of the types of risk-management strategies you've got in place to market your crop, in addition to what production costs will look like for the year.

All of this requires additional and possibly projection work. Bankers may not require projecting cash flow, but some sort of additional evidence may be needed for loans, Boehlje points out.

"My sense is we already have seen some indication that lenders are being more conservative in their financing of land purchases," he says. "They are worried about land prices. They might not be willing to finance 80% of the land purchase. They may only want to finance 50% or 60% of the land purchase." So if you want to make that purchase, you're probably going to have to come up with more cash out of your own pocket.

The environment we're in may suggest less aggressive lending practices; increased restrictions or covenants at loan signing; and modestly higher interest rates. It will require producers to use income tax strategies that will help lower the tax burden.

The Purdue economist says, "A lot of farmers report their income on a Schedule F tax return, and they are able to use the rules of the Schedule F to

lower their tax burden by delaying sales and prepaying expenses. What that does is pull their taxable income down."

For growers who are having cash-flow problems and find themselves needing to liquidate assets or inventory, it could mean an increase in taxable income. "It's a technical issue," Boehlje says, "but the tax basis for all raised grain and livestock is zero, so every dollar of sale of that inventory is ordinary taxable income."

Points to consider as the markets work themselves out.



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Time to coordinate custom harvest



The Ford Report

By STEVE FORD

COTTON acreage has declined significantly since 2006, and it appears that more cuts in acreage are in store for 2009.

U.S. acreage declined 38% in two years. Greater reductions were seen in individual regions. There was a 42% reduction in the Southeast and a 55% reduction in the Delta. Mississippi cotton acres fell 70%, while Alabama and the Carolinas fell more than 50%. If current price relationships among grains and cotton hold through planting, there will be further cuts in 2009.

Still a fit for cotton

One can't fault producers for making rational economic decisions regarding what is best for their farms. However, the decline in cotton acres affects many other businesses, as well. Cotton requires more purchased inputs and hired labor than other crops, and these greater expenditures on cotton create greater economic activity in local economies than expenditures on grain.

Small gins are closing across the Cotton Belt. Others are teetering at unprofitable production levels. Closing these gins will eliminate much economic activity in local communities. The local processing of cotton and associated warehouse and seed activity generate more local dollars than the transportation of grain out of the area to an end use elsewhere.

There is an agronomic and economic fit for cotton on the farm, however. Cotton provides rotational benefits and spreads machinery and labor requirements through the season, better utilizing both inputs. But a deterrent

to continued cotton production is the cost to harvest small acreages. A producer cannot afford to own equipment sized for 1,200 acres on just 300 acres of cotton. The new onboard module pickers are even more expensive and require more acres to be economical.

The solution to encourage continued cotton production even on small acreages is custom harvest, but good custom pickers are difficult to find. Additionally, custom pickers would require enough acres in a general area to justify travel to a location. We have hired a custom picker for several years now who starts in South Texas in July, then travels to Alabama, and then picks again in north

Texas. This schedule allows him to pick five times as many acres as we would in a season, spreading his costs over those acres. Essentially, he can pick more cheaply than we can.

There is a need for some level of coordination among producers to find and share custom picking. The coordination needs to be both local and regional. Few producers have the ability to find and schedule a custom picker across the Cotton Belt through the entire picking season. Instead, because gins will be the primary beneficiaries of additional cotton production, it makes sense for gins to network and coordinate custom picking as a service to their customers.

The National Cotton Council would have the ability and contacts to coordinate this effort.

Facilitating custom harvest for small (or large) producers would have several positive outcomes. Cotton would stay in the crop mix on individual farms. More cotton acres would keep gins and rural economies economically viable. A custom harvest industry would develop, providing additional economic activity. Finally, because custom harvesters would pick many more acres than individual producers, they could better afford the next generation of onboard module pickers, further reducing costs of cotton harvest. We should give it a try.

Ford, who farms in north Alabama, earned his doctorate in agricultural and applied economics from the University of Minnesota.

Help our youth help the beef industry

Guest Editorial

By HAROLD HARPSTER

AMERICA is facing what's expected to be a long "belt-tightening" period. But amid the doom and gloom, we must stay focused on investments that have served us well in the past and will continue to do so in the future.

The beef industry's self-help program — the checkoff — has shown tremendous investment benefits to beef promotion. But recently, fiscal year 2009 funding for the highly successful National Beef Ambassador program was nearly half. Operating funds for young people to travel and promote beef were eliminated.

Established as part of the 1985 Farm Bill, the Beef Checkoff program assesses \$1 per head on the sale of live domestic and imported cattle, plus comparable assessments on imported beef and beef products. It's administered by the Cattlemen's Beef

Promotion and Research Board.

State beef councils collect the monies and retain 50 cents for in-state programs. The rest is remitted to the Beef Board, which contracts with non-profit cattle organizations to implement demand-building national and international programs. That's where the American National Cattlemen group comes into play, as overseer of the Beef Ambassador program.

Today's checkoff funds aren't sufficient to meet all critical needs. Inflation is partially at fault for sure.

In October, a very lean 2009 Beef Board budget was approved, to spend \$42 million on 35 national checkoff programs. Deep cuts were required. Hardest hit were producer communications, including the Beefmobile, youth education and the Beef Ambassador program.

American National Cattlemen member and spokesperson for animal ag Kelli Loos of Litchfield, Neb., notes: "The National Beef Ambassadors have worked in urban areas for the past 19 years. They've convinced literally millions of soccer moms and college coeds that beef

is a vital and important part of a healthy diet. In 2007, alone, working on a bare-bones budget of just over \$100,000, this program made over 115,000 direct consumer contacts, 24,000 student interactions and over 20 million media impressions using print, television and Web-based communications."

Despite the program's success and longevity, American National Cattlemen was denied the use of checkoff funds for the 2009 fiscal year.

"American National Cattlemen is reaching out to the U.S. beef producers," notes Loos, "that benefit most from the work of this energetic, enthusiastic bunch of beef lovers."

"You already send \$1 per head to the Cattlemen's Beef Board every time you sell an animal. We are requesting just \$1 be sent to the American National Cattlemen Foundation, P.O. Box 3881 Englewood, CO 80155, or donate on the Web at www.ancw.org. Of course, larger donations won't be turned away."

Harpster is a Penn State animal scientist.