



# California Association of Wheat Growers

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## Newsletter

February 25, 2011

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### **WE NEED YOUR HELP! PLEASE TAKE OUR REGULATORY SURVEY!**

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The California Grain and Feed Association is part of a coalition of ag and business groups gathering data on regulatory challenges within the state. As you know, California is suffering high unemployment and a large state budget deficit. Your decisions to hire employees and make new investments in California will determine how soon we return to prosperity and balanced budgets.

We would like to ask for your help in our efforts by taking a short survey:

<http://www.calrecovery.biz/survey/>

The information collected through the survey will help us communicate our concerns to state leaders so that they understand how California's regulatory environment impacts your profitability, investments, and hiring plans.

We appreciate your participation!

## **Bill Introduction Deadline Passes for Legislature**

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Friday February 18<sup>th</sup> was the deadline for bill introduction for the California Legislature. The Assembly introduced 1392 regular session and 88 special session bills for a total of 1460 Assembly Bills. Senators introduced 934 regular session bills and 37 special session bills for a total of 971 Senate bills. While the 2400 bills address a host of issues, the budget is the single most common topic for legislation followed by regulatory reform, labor issues and renewable energy. There are several bills that will directly impact agriculture in a negative way including raising and indexing the minimum wage to implementing "Card Check" for ag employee unionization. Below are just a few of the highlighted bills impacting ag:

AB 10 (Alejo) - Raises Minimum wage to \$8.50 an hour and indexes it to the Consumer Price Index.

AB 26 (Donnelly) - Creates Liability on employers for hiring illegal aliens.

AB 523 (Valadao) - Declares the intent of the Legislature to enact legislation to eliminate all subsidies in California for ethanol.

SB 34 (Simitian) - establishes the intent of the Legislature to establish water fees on all water appropriators to fund water infrastructure.

SB 104 (Steinberg) - Card Check for agricultural employees. This bill allows for a union to be recognized upon submission of a petition containing majority signatures of the employees of any employer. This process would replace the secret ballot elections.

SB 353 (Blakeslee) - Requires economic peer review of all regulations that may impact business in California.

There are many other bills that impact various sectors of agriculture, labor and the economy. We will continue to update readers as key legislation approaches specific committees in the coming weeks and months.

## **Legislature Acts on First \$15 Billion in Budget Reductions for CDFA**

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The budget committees of both houses of the Legislature moved to eliminate \$15 million of the general fund budget allocation to the California Department of Food and Agriculture (CDFA). While these allocations were a general reduction of \$15 million to CDFA, Secretary Ross delivered a plan to the budget committees and the Department of Finance outlining the cuts, fee increases and program reductions they will implement to address the reductions proposed by the Governor and adopted by the Legislature. Secretary Ross worked closely with stakeholders including your representatives Chris Zanobini and Debbie Murdock to strategically identify programs where reductions could be made while minimizing the impact on duties of the department as well as where programs could increase fees in order to maintain essential services. A brief outline of the budget solutions include:

Division of Plant Health and Pest Prevention - Cuts of \$7.3 million, increase in fees of \$2.7 million.  
Pierce's Disease Control Program - Industry fees will backfill the \$1.117 million reduction  
Division of Animal Health and Food Safety - \$1.038 million in cuts, with approximately \$500 thousand in fees proposed.  
Division of Measurement Standards - \$1.62 million in reduction, approximately \$800 thousand in fees backfill program.  
General Administrative Services - \$1.083 million reduction.

## **U.N. Food Agency Issues Warning on China Drought**

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HONG KONG - The United Nations' food agency issued an alert on Tuesday warning that a severe drought was threatening the wheat crop in China, the world's largest wheat producer, and resulting in shortages of drinking water for people and livestock.

Farmers drew water to irrigate their arid wheat fields in China's Shandong province on Tuesday. China has been essentially self-sufficient in grain for decades, for national security reasons. Any move by China to import large quantities of food in response to the drought could drive international prices even higher than the record levels recently reached. "China's grain situation is critical to the rest of the world - if they are forced to go out on the market to procure adequate supplies for their population, it could send huge shock waves through the world's grain markets," said Robert S. Zeigler, the director general of the International Rice Research Institute in Los Baños, in the Philippines. The state-run news media in China warned Monday that the country's major agricultural regions were facing their worst drought in 60 years. On Tuesday the state news agency Xinhua said that Shandong Province, a cornerstone of Chinese grain production, was bracing for its worst drought in 200 years unless substantial precipitation came by the end of this month. World wheat prices are already surging, and they have been widely cited as one reason for protests in Egypt and elsewhere in the Arab world. A separate United Nations report last week said global food export prices had reached record levels in January. The impact of China's drought on global food prices and supplies could create serious problems for less affluent countries that rely on imported food. With \$2.85 trillion in foreign exchange reserves, nearly three times that of Japan, the country with the second-largest reserves, China has ample buying power to prevent any serious food shortages. "They can buy whatever they need to buy, and they can outbid anyone," Mr. Zeigler said. China's self-sufficiency in grain prevented world food prices from moving even higher when they spiked three years ago, he said.

Source: New York Times

## **Record Trade, Higher Income, Corn Markets Stay Tight: USDA's Glauber**

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While USDA sees record U.S. exports and record cash and net farm income in 2011, "sharp increases" in crop prices are "generating a range of concerns, USDA's Chief Economist Joe Glauber told the USDA Agricultural Outlook Forum here yesterday. Glauber said high prices are going to push plantings higher, with corn and soybean acres expected to be higher than last year, with wheat dropping off due to higher abandonments in the southern plains.

**Corn:** Corn plantings are expected to increase about 4%, but the market is expected to remain tight. Glauber said with assumed planted acreage of about 84.9 million acres and a trend yield of 161.7 bushels, corn production for 2011-2012 will hit a record 13.73 billion bushels, and because of this year's low stocks, total supply will only hit 14.425 billion bushels. At the same time, USDA projects total corn use at 13.56 billion bushels, because higher exports and ethanol use will offset any reduction in feed use. Feed use is going to drop because of limited expansion of pork and poultry production, Glauber said, adding beef feeding is also expected to decline. Exports will hit about 2 billion bushels because global supplies of feed quality wheat will increase corn demand. Ethanol use is expected to hit more than 13.5 billion gallons on an annualized basis, and "this far exceeds" levels implied by the federal Renewable Fuel Standard (RFS) mandate of 12.5 billion gallons in 2011. Corn for ethanol use is expected to grow to 5 billion bushels in 2011-2012, 37% of total corn use and 36% of total corn production. Stocks-to-use levels will sit at 6.4%, with corn prices forecast at record \$5.60 per bushel, 20 cents higher than the mid-point of the 2010-2011 forecast.

**Wheat:** The U.S. wheat market is expected to stay tight, with total production expected to drop to 2.08 billion bushels in 2011-2012, 6% lower than last year. Glauber said higher abandonments in the southern plains translate into lower harvested acreage, comparable to last year's 47.5 million acres and a trend yield of about 44 bushels per acre. Total supplies are expected to drop 9% from last year to about 3 billion bushels. World wheat production is expected to rebound in 2011-2012, and U.S. wheat exports are expected to drop 12%, down to 1.15 billion bushels from this year's 1.3 billion bushels. With domestic food and feed use expected to remain at last year's level, end stocks will fall to 663 million bushels, with a stocks-to-use ratio of 28.3%, the lowest since 2007-2008. Average season farm price is forecast at \$7.50 a bushel.

**Soybeans:** Soybeans will also be in a tight situation, with planted acres forecast at 78 million, mainly due to strong prices and double cropping. Harvested acres at 77.1 million translate to total 2011-2012 production of 3.345 billion bushels. Total supplies are forecast at 3.5 billion bushels, 5 million higher than last year. Domestic use will likely hit about 1.76 billion bushels, about the same as a year ago, and exports are forecast at 1.575 billion bushels, down from last year but the second highest on record. Glauber said one of every four soybean rows planted in the U.S. is exported to China, a trend that's expected to continue in 2011-2012. Total use is expected to be 3.34 billion bushels, down about 15 million from last year. Ending stocks will increase 20 million bushels to about 150 million, the highest level since 2007-2008. Stocks-to-use ratio is estimated to be below 5%, and season average price is forecast at \$13 per bushel. Soybean meal demand is expected to remain flat due to "stable" meat production, and should price around \$360 a short ton, "keeping feed costs high and margins narrow" for producers. With reinstatement of the federal \$1-per-gallon blenders' credit for soy-based biodiesel, production is expected to increase.

## **Wheat Prices Are Outstanding - Corn and Soybean Digest**

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Larry Stalcup  
Feb. 23, 2011 5:04pm

The sign on a bank in Western Oklahoma flashed "Wheat - \$8.39" last weekend - a price not seen too often in or around the town of Watonga. And as spring-like temperatures in the 70s started

bringing dormant wheat to life following a foot of snow only a week earlier, many growers were at a crossroads.

They pondered whether to move stocker cattle off wheat in early March to promote maximum grain development, or graze them out and cash in on high cattle prices. Grazing those steers to 750 lbs. would likely garner over \$1,000 at the sale, based off their anticipated \$130/cwt. price. And some good wheat yields could still be achieved. But pulling cattle off and pushing for those premium yields and powerful prices could help growers make up for those harvesttime 2010 sales at near \$4/bu. before the market surged to \$7 and beyond.

It's a decision many growers make every year, but rarely are prices for wheat, other grains, cattle, hogs, cotton and just about every other commodity so high all at the same time. Wheat prices have remained strong after no changes were made earlier this month in the overall U.S. wheat supply-demand balance sheet for marketing year (MY) 2011-2012. That was despite some offsetting export and stocks changes were made in the supply-demand balance sheets for U.S. wheat classes, say economists at Kansas State University.

Ending stocks and ending stocks-to-use of U.S. wheat for MY 2010-2011 were projected to be 818 million bushels. The U.S. stocks-to-use projection is markedly higher than the 60-year-low in MY 2007-2008 of 13%. Projected U.S. hard red winter wheat and white wheat exports for MY 2010/2011 were raised 10 million bushels, while hard red spring wheat exports were reduced 20 million.

USDA projects wheat cash prices in the U.S. to be in the \$5.60-5.80 range for MY 2010-2011, up 10¢ on the lower end. So that \$8.39 on the Watonga, OK, bank sign reads pretty well. Other than deciding when to pull stockers off wheat pasture, growers must also decide when to make preharvest sales.

Melvin Brees, economist at the University of Missouri Food and Agriculture Policy Research Institute (FAPRI), regularly advises growers to monitor their profit potential for making sales when grain prices are strong. He points out that like with wheat, new-crop cash bids at most Missouri (and Midwestern) locations are also well above these early 2011-2012 average price projections for corn and soybeans.

"This suggests that, although prices seem headed higher, there is downside price risk as well," says Brees. "Many other factors could contribute to price risk. These include energy prices, dollar value, economic conditions, policy decisions, etc. along with foreign political unrest, livestock disease outbreaks and other disasters to name a few. This creates a complex environment for managing price risk."

[cornandsoybeandigest.com/issues/wheat-prices-are-outstanding](http://cornandsoybeandigest.com/issues/wheat-prices-are-outstanding)

## **House Spending Bill Carries Axe for Several EPA, USDA Programs**

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When the House finally approved its seven-month spending bill for FY2011 at 4:30 a.m. last Saturday, included in the package were several amendments to axe funding for controversial federal programs, including funding for the EPA greenhouse gas rulemaking and the agency's recent decision to allow gasoline/ethanol blends at 15%. Overall, USDA's budget took a disproportionate hit in across-the-board cuts, seeing its spending slashed about 22.5% overall for the remainder of FY2011, a move challenged by nearly 35 national agriculture groups which pointed out other federal departments were taking an average 10% cut. The GOP-controlled House wound up cutting about \$61 billion overall from current spending, about \$100 million more than the White House FY2011 budget recommendation, bringing overall spending to just slightly

more than FY2008 levels.

While this mollified freshman conservatives, several amendments likely received "aye" votes from members who know the Senate will not adopt the House package in its entirety. Several approved amendments would withhold funding for EPA projects, including an amendment that kills off funding for greenhouse gas emissions regulation, another from Rep. Kristi Noem (R, SD) that blocks funds for EPA's air particulate rulemaking; another by Rep. Mike Pompeo (R, KS) killing off \$8.4 million in additional funding for EPA's greenhouse gas registry; an amendment blocking funds for EPA's allowed increase in ethanol/gasoline blends to 15% by Rep. John Sullivan (R, OK); an amendment by Rep. Jeff Flake (R, AZ) to stop funding for ethanol infrastructure spending on blender pumps and pipelines; an amendment by Rep. David McKinley (R, WVA) to block EPA from retroactively withdrawing clean water permits, and an amendment by former House Agriculture Committee Chair Bob Goodlatte (R, VA) that withholds funds from EPA to complete its Chesapeake Bay watershed runoff program. Rep. Blaine Luetkemeyer (R, MO) successfully killed off funding for a Missouri River project study.

Defeated amendments included one by Rep. Ron Kind (D, WI) that sought to kill off a \$150-million payment to Brazil's Cotton Institute as part of a World Trade Organization (WTO) decision on U.S. cotton supports, and a move by Rep. Earl Blumenauer (D, OR) to cap federal farm program payments at \$250,000 per person.

## **Spotlight on Spending Moves to Senate; Talk of Federal Shutdown Spurs Action**

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The focus on FY2011 spending will be on the Senate when it returns next week from the President's Day recess. It's likely the recently approved House package will be dismantled at least in part and rebuilt, but ultimately lacking several of the amendments to cut federal programs approved in the House. But timing is everything, and the slow-moving Senate is unlikely to approve its package prior to March 4, the day the current continuing resolution that keeps the government running expires. Politically, neither party wants to be blamed for shutting down the federal government as happened in 1995 and 1996, but House Speaker John Boehner (R, OH) said this week his chamber will not approve another short-term continuing resolution without at least some spending cuts.

Boehner said his party will offer a two-week stopgap funding measure that includes at least another \$4 billion in cuts from current spending. Senate Majority Leader Harry Reid (D, NV) asked the Senate Appropriations Committee to draft a 30-day continuing resolution, calling it "clean" legislation that simply funds the government at current levels for the next month, which Reid pointed out is \$41 billion less than recommended in the President's FY2011 budget. Senate Minority Leader Mitch McConnell (R, KY) rejected Reid's move, but Reid countered it will allow for negotiation of a "common-sense, long-term solution." It's also known that Senate Democrat leadership is looking at President Obama's FY2012 budget recommendation to identify programs that can be cut or eliminated as part of the FY2011 spending bill, but are hesitant to tie itself to any arbitrary spending cut number as the House GOP did when it embraced the \$100-billion target.

## **Stabenow Stepping into Spotlight as Senate Ag Panel Chair**

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Seeking to burnish her image as a serious player in the federal farm policy game, Senate Agriculture Committee Chair Debbie Stabenow (D, MI) is publicly making her views known, calling for full committee interaction with USDA and EPA over agriculture's concerns with the agency's regulatory overreach as she keynoted USDA's annual Outlook Forum this week. Stabenow said her committee is "opening communications" with EPA, adding, "We are in the process of putting together a working group with USDA and EPA on these issues so that we can start having these discussions to provide certainty and clarity for agriculture." She stopped short of providing a timetable on this action, but said committee ranking member Sen. Pat Roberts (R, KS) was part of a joint effort.

On the upcoming Farm Bill debate, she told the Outlook Forum audience she wants a 2012 bill that "works for production agriculture," but also reminded the audience of current budget pressures, saying she'd bring all interests together to evaluate what works and doesn't work in the current economy. She talked about an income safety net and a new approach to risk management tools, reminding many in the audience of statements made by former House Agriculture Committee Chair Collin Peterson (D, MN) in his call for examining how existing crop insurance programs can be modified to manage whole farm risk.

## **USDA Going after Greenhouse Gas Emissions; Despite EPA Controversy**

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Apparently confident it can tackle the issue of greenhouse gas emissions more effectively than EPA and pretending the House's antipathy to the EPA action isn't there, USDA this week announced it's launching a three-year project to determine how much greenhouse gas and carbon sequestration is attributable to farming, ranching and forestry. In its *Federal Register* notice, USDA said it's preparing technical guidelines that outline "science-based methods to measure the carbon benefits from conservation and land management activities," eventually developing guidelines "that are verifiable and that demonstrate scientific rigor, transparency, scalability and usability." The USDA effort will include consultations with federal and state governments, farm and ranch groups, "as well as other interested parties," and will not duplicate "other federal agency" actions. Ultimately, USDA said the effort will allow farmers and ranchers to have a "user-friendly tool for GHG quantification, that will assist farmers, ranchers and forest owners in improving management practices and identifying actions to reduce greenhouse gas emissions and increase carbon sequestration." The full USDA plan can be found by going to [www.usda.gov](http://www.usda.gov) and following the appropriate links. Comments are due by April 19.

## **EPA to Hold Regulatory Review Public Meeting**

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To ensure its regulations - on the books or pending - are not "outmoded, ineffective, insufficient or excessively burdensome," EPA announced this week it will hold a March 14 public meeting in Washington, DC, designed to inform the agency's internal process of regulatory review. The effort is part of President Obama's executive order to federal agencies to review all regulations to determine if any of them are "job killers." While independent agencies, including EPA, are not required to participate, the agency says the March public meeting will allow the public to "provide feedback on specific issues, impacts or programs." The goal is to develop a review plan that would

be released to the public in May. Meeting details can be found at [www.epa.gov/improvingregulations](http://www.epa.gov/improvingregulations).

## **EPA Eases Final Rule on Boiler MACT Standard**

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EPA, in a move some say is designed to bolster the agency's cost-awareness image, issued final boiler/incinerator control regulations this week that are slightly less heavy handed than the original proposals, but which critics still say will negatively impact agriculture processing, particularly large operations. The boiler/incinerator Maximum Achievable Control Technology (MACT) rule is designed to cut toxic emissions from existing, new and planned industrial and manufacturing plant boiler and incinerator operations and requires existing operations which exceed EPA limits to be upgraded or replaced. The rule goes into effect in 2014. A bipartisan group of Senators signaled this week they're willing to legislatively rework the EPA rule to make it more user friendly, saying the agency was arbitrarily forced to put out the new regulation by the courts. Sen. Herb Kohl (D, WI), chair of the Senate Appropriations Committee's subcommittee on agriculture and FDA, called on the agency to "clarify" what the new rule means and how much it will cost, saying he's concerned the requirement for new technology could cost jobs in his state. Industry says the rules are still too stringent and inflexible. Agriculture Secretary Tom Vilsack said the new rule is "a balanced rule to ensure Americans will have cleaner air, while also retaining important energy choices such as biomass that provide heat and power to rural hospitals and schools. We will continue to work with EPA to ensure that affected owners have the information they need to comply with the rule when it takes effect." EPA received nearly 5,000 public comments on its original proposed rule which is estimated to affect at least 200,000 facilities across the county.