Country Report – IFMA – July 4th 2013 – David Hughes

ARGENTINA

Political/Market Issues:

- Elections will be held in October, governments popularity has dropped to close to 35% of approval
- Government is trying to have political control over the judicial system, it is not good!
- As from last year the government has not allowed citizens to purchase foreign currency, so a “black” or “blue” market as we call it has been created. After reaching an 80% differential between official and “blue” market quotations currently the difference is close to 48% difference (8 $AR per USD and 5,4 $AR/USD)
- GDP growth has dropped to just above 0 (depending on economist I t goes from 0 to 2.5%)
- No jobs are being created, and the only sector that is taking in employees is the public sector
- We are expecting another crisis, we do not know when nor the size of it!
- The government has passed a law allowing for money to be declared without telling where it came from. So we expect a few USD to be injected in the economy.
- Government intervention in grain markets has led to lowest acreage in wheat to be planted in last 110 years (2012 growing season) Expectations for current wheat acreage: 8% increase (from 3.5 million hectares to 3.8 million hectares)
- Currently wheat prices are close to double CBOT or Kansas values, but dropping due to government threats
- Corn crop looking good, much uncertainty on next crop – will acreage grow or not
- Soybeans may look good
- Government intervention in biodiesel market has led to closures of biodiesel plants
- With an inflation of aprox 25% p.a. last few years, and cattle prices much the same, it seems cattle herds have stopped growing and will enter a liquidation phase soon
- The export taxes are still at 35% for soybeans, 20% for corn and 23% for wheat. In the last two grains there are restrictions to exports

Weather/Production

- We had a strange growing season, starting very wet and then extremely dry during January, ending in wet!
- Large parts of the agriculture region (not the best growing areas) have gone through a tough drought
- So far planting conditions for winter crops look good, and we are expecting decent weather for summer crops
- Close to 50% of our total costs are quoted in USD and the other 50% in local currency. With an inflation of approx. 25% p.a. and a devaluation of close to 17% p.a. the squeeze is being felt. Farm numbers do not look good. Cost of transport has increased and is an important part of costs.

- If the export tax is taken into account the tax supported by farmers is close to 75% (between 73 and 82% depending on how it is calculated)
- Farm numbers are so tight leased land rates have fallen 15/20 percent on good farms, 10-15% on very good farms and the not so good farms are struggling to get leased.
- The Paraná river is flooding, so many cattle will leave the islands and be sold, together with drought in some cattle regions will help liquidation of cattle numbers.
- The latest technology being applied is pushing forward the planting date of corn 45/60 days, with little or no effect on yield, and in some cases a very positive effect!

Other issues affecting Farming

- The state legislators are looking at regulating distance of ground chemical application. The discussion is between leaving a buffer zone of 100 or 1,500 mts from the closest house.
- Cost of capital for operating capital is close to 15% p.a. if you get a state sponsored loan, otherwise it is closer to 24% p.a.
- There are strict restrictions to imports, so many imported spare parts are difficult to get, and so is imported agricultural machinery. So far we are surviving!

Country Report for Australia

Rob Napier

- Australia is living up to its reputation as a 'land of droughts and flooding rains'. We have had
    - a very dry last wheat season in Western Australia
    - floods in Queensland last year (on top of very serious floods in earlier years)
    - a current drought in Northern Queensland after a limited monsoon season
- Winter conditions in southern Australia are quite favourable with a good start to the cropping season
- Commodity prices are generally not very strong. The beef cattle industry is faring worst due to the drought in the north. One enterprising large scale farmer has cheaply bought 18000 female cattle in Central Queensland and is droving them in nine mobs 1500 kilometres to his properties in Southern Australia. For every loser there is a winner!
- The value of the Australian dollar has been at historically high levels but recently has dropped dramatically. This should aid export industries such as agriculture.
- Australian-owned food processing and grain marketing organisations are steadily falling into the hands of foreign owners
- Likewise, there continues to be strong investment in large-scale farms by foreign buyers
- Participation in agricultural and farm management education remains of concern with low student numbers at agricultural colleges (some have closed) and universities. There is a serious skills gap in agriculture which needs to be rectified if Australia is to achieve the potential for food and fibre production.
- A plan has been developed for water use in the Murray Darling Basin which covers inland areas of Queensland, New South Wales, Victoria and South Australia. The Federal Government has bought back many irrigation licences to facilitate environmental flows
- Animal welfare activists continue to put pressure on intensive livestock producers and the live sheep and cattle export trade. A ban on the export of live cattle to Indonesia two years ago has had serious ramifications for the Northern Australia beef cattle industry and has contributed to big write downs in property values and the current low cattle prices
- The Australian economy is strongly linked to the Chinese economy. We have had a mining boom based on Chinese demand. The boom is now over so the Australian economy will face some challenges in the years ahead. A particular challenge is reduced competitive advantage due to Australia's high labour costs.

Canadian Report to the International Farm Management Association

Prepared by Terry Betker, P.Ag., CAC, CMC

July 2013

Overview

- Primary agriculture is relatively healthy at this time. Farmers are generally optimistic about the industry. This is a positive change from the period prior to 2007.
- Some sectors (beef, swine and some fruits) continue to struggle while others (grain and oilseeds) are doing well, relatively speaking.
    - Issues with struggling sectors are with feed prices and market access
- All sectors are dealing with government/environmental regulation but most significantly, the livestock sectors are affected.
- There is some concern about the extent of financial leverage in the industry and the impact a modest increase in interest rates could have on the industry in general, and on farms and farm families specifically.
- Some of Canada's primary production falls within supply management. There is an ongoing debate, both domestically and internationally, about the costs and benefits of supply management.
- The federal government took away the single desk marketing authority from the Canadian Wheat Board (CWB) in 2012. This has impacted on farmers who grow wheat and malt barley as they now must determine how they are going to market these products. The CWB is functioning within an open market system, providing an option for farmers.
- Succession planning remains a very significant issue and concern.
- Young farmer involvement is very positive.
- Capital investment – especially land and supply-managed quota – is increasingly an area of concern.
    - The availability of land for purchase and rent is a concern. Competition is great and prices have increased and continue to increase.
    - Investment companies, representing private investors and fund managers, are actively looking to purchase land and rent it back to farmers. There are restrictions in Canada, designed to limit foreign ownership of farmland in most areas of Canada, but investment activity remains.

Farm Management

- Canada's Growing Forward 2 program commenced on April 1, 2013. It is a national, five year program with agreements with individual provinces and regions. The program focuses on Innovation, Competitiveness and Marketing.

  - Programs vary by province, but there are farm management components to Growing Forward 2.
- There is some concern that farmers, in general, are not more aggressively pursuing advancements in farm management. Farmers continue to focus most of their development in production related efforts.
- Non-traditional managerial development is being promoted; such as leadership, relationship, human resource management and safety.
- Programs for young farmers are popular.
- Farm Management Canada (formerly the Canadian Farm Business Management Council) is a strength and is actively working to develop innovative arrangements that will facilitate and encourage farm management.
- Farm Credit Canada actively promotes farm management through workshops and related training.
- University and college programs are popular for a couple of reasons:
  - Young people see farming as an opportunity and are returning to the farm
  - Young people see agriculture and food as an opportunity
- A personal concern is that farm management training is not keeping pace with the needs of today's more commercial-oriented farmers. Gaps in what training is available, what will be needed by farmers and what is being pursued by farmers exist and will become more of an issue.

Country Report Denmark – IFMA 19

Brian H. Jacobsen, Department of Food and Resource Economics (IFRO), University of Copenhagen, Denmark

Weather and price

The 2012 harvest was easy, with high yields and high prices. Harvest 2013 looks good now, with also fairly high prices. The forecast for 2013 is rather good 195 € per tonne of barley. Milk is currently sold at 0.38 cent/litre (4%), which is higher than for some time. The pork price is 1.49 € per kg which is also an increase in recent weeks.

Income

The income in the arable sector has increased and so to some extent in the pig sector, but the higher prices on grain and soya is a problem. The dairy farms seem to be trailing at the moment. The low income for a number of years has meant that many farms find it very difficult to borrow money for even viable investments as the equity is negative and the banks very reluctant to lend out money.

CAP reforms

Compared to the original proposal from the commission the Greening is much less and the element of flat rate for all areas has been reduced (following the Irish model). It is allowed to move more support to pillar II (rural development programs). Analyses show that the average farmer will lose around 2,000 € per farm from the CAP 2014-19 reform. The full time dairy farmer loses the most (around 6,000 € per year). The Dairy farmers would according to the original proposal loose around 23,000 € per farm so the changes is an improvement for them. The greening includes that three different crops has to be included in the crop rotation (farms over 30 ha). No crop should cover more than 75% of the area. The environmental set-a-side will probably include around 5% of the total area in rotation, but the creation of obligatory buffer strips in DK (3%) could be part of this.

Environmental regulation

Many Danish farmers think that the environmental regulation with respect to water quality, ammonia, biodiversity is too strict. The implementation of the Water Framework Directive has ended in many court cases as the government has been very specific about the measures required and where. The disputes are about maps and how much farmers should accept before it is no longer acceptable and they should demand that the state buy the land of them. Some farms have catch crops in 20% of the area and have lost 3% of the area to buffer strips.

Energy

An increase in the production of biogas is likely as 19 plants have received investment subsidy. It assumed that 20-30% of all animal slurry will go through a biogas plan by 2020.

COUNTRY REPORT – NEW ZEALAND

John Gardner – July 2013

1) In the autumn (March –May) there was a major drought said to be the worst for 70 years affecting all of the North Island & much of the South
Island including areas previously considered drought proof such as the West Coast of the South Island. Dairy output fell by 2% compared with the previous year. Although a relatively small decrease it had been expected that dairy output would be significantly greater than the previous year before the onset of the drought. Dairy prices rose in the autumn as buyers on GDT (the on line auction) saw reduced output from NZ. For both sheep & dairy farmers winter feed reserves had to be used ahead of time. Slaughterings of sheep & cattle jumped & poor feed for replacement stock means the drought impacts will extend beyond the current year
2) There has been a major boost to further investment in dairy processing capacity with proposals to spend well over $1b in new processing capacity. The new capacity plans come from the Co-operatives, existing Corporates, & new entrants including two Chinese firms.
3) In 2011/12 Sheep & beef farmers had a strong year in terms of profitability. However the processors lost substantial sums paying high prices for lambs but realising poor returns. In 2012/13 lamb prices have come back from about an average of $118 in 1011/12 to perhaps $80 in 2012/13.This together with the drought, the obvious success of the "Fonterra Model" has led to widespread demands for a new integrated model for the sheep beef sector. This will not be easily achieved. It took 7 years to put Fonterra together. In the sheep/beef processing sector there are 4 major players –two co-operatives, a foreign owned firm & the fourth being part of a privately owned firm with interests in dairy processing, fishing & vegetable processing. There are another 20 smaller privately owned companies. The 2 co-ops between them have about 53% of the lamb market & 39% share of the beef market. Pressure from the sheep/beef farmers for change is intense but due to the complexities in the processing/marketing sector I do not expect major changes in the near future.
4) There are major moves around water in particular plans to expand the area under irrigation. This involves water harvesting, storage & development of irrigation schemes. There are funding issues & all schemes must go through a consent process often facing strong opposition from environmental groups.
5) There has been strong growth in student numbers in agriculture & related areas at the two Universities teaching in these disciplines
6) There has been in the last two years a significant growth in nutrient modelling not only for dairy farms but also for dairy support, arable farms and finishing farms.
7) New Zealand exports a high proportion of its land based output. Returns to farmers/growers depend upon both world markets and the exchange rate. The NZ dollar has been strong because our "base Rate" currently is 2.5% much higher than in the US,EU or UK & consequently attracting money in to the country

Country Report from Nigeria July 2013

BY MRS. GRACE EVBUOMWAN

(COUNCIL MEMBER REPRESENTING WEST AND CENTRAL AFRICA)

NIGERIA COUNTRY REPORT

In 2011, the Federal Ministry of Agriculture and Natural Resources launched the Agricultural Transformation Action Plan (ATAP), 2011-2015, as an anchor for the Transformation Agenda of the Federal Government of the Federal Republic of Nigeria. The objectives of the plan are to facilitate the attainment of food security, diversify the economy, create more jobs, and generate foreign earnings. It is expected that additional 20million tonnes of food would be produced, while 3.5 million new jobs would be created in the agricultural sector over the four-year period. The key drivers of the plan include the reform of input supply and management, particularly fertilizer, marketing institutions, financing the agricultural value-chain, and creating an investor-friendly framework for agricultural investment.

Under the input supply management reform, government withdrew from direct participation in the purchase and distribution of fertilizers to farmers. The distribution of fertilizers and other agricultural inputs would be undertaken by the private sector to enhance efficiency. The policy would also improve farmers' access to the commodity as Government would pay 10% achievement fees to companies that meet supply targets. Government also intensified effort to ensure the rapid expansion of agro-dealer networks across the country.

The reform of the marketing institutions would support the establishment of marketing firms along agricultural value-chains by private sector institutions to coordinate market standards and promote export activities. In addition, agricultural commodity exchanges would be established to improve market access and stabilize prices.

In order to strengthen the financing of the agricultural value-chain, the Nigerian Incentive-based Risk Sharing System for Agricultural Lending (NIRSAL), initiated in 2010 was formally launched in 2011. The scheme would focus on the agricultural value-chain and provide strong incentives for banks to lend to agriculture. The sum of US$500million has been earmarked for the scheme and would be administered by a non-bank financial institution.

The agricultural investment component of the plan seeks to attract private investors into areas of high food production to set up food processing plants, reduce current high levels of post-harvest losses, and link farmers in clusters to food processing plants. The plan also seeks to establish more staple crop processing zones. The zones will offer fiscal incentives, such as tax breaks on import of agricultural processing equipment; and tax holidays for food processors and supportive infrastructure, such as power, roads, logistics, storage facilities and cargo airports. Six priority crops, namely, rice, cassava, sorghum, cotton, tomato and maize in which Nigeria has competitive advantage, as well as livestock and aquaculture, have been identified and accorded priority with a view to increasing productivity and output.

The Nigerian Agricultural Transformation Action Plan has attracted significant financial support from the international donor community since it was launched in 2011. These support include: the World Bank (US$500million), International Fund for Agricultural Development (US$80million to facilitate the inclusion of 40 percent cassava flour in bread initiative and US$500,000 as grant to support the agricultural value-chain programme), China EXIM Bank (US$1.5billion), Ford Foundation (US$750,000) and Department of International Development (£130,000).

The Federal Government has sustained efforts at creating an investment friendly environment in the agricultural sector through fiscal and trade policies. To this end, machineries and specified equipment for the sector have been exempted from duty payments. Furthermore, the ban on the importation of cassava flour has become effective, while tariff on imported rice was raised by 9.0 percent to protect domestic growers. As a further incentive to encourage the substitution of high quality cassava flour for wheat flour in bread, a corporate tax rebate of 12.0 percent was instituted for bakers on attainment of 40.0percent cassava blend for 18 months.

To ensure that farmers obtained the necessary agricultural input to raise productivity and profitability, seventeen (17) major suppliers were selected to feed about 2,500 agro-dealers spread across the country. Furthermore, a total of 1,506.3 tonnes of improved cotton seed were distributed through nine (9) ginneries in the cotton-growing states of Katsina, Kano, Jigawa, Kebbi, Zamfara, Sokoto and Kaduna states. The use of integrated mills as channels for seed distribution to rice farmer clusters around mills have commenced. About 385.5 tonnes of improved variety of rice seeds were deposited with twelve (12) large mills in Ebonyi, Taraba, Benue, Kano, Enugu, Cross River, Nasarawa, Jigawa, Bauchi and Zamfara states for free distribution to out growers. Also, eight (8) new high yielding and fast maturing cocoa hybrids and four (4) high yielding sorghum varieties were distributed to revolutionize the production of these commodities. Furthermore, a national farmers' census aimed at producing a comprehensive database of farmers in the country is being carried, and a total of 4,500,000 farmers have been registered thus far.

To promote the processing segment of the agricultural value-chain, the government facilitated the procurement and installation of eighteen (18) large scale industrial processing plants with capacity of 1.3 million tonnes of high quality cassava flour. Government also supported the establishment of three (3) new rice mills in Ebonyi, Niger and Kebbi states with a combined capacity of 90,000 tonnes of milled rice. Under the marketing component, government facilitated a two-year contract for the supply of 1.1 million tonnes of cassava chips with export revenues of US$136.0million annually for Nigeria. In addition, government committed about N170million to produce about 800,000 50kg capacity cotton cloth bags for distribution to farmers through nine (9) ginneries.

Growth in agricultural output in Nigeria has been on the upward trend. The several intervention measures of the government under the ATAP has boosted agricultural production to the extent that the Nigerian Minister for Agriculture was recently given an award in Rome by the Food and Agricultural Organization of the United Nations (FAO) and Nigeria has been recognized as one of the countries' that has met one of the Millelieum development goals of eradicating hunger set for 2015.

REGIONAL REPORT

After a long break, the African Farm Management Association successfully held its 8th Biennial Congress in Nairobi, Kenya from 25th to 29th November, 2012 with the Theme: Repositioning African Agriculture by Enhancing Productivity, Market Access, Policy Dialogue and Adapting to Climate Change. The AFMA Congress was well attended and the AFMA Council sincerely thank the IFMA members who attended and presented papers at the Congress in Nairobi. The Communiqué issued at the end of the Congress is attached to this report for your briefing. At the end of the Congress, the AFMA general Meeting held and a Dr. Philip Nyangweso was elected President, African Farm Management Association in line with the Constitution of AFMA, to replace Mrs. Grace Evbuomwan who has held that position since 2004. The next AFMA Congress has been scheduled to hold in South Africa in 2014.

2013 UK Farm Management Issues IFMA Country Report

By Trevor Attkinson and John Alliston.

Farming Profitability

As commodity prices and agricultural optimism soar ever higher so do our input prices. It seems that every year the producer's working capital level increases to erode any extra profit envisaged. With increased working capital comes increased financial risk and whilst inappropriate weather has helped drive prices high, appropriate weather could just as easily drive them down which will result in farming casualties. Business planning, financial budgeting and volatility management will be key to survival and future profitability

Farming Income

Physical yields have generally been significantly lower in 2012 due to the wet weather and a lack of sunshine through late spring & early summer. Increased prices and a larger area of Oilseed Rape have largely allowed profitability to be maintained. 2013 yields are unlikely to be record breaking given the poor state of the seedbeds and the high percentage of late drilled and poor established crops not to mention failed crops. Input programmes will need to be geared accordingly and fine-tuned as the individual crop potential unfolds through the 2013 growing season.

Non-Farming Income

Making all the assets work has been the focus on farm for a number of years and whilst some projects have proved unsustainable as they have grown and had to pick up their own fixed costs, many are proving to be good earners utilising spare capacity within existing fixed cost. With reduced funding from CAP inevitable, profitability will necessitate that all the assets of the business perform and positively contribute.

Direct Costs

From a farm point of view, the fertiliser bill has increased by just short of £74/ha year on year and the agrochemical bill £28/ha. Such increases in working capital cannot be sustained and they are significantly increasing the risk of volatility in crop production.

Labour & Machinery

Whilst labour cost continues to be well controlled through increases in economy of scale, the age profile and where the next generation of skills (management and operational) are coming from is of concern.

There will be a reaction to invest in greater capacity machinery as a result of the difficult harvest and autumn of 2012 in the naive belief that it can be afforded on the back of a positive farming outlook. Investment in machinery has increased by £34/ha over this last year; this investment needs to bring operational benefits through to the bottom line.

General & Estate Costs

All the suppliers of services into the farm business are looking to increase their profits albeit in return for the benefit of their skill sets. We have to develop and train the skill sets required for the medium & longer term, through the use of targeted internal training modules. We also have to filter through the many suppliers of external skill sets to ensure the ones bought in will genuinely contribute to bottom line.

Record breaking rainfall figures have highlighted the need for good effective drainage systems, many of which have been taken for granted for a number of drier years. Considerable damage has been done to soil structures this last autumn through trying to force crops into the ground in conditions that can be politely described as the opposite end of favourable. Drainage maps, outlets and ditches require regular inspection and scheduled maintenance. Infrastructure maintenance should be integral to the Business Plan with scheduled short medium and long term objectives. In particular make sure that drainage maps and outlets are known and that they are maintained.

Total Costs

Increases in costs over the last year equate to an additional £114/ha of working capital requirement. Whilst high prices have maintained margins, return on capital is declining.

Common Agricultural Policy

A new outline deal on CAP has now recently been agreed for commencement in 2015 and whilst the full details and funding levels have yet to emerge, the key issues are:

Mandatory Young Farmer’s Scheme

Coupled Support limited to 8% plus 2% for protein crops

Greening (30% of funding)

- *Rotation (min 3 crops if over 30ha),*
- *Permanent Pasture retention*
- *Ecological Focus areas (5%)*

Capping of Payments – Still to be agreed but likely to be triggered at 150,000 euros with talk of a maximum payment of 300,000 euros

What is clear is that the CAP reforms will be very complex and will not be uniform across Europe.

Young people in farming.

Agricultural universities and colleges have reasonable numbers of students coming forward but the industry is not well structured to give them an opportunity to start farming as they do not have the capital required. Land prices are very high as non-farming buyers enter the market. This may present opportunities for good young managers or young farmers who are prepared to spread their equipment over larger areas.

What is clear is that planning for retirement is a necessity if farms are to pass from one generation to the next in a financially efficient way.

United States Country Report for IFMA19 Meetings

By Damona Doye.

Uncertain environment for farm management decisions

- In 2012, the expiring Farm Bill was extended for a year when attempts to pass a new bill failed. Passage of a new Bill was stymied again last week when a number of Republicans failed to support the House Ag Committee's bill due to concerns about spending on food assistance. Direct support is being cut in favor of more insurance alternatives. The Farm Bill is especially important to crop producers.
- Volatility of input and output prices
- Global economic shocks
- Climate variability, drought

Agricultural transitions

- 1/3 of beginning farm operators are 50+ years of age
- High land prices present a barrier to entry to beginning producers who want to own the land base
- Looking forward to 2012 Census data to see what has happened to average age of producer, changes in distribution of farms by size and type, etc.

Land values

- Land values have continued to rise dramatically in parts of the country raising concerns about the possibility of a land price bubble. However, the rate of increase appears to be slowing.
- Existing farmers have more cash to pay for land from crop sales, crop insurance proceeds and oil and gas leases.

Optimism in crop sector

- High commodity prices due to increased industrial demand for grain, growing global food demand and exports. Profitability has been good despite higher fuel, fertilizer and other input prices
- Efficiency, technology
- Opportunity to help feed 9 billion people

Shocks to the livestock sector

- Drought forced the downsizing and/or total liquidation of many herds.
- Cattle are shifting out o f the Midwest to rangeland and more marginal cropland.
- Cattle herd size remains at historic low levels with rebuilding complicated by high beef prices, high feed/hay/forage costs, and continuing drought in parts of the country.
- Feed prices have doubled or tripled in recent years. Forage has been in short supply due to extended drought in the plains states (and Midwest last year) so hay prices have also increased along with pasture rents in many areas.
- May see more livestock leasing.

Shifting consumer demand

- Animal welfare, environmental concerns, food safety

UNITED STATES REPORT

by: JAY LEE SMITH for IFMA Congress 2013 in Poland July 2, 2013

Weather: The weather in the main grain production areas of the US has been a total opposite of 2012. 2012 was a severe drought and US production was very low. This led to very strong world prices for agricultural production of the cereals and oil seeds. 2013 is the opposite with rain on a frequent basis with the row crops throughout the US being planted late, in wet, cold, poor soil conditions. Several acres have been replanted and some have been abandoned. Nevertheless, “Rain Makes Grain” and the US should have a large corn, wheat and soybean production. Production is expected to significantly exceed US demand. Carryover inventories will start being accumulated again in the US.

Markets: The 2012 short production was marketed at very strong prices due to the shortage of production because of the drought and the very small carryovers from the previous years. Prices for the 2013 production will be lower and may be near the cost of production due to the increase in production. Producers have probably already missed the best pricing opportunities for the 2013 production. Given a good opportunity for a reasonable profit, the producer most likely should price some grain soon, as prices for the 2013 production will probably continue trending lower.

Farmers: US farmers have enjoyed strong profits the past 3-4 years if they were able to market the production in the upper 1/3 of the crop year’s pricing opportunities. Now farmers will be working their marketing plan to manage to have a profit. Farmers are very strong financially with low debt and with little need for new investments in new machinery, grain storage structures and storage buildings.

Land: Land prices in the US have escalated to new highs every year now for the past 4 years. Prices have made very strong yearly increases in the 10% to 25% range per year in the main corn - soybean production states. Farmers have purchased approximately 2/3 of the land that has sold and of that 2/3, approximately ½ has been purchased with cash. Established, efficient US Farmers are financially strong with low debt.

Land Cash Rent: Cash rent has risen very actively with the rise in cereal and oil seed prices and with the rise in land values. The average increase has not however kept pace with the rise in commodity prices and with the rise in land values. The significant rise in land rents will cause some financial pain going forward as the commodity purchasers have recognized the strong potential increase in production coming this Fall of 2013. Prices will decrease as we build carryover inventories of corn, soybeans and wheat. I foresee very few cash rents coming down; but do see the top 50% stabilizing with a continuation of the low rents modestly increasing.

Farm Management Firms: It appears that the farm management companies are doing more business with conducting public land auctions. Farms are divided up into many parcels and the bidder has the opportunity to bid on any parcel or parcels, any combination of parcels packaged in one bid, and when everyone is finished bidding the land will sell in whatever combination will give the seller the most money for the total farm. Sometimes one person will purchase all and other times there may be a multiple of new owners. This method consistently succeeds to obtain the most for the seller’s farm and everyone has an opportunity to purchase what piece of the farm that they desire. It is becoming more and more common for farm management companies to rent out land using a base cash rent and a formula with yield and price to add to the base cash rent. It gives the landowner the opportunity to share in the excellent profit years when the production and price combination are very profitable. It also assists the farmer in that the base will possibly be a little lower than it would be without the formula. This assists the farmer in the low profit year with the landowner receiving a lower total in a low profit year.

Production Inputs: Inputs are consistently making significant price increases above the increase in inflation. I can only think of one input that has decreased in cost over the past few years and that is glyphosate. It has reached its bottom and is increasing. Fertilizer, seed and fuel have made huge increases above inflation over the past few years.

Nitrogen: The US farmers are paying an extremely high price for nitrogen. The price of NH3, anhydrous ammonia, 82%N is costing the farmer between $800. and $975. per ton (2000 pounds). A metric ton, 1000 kilograms, is 2200 pounds. This is an extremely high price when natural gas makes up 80% of the cost of 82%N, anhydrous ammonia. With the low price of natural gas over the past 2 years, the 82% N should be significantly under $400. /ton to the farmer. I paid $870. per ton prepay or $ 0.53 per pound of N. I applied 220 pounds of N/acre for a cost of N per acre of $116.70. or $288.26 per hectare for N for corn. Based on the cost of input natural gas to produce NH3, I should have a cost of less than $53.75. per acre or less than $132.53 per hectare. On my operation this is an additional yearly cost of $85,117. on our corn production. This is the least cost unit of nitrogen possible to use as it is the seed stock for the nitrogen in most all other sources of nitrogen products. Urea 46N-0-0, 18N-46P-0K, 28N-0-0 and many other products use natural gas as the source of N to manufacture the nitrogen products. Usually urea in the US is priced 15+% per unit of N over NH3. The liquid 28% nitrogen solution is priced approximately 30+% per unit of N over NH3. The nitrogen manufacture-supply system in the US certainly appears to be lacking competition. It appears that somewhere in the nitrogen chain there is a monopoly. This sure would make an interesting research project for some graduate student's thesis.

Agriculture Future: I certainly see a bright future for the established efficient farmer moving forward. The farmer has the past 3-4 years had an excellent opportunity to decrease debt, improve and update his machinery, equipment, technology and prepare for less profitable years. Hopefully the world will come out of this recession and as the world's agriculture production increases the demand will grow to consume the world's output. The US with our low production the past few years has lost huge demand for our production. Our exports of corn and wheat are very small compared to the past. The world has brought into production many more hectares and on many hectares the farmers have improved their production management practices to significantly increase yields.

These are my thoughts on the profitability of US Agriculture recognizing that we are in a world production and market environment. In the world of agriculture, farmers have proven that if the US cannot fulfill the needs at a low enough price some other farmers will find a way to do it. These past years of low US production have been a real boost to the world's agriculture, providing strong profits in Eastern Europe and elsewhere to develop their agriculture to the next level.

Respectfully, Jay Lee Smith