sctimes.com

Your turn: USDA policy not good for ag industry

By Mark Greenwood • November 27, 2010

Although the congressionally mandated purpose of the U.S. Department of Agriculture is to strengthen America's agriculture industry and revitalize rural communities, USDA seems to have lost sight of its mission. The department recently published a proposal that will limit livestock marketing agreements between packers and producers, which, in turn will increase production costs, meat prices and threaten jobs.

The livestock industry has seen historic volatility in recent years.

In fact, the pork industry alone lost $6 billion from 2008 to 2009, causing many pork farmers and producers nationwide to struggle to survive. Dramatic daily shifts in livestock market values make it difficult for producers to provide high-quality animals at affordable prices and make it difficult for ag lenders like me to provide critical operating capital to these farmers.

Marketing agreements between livestock farmers and meat-producing companies are one of the tools that help farmers manage this intense volatility. Packers and producers agree on livestock prices and supply needs up front. Producers know how many animals they need to provide and packers are assured of a steady stream of the kind of livestock they want.

Producers of all sizes benefit from the stability these agreements provide. As an ag lender, these marketing agreements help create stability that limits the risks associated with an unpredictable livestock market.

When we know a farmer has secured a dependable contract to sell his livestock inventory or a producer has a reliable supply of animals, we can accept the moderate risk of providing capital to support that farmer or producer who may not otherwise be able to secure financing because of the high-risk environment in which they operate.

Doesn't make sense

Without these agreements, the livestock market is simply too volatile for most lending organizations to risk financing. Current use of marketing agreements actually helps new farmers build the credit they need to become long-term contributors to the industry and their local economy.

USDA's proposal is perplexing to those of us working in America's agriculture industry.

Like the broader U.S. economy, access to capital is a critical factor that will determine how the food and agriculture industry will emerge from this recession. Limiting the ability of the nation's livestock producers to use a proven risk-management tool to secure operating capital will limit the ag industry's expansion potential at a time when our country desperately needs more opportunities.

A recent study done by John Dunham and Associates for the American Meat Institute estimates 104,000 jobs will be lost if the proposed USDA rule is finalized.

Lost tax revenues will cost local, state and federal governments $1.4 billion — financial gaps that will only exacerbate the severe economic pressures our communities are facing.

I'm not alone in my view. One of the leading experts in this field, Stephen R. Koontz, Ph.D. of Colorado State University's Agriculture and Resource Economics Department, recently said, "The net effect of eliminating alternative marketing agreements would be increased retail prices, decreased farm level prices, decreased quantities produced and consumed and economic losses in producer and consumer surplus in all segments of the industry."

sctimes.com

Unfortunately, despite the significant economic impacts to the livestock industry and American consumers, the USDA has failed to conduct any research or economic analysis of the potential impacts of the proposed rule.

Showing support

In a show of broad bipartisan support, 115 members of the U.S. House of Representatives, including Chairman of the House Agriculture Committee Collin Peterson and the ranking minority member Frank Lucas sent a letter on Oct. 1 to Agriculture Secretary Tom Vilsack urging USDA to conduct an economic analysis on the rule proposed by the Grain Inspection, Packers and Stockyards Administration.

As American consumers, I urge you to contact your lawmakers and the USDA and push for the USDA to evaluate the impacts of this proposed policy, conduct due diligence and make the right decision for the ag economy and the overall U.S. economy.

This is the opinion of Mark Greenwood, vice president of agribusiness capital at AgStar Financial Services in Mankato.