

'The period we've come out of was almost unprecedented'

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40 years," Patterson said. "We're going back to a more normal situation. (Farmers) have got to focus on their financial management and business management skills to stay in business when they're going through the cost-price squeeze."

By the numbers

Between 2009 and 2014, U.S. farm commodity prices increased by 33 percent, reaching record highs.

"The period we've come out of was almost unprecedented in terms of extended high commodity prices," Patterson said.

However, operating expenses have also jumped dramatically, increasing by 30 percent.

In Idaho, demand for land drove cash rental rates from \$98.50 per acre in 2008 to \$151 per acre by 2014. From 2004 to 2014, fertilizer costs increased by 123 percent and farm chemical costs increased 33 percent.

But during 2014 and the first few months of 2015, prices received by growers have dropped by 8.3 percent. At the same time, operating costs have decreased by only 1.8 percent.

"It's a pretty wide gap starting to form again, and it's even more substantial when you start looking just at crops versus all agricultural products," Patterson said.

When viewed over a long time frame, the cost-price squeeze has been even more marked. Over the past two decades, commodity prices have risen 74 percent, versus a 115 percent increase in farm operating costs.

So how have farmers stayed in business?

Bart Eleveld, an agricultural economist at Oregon State University, explained that big operations have become more efficient and expanded.

"The small, one-family farm is sort of dying as a model for agriculture," Eleveld said. "What we're seeing are more of these super farms that are conglomerations of many small farms, oftentimes supporting more than one family."

On the opposite end of the spectrum, he said, the local food movement has fueled the growth of small, niche operations that sell directly to customers and set their own prices.

"There's a real burgeoning of producers," Eleveld said. "Many of these are beginners who haven't been farming before, and they're getting into small, specialty product farms."

Efficient farming

Behrend Farms in Aberdeen, Idaho, had 1,500 acres when Nic Behrend joined his father, Paul, in 1993.



John O'Connell/Capital Press

Aberdeen, Idaho, grower Nic Behrend, standing in a potato field, says specializing in Russet Burbank potatoes and constantly working to make his farm more efficient have been successful strategies for his farm.



Dan Wheat/Capital Press

Denny Hayden looks at freeze damage to Sweetheart cherries at his orchard north of Pasco, Wash., in May 2011. Hayden said his industry has gone to planting on trellis blocks at higher densities to become more efficient.

Since then, his brother-in-law has also come on board, and the farm has grown to nearly 5,000 acres, as they bought out other family members who had land in the area.

Despite the growth, Behrend insists a culture of improving efficiency has been the key to his farm's success. Behrend says potatoes are his focal point, and his farm specializes in a single variety, Russet Burbank.

"One of the keys to our efficiency is we're doing one variety," he said. "When we go to plant and harvest it really streamlines the operation."

He's also focused on upgrading his irrigation systems to conserve power and water and has gone to variable-rate fertilizer application, adjusting nutrient rates based on differing conditions in a field.

Denny Hayden, a tree fruit farmer north of Pasco, Wash., said his industry has been maximizing efficiency by planting trees on trellises at much higher densities than traditional orchards. Hayden said his farm's strength lies in its diversification. Though apple growers produced a bumper 2014 crop and prices have been down, he can also fall back on his cherry crop.

Eleveld said farm equipment with GPS technology has helped large farms conserve fuel, fertilizer and chemicals. He predicts drone-based crop monitoring will drive future farm efficiencies.

"I see the really large farms finding a way to succeed," Eleveld said. "They continue to adopt improving technology to lower their costs, even though the price squeeze is going on."

UI Extension economist Garth Taylor said biotechnology has also played a critical role in streamlining farm operations. In Idaho, Taylor said, the switch a few years ago to genetically modified sugar beets resistant to glyphosate herbicide enabled the state's farmers to cut 2,000 jobs, previously needed to control weeds.

Peaks and valleys

Patterson believes the diversification of foods produced in the Pacific Northwest has lessened the regional blow of past cost-price squeezes, compared with Midwestern farms that specialize in corn and soybeans.

This strength was particularly evident in 2014, when farmers nationwide saw their net income decrease by 22 percent but Idaho farmers saw their net income increase by 46 percent, according to Uni-

versity of Idaho estimates.

Though Idaho potato and barley revenue dropped in 2014, strong milk and beef sales helped the state set a gross farm revenue record for the fifth time in six years.

Nationally, agriculture's good run started around 2008, just as the rest of the economy was entering the recession. Corn inventories dwindled due to severe drought in other global production areas, and policy changes necessitated the diversion of more corn to make ethanol, leading to a tripling of corn prices. Soybean prices also increased as farmers shifted toward corn acres.

A 2012 drought in the U.S. further reduced inventories of corn, pushing up prices. Simultaneously, the rising middle classes in China and India increased global food demand.

In many ways, Patterson said, the recent good years were reminiscent of the 1970s, when commodity prices shot up due largely to an extremely poor wheat crop in the Soviet Union, prompting the Kremlin to reverse its previous policy and begin buying grain from the West. At the time, U.S. Agricultural Secretary Earl Butz urged growers to plant from fence row to fence row and to "get big or get out." An oil embargo drove up energy prices and land costs inflated as farmers expanded their farms, reasoning that "God isn't making any more land."

The resulting overproduction drove down commodity prices, leading to the erosion of land values, and financially over-leveraged farmers went bankrupt in droves.

Patterson also said the U.S. dollar is now strong, which is a drag on U.S. farm

exports. As the value of the dollar increases compared with other currencies, makes it more expensive for other countries to buy U.S. products and crops.

But there are key differences between now and then. UI Extension economist Chris McIntosh notes increased production has decreased petroleum prices, and interest rates remain at record lows.

'Clean balance sheets'

In February, USDA projected net cash income for farms will drop 22.7 percent this year, with cash expenses projected to decrease by only 1 percent. Crop receipts will decrease 8 to 10 percent for farms specializing in wheat, corn and soybeans, and specialty crop receipts will drop by 5 percent.

Taylor is certain Idaho agriculture will set no revenue record in 2015. But he's equally confident agriculture won't experience the widespread bankruptcies of the 1980s.

In recent years, farmers such as Behrend have prioritized eliminating debt and refinancing at lower interest rates.

"We've tried to clean up some of the notes we had coming forward and make sure the financial house is in order while we can, not knowing what the future is going to bring," Behrend said.

Taylor said growers are entering the cost-price squeeze with solid debt-to-asset ratios, and they're generally not borrowing against their land values.

"Nationally, we have really clean balance sheets — record clean balance sheets," Taylor said. "Even though we have high land prices, those have been financed out of cash."

Patterson won't predict how long the squeeze will continue. Ultimately, he anticipates it will take an unexpected event, such as political upheaval overseas or another drought, to reverse the current trend.

Gordon Wankier, branch manager with Zions Bank in Blackfoot, Idaho, said the farmers who have come into his office this year have had solid finances and gotten their loans.

When he started at the bank 26 years ago, Wankier said, there were 10 times more potato farmers in his community. He envisions the trend of farms getting bigger will continue. In the meantime, he's seen similar cycles in the past and expects operating costs and commodity prices will soon find a better equilibrium.

"Farmers are going to have a tight year this year, but they've had some good years that will see them through, and I think those commodity prices versus input prices will adjust, and they'll return to better profitability," Wankier said.

Oregon's drought situation isn't as severe as California's

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Oregon Gov. Kate Brown has already declared a drought state of emergency for Klamath, Lake, Malheur, Harney, Crook, Baker, Wheeler, Josephine, Jackson, Lane, Deschutes, Was-

co, Grant, Morrow and Umatilla counties. The southeast corner of the state is considered an "extreme" drought area by the USDA.

Oregon's situation isn't as severe as California's, where a continued drought

has caused farmers to leave fields fallow and touched off a well-drilling spree that was featured in a June 7 article in the New York Times.

Washington Gov. Jay Inslee declared a statewide

drought emergency in mid-May. In Idaho, the U.S. Drought Monitor lists various regions of the state as in extreme or severe drought, and the remainder in moderate drought or as "abnormally dry."

NRCS allocated up to \$2.5 million for Oregon farmers, ranchers and woodland owners in drought-declared counties to help mitigate the effects on their operations. Funding is available through the Environ-

mental Quality Incentives Program. Producers should file funding applications by June 26; details are available at USDA county service centers. <http://www.nrcs.usda.gov/wps/portal/nrcs/main/or/contact/local/>

Monsanto's been on Justice Department's radar screen for some time

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Monsanto said. Monsanto's headquarters in St. Louis, Mo., would be maintained.

Sara Miller, a Monsanto spokesperson, said the proposed combined company would be an even stronger partner to farmers.

"The combination would offer the opportunity to accelerate innovation, putting meaningful technology and additional choice into the hands of farmers faster than what any in the industry are doing today," she said.

Syngenta, now based in Switzerland, has rejected both overtures, citing an "inadequate price" as well as the risk of regulatory complications.

The prospect of the U.S. Department of Justice objecting to the merger is realistic, said Peter Carstensen, a law professor specializing in agricultural antitrust at the University of Wisconsin.

"Monsanto's been on their radar screen for some time," he said.

There has already been a lot of consolidation in the biotechnology industry, so the loss of another source of genetically engineered seed does not bode well for growers, said Chavas.

"Farmers paying higher prices is a likely outcome," he said.

Combining Monsanto and Syngenta could reduce costs by eliminating some redundant jobs and duplicative research expenses, but it's unlikely those savings would be passed on to

farmers, Chavas said.

Farmers have been willing to pay more for biotech seed due to the reduced cost of weed and insect control, he said.

The possibility of fewer competitors in the biotech field, however, raises questions about the merged company's incentive to innovate at the same pace, said Carstensen.

While Syngenta said it would sell off Syngenta's seed business after the merger, the deal would nonetheless eliminate one of the major three biotech companies, he said.

Regulators would look particularly askance at an asset sale to Dupont, as this would amount to two major competitors "carving up" a mutual rival, Carstensen said.

On the other hand, if the sale of Syngenta's seed assets created a strong, viable competitor for Monsanto and Dupont, antitrust regulators would have fewer objections to the merger, he said.

"It seems to me, if they do that, the chances of getting it through are reasonably good," Carstensen said.

If the government decided to file a legal complaint seeking to block the merger on antitrust grounds, it would require some "pretty gutsy enforcement," he said.

To make a strong case, regulators would want to use internal documents to show that Monsanto intended to destroy competition by taking over Syngenta, he said.

Such a finding would demonstrate that the anti-competitive effect is more than "some pointy-headed bureaucrat's theory," Carstensen said.

It's possible the Department of Justice would sign off on the deal based on Monsanto's planned asset sell-off, but it's more likely the government would take the company to court to compel additional concessions, he said. In that case, the company could fight the complaint, settle, or simply walk away from the merger.

"We expect a thorough regulatory process, and are committed to working through the process to addressing any questions regulators might have," Miller said.

Biotech critics such as the

Center for Food Safety, a non-profit involved in litigation over genetic engineering, worry that a potential merger would spur the development of more herbicide-resistant crops.

Crops resistant to glyphosate have caused farmers to spray more of the chemical, leading to increased weed tolerance of the herbicide, said Bill Freese, the group's science policy analyst.

As a result, biotech developers want to commercialize crops resistant to additional herbicides, he said.

Syngenta is a major producer of several common herbicides, including paraquat, atrazine and metolachlor, so a merger would give Monsanto a larger footprint in the chemical market, Freese said.