

Dr. John Newton

[00:07:46] All right, let's get started here. I guess we'll just kind of pick up if people have listened to the previous episodes.

Jordan Hoewischer [00:07:52] They heard you a couple of years ago, you talking about, the current status of things. This was, pre farm bill and in the midst of maybe an unknown and to some trade stuff with China. So I guess take us through where we've been the last couple of years. Obviously with COVID this year is a little funky, but what's been the general status of the ag world economywise in the last year or two?

Dr. John Newton [00:08:25] Well, you know, we came into 2019, we got the farm bill signed by the president in February of 2019. So we start to stand up those farm bill programs. At the same time, we had the market facilitation program starting to go out to help producers impacted by impacted by the retaliatory tariffs by China. So we had FSA standing up, not only a farm bill, but also getting the trade program up and running. And then last spring, I think Ohio in particular and some of the other states, we had record rainfall, which would significantly delay planting.

In some places, prevent plant was record high. We had nearly 20 million acres qualify for prevent plant last year. So I think the reduction in acreage and the reduction in yields last year actually helped us dodge a bullet a little bit, help us rebalance supply with demand. We came into this year (2020), I think, optimistic on the back of the trade agreements, the phase one deal with China, USMCA and US, Japan and South Korea, that that finally we knew that supply was going to bounce back this year. We knew those acres would come back, but we thought, OK, demand really going to pick up trade is going to pick up and the farm economy can start to turn around. And I think since mid-March, everybody's world's been turned upside down. And now we've been working for the better part of six months, seven months to get the CFAP program out the door. We're now in the second round of CFAP assistance. I believe as much as six billion dollars has gone out to help farmers in this second round. And so, you know, it's been a whirlwind few years in terms of dealing with, you know, increased natural disasters, whether it's hurricanes or wildfires or flooding, trade, war and now coronavirus.

Jordan Hoewischer [00:10:34] Just to recap, what is what's CFAP?

Dr. John Newton [00:10:42] It's the Coronavirus Food Assistance Program.

Dr. John Newton [00:10:51] The Cares act that was passed in March allocated \$23.5 billion to USDA, and USDA used a portion of that to create the first direct payment program, the CFAP, and that was estimated at \$16 billion. I think a little more than \$10 billion was paid out to farmers, particularly cattle, dairy and row crop producers. And then this next round, we we've got additional support for specialty crops, tobacco, aquaculture, in addition to your other major commodities.

Jordan Hoewischer [00:11:30] Got it. Thank you. So we talk about since mid-March, our world's been turned upside down...But how has the ag world been? I know we've rode the roller coaster of production plants being shut down on the livestock side. Obviously trade has been affected. Where are we sitting now that we're somehow on the last couple of months of the year (2020) all of a sudden?

Dr. John Newton [00:12:05] Well, in you know, in April, we did see a lot of livestock processing go down as they went in to put in the personal protective equipment and clean the facilities. Many facilities were down for a 14-day stretch to put in all that personal protective equipment. We saw the same thing happen in the ethanol plants, although not related to workers getting sick, but negative ethanol plant profitability. So they idled their processing capacity, reduced the demand for corn.

But we bounced back. Meat production is right at about year ago levels, and I think that's a lot faster than many had anticipated. We're not out of the woods yet. As we look around the country of potential new cases of the coronavirus or surging, hopefully those workers can remain safe and keep those plants open. But again, meat production has recovered a lot faster. We've still got a backlog of animals that that are ready for processing. Ethanol plant capacity has come back, but not to where it used to be. But it's bounced back.

And then you talk about trade. I think when you look around the world and many of the economies are in a recession, that's going to impact their purchasing capacity. And so agricultural exports in most of our top markets, Canada, Mexico, Japan, South Korea, the European Union are all below where they were last year. I think China is probably the only place where sales are a little bit stronger so far this year than they were last year.

Jordan Hoewischer [00:13:50] So you talk about China. You mentioned phase one of the trade deal in that part of the world. Can you give us the broad overview of what that trade deal entails and what's been promised in those phases?

Dr. John Newton [00:14:04] So the trade deal is based on a baseline year of 2017 where China bought t\$24 billion of agricultural products. And so they're supposed to buy an additional \$12.5 billion in 2020. And somewhere in the neighborhood of \$16 or \$17 billion in calendar year 2021 to get their two-year agricultural purchases somewhere in the neighborhood of \$80 billion. And that's a fairly lofty goal when you consider our best years in the past were somewhere in the neighborhood of \$25 to \$27 billion. So a substantial increase.

There are also a number of structural changes with the Phase one agreement in that there are many nontariff barriers to trade that the administration asked the Chinese to deal with. And so of the 57 or so nontariff issues, nontariff barriers to trade that we asked the Chinese to work on, they've addressed 50 of the 57. So that helps us be more competitive in those markets, to sell our infant formula in those markets, sell our beef products in those markets, sell our pork products in those markets. And so when you combine that with the Phase one agreement, the only place we're really lagging is our pace of sales. And I think that's just, you know, the secretary said it may not happen this year (2020), but if you stop and evaluate it over a two-year period, you know, maybe the Chinese meet their goals by the end of 2021.

Jordan Hoewischer [00:15:58] Where are we sitting now that we're, we're closing in at the end of the year (2020)?

Dr. John Newton [00:16:03] Through August. we're in the neighborhood of \$10 billion in exports to China. So by my math, if you take into consideration tariffs or not tariffs freight insurance, they probably need to buy another \$20 billion September through December. So that's a little more than \$five billion a month to reach that phase one target.

Jordan Hoewischer [00:16:30] Now, what's your gut feeling on that? You think, though, they'll get close to it?

Dr. John Newton [00:16:36] Well, I mean, they're certainly committed to buy a lot of corn and soybeans and grain, sorghum in the fourth quarter of this year (2020). So I think we'll see some very strong sales, assuming that the phase one agreement stays together and hopefully maybe we don't get to the \$30, \$36.5 billion, but maybe we eclipse where we were in 2017. That was a pretty good year.

Jordan Hoewischer [00:17:04] So kind of a good faith effort of getting to that number. What happens if they don't meet those numbers?

Dr. John Newton [00:17:16] Well I think in 2021 again, as the world starts to come out of the covid pandemic, hopefully there's opportunities for the US and the Chinese to consult with one another frequently and have check-ins. So I don't think we'll find ourselves in a situation where it's, you know, early 2022 when we get the trade data. Where were all of a sudden we're surprised that we didn't hit the target. If we're not on pace, I think that will be some consultations well before then to try to alleviate.

Jordan Hoewischer [00:17:52] If there's a transfer of power next year in the administration, do you see any hiccups? Or I would assume any president would want to ride that trade wave as best as possible. What are your thoughts on that?

Dr. John Newton [00:18:08] You know, at this point, I think both administrations have recognized that some of the intellectual property theft and forced technology transfer that was happening with the Chinese needed to be addressed. You know, I'm not certain what, you know, on mid-January after inauguration, what the Biden administration does with a phase one agreement, if they keep it intact and honor it. It's a memorandum of understanding. It's not a trade deal. It's not like USMCA. So I don't know what'll happen. You know, the I think it's important to remember that Vice President Biden was part of the TPP process, the Trans-Pacific Partnership. So I think they understand the value of trade to the American economy... how important it is for agriculture, but I'm not sure what will happen if we see a change in the administration on that front.

Jordan Hoewischer [00:19:16] Yeah, well, that's the thing. The same thing with intellectual property and know neither of our expertise. But we hope that there is some gains on that side of things because there's obviously been a lot lost or progress delayed because of that fight for IP. And I'm not sure what's being done on that front, but I hope there is some effort, as I think we've sacrificed a lot agriculturally for that mission. And hopefully they can figure it out.

So how else has covid affected the overall market? I feel like for the Midwest, if you're a grain farmer, this is one thing that probably hasn't hit him over the face like everything else seems to like weather and the trade deal. What other parts of our industry has covid really affected?

Dr. John Newton [00:20:07] Well, I think for the Midwest grain guys, it's hit them on corn to make the ethanol function of the corn balance sheet. We were using 30 to 40% of our corn crop for ethanol. And so not only are they fighting the issue on covid, but there's also challenges with electric vehicles and reduced demand for gasoline on that front. And then, as you know, those livestock facilities went down that that impacts demand for some of the livestock products. And so that that that could impact some of your grain and oilseed

producers. We all know that corn's value added or chicken is value added corn. But, the export market has really improved for those folks, and that's really helped lead the price rally that we've seen in recent weeks.

Jordan Hoewischer [00:21:02] Yes, we've seen that price rally. And I'm not as astute on prices as the probably most people who follow farming. I'm more of a 10-day weather forecast guy, but we have seen soy and corn prices have some increase. So how do we even remotely guess what 2021 looks like?

Dr. John Newton [00:21:29] Well, we're still trying to figure out what crop we got on our hands right now in terms of as harvest nears completion, how many bushels are we going to have? How strong are those exports going to continue? And I think the prices this fall and early spring will lead to some of those acreage decisions on how many acres of corn do we plant, how many acres of soybeans. The soybean inventory level has come back down pretty low. It's expected to end the year somewhere around 300 million bushels, which is the lowest level in several years. So there certainly are probably going to be an interest in getting soybeans in the ground next year.

But I think a lot depends on what happens in South America. The pace of planting in Brazil is much slower than normal. So they're having a difficult, difficult time getting the crop in the ground. How does that impact their crop size? This year will be important to watch. And then as we get into 2021 assuming Coronavirus is behind us. Hopefully then we're going to have pretty strong production of our livestock products, strong milk production. We'll likely not to see a substantial reduction in acres so then it becomes a demand question again in terms of prices. And so can we sustain the demand on the demand front? Will demand improve in 2021 as economies start to recover? And again, those are all questions that we just don't know the answer to just yet.

Jordan Hoewischer [00:23:06] Why is Brazil slow on production or slow on planting? Is it covid or weather or?

Dr. John Newton [00:23:14] Weather-related issues

Jordan Hoewischer [00:23:26] So I know another part of our industry that's near and dear to your heart is dairy. Obviously dairy was hit hard I think this spring (2020) with just the normal stuff that happens, but also with schools closing down and then, somehow putting restrictions on how many gallons of milk people can buy at the store.

[00:23:47] At the same time, even though there was plenty of supply. How's dairy been able to withstand at all the covid season?

Dr. John Newton [00:23:55] Well it's been a tale of the dairy processing industry and then a different tale of the dairy farmer, We saw the USDA food box program come in and really lift the prices of cheese. So we saw cheese at a record high, \$3 a pound. And that was right after milk prices had had collapsed in April. But all that money didn't necessarily make it back to the dairy farmer. And I think that's been the challenging issue with the price volatility we've seen.

Dr. John Newton [00:24:29] We've seen low prices for some dairy products and high prices for others. And it's just created a really perplexing time for dairymen trying to figure out what their milk price ultimately is going to be. And I think that's leading to some

renewed interest on reform of these federal milk marketing orders into how do we address some of these unintended consequences that have happened.

Jordan Hoewischer [00:24:58] Reform seems to be the way to go. So, my next question was going to be how would you solve the industry crisis at the dairy farm?

Dr. John Newton [00:25:18] Well, I mean, the way milk is priced in the US is very complicated. And it's a system that's decades old and is very difficult to change. So, you know, I think there are some, well, considerations floating around on how to address some of these challenges. I think it's important that the dairy farmers get involved and have an opportunity to have their voices heard. And we're working on Capitol Hill to try to help in that capacity.

Dr. John Newton [00:25:52] But, you know, it's hard because I think some in the industry just want to make some minor tweaks to deal with the issue. Some may be thinking more revolutionary, but milk pricing is probably the most complicated aspect of foreign policy that I've ever engaged in in terms of understanding all the twists and turns.

Jordan Hoewischer [00:26:13] I don't think I ever realized that until just now. And I'm sure most Americans don't understand that either. They just think, well, there's milk and then there's a volume and a poundage and it gets it gets priced accordingly. And that is what it is.

Dr. John Newton [00:26:29] It's absolutely not the case. It's not milk. It's protein, it's butterfat. It's lactose. And then a farmer can't just go out and sell their milk for any price. They're price takers.

Dr. John Newton [00:26:43] The federal government highly regulates the price discovery process for milk. Most of the milk in the country is marketed by dairy cooperatives. And you've seen massive concentration in the industry in the last six months alone, where we now have the nation's largest dairy cooperative operating the largest milk bottler in the country. And so the dairy industry is undergoing massive structural changes. Yet we've got a pricing system in this country that's decades old.

Jordan Hoewischer [00:27:20] Yeah, it's interesting. I didn't grow up a dairy farmer, but every time I get a chance to talk about it, it seems like it's good to highlight it because it's just an industry that needs as much help as possible. Well, we'll switch gears here to MFP and CFAP and some of those programs that are providing direct payments to farmers. From some of the stuff I've seen you put out and USDA puts out, net cash income has been trending down for farmers since early 2010...and some of that's been backfilled by direct payments from the government, especially recently with the trade stuff. How do we stem the tide? Is it just opening up those markets? How do we stem the tide of having to rely more on direct payments versus getting those cash receipts back up?

Dr. John Newton [00:28:24] Well, you know, these were ad hoc payments to offset retaliatory tariffs and demand destruction due to COVID-19. So they're not permanent programs. They will go away. They will not be here next year (2021). And so we need to plan accordingly. And we need to work with farmers to work with their lenders, look at their input cost, be good marketers. There's an opportunity to market right now at higher prices. Take that into consideration. But these ad hoc support payments are going to go away soon. There's conversations about whether or not the farm bill is adequate enough to

provide the level of protection that people need. And I'm sure that will be part of the next farm bill debate that will start in earnest during this next Congress.

Jordan Hoewischer [00:29:15] What is the next frontier on the farm bill for the next cycle? I'm sure each time we talk about a new farm bill it seems like you just talked about the old one, but that's kind of how it works. What is that next frontier for the farm bill?

Dr. John Newton [00:29:29] Well, I think the next frontier for the farm bill really depends on how much of a budget we have for farm programs. If Congress is to figure out a way to appropriate new funding, then maybe we can make some of these programs better. Well, but what if we don't, then there's unlikely to be a lot of resources to substantially change what these programs look like. But, at this point, we haven't really started surfacing and having those policy conversations with members. And I think as we get closer and closer to 2023, it will be important for Farm Bureau members to really start to have the conversation on policy development and what they'd like to see in the next farm bill.

Jordan Hoewischer [00:30:16] Because it seems like some things are trending...I'm in the Midwest bubble here, so it's easy to see some things, at least from my vantage point. Interest rates are good. Maybe fuel is not as crazy as has been in the past. You know, we're obviously opening up more exports. Weather's volatile, very volatile. So it just seems like there's some aspects that are in decent shape for farmers. But I'm just interested to see what that next frontier is, because there's always something else that's hitting them. As we see now, I think, what is it? 36% of farm income is coming from some sort of government payment this last year.

Dr. John Newton [00:31:00] I think that's a that's a statistic that people like to throw around. And so it's 36% of net farm income. But that's the profit margin, a broad measure on profitability. It's only about 8% of their gross cash receipts.

Dr. John Newton [00:31:26] So, you know, it has increased significantly in recent years to offset the impact of these various events, but by no means is it 40% of their income. It's more like 8% of their income, of nearly 40% of what's left after you take out expenses.

Jordan Hoewischer [00:31:47] No, that's good to know. I mean, obviously, it's easy to spin in a certain way. And I'm looking at it from how people from the outside look at the farming community, because obviously you see articles and stuff for farmers are maybe not so keen on government payments, but then they are also taking them themselves. So I'm just interested to see what those real numbers are. So I appreciate that perspective,

Jordan Hoewischer [00:32:18] Switching gears again, how do we see other export markets opening up? Obviously we've had some ups and downs with other parts of the world. Do we see any change in the future with how some of the other parts of the country or other parts of the world will open up?

Dr. John Newton [00:32:35] Well, I think our existing FTA partners, it really hangs on their economic recovery after coronavirus. And how long of a recovery are we going to see. In terms of other parts of the world, there's efforts underway to improve our access to Kenya. There's efforts underway to improve relationships with Brazil and the United Kingdom and maybe, you know, in other parts of Southeast Asia. But again, I think a lot of what happens is really going to depend on what happens in early November in the United States and whether or not we're dealing with the same administration or a new administration that

may pivot and seek to do other things on the trade front. So I think it's uncertain at this point.

Jordan Hoewischer [00:33:30] Yeah, because no matter what any regime change, no matter going from one side to the other, there's probably always going to be some sort of delay in progress in some of these things, especially as you're switching out leaders of different departments. So, that will be that will be interesting.

Jordan Hoewischer [00:33:47] Are there any other farm policy things from your side of the world that you think are important to talk about?

Dr. John Newton [00:34:01] Well, I think the other major component that we haven't talked about is, is climate smart adoption of more conservation practices in agriculture. This is something that the consumers are demanding. The investment community is demanding. The food companies are demanding it. It's not an issue of should we do it? It's an issue of how we do it and how do we create the proper incentives to increase the adoption of these practices across the country. So, you know, we're still working with our members to figure out where they want to be. We know that we want anything that has to be a voluntary program, not a new mandate on farmers. And we're hopeful that through the development of carbon markets, through the development of ways to accurately measure carbon sequestration efforts or efforts to improve water quality, that some of these practices can actually be an income generator on the farm. And when we talked earlier about what's next for the farm economy, if we can figure out a way to capture the value associated with carbon sequestration, I think that can really help farmers across the country and be a new income stream.

Jordan Hoewischer [00:35:30] Yeah, I think it's a good point. And, you know, I think it's tough for farmers because I think for the most part, at least the ones in Ohio that we deal with, they understand the benefit, the benefits of cover cropping or subsurface placement or putting in a waterway or a different style. But it's tough to pencil it out on paper, even with help from the government. You know, the USDA's edge of field research is showing that farmers are losing half a pound to a pound of phosphorous per acre. And then when you break that down to how much fertilizer you're losing, it doesn't really equate. You're talking about cents per acre versus maybe tens of dollars per acre for the solve. Not to say that we're not going to keep pushing forward, but there's going to be other ways. You know, the economy doesn't work necessarily when it comes to conservation. And so finding those carbon markets and other things to help push us over the positive line there, I think would go a long way.

Dr. John Newton [00:36:36] But, you know, the carbon market is not the silver bullet either. I mean, when we're talking about \$15 a ton or \$20 a ton for carbon that you capture and that's paid over a long time horizon. I look at this as a social good, a public good almost equivalent to roads and bridges. And if we want good roads, good bridges, taxpayers foot the bill. If we want to increase the adoption of these practices, I think then there's a conversation to be had about significantly expanding working lands programs so that we can continue to adopt these good practices across the country. We're already stewards of the land. Agriculture represents less than 10% of greenhouse gas emissions in the country. And we're one of the few that has the ability to not only sequester carbon in the soil, but recycle animal waste. So there's a lot of innovative things we could do. We just got to, like you said, find a way to pencil it all out.

Jordan Hoewischer [00:37:45] Yeah, no, and I appreciate that. I mean, I think I tend to agree with the social good part of it. And, you know, I always go back and forth between the economic benefit or loss of putting a certain practice on your farm versus what's the best thing to do. And that's a very tough conversation for farmers to have. So I appreciate that balance because I kind of flip flopped myself when it comes to which practice that I feel is beneficial. But I think any time that we can help build those voluntary programs... because we see it. There's farmers in certain parts of Ohio that are getting it from every direction. And they're having a hard time figuring out which way is up a lot of times, but you know what? I don't know how much you know about the Ohio program, but in the western Lake Erie Basin, we have 1900 farmers that signed up for practices through the H2Ohio program for crop 21. And so that's a pretty significant number for a 14 county area in Ohio to sign up for practices. In a lot of times, the Soil and Water folks were saying they had never seen those people before. So I think when you build the right thing and make the access to it voluntary, but with enough perks, though, they'll come to the table and hopefully we'll see a benefit of some of those practices carried on in the future without as much assistance.

All right, well, I just wanted to check in and see where we go and hopefully I'll check in with you again as soon as we get closer to another farm bill. I just really appreciate your time.

Dr. John Newton [00:39:46] Thanks a lot, Jordan. I appreciate it. We'll see you back. Thanks.