

## Gavin Newsom: Stepping into the center of California ag

After two months in office, much remains to be seen about how California agriculture — producing \$100 billion in economic activity, from 76,000 farms and ranches — will fare under the administration of Governor Gavin Newsom. Many ag-related challenges lie ahead — water, labor and trade, to name a few — while the industry will also be impacted by major events in other sectors, such as the years-long process of PG&E’s bankruptcy proceedings and the rising costs for land due to the housing crisis.

With a supermajority of Democrats in state offices and massive industries like technology feeding much of the economy, Newsom has had to focus less on agricultural issues in order to be successful in the current political climate. That’s left many agricultural interests in a state of heightened anxiety about what big plans the new administration will bring to the table.

Though it is still early for the governor, a few early decisions signal Newsom’s approach to some key issues and upcoming policy objectives.



### Making a splash in water issues

**“I don’t remember a governor who in his first weeks in office mentioned rural communities the same way,”** said Michael Dimmock, director of the conservation group Roots of Change and former staffer for Gov. Jerry Brown’s first gubernatorial campaign. “Nor do I remember a governor who took his cabinet down to the Central Valley to look at the water project and talk about rural communities.”

In his first [State of the State](#) address, Newsom outlined his initiative for safe drinking water, saying: “Solving this crisis demands sustained funding. It demands political will.”

He signed his first pieces of legislation in Fresno, providing [\\$10 million for safe drinking water](#) in rural communities. This will likely take [decades of consistent state or federal funding](#) to achieve and has a long track record of legislation addressing the issue. A bill to establish a safe drinking water fund [failed in the state legislature](#) last year and has been revived in the assembly again this year. The issue is complex and closely intertwined in the San Joaquin Valley with agriculture, water scarcity issues and strict new requirements under the Sustainable Groundwater Management Act.

Also in his speech, Newsom declared he would not reappoint Felicia Marcus to the State Water Resources Control Board. As chair of the board, [Marcus lost favor](#) with valley farmers when she called a vote in December on [the board’s plan](#) to require unimpaired flows of up to 50 percent for rivers feeding the Sacramento-San Joaquin Delta to boost salmon populations. After months of negotiations on voluntary agreements for the plans, many of the water districts involved felt like their arguments had been ignored in the vote. Newsom picked board member Joaquin Esquivel to chair the board as a way to “[bring balance](#)”.

Last week, a [new set of voluntary agreements](#), building on work Brown had started and Newsom later supported, was presented to the board — pleasing many in the Central Valley.

**“Governor Newsom’s commitment to the voluntary agreement concept has been evident since the day he took office,”** said General Manager Casey Hashimoto of the Turlock Irrigation District [in a statement](#).

### **Funding Brown’s legacy projects**

Newsom has decidedly been in support of many state agricultural programs hatched under Gov. Brown. In his current budget proposal, he bolstered the [Healthy Soils](#) program with an additional 20 percent in funding over last year and added new research dollars for Huanglongbing and Asian citrus psyllid, as the disease spreads throughout southern California orchards and backyard orange trees.



California Agriculture Secretary Karen Ross

Newsom also reappointed Karen Ross, now in her ninth year as secretary for the Department of Food and Agriculture. After the State of the State, Ross and Newsom traveled to the Central Valley for a roundtable talk with farmers, ranchers and agricultural groups.

**“It was one of the most positive ones I’ve been in for a long time,”** Ross told *Agri-Pulse*, referring to the roundtable. “It’s a very big deal in a state that’s dominated by urban centers.”

Newsom is unlikely to roll back any environmental regulations, however. In pledging to combat climate change during his campaign, he called for the state’s energy to come completely from renewables and even be a “[net exporter](#)” of energy. That could be a boon for agriculture, given the [higher tier electricity](#)

[rates](#) farmers and ranchers pay, the uncertainty around the PG&E bankruptcy filings, manufacturing costs for processors, and [investments into wind and solar projects](#) on farms.

Growing a stronger energy portfolio for California, which now has the fifth largest economy in the world, would benefit agriculture and the state as a whole.

“There’s no end to the opportunity once you look at that nexus between water, energy, food and fiber,” said A.G. Kawamura, a former state ag secretary, in an interview with *Agri-Pulse*. “That’s basically what a governor needs to embrace and to actually make the goal of California being the fourth largest economy.”

Still, some were surprised by one of Brown's programs that got chopped. Newsom trimmed 75 percent from the state’s most productive greenhouse gas reduction program in his budget — the once-lauded dairy digester grant program.

Michael Boccadoro, executive director of the Agricultural Energy Consumers Association, pleaded with the Board of Food and Agriculture yesterday to reach out to the administration and request more funding:

**“If you were a business person you would be doubling down on this investment,” he said. “We are not going to achieve the 40 percent reduction the state is looking for unless we get that corrected.”**

The program began under Gov. Jerry Brown and was funded for \$99 million last year in conjunction with the alternative manure program. Newsom’s latest proposal provides just \$25 million for the methane reduction programs.

### **Navigating the urban-rural divide**

One of Newsom’s earliest connections to agricultural issues as a politician was during his time as mayor of San Francisco. In playing host to a [conference](#) advocating change in “the way America produces food and the way Americans eat,” Newsom seized an opportunity.

**“This impacts every single one us,” he said in a speech on sourcing healthy food. “No matter where we live or how we've been raised, this is a profoundly important issue.”**

At times it was symbolic — he converted the lawn in front of city hall into a temporary garden. Yet experiences like this built early and lasting relationships for him as mayor.

He spent a day with a group that included ag leaders and researchers, discussing challenges with the urban-rural divide in Northern California. Newsom offered the perspective of a businessman in the food and service industries, having owned a suite of [wineries](#), hotels and restaurants.

**“A lot of agricultural leaders asked him some really tough questions and he answered them. He didn’t duck them,”** said Michael Dimmock, who helped organize the conference. “He basically said: ‘Look we have to invest in agriculture and keep it healthy, but agriculture has to continue to evolve, to keep up with the expectations of the consuming public.’”

As mayor, Newsom was seen as a pioneer in developing policies aimed at building healthy and locally sourced food systems in the city. He worked directly with the city's food policy council, which included then-Secretary Kawamura.

**“We were actually really surprised and pleased that he showed up at the meeting, rolled up his sleeves and participated in the discussion significantly at that time,” said Kawamura.**

### **A liaison for ag**

As an acknowledgment of the complexity of agricultural issues ahead of him, Gov. Newsom recently established a new agricultural liaison position. He appointed Bill Lyons, who was secretary for the Dept. of Food and Agriculture under Gov. Gray Davis.



A.G. Kawamura, former California Ag Secretary

“I know a lot of people are scratching their heads, going what does that mean?” said Barry Bedwell, president of the California Agricultural Leadership Foundation. “His job is really to communicate effectively with Governor Newsom on agricultural issues.”

Lyons has deep connections to agriculture across the state. He was close to water politics through his tenure on the board of directors for the Modesto Irrigation District. He also served on the state's agricultural advisory board and won awards and recognition for his work on conservation. He was [reportedly](#) recommended for a seat on the State Water Resources Control Board by Sen. Dianne Feinstein to replace Felicia Marcus. Lyons accrued a working relationship with Newsom spanning decades.

“I've known him for quite a while, as mayor, as lieutenant governor and now as governor,” Lyons told *Agri-Pulse*. “I think he's really concerned about the valley and has made a real effort to meet with folks there.”

Several industry groups have welcomed Lyons' appointment, seeing the position as an agricultural translator when it comes to policymaking.

In a [statement](#) from California Citrus Mutual, the trade association wrote: “The fact that Newsom created this position and appointed Lyons to it are positive indicators that agriculture will have more relevance to the administration than it has in the past eight years.”

Those who know Lyons best say he's perfect for the role.

“He's got a great breadth of knowledge,” Kawamura said. “I'm thrilled to see him back involved.”

Kawamura pointed out while the liaison position is new, Gov. Pete Wilson had appointed an agricultural liaison to the California Environmental Protection Agency to ensure the newly established agency represented interests across the spectrum.

## The battles ahead

With Gov. Brown, California established itself as an anti-Trump state, with [nearly 50 lawsuits](#) against the federal government on the books and more coming out each week. Newsom has carried that battle plan into his own administration, which brings the potential of escalating into agricultural areas, specifically with water.

As one of many direct challenges to Newsom, the Trump administration is seeking to [fulfill a campaign promise](#) of delivering more water to farmers through the federal Central Valley Project. The U.S. Bureau of Reclamation last month took action in that direction.

The bureau is under the U.S. Dept. of the Interior and the provisional leadership of [David Bernhardt](#), a former lobbyist for the largest water district in California and the nation. Last month, the bureau released [a proposed update](#) to biological opinions codified into law a decade ago. If it clears the review process, the assessment would likely increase flows to valley farmers. Advocates say this approach would be more flexible, applying pulse flows as needed for ecosystems downstream while delivering more water to farmers in wet years and avoiding dry canals more often.

The assessment is currently under review by other agencies and the Newsom administration has not weighed in directly on the issue.

Newsom also recently [signed an executive order](#) establishing Lt. Gov. Eleni Kounalakis as California's representative on international affairs and trade. The interagency committee she leads will reopen trade offices shuttered under previous administrations, the first being in Mexico. It is too early to tell how this elevation of trade relations will interplay with Trump's [new trade agreement](#) with Mexico and Canada, which is awaiting congressional approval, or with [Chinese tariffs](#) on California's agricultural exports. China purchased \$2.3 billion in California agricultural products last year, while Mexico took in \$1 billion

## US-China deal promises big wins for ag, but needs enforcement

China may agree to buy more U.S. agriculture commodities and lift onerous trade barriers in the ongoing talks, but unless negotiators can agree on an effective way to make sure the Chinese live up to their promises, any final deal would be worthless.

The U.S. has been stung too many times by China and other countries not living up to promises, Trump administration officials and U.S. lawmakers say.

**“I think that whatever we agree to as a matter of substance, enforcement is very important because we have been snookered by the Chinese in past agreements that they don't really live up to,”** Senate Finance Committee Chairman Chuck Grassley said Tuesday. “In final negotiations, enforcement is the last big thing for



U.S. and Chinese negotiators meet for a January negotiating session in Washington.

our government to work out, and our negotiators are on top of it.”

Both countries have suggested a final deal to presumably end the trade war could be ready by the end of March, but negotiators say they still have major hurdles ahead of them as they try to bridge their positions on a wide array of policy issues dealing with everything from forced technology transfer to biotechnology approval systems.

U.S. Trade Representative Robert Lighthizer gave lawmakers and the public the first outline of what the enforcement mechanism would look like, describing a layered system of checks and balances that would rely heavily on U.S. businesses and exporters reporting problems.

The bottom layer would be made up of lower-level U.S. and Chinese officials that will meet monthly to discuss reports of abuses. Above that will be the “vice-ministerial” level, made up of officials who will meet quarterly, and at the top will be Lighthizer and Chinese Vice Premier Liu He, who will meet twice a year.

The way in which future problems will be discovered are two-fold, Lighthizer said at a House Ways and Means Committee hearing. The first, he explained, is when “individual companies will come to us with complaints about practices and we’ll be able to work those through the process.” The second, he said, “will be systemic problems where we will see patterns developing and a series of things we will disagree with and we will bring these through the process.”

He did not explain what that “process” would be or go into any detail about penalties for breaking new rules of an agreement, but stressed that when rule-breaking occurs, the U.S. would “act proportionately and unilaterally to insist on enforcement.”



U.S. Trade Representative  
Robert Lighthizer

American Farm Bureau Federation Senior Director David Salmonsensaid the plan is the administration’s way of saying it will not take their eyes off China after a deal is reached.

“This is a way of saying they’re going to keep China ... living up to its agreements by watching them all the time,” he told *Agri-Pulse*.

American Enterprise Institute resident scholar Derek Scissors described Lighthizer’s enforcement plan as an inadequate failure.

“It goes without saying that any US-China deal is only worthwhile with strong enforcement, but it’s even more true for President Trump,” Scissors noted in an [analysis](#) for AEI. “He has tagged (China) as the greatest thieves in history, blamed past presidents for not stopping them, and advertised a trade deal that will change everything. It all shouts for much better, more extensive, and if necessary harsher enforcement.”

But the U.S. ag sector, which has borne the brunt of Chinese retaliatory tariffs, continues to hope a sturdy deal with the Chinese can be reached.

China sank rapidly last year from being the largest foreign market for U.S. farm commodities,

worth roughly \$26 billion in annual sales, to fifth place at about \$12 billion behind Canada, Mexico, the EU and Japan, according to USDA data.

The Trump administration is promising that a “magnificent” deal as early as this month could rapidly reverse the situation, pushing U.S. ag exports to China to record heights, but nothing has been set in stone yet, negotiators say.

“We’re trying to do as much as we can,” one U.S. government source said. “Not all of its done, that’s for sure.”

But a lot has been set in motion, including what U.S. negotiators say is a set table for the Chinese to agree to lifting non-tariff barriers like the country’s ban on hormone-treated beef and pork from swine treated with ractopamine.

“We’ve teed up a bunch of stuff on the ag side, so hopefully we’ll bring China across on all of them,” the government source said.

One of the ag policy issues U.S. negotiators have been pushing especially hard on is China’s opaque and lengthy biotech trait approval system. Lighthizer said last week he has made it a priority of his to get reform, but signs from inside China show that the country is going in the opposite direction.

The Chinese Ministry of Agriculture and Rural Affairs has recently revised rules to “impose additional in-country trials and studies on new biotech events as part of the dossier submission process,” according to a new analysis by USDA’s Foreign Agricultural Service.

**Above all, nothing is certain when it comes to a deal with China,** U.S. government and industry sources say. President Donald Trump walked away from a summit in Vietnam with North Korea’s Kim Jong Un after failing to reach a disarmament agreement that seemed to be almost assured after a signing ceremony had been scheduled and arranged. The same could happen at a meeting between Trump and Chinese President Xi Jinping, U.S. officials say.

Secretary of State Mike Pompeo, in a Tuesday interview with the Sinclair Broadcast Group, said he’s optimistic about a deal but stressed that Trump would walk away if he’s not satisfied.

“You saw us this past weekend in Hanoi,” Pompeo said. “The President’s determined to make sure that he protects his first client, his first obligation to the American people — in this case, the American farmer. This has to work for America. If it doesn’t work, we’ll keep banging away at it. We’re going to get to the right outcome.”

## **House Democrats, White House both mull ag labor reforms**

Despite President Donald Trump’s ongoing battle with lawmakers over funding a border wall, efforts are underway both at the White House and in Congress to craft immigration legislation that could address the labor shortage in agriculture.

In the House, the new chairwoman of the House Judiciary Committee’s subcommittee on immigration, California Democrat Zoe Lofgren, has had preliminary discussions with farm groups about a standalone ag labor bill that could include new guest worker provisions as well as



Ag Secretary Sonny Perdue

her proposal to legalize undocumented farm workers.

Provisions also could be included to require all employers, including farms, to use the E-Verify system to check the legal status of workers.

Sources say the plan would be to take up an ag labor bill after dealing with two other Democratic immigration priorities: Legislation to provide legal status to Dreamers, immigrants who were brought to the country illegally as children and later enrolled in the Obama administration's Deferred Action for Childhood Arrivals

(DACA) program, and reform of the Temporary Protected Status program, which allows immigrants from certain dangerous countries to stay in the United States.

The White House effort is led by Jared Kushner, President Trump's son-in-law, rather than Stephen Miller, an immigration hardliner. Kushner has held at least one meeting with representatives of various business sectors to hear out their priorities for what would likely be a broad immigration reform plan, sources say. The American Farm Bureau Federation was represented in that meeting.

Agriculture Secretary Sonny Perdue disclosed in a House Agriculture Committee hearing last week that he was lending his immigration adviser, Kristi Boswell, a former immigration policy specialist with AFBF, to assist with the White House effort. Perdue didn't provide any details of the White House plan, nor mention Kushner by name.

"The president understands we need a legal agricultural workforce," Perdue told the Senate Agriculture Committee the following day. "It's probably the No. 2 issue behind trade. I look forward to working with both sides and the administration to achieve a comprehensive immigration bill that satisfies the need for agricultural workers."

Whether either of the two efforts can result in legislation that passes Congress ahead of a presidential election is a big question. In the past, it has been very difficult - if not impossible - to deal legislatively with one immigration issue without addressing others. The last major attempts at comprehensive immigration reform, in 2007 and 2013, ultimately failed, too.

Sources emphasize that both the White House and Lofgren efforts are at a very preliminary stage. Spokesmen for Lofgren and the White House did not respond to questions about their plans.



Rep. Zoe Lofgren, D-Calif.



“Whether something is going to happen, we don’t know,” said one leading advocate of agricultural labor reform, one of several officials who described the developments on condition of anonymity. “But certainly, there is a couple of angles, one definitely from the White House and the other from the House Democrats. We’ll see what happens.”

Craig Regelbrugge, senior vice president of public policy for AmericanHort, which represents greenhouse growers, said the discussions with Lofgren have been relatively high-level so far. “Given the seriousness of the labor crisis afflicting ag, we have an obligation as well as opportunity to engage,” he said.

A spokeswoman for the California Farm Bureau Federation, Sara Neagu-Reed, said the discussions with Lofgren’s staff are more broadly represented than the negotiations behind the drafting of a guest worker program that then-Judiciary Chairman Bob Goodlatte, R-Va., tried to put on the House floor.

The California Farm Bureau and Western Growers Association declined to support the effort in part because the proposed H-2C program wouldn’t have provided legal status for family members of farm laborers. The groups also feared the Goodlatte bill would become the starting point for future negotiations. The proposal never got a floor vote.

The Senate’s 2013 immigration bill included new guest worker provisions that were the result of negotiations between farm groups and the United Farm Workers, a group also included in the discussions with Lofgren’s office. The bill would have replaced the H-2A program with two types of agricultural visas, one for contract workers and the other for “at-will” employees who could move between farms that were registered for the program.

Iowa Sen. Chuck Grassley, who was the ranking Republican on Senate Judiciary Committee during the development of the 2013 bill, said the best chance of passing ag labor reforms would be to attach them to a must-pass bill, such as an appropriations measure.



Rep. Dan Newhouse, R-Wash.

“It’s difficult to get a bill up in the Senate that deals with agricultural workers, although I would be in favor of it. Everything else would get amended to it dealing with immigration,” he said.

Farm groups recently have been reaching out to congressional staff to build the case for addressing farm labor needs. “We don’t have much time” to address the issue,” Rep. Dan Newhouse, R-Wash., said at a forum for congressional aides last week at the Capitol. “All the pieces are there arguably for putting together solutions” on immigration.

Newhouse, who owns a farm in the Yakima Valley, said immigration is “probably harder than many of the ... social issues that we have,” including abortion.

“A lot of my friends and neighbors are struggling now to find an adequate labor supply. This is hurting our industry as we speak. There’s every reason for us to put aside what usually stops us — the desire to find the perfect solution,” said Newhouse.

Chalmers Carr, a South Carolina producer who is president of USA Farmers, which represents farmers who use the H-2A program, said, “We do have an illegal workforce. We need to recognize that.”

“We must take care of the current work force - we cannot kick them out,” he said.

## **US car tariffs threaten to add to ag retaliation woes**

Retaliation from around the world to U.S. steel and aluminum tariffs is still hitting farmers and ranchers here hard, but the pain could get a lot worse if President Donald Trump follows through with threats to impose new import taxes on cars and car parts.

The U.S., after declaring last year that its roughly \$35 billion worth steel and aluminum imports were a national security threat and levying tariffs, is now contemplating doing the same thing on a grander scale with automobiles.

The current retaliatory tariffs to the U.S. taxes on metals imports are still taking a major chunk out of U.S. pork, potatoes, almonds, apples, oranges and cheese exports. That pain is expected to expand exponentially if the Trump administration slaps tariffs on \$350 billion worth of car and car part imports.

“The point is that (the retaliation) would affect everything because the numbers are so big,” a European Union trade official told *Agri-Pulse*.

U.S. farmers and ranchers are always some of the first to suffer in trade wars. They’ve lost billions of dollars in foreign sales since the U.S. began hitting customer nations with tariffs last year.

Six of the top car and car parts exporters to the U.S. are also the top six markets for U.S. ag exports: Japan, the EU, South Korea, China, Canada and Mexico, according to government trade data.



President Donald Trump

“That’s \$331 billion of imports that could be affected by (new 232 tariffs),” said one U.S. government trade official preparing for the possibility of an expansion of the trade conflicts. “Those top six accounted for 64 percent of our total ag exports.”

While Japan — the home of Subaru and Mazda and a major importer of U.S. beef, pork, potatoes and wheat — did not retaliate against the U.S. steel and aluminum tariffs, the country is eager to avoid potential car taxes. Prime Minister Shinzo Abe only agreed last year to talks for a bilateral free trade agreement after Trump threatened auto tariffs.

“I said, ‘You don’t have to negotiate, but we’re going to put a very, very substantial tax on your cars if you don’t,’ ” the Japan Times [quoted](#) Trump saying.

Canada and Mexico might be able to avoid the car taxes. Both countries were given large quotas in side letters to the newly renegotiated North American free trade pact with the U.S., but that's not a certainty, said one U.S. trade official. None of the three countries have yet ratified the pact.

Ironically, it is the fact that the Trump administration has not lifted the current 232 tariffs on Canada and Mexico that has the country's legislatures balking at approving the pact.

Mexico was the first to hit back last year on the U.S. steel and aluminum taxes, and its retaliatory tariffs have cut especially deep.

The EU is standing firm that the U.S. has no right to impose car tariffs on its 28 countries, but the trading bloc is also preparing for the worse.

**“We don't consider that this is any way justified,”** said David O'Sullivan, head of the EU delegation to the U.S., before he retired last month. “We don't believe that under any objective analysis you can conclude that European cars and car parts ... pose a threat to national security. We didn't believe that for steel and aluminum. We continue not to believe it in the slightest for cars and car parts.”

EU Trade Commissioner Cecilia Malmström is scheduled to meet Wednesday with U.S. Trade Representative Robert Lighthizer. While they will be discussing a free trade agreement, a European Commission spokesman said, Malmström has also come to Washington to reinforce “the consequences” if the Trump administration hits the EU with the new tariffs.



EU Trade Commissioner Cecilia Malmström

The European Union has already devised a new list of U.S. products to retaliate against if the Trump administration puts new “Section 232” tariffs on imports of Mercedes Benzes and other cars. It hasn't been published yet, but one EU trade official tells *Agri-Pulse* that new tariffs on soybeans, nuts and fruit are likely to be included.

The entire issue of the EU's response to auto tariffs could be moot if Malmström and Lighthizer agree that trade talks are in good shape. Both sides are still technically in a trade dispute. The EU is currently charging import taxes on about \$3.3 billion worth of U.S. goods, including orange juice, cranberries, corn and rice in retaliation for U.S. tariffs on steel and aluminum. But they have agreed that so long as they remain engaged in talks for an FTA, the EU will be exempt from the potential auto tariffs.

That's still the case in the view of European trade officials, but not for U.S. officials. The U.S. is still insisting that agriculture issues be included in the trade talks, but EU officials are equally adamant that they be left out and neither side has shown any sign of backing down.

O'Sullivan told reporters that the word “agriculture” was intentionally left out when President Donald Trump and European Commission President Jean-Claude Juncker signed [an agreement](#) to begin the talks last summer.

While it's true that the word "agriculture" is indeed absent from the document, U.S. Ambassador to the European Union Gordon Sondland told Politico in a recent interview that should not matter.

O'Sullivan called that absurd, saying, "The statement means what it says. It's written down. It doesn't say agriculture. It says industrial products. Why would we have said industrial products if we actually mean all products?"

Ag Secretary Sonny Perdue recently said the U.S. could use the threat of new auto tariffs to force the EU to agree to negotiate ag issues.

O'Sullivan said that would be a mistake: "That's clear. If there were to be the unilateral imposition of new tariffs on autos, the talks would be ended."

## **Do bankruptcy numbers show the whole farm economic picture?**

Chapter 12 farm bankruptcies have hit highs not seen for a decade in some states, setting off alarms, with some wondering whether the farm economy could be headed for a crisis similar to the one that occurred in the 1980s. A deeper look at the numbers tell a different story.

Farm bankruptcies are far from the lofty levels seen in the late 1980s, and Chapter 12 bankruptcies actually fell slightly last year, from 501 in 2017 to 498 in 2018. However, the rate of bankruptcies per 10,000 farms of 2.46 has risen slightly over the past several years, according to data from the [American Farm Bureau Federation](#) (AFBF).

**"We have fewer farms and larger farms than we did in the 1980s. It's a different environment," says John Newton, chief economist at AFBF.**

Thus, while the overall bankruptcy numbers look nowhere near as bad as they did in the 1980s, the situation could deteriorate if margins remain poor, with some states, some sectors of agriculture, and some regions of the country faring worse than others.

**"Ag land values have held for a while, but with interest rates rising, commodity prices low, and debt increasing, it could get worse if asset values decline,"** Newton said.



USDA Chief Economist Rob Johansson

No doubt, the farm economy is hurting. In 2018, net farm income dropped by nearly half to \$66 billion from 2013's peak of \$134 billion. For the next 10 years, USDA projects net farm income will remain under \$80 billion. Working capital has also plunged while total debt has soared. [Since 2012, working capital has fallen by 70%](#). Meanwhile, total debt has climbed to a record high \$450 billion, both in real and nominal terms, says Newton.

Yet the nation's farms are still in better shape than they were in the 1980s, when farmland values crashed.

“Today, interest rates and inflation are low, which helps to maintain farmland values,” says [Rob Johansson, USDA’s chief economist](#). “Fixed-term debt today has replaced the variable-rate debt of the 1980s.”

In the mid-1980s, Johansson says that the debt-to-asset ratio was around 20 percent, while in 2018 it was only 13.5 percent, and debt as a portion of net income in 2018 was 25 percent, compared to 1983’s record high of 60 percent.

Data, however, can be misleading. For example, Chapter 12 works best for small farms that have overextended and have assets to sell, partly because the maximum debt level allowed under Chapter 12 is \$4.15 million, says Kristine Tidgren, director of the [Center for Agricultural Law and Taxation](#) at Iowa State University.

**Bankruptcy Options for Struggling Farmers**

**Chapter 7:** The most common form of bankruptcy in the United States, Chapter 7 provides farmers and others the opportunity and process of liquidation under bankruptcy laws. Most farmers who use this chapter have do not have the financial wherewithal to continue farming.

**Chapter 11:** Provides a process in which a business or individual can restructure debt. Due to the debt limit included in Chapter 12, farmers with debt levels that exceed the cap who want to continue farming must file Chapter 11 bankruptcy.

**Chapter 12:** “Family farmer” or “family fisherman” can restructure debt through a seasonal repayment plan over three to five years. Those who file Chapter 12 must show they will have the income needed to make payments on the restructured debt, which is currently limited to \$4,153,150 for a farmer and \$1,924,550 for a fisherman.

“These farms can downsize to pay off their creditors without having a substantial tax hit,” she said. Large farms must file Chapter 11 if they want to continue farming (see sidebar).

For farms that don’t have anything to sell, Chapter 12 often will not work because lenders require the farm to demonstrate it will have sufficient income to service restructured debt. For instance, Tidgren says that when interest rates are falling, farmers can refinance high-interest debt to reduce overall debt payments.

But when commodity prices are low and interest rates are rising, like they are today, farmers have a more difficult time putting together a plan to repay creditors. “For a lot of folks who are struggling, Chapter 12 is not a good option,” she notes.

Thus, looking at Chapter 12 bankruptcies alone doesn’t tell the full story. Many farms, both those in Chapter 12 and others, are servicing debt with off-farm income, Newton says. “People are rolling short-term debt into long-term debt and that is not sustainable,” he notes.

Struggling farmers who do not want to file bankruptcy have several options. “They can sell off land to cover operating costs or take out loans,” Johansson says. Selling land to make ends meet is also considered unsustainable. They can also sell their business or close down their operation.

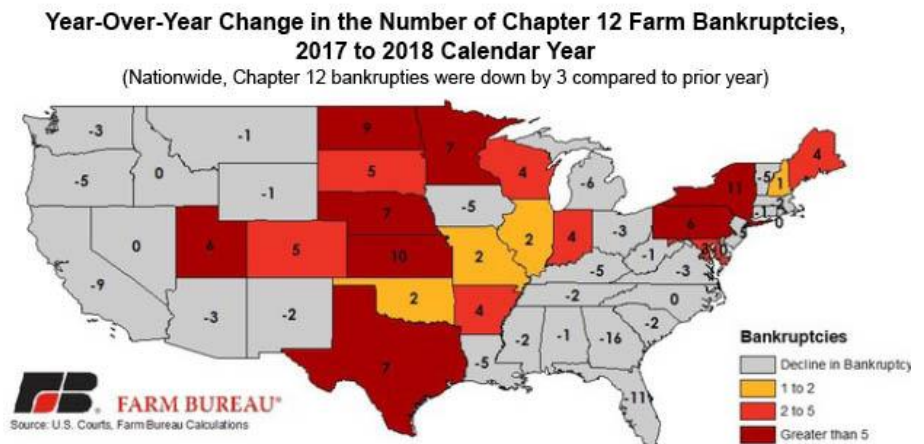
**“I feel like we are seeing a lot of cases where folks aren’t filing bankruptcy, they are just getting out of farming,” Tidgren says. “They are either exiting farming altogether or they are downsizing and depending more on off-farm income.”**

Chapter 11 and Chapter 7 bankruptcies also do not show up in farm bankruptcy data. “We aren’t going to see the real big farms in Chapter 12, but the number of big farms going out of business

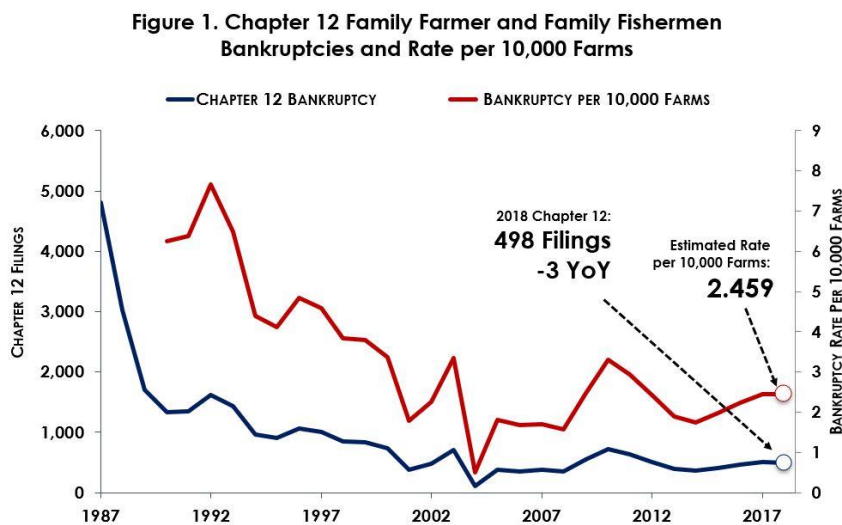
is small. Most large farms have more assets to draw upon, so the majority of what’s going on in terms of farm bankruptcies is picked up in Chapter 12,” says Johansson.

Some states and regions are reporting more Chapter 12 bankruptcies than others, but no states have approached the bankruptcy levels seen in the 1980s.

Looking at the percent change in Chapter 12 bankruptcies in 2018, compared to 2017, the Rocky Mountains fared worst (up 56 percent), followed by the Midwest (up 19 percent), Northeast (up 18 percent), and Southwest (up 13 percent). Chapter 12 bankruptcies declined by 40 percent in the Pacific region and 27 percent in the Southeast. These changes essentially reflect the sectors that are experiencing the most financial distress — corn, wheat, and dairy.



“The Pacific region is more diversified than the traditional row crop regions, given the tree fruit and nut crops and vegetables grown there,” Newton said. “And the larger California dairies are likely outside the Chapter 12 limit.” In the Southeast, he says, crops like cotton are capital intensive and these farms too likely fall outside Chapter 12’s debt limit.



Cash receipts for corn have fallen about 33 percent from their peak of \$72 billion in 2012 to \$48.5 billion in 2018. Likewise, cash receipts for wheat have fallen nearly 45 percent from their peak in 2012 of \$16.5 billion to under \$9.2 billion last year. Dairy receipts have fallen nearly 30 percent from 2014’s \$49.4 billion to \$35.3 billion last year.



Source: U.S. Courts, USDA NASS, Farm Bureau Calculations

Chapter 12 bankruptcies in Wisconsin last year hit highs not seen in more than a decade and were more than double what they were in 2009, according to AFBF data. Other states with decades-high levels of Chapter 12 filings were Indiana, Kansas, Minnesota, North Dakota, South Dakota, and Utah.

Analysts agree that of all sectors, dairy has been hit hardest by the current downturn. According to [Paul Mitchell, professor of agricultural and applied economics at the University of Wisconsin, Madison](#), in addition to the dairies that filed Chapter 12 last year, seven large dairies in Wisconsin, the nation's second largest dairy state, filed for bankruptcy under another chapter. According to NASS, 7.9 percent, or 691 dairy farms in Wisconsin, closed in 2018, the most since 2004, when the data started being reported.

The dairy sector is consolidating faster than any other ag sector now that consolidation in the hog industry has slowed, according to Johansson. In 2013, there were 70,375 dairy farms in the United States. By the end of 2018, that number had dropped to 40,219, a decline of 43 percent. Dairy farms will continue to consolidate, and herd size will continue to increase, he says.

Financial stress, particularly for corn, wheat, and dairy farmers is likely to worsen, but the overall trend in slightly declining farm numbers is unlikely to change much, says Johansson.

“The bigger story is that (the majority of farms) are scaling back on their operations,” he said. “Currently about 40 percent of all farms produce over 85 percent of all ag products ... The share of farms producing the bulk of ag products will continue to decline.”

## News Briefs:

**Would you like some meth with your fresh produce?** Drug smugglers keep looking for unique ways to transport drugs across our southern border, but [U.S. Customs and Border Protection officers](#) have successfully uncovered recent attempts to pack drugs along with strawberries and avocados coming in from Mexico. The CBP's Office of Field Operations (OFO) at the Pharr International Bridge in Texas, recently seized \$12.7 million worth of methamphetamine and \$587,000 worth of marijuana in separate, unrelated incidents. CBP officers encountered a 42-year-old male Mexican citizen with a commercial shipment of frozen strawberries arriving from Mexico. CBP's OFO referred the shipment for further inspection and officers discovered 350 packages of alleged methamphetamine concealed within the trailer. CBP seized 906 pounds of methamphetamine along with the tractor/trailer. This seizure was accomplished with the utilization of nonintrusive imaging ([NII](#)) equipment along with assistance from CBP [canine teams](#). A few days later, a commercial shipment of fresh avocados arrived at the same cargo facility and officers discovered 421 packages of alleged marijuana. “CBP officers at our port and throughout the Laredo Field Office are encountering and seizing colossal loads of marijuana,” said Port Director David Gonzalez, at the Hidalgo/Pharr/Anzalduas Port of Entry.

**Despite wet winter weather - wildfire risk remains.** California's fire and moisture patterns used to be more predictable, but new research indicates that the connection has gradually declined since the early 1900s and has now totally disappeared. Why? The weakened connection between precipitation and wildfires corresponds to the development of a fire suppression policy on federal lands, an international team reports in the [Proceedings of the National Academy of Sciences](#) on March 4. From 1600 to 1903, the position of the North Pacific jet stream over California was linked to the amount of winter precipitation and the severity of the subsequent wildfire season. However, the team reported that, after 1904, the connection between winter moisture brought by the jet stream from December through February and the severity of the wildfire season weakened and totally disappeared after 1977. Fuel buildup from decades of fire suppression in the 20th century plus rising temperatures from climate change means any year may have large fires, no matter how wet the previous winter, the team writes. "The moisture

availability over California is still strongly linked to the position of the jet stream, but fire no longer is," said co-author Valerie Trouet, an associate professor of dendrochronology at the University of Arizona Laboratory of Tree-Ring Research. California's wet winter of 2016-2017 is a good example, she said. That winter was followed by many large fires in 2017, including the Tubbs fire in October and the Thomas fire in December. Twenty-four people died and 6,699 structures burned in those two fires, according to the California Department of Forestry and Fire. "It's not either climate change or historical fire management—it's really a combination of the two that's creating a perfect storm for catastrophic fires in California," Trouet said [in a release](#).

**USDA hosting more farm bill sessions.** The Department of Agriculture will host at least nine more webinars and listening sessions as it moves ahead with farm bill implementation. The first such listening session last week focused on conservation and dairy issues as stakeholders [called for speedy action](#) on both subjects. Next week, USDA will host three webinars: one March 13 on hemp production and the farm bill language concerning it, one March 13 on The Emergency Food Assistance Program (TEFAP) and the Commodity Supplemental Food Program (CSFP) and a March 14 chat on Rural Development programs. The following week, USDA will host another five sessions: A March 19 webinar on the Supplemental Nutrition Assistance Program (SNAP); two sessions on March 21 will discuss Research, Education, and Economics programming as well as Animal and Plant Health Inspection Service items; two more discussions will be held the next day, when officials hear about Natural Resources and Environment provisions as well as Trade and Foreign Ag Affairs programs included in the farm bill. Things are scheduled to conclude with a March 28 teleconference on the Federal Swine Eradication and Control Program. More information about the events can be found [here](#).

## **Farm Hands on the Potomac...**

FDA Commissioner **Scott Gottlieb** announced he will resign from his position, stepping down in the next month. Gottlieb had led the charge on a number of food policy issues at FDA, including dairy labeling and cultured meat regulation. Gottlieb had recently appointed senior staff positions including the hire of **Doug Andres** as a communications aide where he was set to work directly with Gottlieb. Andres was hired to fill the position after **Nina Devlin**, Gottlieb's top communication aide, left FDA last month. Andres previously worked for former Speaker of the House **Paul Ryan**, R-Wis., for four years. He was also press secretary of the House Ways and Means Committee. ... **Timothy Schell** returned to the FDA to lead the Office of Surveillance and Compliance for the agency's Center for Veterinary Medicine (CVM). Schell started working for CVM back in 2000, starting as a reviewer of new animal drugs for swine and poultry. He held the position of deputy director of the Division of Animal Feeds from 2009-2014, and also served in leadership roles as acting director and acting deputy for more than a year at CVM's Office of Research. In 2014, Schell joined Elanco Animal Health to lead regulatory affairs strategies.

Deere & Co. tapped **John May** to serve as its new chief operating officer beginning on April 1st. May has been with the company for 22 years, most recently serving as president of the Worldwide Agriculture and Turf Division, covering the Americas and Australia. He joined the senior management team in 2012 as the President of Ag Solutions and was chief information officer. Prior to joining Deere, May was a consulting manager for KPMG International for 5 years. Deere also promoted **Cory Reed** to President of Worldwide Agriculture & Turf Division, **Rajesh Kalathur** to president of John Deere Financial and chief information officer,



and **Ryan Campbell** to senior vice president and chief financial officer of John Deere Financial.

Michael Torrey Associates (MTA) has promoted **Tara Smith** to executive vice president and **Kerry Lynch** to director of public affairs. Smith came to MTA in 2013 as vice president where she focused on developing strategy for legislation and regulatory issues. Prior to MTA, Smith served as senior staff for the Senate Agriculture Committee under Senator **Pat Roberts**, R-Kan., covering commodity programs, crop insurance, and disaster aid issues. She also was director of government affairs for the American Farm Bureau Federation where she handled the farm bill and commodity issues. In her career, Smith also worked for Monsanto Company and Promar International. ... Lynch started with MTA in 2014 as a manager where she led the firm's marketing strategy and outreach to clients. She will now work with the firm's communication services and provide direction for new client services. In Lynch's career she worked for the Society of Wine Educators, the Animal Agriculture Alliance and the National Turkey Federation.

**Dave Warner** has made his way to USDA as the new director of external affairs for USDA's Farm Production and Conservation mission area. He will work for Undersecretary **Bill Northey** to help communicate on behalf of the Farm Service Agency, Risk Management Agency, and Natural Resources Conservation Services. Warner comes to USDA from the National Pork Producers Council, where he spent 13 and a half years as director of communications and spokesman. Prior to NPPC he worked for the U.S. Chamber of Commerce as director of communications.

The American Farm Bureau hired **Kathleen Cullins** as the new chief financial officer. Cullins brings more than 27 years of financial experience to AFBF, previously serving as vice president of finance at the American Chemical Society.

Last week, the Senate approved the nomination of **Andrew Wheeler** to be the Administrator of the Environmental Protection Agency. The confirmation came from a vote of 52-47. In his first week as administrator he has announced new staff additions. **Doug Benevento** will serve as senior counselor for regional management and state affairs. Benevento is currently EPA region 8 administrator and will remain in that position until he begins in his new role later this month. He previously served as executive director of the Colorado Department of Public Health and Environment, and as a legislative aide to Colorado Representative and Senator Wayne Allard. ... **Mara Kamen** will serve as the new career director of the Office of Human Resources. She previously held various positions at the Small Business Administration and has also served at the Department of Homeland Security and Office of Personnel Management. ... **Michael Molina** will be the new deputy chief of staff. Molina served as senior adviser to the Deputy Administrator and then Acting Administrator Andrew Wheeler. ... Lastly, **Corry Schiermeyer** will serve as the new associate administrator for the Office of Public Affairs. Schiermeyer currently serves as the Press Secretary and acting Director of Media Relations at U.S. Customs and Border Protection.

**Elizabeth Burns-Thompson** is joining the Renewable Energy Group (REG) as manager of corporate affairs. Burns-Thompson made the transition to REG from the Iowa Corn Growers Association, previously working on the regulatory affairs counsel and was the government relations manager. Burns-Thompson worked at ICGA for four years and previously worked for the Iowa Farm Bureau Federation and the National Agricultural Law Center.

**Margaret McInnis** returns to Capitol Hill to work as a legislative assistant for Rep. **Marcy**

**Kaptur**, D-Ohio. She left the Hill in 2016 to work in the private sector and government relations groups, most recently working as a senior legislative fellow for Venn Strategies.

The U.S. Wheat Associates (USW) hired **Kazunori “Rick” Nakano** as the associate country director for Japan, based in Tokyo. Nakano will begin his role effective April 1<sup>st</sup>. Nakano brings more than 27 years of grain trading and management experience with Japan’s Marubeni Corporation to USW and he will work closely with USW Country Director **Wataru “Charlie” Utsunomiya**, who intends to retire from his position in late September 2019.

UnitedAg, a company which provides health care for the agricultural industry, appointed **Mack Ramsay** as the new chairman to the board of trustees. Ramsay is responsible for UnitedAg’s health and wellness plans and affiliated initiatives. He served as president and managing member at Pacific Commerce Group (PCG) since 2005 and also serves as executive vice President/general manager for Calberi Inc., an agricultural cooperative and service provider.

After three years as chair of the Minor Crop Farmer Alliance (MCFA) **Phil Korson** has stepped down to head back to the farm and focus on family. Korson served on MCFA’s executive committee for more than 20 years, first as vice-chair and most recently as chair. Korson currently serves as president of Cherry Marketing Institute. Elected as chairman for 2019 is **Jim Cranney**, current president of the California Citrus Quality Council. Cranney is joined by **Terry Humfeld** who was elected as vice chair, **Marcy Martin** as secretary, and **Robert Guenther** as treasurer.

Global Dairy Platform (GDP) elects **Mike Durkin**, president and CEO of Leprino Foods, and **Lino Saputo Jr.**, chairman and chief executive officer of Saputo Inc, to the board of directors. GDP is a collaboration of dairy sector organizations focused on promoting the use of the appropriate intake of nutrient-rich dairy foods and demonstrating the sector’s role in sustainable agriculture.

**Annette Jones**, the California State Veterinarian, received the Scientist of the Year award presented by the Pacific Egg and Poultry Association (PEPA) at the 95<sup>th</sup> annual convention in Anaheim, Calif. Jones also serves as director of the California Department of Food and Agriculture’s division of animal health and food safety services.

**Best Regards,**

**Sara Wyant**  
**Editor**

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