

# Farm Management Update



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## The Effect of the War in Iraq on Agriculture



By Matthew Roberts

Many farmers in Ohio hoped that 2003 would be a return to life as usual after the 2002 drought. While the war in Iraq may have ended the hopes of a 'normal' year, there is little reason to think that the war will have any major

negative impact on U.S. agriculture this year. There are four main avenues through which the war might affect U.S. farmers: energy costs, exports, interest rates, and biofuels.

Fuel and fertilizer costs were the most apparent agricultural effects of the war. Fertilizer prices climbed dramatically through the winter, as did diesel costs. While prices of both commodities increased as war-related uncertainty grew, there were also fundamental supply shortages for both commodities that drove prices higher.

The exceptionally cold 2002–2003 winter drew natural gas stocks to their lowest levels in many years, and natural gas is the primary feedstock of nitrogen fertilizers. Simultaneously, U.S. oil inventories shrank in response to last fall's Venezuelan oil-workers' strike. These low-inventory conditions justified increases in prices. However, it was the fear of continued disruptions due to the war that drove prices to extreme levels. From November to February, May natural gas futures prices climbed 60%, from \$4 to over \$6.50/

mmBtu. May crude oil futures climbed from \$24 to over \$36 per barrel. A measure of the 'war premium' in both commodities is their fall since early March. By early April, crude oil had fallen below \$30 and natural gas had fallen below \$5, both of which were still higher than in the last few years, but much lower than just prior to the outbreak of the Iraqi war.

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The impact of the war on agricultural exports is less clear. The U.S. government has already announced that it will donate 30m bushels of wheat to Iraq, and another 10m or so to African nations. The crucial issue for the long-term impact of the food aid donations is the size of the import needs of Iraq over the next year or two, until domestic production resumes. Judging by history, over the coming year, we could see over 150m bushels of wheat going to Iraq, plus additional rice, and possibly cooking oil. Which nations supply these commodities has more to do with politics than economics. Over the next year, it is likely to be primarily

the United States and Australia, who are both members of the "coalition of the willing" and are major agricultural exporters. How long this preferred status will be maintained is difficult to predict, as France, Canada, and the former Soviet Union are all also large wheat exporters. In any event, it is likely that a stable and prosperous Iraq will be an importer of U.S. agricultural products. On the negative side, it is worth considering whether there will be any negative impact on coalition members' exports to the Middle East. Given the widespread opposition, it is likely that there will be some reluctance to purchase U.S. commodities when alternatives are available from nations such as France or the FSU, though it is difficult to predict how large this impact might be. In the longer term, Middle Eastern nations will revert to choosing their food imports based on price and quality, not politics.

Biofuels are a potential beneficiary of the hostilities. Since the original Gulf War, the American public has become increasingly aware that our energy dependence requires us to take an active role in the Middle East. Biofuels, such as ethanol and soy-based diesel, are one way to reduce that dependency, and we have seen increased interest in biofuels on Capitol Hill in the last six months. While the current war may

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# Are Ohio Dairy Farmers Satisfied With Local Suppliers?

By Aaron Stockberger and Brian Roe  
Respectively, graduate student and Extension Specialist

The face of dairy farming in Ohio is changing. The structure of dairying has evolved immensely in the past few years with regard to technology, size of operation, and the geographical location of farms. One of the consequences of these changes is that the business structure that supports dairy farms (e.g., feed mills, equipment suppliers, and veterinarians) might not react quickly enough to meet the changing demands of dairy farmers. Whether because of farm size or geographical location, farmers could be lacking the necessary farm inputs locally because the local business structure has not realized or has not been able to respond to these changing needs.

Analysis of 450 responses to a survey administered to a random sample of Ohio dairy farmers in the summer of 2002 confirms these general trends concerning the business infrastructure supporting dairies. The survey gathered information on various topics, one of them being the farmers' satisfaction with his or her local supply network.

When asked to agree or disagree with the statement, "I can find most of the inputs and services I need to run my dairy operation within my home county," farmers replied with mixed results, mostly segregated by region and farm size. Statewide, almost 73% of farmers agreed with the statement. They were happy with their local supply network and saw no need for change. The remaining 27% that did not agree came mostly from the South and Northwest districts, with only 42% and 59% respectively agreeing. The most satisfied region was the Northeast with almost 87% of farmers voicing their approval of their respective

supply networks. When throwing herd size into the equation, the most satisfied were herds milking less than thirty cows, with over 84% of the farmers agreeing. The least satisfied were herds milking over two hundred head of cattle. Only 43% of the farmers from this group agreed with the statement. Herds milking between thirty and one hundred cows had an average agreement rating of roughly 65%, while those milking one hundred to two hundred cows had 70% of the farmers agree with the statement.

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Looking at these numbers, it is clear that farms in the South and Northwest districts and herds with over two hundred head are not receiving the support system of farm inputs they feel they need. Expansion and relocation are probably the main reasons for this. More and more herds have moved into the Northwest region of the state. As dairy herds move from one area to another, it may take time for suppliers to react to demand that is diminishing in one region and increasing in another. Consequently, when farmers move to a new region they might be without some of the inputs they used to take

for granted. According to the survey, this may be the case for the Northwest region of the state.

The survey also states that farms with over two hundred cows are the least satisfied with local supply networks. More than likely, these herds may have also recently relocated and/or expanded in the recent past. The same principle about relocation holds true when talking about expansion. When herds take on rapid growth, the supply system they used before may not be ready to meet farmers' increased demands for traditional products and demands for services not commonly desired by smaller farms (e.g., heifer raising or forage supply). Until local suppliers identify the new and increased demand and adapt, the farmer will more than likely be forced to buy elsewhere, and the local supplier will be missing business opportunities.

The reasons that the Northwest district and herds over two hundred cows are not satisfied with their support system and the reasons that the Northeast district and herds milking less than thirty cows are overwhelmingly satisfied with the farm input system represent opposite sides of the same coin. The Northeast district of Ohio has long been a dairy hotbed. Many suppliers are based out of this area. The demand for a dairy support system was firmly established many years ago, and companies entered and adapted to meet that demand. Today that support system is still in place and meets the demand of most of the farmers in the area. It is no coincidence that the Northeast district is home to many of the small dairies in the state, which explains

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# Ohio Farmers and Farm Environmental Policy

Lindsey Pound, Carl Zulauf, Brent Sohngen, and Allan Lines

Respectively, undergraduate student, McCormick Professor of Agricultural Marketing and Policy, Associate Professor, and Professor in the Department of Agricultural, Environmental, and Development Economics, The Ohio State University

In March/April 2001, a survey was conducted to research the views of Ohio farmers on selected farm environmental issues. Questions addressed agriculture's role as a polluter, fiscal incentives to promote environmental benefits, conservation compliance, preservation of open space and farmland, regulation of livestock production, and Total Maximum Daily Load regulations (TMDLs).

As a group, 21% and 7% of Ohio farmers indicated that Ohio agriculture is a major polluter of water and air, respectively. This opinion drops to 1% of farmers who have farm sales and government payments in excess of \$250,000. These results stand in direct contrast to the Ohio Environmental Protection Agency's (OEPA) appraisal of agriculture's role in water pollution. Based on its year 2000 assessment cycle, OEPA lists agriculture as the second largest source of impairment to aquatic life in Ohio streams and rivers and as the largest contributor to the largest source of impairment, hydromodification. Thus, a substantial gap exists between the views of Ohio farmers and OEPA on agriculture's role in water pollution.

By a small margin, Ohio farmers responded that row crop agriculture has a more negative impact on water quality in Ohio than livestock agriculture. However, an interesting contrast existed: 62% of farmers who sold no livestock listed livestock agriculture as

more polluting than row crop agriculture, while 69% of farmers who sold livestock listed row crop agriculture as more polluting than livestock agriculture (Figure 1). This contrast suggests that farmers may be more likely to see an agricultural practice as polluting if they do not use the practice.

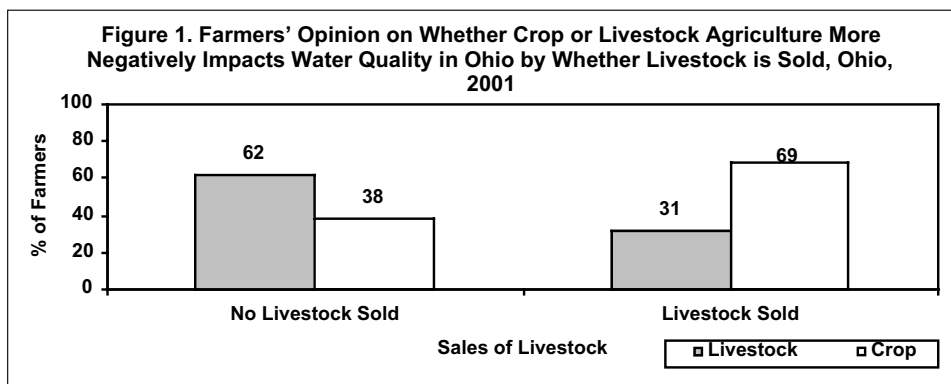
**Federal Incentive Payments for Environmental Benefits:** Ohio farmers strongly supported using financial incentives to encourage practices that benefit the environment through agriculture. Such incentives are the cornerstone of the conservation title of the 2002 Farm Bill. Around 90% of farmers supported using incentives to protect water quality, protect farmland, and reduce soil erosion. Support was weakest for increasing carbon in the soil and providing habitats for endangered species (50% of farmers). In contrast to the strong support for using incentives, only 22% of Ohio farmers participated in conservation programs during the 2000 calendar year. Most of these programs use financial incentives to encourage participation. The difference between the widespread support for the use of fiscal incentives and the much lower participation in year 2000 conservation programs may reflect (1) pent-up demand for participating in incentive-based conservation programs, (2) a perception that past incentives

have not been large enough, and/or (3) less willingness to participate in such programs even though personally supporting their existence.

**Conservation Compliance:** An alternative to incentive payments is to expand conservation compliance. When asked what should be required of farmers in exchange for receiving farm program benefits (i.e., conservation compliance), support ranged from 56% for requiring reduced tillage and 49% for requiring 20-foot buffer strips along waterways to 24% for requiring cover crops after harvest and for requiring no-till.

**Open Space and Farmland Preservation:** While only 19% of Ohio farmers stated that no government policy was needed to preserve open space and farmland, less than one-third expressed support for the two specific public policies listed in the survey: government funding to buy development rights (30%) and government rules to permit the transfer of development rights between areas (20%). Support was higher for voluntary easements (42%). However, among the options listed, the most favored was programs to improve farm profitability (66%).

**Livestock Regulation by Ohio Department of Agriculture (ODA):** The Ohio General Assembly recently shifted the livestock waste permitting program to ODA from OEPA. Sixty-four percent of Ohio farmers agreed with the statement that ODA will regulate large livestock operations fairly. While a majority of the operators of smaller Ohio farms agreed with this statement, support was nearly 100% among operators of Ohio's largest farms. Ohio farmers were evenly split on whether Ohio's non-farm residents will view ODA as a credible regulator of livestock farms. When combined, these findings suggest ODA will face skepticism in establishing itself as a credible regulator of livestock farms. ■



not have any direct effect on the U.S. policy toward renewable fuels, it does help to underscore their importance, and will likely play a role in the forthcoming debates of the Administration's energy policy in this area. In the long run, biofuels of some sort will play a larger role in America's energy policy. At the moment, though, most biofuels continue to be consumed due to governmental mandates, and so in the short run, continued expansion of biofuel consumption will only occur with legislative action.

One final possibility is that the war and the ensuing reconstruction will drive the growing U.S. budget deficits even higher, which may cause long-term interest rates to rise, and property values to fall. The fall in property values is worrisome on two fronts: real

estate makes up a much larger proportion of the farming sector's asset base than in most other parts of the economy, and the only source of strength in the U.S. economy over the last two years has been consumer spending, much of it financed by lower interest and mortgage rates. If land values were to fall in response to higher interest rates, it is unlikely that the damage to the nation's farm economy would be major, but it would damage the balance sheets of many individual farms that have purchased property in the last few years. More seriously, if consumer spending were to be significantly reduced due to an increase in interest rates and a decrease in housing values, it could precipitate a much deeper recession than we have already seen.

In summary, any major impacts of the war in Iraq are likely to be long-term, and primarily due to the war's impacts on biofuel legislation and demand and interest rates. Exports, and therefore agricultural commodity prices, will not be harmed by the war, but it is unlikely that they will be significantly helped. ■

### **Agricultural and Rural Law Website**

The Agricultural and Rural Law Program at the Ohio State University has developed a website which contains legal issues that farmers and rural residents may encounter. The site incorporates publications, fact sheets, newsletters, links to other agricultural law sites, links to federal and state agriculture legislative committees, and information on how to find an attorney. The website can be accessed at:

<http://aede.osu.edu/programs/aglaw/>

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their satisfaction with their availability of farm inputs.

As time evolves and patterns of dairy farms shift, the support system that these farms depend on will eventually shift with them, taking advantage of the opportunities that present themselves.

To see a copy of the survey or to see additional analysis of the results, click on the "Purchasing and Sales Patterns of Ohio Dairies" link under the papers and presentations section at: <http://aede.osu.edu/people/roe.30/livehome.htm>. ■

### **Warren Lee Retires**



Dr. Warren Lee retired from his Ohio State agricultural finance and farm management position on March 31, 2003. He joined Ohio State in 1970 after completing his Ph.D. program at Michigan State University. Earlier, he had done an M.S. degree at the University of Illinois and a B.S. in Agricultural Economics at the University of Toronto not far from the Canadian farm on which he grew up.

Dr. Lee's Extension work focused on agricultural finance, farm appraisal, estate planning, and management of agricultural loan portfolios. In recent years, he was State Leader for FINPACK education and the state leader of OSU Extension's highly successful income tax schools.

He researched rural financial market policy issues, as well as structural and technical changes in the U.S. farm sector. He was a long-time investigator of the changing structure of commercial banking and the Farm Credit System.

He was co-author of several editions of a well-known undergraduate text in agricultural finance.

At the time of his retirement, he was a member of Ohio's Board of Tax Equalization and the Current Agricultural-Use Value Advisory Committee.

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