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Volume 3, Issue 10

December 21, 2010

Idaho Barley NewsBrief

Inside this issue:

The funding dilemma for Idaho road repair and maintenance

A 15-member highway funding task force created by Governor Butch Otter 15 months ago held its final meeting on November 23, agreeing that Idaho roads were **$262 million short of meeting annual operation, preservation and restoration needs and $281 million short of capacity and safety enhancement needs.** However, the panel stopped short of making specific funding recommendations to remedy these shortfalls.

The Task Force on Modernizing Transportation Funding, chaired by Lt. Governor Brad Little, was created after the 2009 Legislature rejected the Governor's call to raise the gas tax to pay for this growing backlog of road repair and maintenance needs across the state.

Chairman Little put forth a list of a dozen or more revenue-raising options, but the panel recommended delaying revenue measures until economic conditions warrant. For now, the panel submitted a "matrix" of revenue options ranked by the individual committee members. The top ranked option was a fuel tax increase. One task force member and member of the Idaho Public Utilities Commission, Jim Kempton, was prompted to observe, "If you can't pay for the system you have, you have to start the strategic process of dismantling part of the existing system."

Lt. Governor Little acknowledges the "cost of doing nothing is significant but we can get by for another year by emphasizing cost efficiencies, which we are starting to realize at the Idaho Transportation Department." Little expects to see similar cost efficiencies from local highways districts which will help buy critical time.

"Road funding will be discussed by the 2011 Legislature, said Little, "but concrete revenue proposals are still a year out when we expect economic conditions to improve."

Congressional Tax Compromise contains BIG provisions for Agriculture…

- One-year extension of ethanol tax credits and import tariff;
- Restoration of biodiesel tax credit for 2010 and 2011;
- Estate tax rate set at 35% with $5 million exemption.

Idaho barley check-off dollars at work…IBC continues to sponsor grain marketing workshops. On Dec. 16 we held 2 workshops in Blackfoot and Rexburg on Understanding Technical Trading Trends in Grain Futures. **We will hold 3 more workshops on this topic in early January…**

- **Jan. 5 at 9:00 a.m. at Minidoka County Extension office at 85 East Baseline, Rupert.**
- **Jan. 6 at 9:00 a.m. at Senior Center, Mud Lake.**
- **Jan. 6 at 2:00 p.m. at Arco/Butte Incubation Center, 159 N. Idaho St., Arco.**

Market Buzz …

2011 malt contracting well underway in Idaho

Last week, the IBC hosted barley/malt buyers from **Mexico's second largest brewing company, CCM, which is based in Monterrey, Mexico** and now part of Heineken Co. CCM has been contracting malting barley in eastern Idaho since 2009 and they are finalizing their 2011 plans for contracting Idaho barley and malt.

Meanwhile, **InteGrow, the Idaho Falls-based joint venture between Cargill Malt and Grupo Modelo announced their 2011 malt contract offer on December 14.** Growers should contact John Zietz at 208-522-5540, Ext. 2150.

This week, **Great Western Malting Co.** is expecting to begin 2011 malting barley contracting. Growers should contact Clay Kaasa at 208-785-6333.

Anheuser Busch and MillerCoors began contracting last fall.

From the federal frontlines...

Outlook for the 2012 Farm Bill

By John Gordley, Gordley & Associates, Washington, D.C. (this advocacy firm represents the National Barley Growers Association)

IN THE WAKE OF THE CONGRESSIONAL MID-TERM ELECTIONS, farmers and agribusinesses may wonder what the Republican takeover of the House of Representatives means for spending on federal agriculture programs and prospects for the 2012 Farm Bill. The short answer is that supporters of the farm income safety net will face strong efforts to reduce agriculture spending and to eliminate current programs. It is important for agricultural groups to take these realities into account as they develop priorities for the 112th Congress.

The Mid-Term Elections - The November 2 elections saw Republicans win 63 Democratic seats in the House. Two-thirds of the Democrats who lost were from rural districts, including one-half of the conservative Blue Dogs and 15 of the 28 Democratic members on the House Agriculture Committee. The Democratic caucus is now heavily populated by liberals from the east and west coasts, who reelected former Speaker Pelosi as Minority Leader by a three-to-one margin. If the House Agriculture Committee remains at 46 members, Democrats will need to find up to eight replacements, some of whom will come from urban districts. The ability of farm state Democrats, including Ranking Member Collin Peterson, to maintain support within their caucus for agriculture priorities will be severely curtailed.

House Republicans will add 88 new members, mostly conservatives and other candidates supported by the Tea Party movement. With over one-third of their 242 member caucus, these freshmen will press House leaders to advance measures that reduce deficit spending, balance the federal budget, and scale back the size of government, including repeal of health care reform. They and their supporters believe the elections sent a message to the Republican Party that it is on probation, and that its leaders and other members will be judged on their willingness to support and ability to deliver on this agenda. Facing possible further challenges from Tea Party activists in the 2012 elections, the House agenda will take a much more conservative direction in the next two years.

In the Senate, the six-seat loss to Republicans means that the remaining 53 Democrats will have no chance of blocking filibusters of their priority legislation by invoking cloture, which requires 60 votes. With another 23 members up for reelection in 2012, vulnerable Democrats may cross the aisle and vote with Republicans on deficit reduction and other conservative priorities. Republican leverage on the legislative agenda will make it

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difficult for President Obama to build a working relationship with the new Congress, leading to continued gridlock and possible Presidential vetoes.

Prospects for Agriculture Program Cuts - Even before debate on the 2012 Farm Bill moves forward, agriculture programs face a series of challenges that could further reduce the spending baseline that the Congressional Budget Office (CBO) will set in March 2012, which will be used to “score” the cost of program changes. Republican leaders stated during the campaign that they would look to reduce appropriations spending in FY-2011 by $100 billion during the “lame duck” session. They have also talked about freezing spending for these programs at FY-2008 levels for FY-2012, which would sharply reduce current outlays for nutrition and agricultural research programs. Any reallocation of funds to maintain nutrition spending would need to come from other agriculture programs. There has also been talk about an across-the-board rescission in current-year spending for all “non-essential” programs, including agriculture.

Finally, the co-chairmen of the President’s Debt Commission initially included in their first proposal $15 billion in agricultural program cuts, including Direct Payments, “other subsidies,” the Conservation Stewardship Program (CSP), and the Market Access Program (MAP). The final draft shifted a third of these cuts to fund a standing disaster program so that farm outlays would instead be reduced overall by $10 billion. While the required 14 of the Commission’s 18 members did not reach agreement on a deficit and debt reduction plan, these suggested cuts are likely to resurface next year in other proposals.

Congressional Outlook - Against this backdrop, organizations that support farm safety net programs face the twin challenges of protecting the current agriculture spending baseline while developing farm policies that can be defended against further cuts during development of the 2012 Farm Bill. This process is complicated by the fact that the current CBO baseline includes an average of only $7.4 billion per year in Title 1 (farm program) spending, compared to $13.3 billion prior to the 2002 Farm Bill and $8.4 billion before the 2008 Farm Bill. (See chart) Based on forecasts for higher than average farm prices in the next two years, CBO may further reduce the agriculture baseline. Moreover, CBO policy in “scoring” program changes is to err on the high side. Any increase in projected spending under a new or existing program would need to be offset by an equivalent reduction in another program.

The “bulls-eye” for deficit reduction among farm programs is Direct Payments, which total $5.2 billion per year, or about 74 percent of the Title 1 baseline. DPs were already controversial in the 2008 Farm Bill debate, and will be more so since commodity prices subsequently rose and have remained high. The other target for spending cuts is crop insurance, which is authorized separately from the farm bill. Higher farm prices and premiums have driven CBO’s estimated cost of crop insurance to an average $8 billion per year over the next ten years. The Administration already cut outlays by $6 billion over ten years under this year’s Supplemental Reinsurance Agreement (SRA), and crop insurance is certain to come under further budget pressure next year.

Some observers, including outgoing Chairman Collin Peterson, have compared the current outlook to the situation prior to the 1996 Farm Bill. In 1995, a new Republican majority in the House of Representatives imposed sharp spending reductions on domestic programs, including agriculture. With farm prices at historically high levels, then-Chairman Pat Roberts accommodated these cuts under Freedom to Farm, which restructured the farm safety net by replacing

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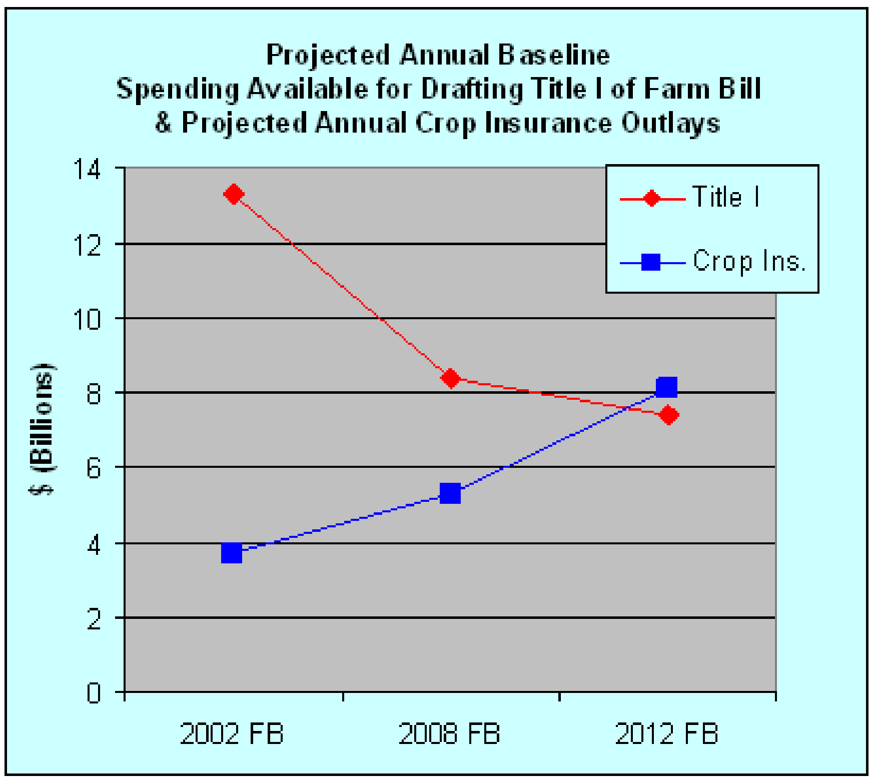
counter-cyclical support with higher but declining fixed payments which were expected to terminate after seven years.

Peterson recently said that Speaker-to-be Boehner, who supported Freedom to Farm, might propose a similar elimination of counter-cyclical programs as part of the House's deficit reduction plans. It should be remembered, however, that farm prices plummeted three years after the 1996 Farm Bill was enacted, and that Congress was forced to step in with supplemental payments that eventually became an ongoing program in the form of Direct Payments.

Most farm organizations anticipate a struggle to defend current farm programs rather than advance ideas for new ones. The exceptions at this early stage include the National Corn Growers Association (NCGA), which is looking to improve the Average Crop Revenue Election (ACRE) program, and the dairy industry, which is expected to propose replacing price supports with a gross margin insurance program. Interest in using Direct Payments to strengthen other programs and broadening crop insurance to cover whole farms, which were promoted early this year by then-Chairman Peterson, are less likely to go forward under incoming Chairman Lucas, who strongly supports Direct Payments. However, the American Soybean Association, the National Association of Wheat Growers and NCGA are looking at modifications to crop insurance that would broaden its appeal in regions where it is currently not popular.



Merry Christmas and
Happy New Year from the
Idaho Barley Commission