



AUGUST 2020 NEWSLETTER

Please note: We can't complain when we get a check in the mail but recently we've gotten a couple with names on them that aren't clients. Actually in two cases the last names were the same as a client's so we applied the amount to that client's last name. Turns out we were supposed to apply the check towards a different person's bill. Anyway, when you send a check can you let us know what account it is for so we get it correct?

Cow Fart Clarification: When a pound of grass grows in a field, dies, and rots, all the carbon captured from the air by the grass as it grew will be released in the form of carbon dioxide. This release takes up to 3 years. So every 3 years there is no difference in carbon dioxide in the atmosphere because the grass grew. If that same pound of grass is consumed by a cow or horse (or importantly a wild animal like a buffalo) as the grass is digested, part of the carbon is released as carbon dioxide, and part of the carbon is released as methane. Methane in the atmosphere captures more of the sun's heat than carbon dioxide. A cow fart today does create a slight increase in global warming. However, within 10 years the methane breaks down to carbon dioxide. The net effect between rotting grass in the field and cows farting is nothing over 10 years. But if you're arguing with your sister-in-law from California that gets her news from Twitter, here are some fun facts to stick it to her, especially if she doesn't accept the above argument:

- If we eliminated wild ruminates from the face of the earth we would be helping with global warming because they fart like cows, actually worse because of their diet.

- If we quit growing crops on half the land currently cropped, aside from millions of people starving (hopefully your sister-in-law is one of them), wild ruminants and horses would still consume all that grass and the net effect would be the same.

- *Some of the carbon cows produce in their milk, when consumed by children drinking the milk will be trapped for a long time. Consumption of meat and milk by humans is a carbon capture technique.

- Fat has a lot of carbon in it, so if you think you are overweight, remember you are doing your part to reduce global warming. I'm just taking this argument to the extreme but you could get a tax credit for being embalmed instead of cremated.

Lessons about milk marketing: In economics a product is considered inelastic if the demand is constant no matter what the price is. There are few truly inelastic products marketed, diapers would be at the top of my list. Milk is considered inelastic. I think the incredible drop in price with processes telling patrons to cut back or else and then the massive rebound in the class III price is the college example of an inelastic product. It makes me wonder what would happen if we didn't crowd barns the way we do.

Briefly, negative PPD: The PPD was designed to let every farmer share in the increased price that fluid milk receives. So if all your milk goes to cheese, you are supposed to receive a differential that roughly represents the percent of total milk in your order that becomes fluid milk. It's important to realize this payment goes to the processor, and it is the processor's option whether to pass this on to the producer. This system works as an added bonus for class III and class IV milk most of the time. That's because class one milk (fluid) is supposed to bring more money than class III and class IV milk. But in the event that class III milk (Cheese) is extremely high compared to class IV milk (butter and dry powder) then a situation may arise that the opposite occurs and producers selling milk can get a negative PPD which is what we are seeing. Three things are driving this; Low fluid milk prices, low butter price, and high cheese prices. The cheese prices is being driven by government purchases of cheese pushing the price artificially high, and the government not supporting butter or dry powder. To make matters worse, milk plants may opt out of the pooling process and this increases the PPD charge to milk plants that stay in the pool. The government does not publish a list of plants that have opted out or 'depoiled'.

Wholesale meat update: Every week I call my high school friend in Detroit that delivers meat to small custom butcher shops and discuss the market. Ever since the covid disaster started in March, he has been a source of information imbedded in the industry. He has known workers on the docks in Detroit that have died, so he has great respect for the disease. That said, recent availability of product has been ample with high end beef cuts still very expensive, but demand has been less than expected during the summer grilling season. He did note that the size of loins has been a lot bigger, probably due to feedlots holding animals back due to low prices. Add to that, the fact that people eat out less. My thought is that people are consuming that high-priced meat they hoarded when plants were shut down. I hope it requires them to use a lot of the toilet paper they hoarded as well.

There are four major beef packers being sued in a class action lawsuit for price manipulation. JBS, Tyson, Cargill, and National Beef. Both the Department of Justice and Department of Agriculture are investigating market manipulation by the packers. The profits reported by the packers have skyrocketed since 2015. I'm a cynic so I doubt much will be done, maybe a big fine that the government will pocket with nothing being returned to the producer. I will always believe that packers should never own cattle until the day the cattle are being slaughtered. I watched independent veal producers and poultry producers destroyed when packers owned a large part of the production stream. As a supporting argument, a federal grand jury in Denver, Colorado has indicted four poultry executives for price fixing.

Accrual vs. Cash accounting: Farmer A spent \$400,000 in seed, fertilizer and all other expenses including land rent to grow crops in 2018. Farmer B worked about the same acreage but owned it all and only spent \$300,000 to grow his crops. Farmer A sold \$1,000,000 in milk in 2018 with \$500,000 in expenses in addition to cropping expense. Farmer B sold \$950,000 in milk, with \$400,000 in additional expense. Farmer A also sold \$50,000 in excess feed in 2018, farmer B had no excess feed. Which farmer was more profitable?

On his federal tax return Farmer A showed \$1,050,000 in sales with \$900,000 in expenses with a profit of \$150,000. Farmer B showed \$950,000 in sales with \$700,000 in expenses and a taxable income of \$250,000 for the year. Federal tax returns are based on cash accounting within a 12-month time window.

If we do a little digging and convert to accrual accounting, we see that Farmer A started the year with \$500,000 worth of feed in bunkers and bins, and also prepaid \$50,000 in 2019 land rent. He ended the year with \$700,000 in feed stored, accrual accounting added another \$250,000 to his income. Farmer B started the year with \$500,000 in feed inventory and ended with \$300,000 in inventory and he also prepaid a bunch of seed and fertilizer bills in 2017 to the tune of \$50,000.

Accrual (actual) income for farmer A was \$500,000 and for farmer B his actual income was 0.

One important note: to qualify for a really nice social security check you need at least 10 years of healthy income. Social security is the best annuity in the world, once you start collecting you get a nice check every month until you die. Over 40 years I've seen farmers that spent their life trying to avoid taxes end up with tiny social security checks. I'm hoping every one of you lives to 100 and enjoys a big social security check.

New Federal Animal Welfare Law: "A person can be prosecuted for crushing, burning, drowning, suffocating, or impaling animals or sexually exploiting them. Those convicted would face federal felony charges, fines and up to seven years in prison. Right now, all 50 states have laws on their books against animal cruelty at the state level." Source: Snopes.com.

This is the first time there was a federal law that generalized animal cruelty beyond dog fighting. What sets this law apart is that the crime of animal cruelty becomes a felony and the punishment becomes much more severe. In all the cases of cruelty that I've been involved in, only once was jail time given at sentencing. Although in one case with deferred prosecution, the defendant had to sell the animals he was starving to death and the defendant dropped dead from a heart attack as the animals were being loaded onto a trailer. I'm not sure who was meting out punishment that day.