

CURRENT THOUGHTS

A NEWSLETTER PUBLISHED BY



Westchester Group, Inc.

© Westchester Group, Inc. 2005

First Quarter, 2007

VOL. XXII, NO. 1

COMMENTARY BY MURRAY R. WISE

An Emerging and Potentially Dramatic Trend

As this is being written, I haven't seen all the articles for this issue of *Current Thoughts*, but I think it's a reasonable bet that we'll include something about bio-fuels or ethanol. The convergence of forces from our government, developing technologies, and international tensions make ethanol and other biofuel production economically feasible. It has also made media darlings of researchers, developers and marketers of renewable energy sources.

Nevertheless, despite the extensive coverage given the enormous potential and pace of bio-fuel development, I think we may be underestimating the magnitude of resultant change for agriculture. I believe we're seeing the beginning of a trend that is likely to have significant impact on grain farming operations, particularly in the western Midwest.

Take a sheet of paper and draw a horizontal line across the middle and a vertical line down the center. In the upper left, write in southeastern South Dakota; in the upper right,

southwestern Minnesota; in the lower right, northwestern Iowa; and in the lower left note northeastern Nebraska. You've just drawn a map of where it's happening when it comes to ethanol and bio-fuel production.

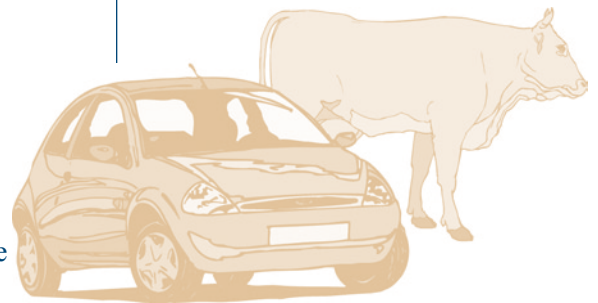
That small section of the Midwest is the epicenter of the nation's bio-fuel production expansion. Take a look at the

map on the following page. Notice the concentration of active and planned ethanol and bio-fuel plants. That concentration has already begun to affect the region's

agricultural culture.

Grain farmers whose operations are

near navigable rivers like the Illinois and Mississippi and processing



centers like Decatur and Chicago, Illinois, have had an inherent economic advantage. In central Illinois, for example the corn basis is roughly the Chicago Board of Trade price less maybe ten cents per bushel. Similar ground in western Iowa or eastern Nebraska may well produce similar crop yields, but the operators' basis is more like the CBOT price less +/-thirty cents. The difference

See **TREND**, page 2

... I think we may be underestimating the magnitude of resultant change for agriculture.

INSIDE THIS ISSUE

<i>Innovation</i>	3
<i>Immigration Update</i>	3
<i>Business of Agriculture</i>	4
<i>News Briefs</i>	4
<i>Global Markets</i>	5
<i>Westchester Group News</i>	6

TREND, cont'd from page 1

has been in transportation and marketing costs for those areas.

Now, however, the growth of ethanol production has begun to change that situation. Farmers operating near the existing ethanol plants in the area we “mapped” have already seen their corn basis improve by ten cents or more. And you can see on the map that there are many more planned. When they come online in the next 24 months they will create tremors in the grain markets. I can imagine a point at which the subject region’s ethanol producers bid corn to levels resulting in a *premium* basis for local farmers. In fact, I believe it is possible—and I’ve heard the prediction elsewhere as well—that in the relatively near future Iowa could be a net *importer* of corn!

And I don’t think the impacts will

remain local. One of the by-products of the ethanol production process is distillers’ grain. When all the

distillers’ grain.

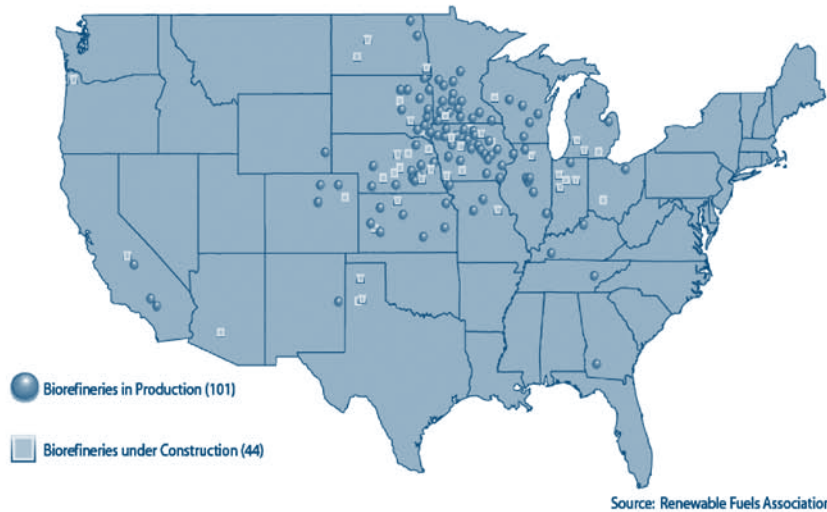
And that’s important. Distillers’ grain is excellent feed for cattle. Though

Iowa was once a major center for cattle feeding, that business has largely moved to the western plains. However, when the existing and planned ethanol plants are all operating at capacity — and I think that’s a likelihood for the foreseeable future — they will be producing copious quantities of cattle feed.

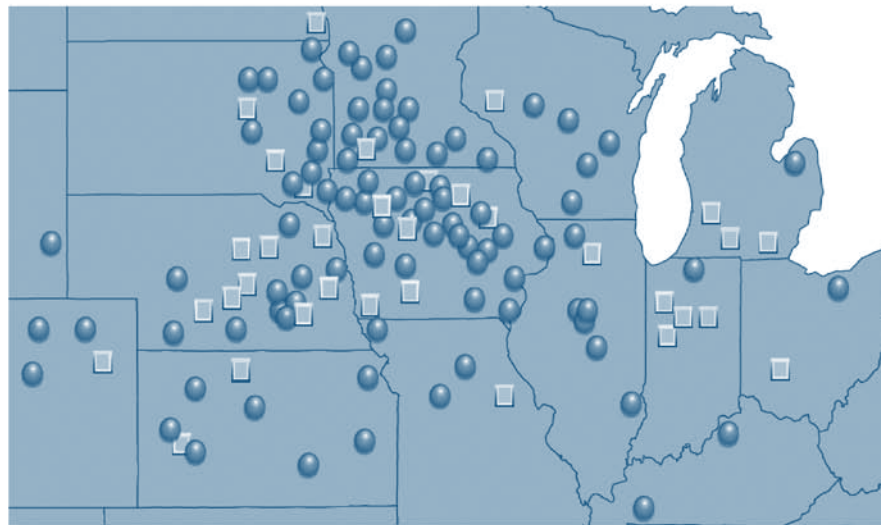
In short, I think the center of the Midwestern grain farming industry is moving west. The existing advantages of geography and infrastructure for producers outside the “quadrant” we’ve defined are losing traction. And I don’t think anyone has a real grasp of the impact these changes will have.

I do think it’s safe to say that “tremors” is an appropriate word for describing the effect on the total Midwestern economy.

US Ethanol Biorefinery Locations Currently in Production and Construction



Area of Interest



existing and planned ethanol plants are operating at capacity, they will be generating great quantities of

to say that “tremors” is an appropriate word for describing the effect on the total Midwestern economy.

INNOVATION

Partnership Dedicated to Making Ethanol Production Efficient

Two technology leaders in the growing bio-fuels industry, DuPont and Broin, have formed a partnership to market ethanol produced from corn stover. Corn stover is pretty much every part of the corn plant except the roots and grain itself. By developing processes that efficiently produce ethanol from the stover as well as the grain, the partners will be able to produce much more fuel per acre of corn.

In a joint press release DuPont is described as a “science company (that) puts science to work by creating sustainable solutions essential...for people everywhere.” The company has been involved in a

four-year research project to develop the technology necessary to convert corn stover to ethanol.

Broin is a highly specialized and integrated technology development, production, and marketing company with more than 20 years in the biorefining industry. The company has a history of advanced ethanol...process development. It is widely recognized for its ability to successfully commercialize bio-technologies. The company is committed to enhancing opportunities for rural America as more than 9,000 farm families have invested in Broin projects to date. Like DuPont, Broin has been involved in a jointly funded Department of Energy research initiative to develop and improve biorefining systems and technology.

“The partnership between Broin and DuPont brings together much of the



needed technology...important to the future development of cellulose to ethanol,” said Mike Muston, Broin’s executive vice president of corporate development. “The ability to combine the global science of DuPont with Broin’s ethanol production technology puts us in position to make the commercialization of cellulose to ethanol a reality much sooner.”

IMMIGRATION UPDATE

Additional Thoughts on the Immigration Issue

Randall Pope’s commentary on immigration in our last issue of *Current Thoughts* drew as many responses as any article published within the editor’s memory. One of the respondents forwarded a copy of an article that recently appeared in *Fruit and Vegetable Magazine*. It was entitled [Taking Emotion Out of the Immigration Debate](#) and makes a good case for a guest-worker program of some kind.

As did Randall, the article notes that growers simply haven’t been able to attract enough U.S. citizens to fully harvest the nation’s fruits and vegetables even with wages that average \$9.60 per hour. It also mentioned the fact that migrant

workers are not necessarily economic burdens: “Comments are made without statistical support regarding the lack of these workers financial contribution, yet growers



and harvesters withhold taxes, pay social security, and handle payrolls just the same as other businesses. Additionally, guest-workers in Florida purchase goods and services, paying sales tax, just as every other consumer.”

Advocating changes to the existing guest-worker program, the article notes that farm labor unions, migrant worker advocates, and agricultural employers have joined together to support reform.

In closing the author warns, “A safe, secure, and affordable domestic food supply should be of concern to all Americans. Without reform, a domino effect would be created that would render all of us at risk.”

And, an update from Pierre de Wet who was interviewed in the commentary. In early October Agtoprof, Pierre’s company, hired for the first time in its seventeen year history, a white American male to work in an orchard they manage in Washington state. Perhaps we are making progress in resolving the immigration issue.

BUSINESS OF AGRICULTURE

French Farmers Adopting Genetically Modified Corn at Their Own Peril

It takes courage for French farmers to plant genetically modified corn. Though corn is the one GMO seed approved for use in the European Union, activist groups not only oppose the practice politically, but they are actively vandalizing fields of those farmers who utilize the cost saving seed.

In a recent article in the *Wall Street Journal* reporter John W. Miller tells the story of Claude Menara. The 52 year old farmer “says for years he watched

American farmers ship billions of euros worth of genetically modified foods to Europe, while he grew traditional corn on his farm near Bordeaux.” In 2005, Mr. Menara

Politicians have been playing the “food safety” card in France and other EU countries for years...

decided enough was enough and planted all of 17 acres of transgenic corn. Apparently pleased with the results, he planted 250 acres this year. We particularly like the succinct manner in which he described the rationale behind the decision to use the seed: “It’s a business,” he said.

France is the largest exporter of corn in the EU and French farmers are coming around to Mr. Menara’s way of thinking, albeit slowly. Total

acres of transgenic corn remain minor, but increased by a factor of ten from 2005 to 2006. Other EU countries are also increasing acreage planted with the controversial seed.

Politicians have been playing the “food safety” card in France and other EU countries for years, encouraging the populace to reject products that include genetically modified ingredients. The



climate has apparently encouraged Greenpeace and other activists to take action against French farmers with the temerity to try and enhance their bottom lines by planting transgenic seed. Mr. Menara’s farm was targeted by Greenpeace. The organization published a map with his name and the exact location of his farm on their website. He sued and won, but days later, Greenpeace volunteers traced a cross in his field by knocking down cornstalks. Later other activists—Mr. Menara simply calls them thugs—trashed almost 30 acres of his corn.

And the effect of the activists efforts? “This year I grew 250 acres,” Menara said. Next year, I’ll grow 500.” We think we’d like to meet this guy!

NEWS BRIEFS

Honey? Bees?

We’re not sure if this analysis means anything to anyone, but we found it interesting. Beekeepers lease their bees to almond growers because pollination is critical for the growers and the bees are effective pollinators. In fact, estimates place the number of colonies used in almond production at 1.3 million. At an average price of \$130 per colony, that activity generates income of \$169 million for the bee keepers.



Meanwhile, the entire U.S. honey crop, about 175 million pounds was worth only \$157 million last year. That certainly shows the value of part time jobs.

Speciescide: Mini-wasps vs. Mealybugs

In keeping with our insect theme, we note a recent *Associated Press* report regarding efforts to control the pink hibiscus mealybug. Though the pest’s name seems funny, the damage they can do is

anything but. According to the *AP*, they can destroy more than 10,000 types of plants. But they’ve met their match in tiny, almost invisible wasps that use mealybugs as egg incubators. The tiny wasps represent a natural and effective insect control program...and they don’t sting. Known as Integrated Pest Management or IPM in the industry, this species management process is a more environmentally friendly way to manage pests, although it probably doesn’t seem that way to the mealybugs.

GLOBAL MARKETS

A Different “Pest” Hits Brazilian Soybeans

Soybean growers in Brazil are faced with a new sort of income reducing pest, one they can't simply spray away. The problem is economic: the unfavorable exchange rate between the US dollar and the Brazilian real.

According to an article by Kenneth Rapoza in the June 5 issue of *Barron's*, this is the third straight year the country's soybean farmers have experienced reduced incomes as the softer dollar has eroded export income. “Soy is Brazil's top internationally traded farm commodity and one of its biggest overall export items, according to government data. As a result, the currency woes have substantial economic ramifications for the world's No. 2 soy supplier, behind the U.S.”



Mr. Rapoza says, “Despite some hedging, farmers' income is mostly dollar-based, so if the greenback weakens, they have fewer reals to pay down private and government debts and fund their operations. The softer dollar also makes real-based Brazilian farm products more expensive to world buyers.” Soy export revenue is falling significantly, from 39% of the nation's total export



value in early spring a year ago to 35% in 2006.

We have warned in *Current Thoughts* that Brazil was on a pace to overtake the U.S. as the world's top soy supplier. Rapoza says the currency situation may be changing that forecast, “Three years ago, it appeared Brazil would eventually overtake the U.S. as the world's top soybean supplier. Multinational companies invested millions in Brazilian production and analysts were projecting a 58 million metric ton soy crop by 2005. The declining dollar has lowered expectations. Brazil will plant a smaller 2006-07 soy crop—at least 5% less acreage—after harvesting about 53.2 million tons from the 2005-06 crop.” He contrasts the latter number with U.S. soybean production of over 80 million tons.

Now, economists feel the problem is likely to migrate to other internationally traded commodities such as coffee. A Brazilian economist is quoted in the article referring to a “return to the bad old days.”

Like it or not, Brazil's farmers deal in global markets and experience the accompanying problems and complexities...just like we do.

Ethanol Helping Brazil Become Energy Independent

Writing in *Outstanding Investments* Kevin Kerr notes that at one time Brazil was 83% dependent on foreign oil, but today the country proclaims itself energy independent. And the reason is ethanol.

In what Mr. Kerr calls the Cinderella story of energy markets, Brazil may actually become a net exporter of oil. There's a new offshore drilling effort to be sure, but the major change is in the production and use of ethanol.

One of the country's major crops is sugar beets and sugar is readily convertible to ethanol. According to Mr. Kerr, Brazil has spent a great deal of money researching and developing including—dare we even say it—genetically modifying sugar beet plants to increase production.

In addition to the effort to produce ethanol more efficiently, the nation's leaders campaigned to encourage consumers to use ethanol and to conserve energy, generally.

Today, the country produces enough energy for its own internal use and is actively exporting ethanol.

Today, the country produces enough energy for its own internal use and is actively exporting

ethanol.

We must tell you though, that the bad pun in the headline for Mr. Kerr's article did nothing to enhance his credibility. His piece was headed, “Brazil Nuts? Hardly!”

Welcome Patrick Trainor

Recently, Westchester Group announced that Patrick Trainor joined the staff after serving an internship with the firm while a student at the University of Illinois.

Patrick will be involved in a number of efforts including farm management and special research projects, but ultimately expects to be assigned to the auction area. Though his degree is in accounting, Patrick has an agri-business background. His grandfather founded a grain handling and marketing business that has remained under family management, "I've never actually farmed," Patrick told us, "but I've spent a lot of time around grain elevators. I think it was good training."

As a student, Patrick held two other internships. One was with Deloitte and Touche, one of the top four national accounting firms in St. Louis and another with U.S. Bank in their Food and Agri-business Group. We asked him why he chose Westchester. "It just felt right. I liked working with U.S. Bank because I got to travel for 8 weeks throughout the U.S. Both of the others were potentially

lucrative careers, but I liked the scale of Westchester. We're a national firm, but with the feeling of a small company. I'll be doing some traveling, of course. Westchester just seemed to have the best of the other two."



As an intern Patrick researched farm property, did field scouting, legwork for auctions, and some special projects. Clearly, we've been pleased with his performance. And coupled with his background and accounting skills, he has a bright future.

Westchester Group executive vice president Kent Prince says, "Patrick has demonstrated the levels of initiative, ambition, and skill we

demand of our people. He's bright, articulate, and a hard worker. I think he can become one of our best performers. We're truly pleased he chose Westchester."

A History of Successful Interns

Patrick Trainor is the most recent in a succession of interns who've chosen to continue their professional careers with Westchester. And that history represents a challenge to him: Those who preceded him have not merely continued careers, but have become significant contributors to the company's growth. Joe Bubon, Eric Decker and Carole Fornoff all came to Westchester as interns. Today, Joe Bubon is executive vice president of Westchester Group, Inc. Carole Fornoff and Eric Decker are both vice presidents of Westchester Farm Management.

Westchester's commitment to quality in every effort and service is an oft-stated theme in these newsletters. We're confident Patrick Trainor has the potential to join that very successful group of former interns in living up to that commitment.



Westchester Group, Inc. *Agricultural Asset Managers. Nationwide.*

www.westchester-group.com

2407 South Neil / P.O. Box 3009 / Champaign, Illinois 61826-3009 / Bus: (217) 352-6000 / FAX: (217) 352-9048

214 North Main Street / P.O. Box 181 / Clarion, Iowa 50525 / Bus: (515) 532-2878 / FAX: (515) 532-2870

3800 Friendly Hope Road / Jonesboro, AR 72404 / Bus: (870) 933-6530 / FAX: (870) 933-6450

4309 Crayton Road / Naples, Florida 34103 / Bus: (239) 430-6240 / FAX: (239) 430-4663

2534 S. Conyer / Visalia, California 93277 / Bus: (559) 734-0375 / FAX: (559) 734-0380

