

As we reported at our recent local grower meetings, there are some exciting new programs evolving at Farmers' Rice. These programs are in response to suggestions to your management and Board of Directors by members of the cooperative. We believe FRC members will now have several important new options making their membership in FRC an even more valuable asset. (See attachments to this newsletter)

I would like to thank all of the FRC members who attended our two local grower meetings. We were pleased with the turnout and the participation of members in the discussions. We were especially pleased with the positive response to our new member programs.

Here's a summary of the supply-demand and outlook information we presented during the meetings for your review.

The world rice market situation reflects smaller total supplies, tighter exportable supplies, with weaker global exports and higher prices. The world's supply is in its fifth consecutive year of declining global ending stocks.

The U.S. situation reflects a large carry-in from the 2004 crop and a bumper 2005 crop of long grain, with much smaller supplies of medium grain.

The Southern U.S. began their marketing year with a substantial carry-in and record production. Prices have been depressed for most of the year and continue to be in relation to medium grain, although prices for Southern long grain recently have shown some strength.

The medium and short grain marketing year began with a somewhat higher carry-in, but manageable given smaller new crop supplies. Production decreased significantly in California due to much lower field yields. Overall demand has been steady and market prices have moved up significantly from last year, but still are below the 2003 crop levels. Interestingly, USDA's carryout estimate for this coming fall would be the lowest since 1982.

The California rice market has been relatively strong. With significantly reduced supplies from last year, milled rice prices have increased significantly. Export demand to North Asia (Japan, Korea and Taiwan) has been good, thanks to the WTO agreement. The packaged rice market has been stronger than a year ago and the California industrial market has been steady, but at reduced volumes because some customers switched to much cheaper long grain to supply their needs.

Overall, it appears the California export market peaked in December and is now softening as North Asia exports come to an end. Australia, a major competitor, is reporting a much larger crop, perhaps as much as 1.0 million tons paddy, significantly above their production for the past three years. Their harvest will begin soon and may have an impact on export pricing.

Milled rice prices year-to-date have been much higher than last year but as stated earlier, not as high as the levels achieved from the 2003 crop. Market returns, when including a much lower price support loan deficiency (LDP), have averaged below \$5.00 per cwt over the price support loan level year to date.

Japan will soon complete their MA purchases with a 31,000 metric ton tender. Potential export business for the balance of the year will focus on commercial exports to the Middle East and the first 2006-07 sales to Taiwan and Korea, sometime later this summer. With the winding down of the North Asia exports, future export business will hinge on the relative price of Calrose rice to Egyptian and Australian medium grain. While global medium grain stocks are tight, Australia will harvest a much larger crop and most Middle East buyers are still working off of shipments from California's bumper 2004 crop.

The consumer product market is currently stable with fewer competitors than other sectors.

There are several factors to consider as we prepare for the 2006 planting and marketing year. Among those is what will the planted acreage be this spring and what will the carry-in inventory be at the end of the current marketing year.

We expect the California carry-in inventory October 1 to be manageable, however, holders of that carry-in can impact volatility in the market.

Overall, U.S. crop acreage is expected to decline. We hear from sources in the South that acreage could decline 10 percent or more from last year. That would reflect a more normal southern planting of long grain rice. Medium grain production in the South is expected to increase marginally, but is expected to be in balance with their typical demand.

In our view, the international supply will be more of a factor this coming year. Australia's crop is expected to be larger and substantial production is expected in Egypt. While China always is an unknown, most analysts expect production will likely increase elsewhere in Southeast Asia. Weather events, however, can alter the international situation should they occur.

On the demand side, it is important to recognize that California's basic demand has declined somewhat recently due to California's relatively high prices. We expect packaged business to continue to be steady and with long grain prices increasing, industrial customers maybe less tempted to substitute. The brewery business always follows the cheapest price alternatives, and given more competitive prices (relative to long grain), will also likely return to California. WTO mandated markets in Japan, Korea, and Taiwan continue to be pivotal to California's success. If there is a larger crop, the Middle East and the South Pacific will be more of a factor in moving our upcoming crop. U.S. government Food Aid availability in California is not likely.

It is far too early to project a 2006 crop industry return. There are just too many variables this early in the year to make any meaningful projection. As was very evident the past several years, California supply is a major determining factor on ultimate grower returns. Total supplies in the 40 million cwt range typically produce more profitable grower returns. This year will likely be no different. Our stable customer base, however, will continue to be a huge asset to FRC and its members.

Washington, D.C. Update

Your Board Officers and senior staff were in Washington, D.C. recently for the USA Rice Federation's Governmental Affairs Conference. We met with several members of Congress to discuss the Congressional agenda, the budget situation, and their thinking about the development of the next Farm Bill.

The House Agriculture Committee has sent a letter to the House Budget Committee requesting that funding for the 2002 Farm Bill be left intact during the final year of that six-year program.

With most Farm Bill programs expiring at the end of the 2007, Chairman Bob Goodlatte and Ranking Minority Member Collin Peterson said they see "no reason to make additional program changes in the last year of the 2002 Farm Bill, especially since Congress just recently approved net farm savings of \$2.67 billion over five years through budget reconciliation."

We sense that Congress is not eager to engage in another round of budget cuts and we believe the Bush Administration's proposed cuts to farm programs and benefits will not gain any traction this year.

2007 Farm Bill Update

A movement is underway by commodity and farm groups to try to persuade Congress to extend the current farm program for two years or until the current World Trade Organization (WTO) negotiations are completed. The USA Rice Federation and the U.S. Rice Producers Association jointly agreed to support a two-year extension. The consensus was that trying to write a new farm program during an election year and before the WTO agreement is completed just does not make much sense. As we have reported before, provisions (requirements) in a new WTO agreement likely will dictate the future direction of U.S. farm policy, especially as it relates to income support and subsidies.

In our Capitol Hill meetings, FRC advocated a continuance of the existing farm program for a year or two as the best near term plan until the trade negotiations evolve. We reiterated how important a safety net is during these tough economic times.

The House Agriculture Committee will hold a field hearing March 3rd in Stockton. A representative of the California Rice Commission will testify on behalf of the California industry. These hearings are primarily to gain input from regional commodity groups and the public about future farm policy as well as an assessment of the current farm program.

Our View

While some one in Congress may try again to cut farm program expenditures, we do not believe they will be successful, especially in this election year. Congress will be in session for approximately 60 business days, there is simply not enough time for another lengthy debate on farm subsidy and other budget issues.

We also believe there is a good chance that Congress will decide to extend the existing Farm Bill for a year or two or at least until the WTO negotiations are completed. We believe other commodity groups will soon join the effort and lobby for an extension.

We will keep you informed as we learn more. We remind all members that we have frequent updates on our FRC website. Please feel free to call us if you have specific questions or concerns. Our objective is to provide members with up-to-date information about these important issues.