

President's Report

Harvest is now underway. We received our first 2005 crop rice at our West Sacramento driers on the Friday before Labor Day and at our Stegeman driers on the Tuesday after Labor Day. It is way too early to speculate on the yield and quality of this crop, but we all assume the field yield potential is well below the record 2004 crop.

This newsletter is to bring everyone up-to-date on the supply and demand situation and to share our observations on the 2005 crop outlook.

Total U.S. rice production is forecasted by USDA at 228 million cwts, the second largest crop on record. Obviously, most of this production is in the southern U.S. and is long grain. It appears at this time Hurricane Katrina has had little effect on the southern U.S. crop's yield potential, although much of the remaining harvest is lodged. Given a relatively large August 1 carry-in, near record production and a larger '05 crop carry-out projected, long grain prices are currently very depressed and are trading at near USDA price support loan levels.

While very little new crop medium grain has been harvested, the situation is much more positive. Here are some of the factors to consider:

Nationally, the August 1 carry-in of medium and short grain, as reported by the National Agricultural Statistics Service (NASS), was 13.8 million cwts paddy and milled rice (paddy equivalent). The NASS Stocks Report indicates 10.4 million cwts of medium and short grain paddy in California on August 1 plus 1.2 million cwts of milled rice. Considering that almost 650,000 cwts of paddy was sold to Turkey since the report was published and our normal domestic utilization for August and September, most industry observers expect the October 1st carryout to be manageable. When reflecting on the record '04 crop production in California, this news is very welcomed by all California marketers and producers.

On the production side, NASS issued its September California acreage and production report on Monday. California acreage is currently forecasted at 511,000 acres and the yield at 78 cwts per acre. This equates to total production of 39.6 million cwt, a dramatic decrease from last year's record 51 million cwts crop and more in line with our profitable marketing opportunities. Also issued on Monday was the USDA's revised Supply and Demand estimates for the '05 crop. For medium grain rice, the USDA is currently forecasting relatively robust domestic and export demand and a national carry-out on August 1, 2006 of 6.3 million cwts. This incidentally is slightly below the record low medium and short grain carry-out on August 1, 1999 of 6.8 million cwts.

Our Thoughts

For the first time in 12 months, we finally have some good news in the California rice market to report. Carry-over stocks are lower than most observers expected (including USDA) although still higher than normal and considerably higher than some people had projected. California's reduced stocks are largely a product of new commercial export business which materialized since last March. February's adverse weather conditions in Australia caused their crop to be down even further than previously predicted with very low field yields at harvest. That reduction in supply generated most of the incremental export demand for California.

California's new crop production appears more normal, around the demand balancing 40 million cwts level, although the final outcome will not be evident for another 45 days. As for demand, which can become very inelastic with higher prices in certain markets, it appears there is enough appetite to market this crop at appreciably higher prices.

As for ultimate returns, they are too early to call. The first Minimum Access tender to Japan (and subsequent retender) produced some spotty numbers, reminiscent of the early tenders on the '03 crop. Virtually all the WTO mandated business to Japan, Korea and Taiwan has yet to sell, and should continue to earn good premiums. Virtually none of the domestic business has yet been priced, but new crop price increases have been announced in each market sector. In the commercial export market, some demand will likely be lost with higher prices although some markets will absorb the higher prices, probably at lower volumes. As with all markets where prices fluctuate widely, substitution will likely become a factor as it did in 2003.

At FRC, we fully expect to be competitive in those markets with the best potential for our members' production. With the overall strong demand for Calrose this fall and winter combined with a tightening in surge milling capacity, we expect to be very busy. Consequently, we anticipate advancing you considerably more money as sales are made. Stay tuned and hold on tight for the ride and we will make our best effort to continue to make your membership at FRC beneficial and rewarding. Good luck with your harvest and keep in touch.

Best Regards,

Michael Sandrock

Michael Sandrock



Farmers' Rice Cooperative and the California rice industry hosted House Agriculture Committee Chairman Bob Goodlatte, R-Virginia, for a reception and barbecue August 15th at the Peach Tree Golf and Country Club in Marysville. Chairman Goodlatte was in California for meetings with rice industry leaders to discuss budgetary, trade and farm policy issues. FRC growers Rocky Donati, Larry Patane and Chris Donati, spoke with Mr. Goodlatte prior to the evening banquet.



More than 80 rice growers and guests attended the reception and banquet honoring House Agriculture Committee Chairman Bob Goodlatte on August 15th. FRC appreciates the support of the Donati Family, of Gridley, and their crew who barbecued the tri-tip. That crew (left to right) included Chris Donati, FRC President Mike Sandrock, Tom Donati, Rocky Donati, and Doug Rudd. FRC also appreciates the financial support given by many growers for this important event.

Hurricane Katrina and Other Issues Dominate The Congressional Agenda

Hurricane Katrina recovery dominates the Congressional agenda and will for several months. Together with the confirmation of a new Supreme Court Chief Justice, finalization of 2006 fiscal year appropriations, and figuring out how to pay for disaster spending, Congress has postponed indefinitely discussions about budget reconciliation.

Prior to Hurricane Katrina, Congress was planning to move forward the week of September 12th with budget cuts in an attempt to reconcile expenditures with the previously adopted budget plan which was designed to rein in the huge Federal deficit. For agriculture, the plan was to cut \$3.0 billion over five years from the 2002 Farm Bill, or about \$170 million next fiscal year. The House and Senate Agriculture Committees were scheduled to release their proposed cuts by September 16th, however, that now has been placed on hold and some observers believe may not be discussed again until some time in November.

The rice industry continues to monitor all of these discussions trying to figure out how the proposed cuts would apply to the “safety net” program provided by the 2002 Farm Bill. The USA Rice Producers’ Group is advocating a cut in the “counter-cyclical” payment (CCP) provision as the best approach and the least painful for the rice industry. This assumes that price levels will be relatively higher and a full \$1.65 counter-cyclical payment would not be likely in future years.

Last week, the Congressional Budget Office (CBO) analyzed that suggestion and reported back that if there were a reduction in the CCP payment (for all eligible crops) of 7.5%, it would save \$1.0 billion over 5-years, of which \$50 million would come from the rice CCP payment. If the CCP reduction were to be 11%, it would save \$1.5 billion over five years, of which \$70 million would come from the rice program.

Complicating all of this is the fact that we expect there will be a “Disaster Bill” for agriculture this year. Alabama, Mississippi, Louisiana, Florida and California farmers have been hard hit again by adverse weather. Legislation is being prepared to deal with this agriculture disaster even as Congress focuses on the Hurricane Katrina relief effort.

As Congress solves these troublesome issues and the deficit continues to rise, it will make it more difficult for agriculture when Federal policy makers get around to drafting the 2007 Farm Bill. Money will be tight!

FRC Employees Help Katrina Relief Effort

Farmers’ Rice employees contributed over \$6,000 to help victims of Hurricane Katrina. The money was delivered to the Salvation Army and the American Red Cross, two organizations heavily involved in the disaster relief effort. We offer our sincere appreciation to all FRC employees for their generous support in this time of need for many.