

WTO vs. THE COTTON INDUSTRY

By Nancy Ervin

The future of the cotton industry in the United States has come under serious challenge. In September 2003, several developing nations walked out of negotiations during a meeting of the World Trade Organization (WTO) in Cancun, Mexico. The protest stemmed from a claim initiated by Brazil in late 2002 alleging that the U.S. cotton program violated WTO agreements. Although the issue of subsidies and trade applies to a variety of crops, it appears as though cotton has been singled out as a target for elimination.

The walk-out in Cancun was significant in that it halted efforts to extend the peace clause that for the past nine years has sheltered U.S. and other nations' subsidies from a WTO challenge. Under the peace clause, subsidies that might otherwise be judged illegal under WTO rules are protected from being challenged provided they comply with subsidy reduction commitments negotiated in the 1986-94 Uruguay agreements. Brazil has argued that the peace clause does not apply in this case because annual U.S. subsidies of \$3-4 billion to cotton farmers vastly exceed 1992 levels laid down as the permitted maximum.¹ [Note: The USDA website reports subsidies paid to American cotton farmers in 2003 were closer to \$2.7 billion.]

The WTO is expected to rule on this challenge as soon as May 2004.

According to a website hosted by Oxfam, an activist organization that apparently spearheaded the walkout in Cancun, "USA subsidies have devastated the cotton farming communities and economies of West African countries." They claim that "massive cotton subsidies in rich countries, especially the U.S., have led to an artificial spurt in supplies on global markets and a decline in export prices".²

Cotton prices have fallen considerably over the past 10 years. According to a USDA web-site³, the adjusted world price for cotton dropped from 76.12 cents per pound in 1995 to a low of 28.49 cents per pound in 2002. At the same time, production peaked in the U.S. in 2002, reaching a record 20.3 million bales.

Since then, however, production numbers have declined and world cotton prices have seen a significant upswing. The USDA estimates U.S. production in 2004 to be 18.2 million bales with an average world price of 53.67 cents per pound, up 88% from just two years ago.

"The fate of our industry is riding on the decisions of three trade experts in Geneva."

*Bobby Greene, Chairman,
National Cotton Council*

Unfortunately, the wheels are already in motion. As one reporter put it, "If cotton producers were too busy in 2003 to notice, they need to wake up for 2004. Much of the rest of the world is out to force an end to the U.S. cotton program as it currently exists. They have momentum, enthusiasm, a legal/economic team and a perceived righteousness on their side. Their efforts could significantly damage U.S. cotton's profitability. Cotton producers need to be aware that, as one NCC board member recently commented, 'The fate of our industry is riding on the decisions of three trade experts in Geneva'."⁴

¹ Frances Williams, *Farm Subsidies Could Go Under the WTO Plough*, www.agnewsonline.com, December 31, 2003.

² *The Hindu Business Line, Africa, EU Nations Slams WTO Cotton Plan*, www.kisanwatch.org, September 15, 2003.

³ <http://ffas.usda.gov/cotton/circular/2003/11/toc.htm>

⁴ William Gillon, *The WTO: Cotton's New Courtroom*, www.cottonfarming.com, January 2004.

2004 COMMON THREADS AWARDS HONOR WOMEN IN AGRICULTURE

***Common
Threads
honors five
women in
agriculture
whose
philanthropy
has made
positive
differences
in their
communities.***

Five women from Fresno, Kings, and Merced counties were selected as the 2004 Common Threads honorees. The annual award recognizes women from the San Joaquin Valley for their agricultural, philanthropic, and community service. Common Threads honors five women in agriculture whose philanthropy has made positive differences in their communities.

This year's winners include women from pioneering farm families and rising industry leaders. They are: Lillian Draxler of Kings County; Debbie Jacobsen, Margaret Jensen and Bernice Woolf, all of Fresno County; and Mary Wickstrom of Merced County.

Lillian Draxler is a longtime dairy operator and advocate for the dairy industry, as is Mary Wickstrom, who was active in the formation of the Hilmar Cheese Co.

Debbie Jacobsen, an Easton grape grower, is president of the Fresno County Farm Bureau.

Their family farm, J&L Vineyards, was honored as the BP&F Ag Business of the Year in 2001.

Margaret Jensen's family were pioneers in the development of Fresno County's fig industry, and she was involved in the development of the pistachio industry 35 years ago in Madera County.

Bernice Woolf helped her husband, Jack, form Woolf Farming Company in 1974, and the company now farms 25,000 acres. She was also a founding member of California Women in Agriculture, a statewide advocacy group that helps raise awareness of farm issues.

The Common Thread recipients will be honored on Friday, March 26 at the CSUF Residence Dining Hall. Luncheon tickets are \$30. For ticket information, call Ag One at (559) 278-4266 or the Agricultural Education Foundation at (805) 461-7070. Net proceeds from the luncheon will go to Ag One, AEF, and charities of the honorees' choice.

Baker, Peterson & Franklin, CPA, LLP, congratulates

Debbie Jacobsen

Margaret Jensen

Bernice Woolf

and all the 2004 honorees on their

Common Threads Award



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CONSULTING & FINANCIAL SERVICES

BP&F AG DEPARTMENT

The Ag Department at Baker, Peterson & Franklin was formed in August 1988. It was designed, and remains today, as the firm's means to develop, coordinate and monitor the expertise of our accounting staff to provide service to our ag clients. Agriculture is the firm's largest industry specialization, and we have established an excellent reputation for our ag expertise.

The founding members, Dennis Veeh, Karen Morais and Toni Porter, have continuously served in the Ag Department since 1988. The most recent member, Nancy Ervin, joined the department in 1999.

BP&F's Ag Department serves individuals, corporations, partnerships and other entities in the farming and agribusiness area. Services include tax planning and preparation, accounting and assurance, business consulting, and bookkeeping. We offer tax compliance advice relating to constantly changing tax laws. Strategies are devised that can best take advantage of tax law changes by reviewing clients' current tax situation and finding ways to minimize the tax burden. In addition to general tax developments, those laws spe-



*Ag Department staff members (left to right)
Toni Porter, Dennis Veeh, Karen Morais,
and Nancy Ervin.*

cifically applicable to agriculture are monitored, and clients are advised with respect to tax-related financial decisions. Audited, reviewed or compiled financial statements are provided to satisfy internal needs or lender requirements for crop, intermediate and long-term financing. Our Ag Department provides consulting services to help clients make informed business decisions about their agricultural operations to operate more profitably and efficiently. BP&F's bookkeeping department provides services ranging from performing all aspects of an internal bookkeeping department to assisting those clients who perform their data processing and bookkeeping functions internally.

BP&F's Ag Department client experience include field and row crops, permanent trees and vines; almond, tomato and raisin processors; fresh fruit and vegetable packing and shipping; farm management and custom farmers; irrigation and water districts; dairy, replacement heifer, horse and livestock operations; cotton gins; rice and grain driers; and cooperatives.

We offer our ag clients several other value-added services. Periodically, the Ag Department conducts training for a variety of ag groups including clients and other ag professionals. *AgriViews* is a newsletter that the Ag Department writes and publishes three times a year for our clients and other ag business associates. The articles cover topics that currently affect our clients and are timely in nature. BP&F has an extensive library that includes numerous volumes dedicated to ag topics. The library is available to research issues related to unique ag tax and accounting issues.

In 1995, the BP&F Ag Business of the Year Award was established. The award honors a for-profit ag organization, based in the San Joaquin Valley, whose achievements and impact have significantly contributed to the ag industry

***BP&F's Ag
Department
helps clients
make informed
business
decisions
about their
agricultural
operations.***

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TAX TIDBITS

By Dennis Veeh, CPA

California has not been as friendly and generous as the federal government to taxpayers claiming depreciation on business assets.

The recent federal depreciation changes resulting from 2002 and 2003 federal legislation has not been adopted by California. It is important to recognize these differences when planning business asset acquisitions.

California does **not** allow the 30% or 50% bonus depreciation on qualifying new assets acquired by the taxpayer. The only bonus depreciation allowed by California is applicable to "C" corporations. California "C" corporations can elect bonus depreciation equal to 20% of qualified costs up to \$10,000. This means a maximum bonus depreciation deduction of only \$2,000.

Additionally, federal provisions now allow taxpayers to annually expense \$100,000 of qualifying asset purchases in accordance with I.R.C.§179. California limits I.R.C.§179 to \$25,000 instead of the new \$100,000 limit for federal purposes. California does not allow an I.R.C.§179 deduction for "C" corporations.

The I.R.C.§179 expensing election phases out for California purposes if a taxpayer acquires more than \$200,000 of assets in a tax year. Federal provisions allow a higher phase-out threshold of \$400,000 of asset purchases.

It is important to choose your depreciation methods carefully in order to maximize the benefits of the federal changes and California's nonconformity. Using the expensing election allowed under I.R.C.§179 on used assets with the longest life generally results in the maximum depreciation deduction.

The only bonus depreciation allowed by California is applicable to "C" corporations.

BP&F Ag Department – continued from page 3

and the community. The award is presented at the Fresno Chamber of Commerce Ag Awards Luncheon in November. Past BP&F Ag Business Award recipients are Zacky Farms, Western Division of Wilbur Ellis, Wawona Frozen Foods, Joseph Gallo Farms, Fowler Packing, J&L Vineyards, P-R Farms, and Producers Dairy.

BP&F's Ag Department has a strong presence in the ag community through active involvement in numerous ag industry organizations, including Ag One Foundation, San Joaquin College of Law Ag Law Review, Ag Outlook Conference, Fresno County Farm Bureau, and Ag Lenders Society of California.

The Ag Department staff has lunch with ag attorneys, bankers, and referral sources about three times a year. The lunches are informational, and the two parties learn about each other's services, staff specialization, and the latest happenings in the ag business community.

The Ag Department annually hosts a class to instruct staff on ag education issues, and also regularly emails staff on current topics and issues affecting the ag industry.

For the most up-to-date information about BP&F's Ag Department, visit our website at www.bpfcpa.com and click on Industries. If you would like further information regarding our ag services, please contact any of our Ag Department staff members at (559) 432-2346.



QUICK FACTS

Did you know:

- That J.F. & H.A. McCullough invented the first soft-serve ice cream at their Homemade Ice Cream Co. in Green River, IL in 1938? They later named it Dairy Queen as they believed it would be the queen of dairy products.
- That the gestation period for a cow is 283 days? Dogs and cats take only 63 days.
- That the term "agricultural drought" means that the amount of soil moisture is not enough to meet the needs of crops?
- That organically-grown food worldwide is now valued at \$22 billion? In the United States, \$8.8 billion is spent on organics annually.
- That scientists are fine-tuning the onion enzyme that causes tears, in hopes of producing a tearless one?
- The number of pounds of milk it takes to make a gallon of ice cream **12**
- The percentage of the U.S. olive crop produced by California farmers **100**
- The percentage of California's developed water supply used by farms **43**
The environment uses 46 percent.
- The number of pounds of tomatoes the average American consumes in a year **80**
- The number of people that can be fed by the production of one U.S. farmer **135**
- The percentage amount of decline of electrical energy use by California agriculture in the last ten years **14**
- The speed in miles per hour at which wild turkeys can run **20**
- The number of various types of kiwifruit that exist..... **40**
- The first year sunflowers were grown for oil by U.S. farmers **1966**
- The number of gallons of water needed to produce enough food to feed one person for a year **1.5 million**
- The year the first orange tree was planted in California. However, the first orange grove wasn't planted until 1804..... **1769**
- The number of pounds of wheat it takes to produce enough flour to produce a loaf of bread **10**
- The number of worker bees working a lifetime it takes to produce a teaspoon of honey.... **12**

"California Country," January/February 2004, California Farm Bureau Federation.

CALENDAR

- February 7** FFA Vine Pruning Contest, hosted by the Viticulture Club at Fresno State.
For information: (559) 278-2011.
- February 10 – 12** World Ag Expo (Tulare Farm Show), International AgriCenter, (800) 999-9186.
- March 1** Due date for tax returns of taxpayers filing as farmers.
- March 5 – 7** Fresno State Winemaster's Dinner at the Tenaya Lodge in Yosemite.
For information: (559) 278-2089.
- March 15** Due date for tax returns of calendar year-end corporations.
- March 26** Common Threads event at CSUF. Ticket information: (559) 278-4266.
- Workshop in the morning
 - Lunch and awards at 11:30
- April 15** Due Date for individual tax returns.
- May 7** Ag One Turf Day Golf Classic at Madera Golf and Country Club. For information:
(559) 278-4266
- June 6** A Celebration of Wine at the Dennes Coombs' Riverbend Ranch in Madera.
For information: (559) 278-2089.
- September 12** Ag Boosters' Barbeque, Dennes Coombs' Riverbend Ranch in Madera. Ticket
information: (559) 432-2346 or (559) 278-4266.

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