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**Ag Lending**  
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**FIRST TRUST**  
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*We'll Be The Difference*

## Our roots are in agriculture

The First Trust and Savings Bank was built on a foundation of agriculture. Since the early 1900s First Trust has been committed to the most important industry in the area. We have remained strong and maintained relationships with agricultural customers through the changing agricultural economic environment. Your goals are our goals. Together, by assembling a team of knowledgeable and dedicated professionals, we formulate a plan that meets your needs and desires.

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# The Difference in Agriculture

NEWS & INFORMATION FROM THE FIRST TRUST & SAVINGS BANK

Spring 2022

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## Go back to the farm business basics

**ONE PRODUCER ASKED A BLUNT QUESTION THAT MANY ARE WONDERING. "HOW THE "H" DO I MAKE IT?"**

**David Kohl | May 04, 2022**

The other day, I was conducting a seminar for producers with a former student who now operates several successful small businesses. We conducted a group exercise and asked each table to identify themes and questions that they wanted us to address.

One response was very intriguing, given today's economic climate with uncertainty and extreme volatility. The question was pointed and blunt! With a coach's stare that would make any sports referee melt in their shoes, he said, "How the 'H' are we supposed to make it?" The following was our response.

First, both of us indicated that now more than ever is the time to get back to the basics, or the "block and tackle" of business strategy and execution. This includes knowing your cost of production and completing an enterprise analysis. Do not give the excuse that it is impossible because of inflation, gyrations in prices, production variables, and everything else under the sun. A good set of spreadsheets with a wide variety of assumptions can provide the guardrails for decision-making to keep you out of the emotionally charged ditch. Spreadsheets can bring reality to clouded, complex decisions so that you can be objective in your decision-making.

Next, place your goals in writing. Then, test your strategies, actions, and values against these underlying goals. Do not be afraid to formulate an advisory team to challenge and confirm your thoughts. As my co-presenter indicated, do not let experience cloud your thinking. Seek people outside the industry or those with a youthful mindset, regardless of your age, to add energy to the decision-making process.

Assess your situation with a good old-fashioned SWOT analysis to identify your strengths, weaknesses, opportunities, and threats. Internally examine the strengths of your balance sheet, income statement, and cash flow. Are you operating efficiently? How can you sweat the small stuff for incremental gain to reduce your losses?



What aspects of your business need to be eliminated or reduced? This can include land, labor, livestock, machinery, and nonproductive people, even family members.

The group probably was expecting us to identify the “magic silver bullet” or the next big thing to add to the bottom line. However, in many cases, success is a result of doing a number of small things a little bit better. In this type of environment, the small things that you do will ripple through the business, with others, the community, and life in general. While success is often measured in profitability, the significance is what you give back to your community.

Source: David Kohl, which is solely responsible for the information provided and is wholly owned by the source. Informa Business Media and all its subsidiaries are not responsible for any of the content contained in this information asset

# Death tax legislation languishing in Congress

ESTATE PLANNING: PREPARE NOW IN CASE THE 2013 TAX RELIEF

BILL SUNSETS AT THE END OF 2025.

Michael Dolan | Feb 22, 2022

So, where does the death tax conundrum stand now? As Congress has been unable to get legislation to the desk of the President, the status quo remains in place. So what does the estate tax situation look like for calendar year 2022?

The death tax exemption increases for inflation in 2022 to \$12,060,000. However, don't lose sight of the sunset provision in the 2013 legislation that cuts that number in half at the end of 2025. Even if Congress remains deadlocked. Effective planning will allow you to double that number for married couples.

The annual gift tax exclusion increases to \$16,000 per donee for 2022. Again, adjusted for inflation. USDA ARS Death tax legislation languishing in Congress Estate Planning: Prepare now in case the 2013 tax relief bill sunsets at the end of 2025.

What might we expect if Congress were to put together a coalition that could get legislation through to the President? Based on the negotiations at the end of 2021, here are some things to expect if momentum builds again to get legislation passed.

1. They will attempt to move forward the sunset scheduled to occur at the end of 2025. Effectively doubling the tax on larger estates sooner than scheduled.
2. They will work to try to reduce leveraging techniques which allow for increased gifting through effective estate planning. Or, more simply said, they will take away some planning techniques available to reduce taxes for larger states. These changes will make reducing death taxation an increasingly difficult undertaking.
3. They will attempt to reduce the length that families can exclude their farm or ranch from the estate tax in future generations. With effective planning you can pass the property onto future generations in perpetuity without further death taxation. Many in Congress are pushing to create a limit of 50 years before it must again be subject to death tax.

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## Role of Harvested Area

The declining US role in world grain and oilseed production is entirely explained by its declining share of harvested world grain and oilseed acres. US share declined from 12.3% in 1975-1979 to 9.6% in 2017-2021 (see Figure 3).

The main factor in this decline was a 383 million acre increase in average annual ROW grains and oilseeds (1780 to 2163 million acres). The increase was not just in Brazil / South America (see Figure 4). Harvested acres increased in most regions. The largest increase was in Sub-Saharan Africa, followed closely by South America. Brazil accounted for 58% of the increase in South America.

Grain and oilseed acres declined in only 4 regions, including North America. The US accounted for all of the decline in North America. US annual acres declined by 18 million (from 249 to 231 million). Perhaps more revealing, over the crop prosperity period of 2007-2013, there was no net increase in US acres outside of fewer acres in CRP (Conservation Reserve Program). CRP acres declined by 11 million while US harvested acres increased only 8 million. Over 25 million acres remained in CRP as of 2014. In contrast, ROW harvested acres increased 159 million from 2007 to 2014. This increase accounted for 42% of the increase in ROW grain and oilseed acres from 1975-1979 to 2017-2021.

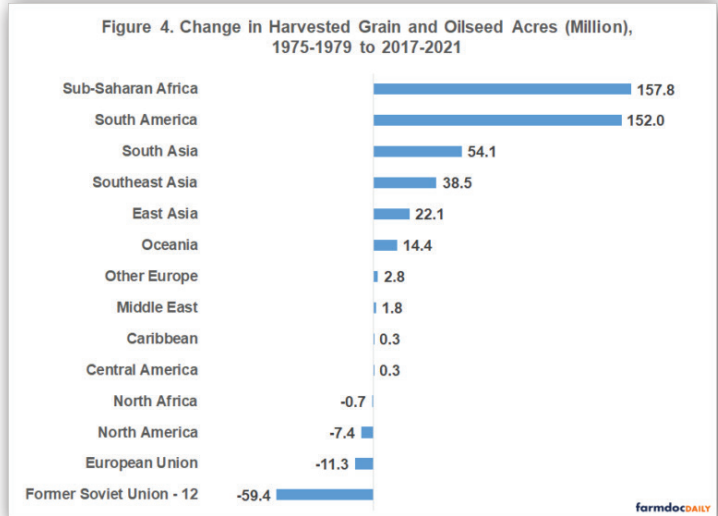
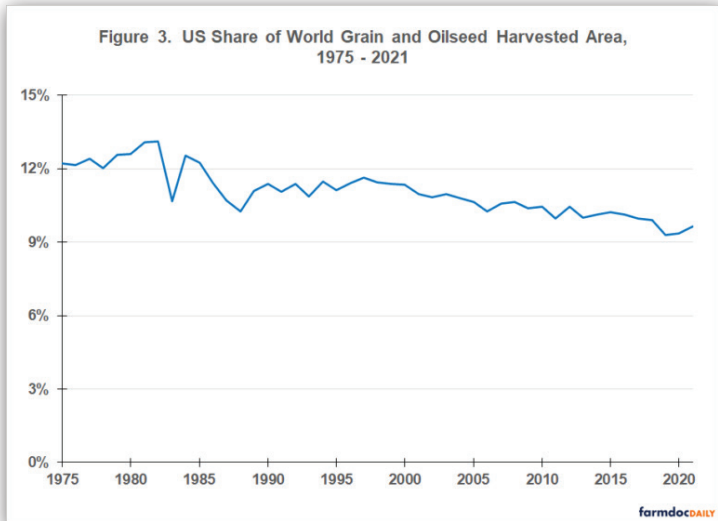
CRP draws lots of attention, but the numbers in the preceding paragraph suggest the story is much bigger. Part of the story is the role of sodbuster and swampbuster. These farm bill provisions deny certain farm program benefits for breaking out new lands or draining wetlands for crop production. Another part of the story is that, despite the crop prosperity of 2007-2013, returns never got high enough for long enough for farmers to feel comfortable incurring the costs to bring new land into production. A potential implication of the bigger story is that the US has reached a cropland acreage maximum given societal support of existing environmental regulations and programs.

## Summary Observations

An important strategic question exists for US agriculture. “Does US agriculture want to address its declining role in world grain and oilseed production?” If the answer is “yes,” the US must confront its acreage question.

The US acreage question reflects the interplay of agro-climate, market, and policy considerations. A realistic assessment of these factors is that US share of world grain and oilseed production can be increased substantially only by multi-cropping existing acres, implying a need to focus research on the development and management of shorter season crop varieties and cropping systems.

Zulauf, C., G. Schnitkey, N. Paulson, K. Swanson and J. Coppess. "US Agriculture's Strategic Question." *farmdoc daily* (12):61, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, May 2, 2022.



Corn

Production and export shares for corn across selected countries are reported in Figure 2. The U.S. remains the dominant global producer (32%) and exporter (33%) for corn. Brazil (18.3%) and Argentina (20%) rank 2nd and 3rd in corn exports. Ukraine now ranks 4th, contributing over 15% of world corn exports. Russia ranks 6th with a 2.3% share of corn exports. Notably, Ukraine has been the dominant supplier of corn to China. A shift towards import of more U.S. corn to China began in 2020 following a poor Ukrainian crop (He, Hayes, and Zhang 2021).

Growth in the share of world corn production and exports from the Black Sea region (Russia, Ukraine, and Kazakhstan) has been substantial, rivaling that of the increase in production in China and both production in and exports from South America over the past twenty years (farmdoc daily, June 2, 2017 and November 18, 2020).

Corn production in India, Mexico, and South Africa exceeds that in Russia, but account for smaller world export shares.

Barley

While the EU holds the dominant production share and is the leading region for world barley exports, Russia and Ukraine account for about 19% of barley production and nearly 32% of barley exports. Australia, Canada, and Argentina are the other major contributors to world barley production and exports.

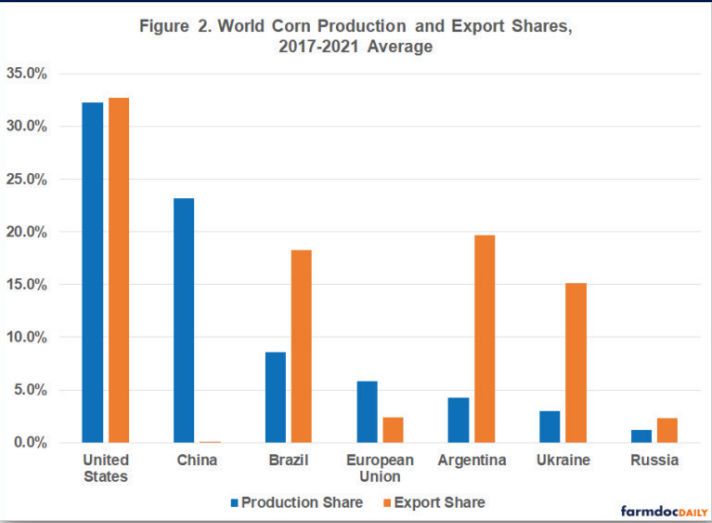
Soybeans and Vegetable Oil

The global soybean market continues to be dominated by the U.S. and South America. Over 82% of world soybean

production and nearly 90% of soybean exports come from the U.S., Brazil, and Argentina.

Both Russia and Ukraine rank in the top 10 for soybean production and exports, but represent just 2.3% of world production and 2.1% of world exports. However, Ukraine and Russia are the leading producers and exporters of sunflower oil which comprises a 9% production share and nearly a 2% export share for the

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world vegetable oil market. Nearly 60% of world sunflower oil production occurs in Ukraine and Russia, and the two countries account for over 75% of world exports.

Discussion

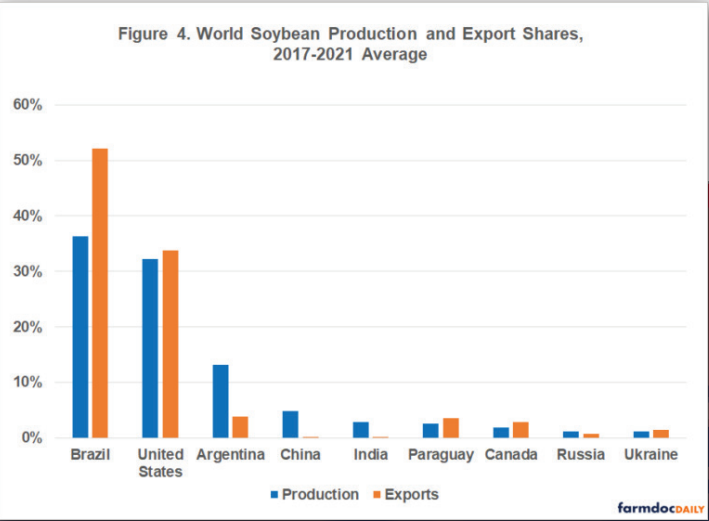
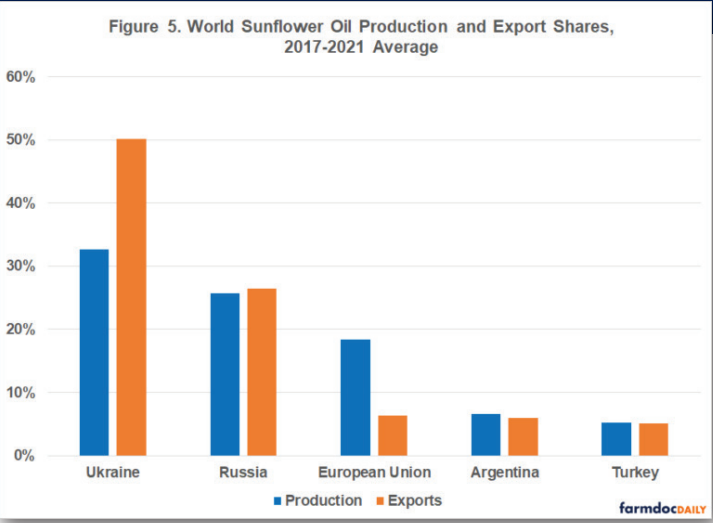
The broad economic implications of last week's Russian invasion of Ukraine, and the resulting sanctions imposed on Russia by the international community, could include disruption of trade flows, greater inflationary pressures, and an increase in volatility across a wide range of global markets.

The invasion is likely to impact the spring planting season for Ukrainian farmers, the magnitude of which will depend on the length and severity of the conflict. Diversion in trade flows will lead to price pressures and increased volatility for the agricultural commodities for which Russia and Ukraine play relatively large roles in terms of global production and trade. This increased volatility was seen in trading activity last week in wheat and corn futures which included limit (maximum) price moves both up and down across multiple days.

The inability for Ukrainian and Russian agricultural commodities to reach global markets may result in higher prices than would have otherwise occurred to the benefit of grain and oilseed producers in other major producing and exporting countries such as the U.S. However, the market disruptions stemming from the conflict and Russian sanctions will also result in major economic costs. Higher agricultural commodity prices will hurt net agricultural importers, particularly in developing parts of the world.

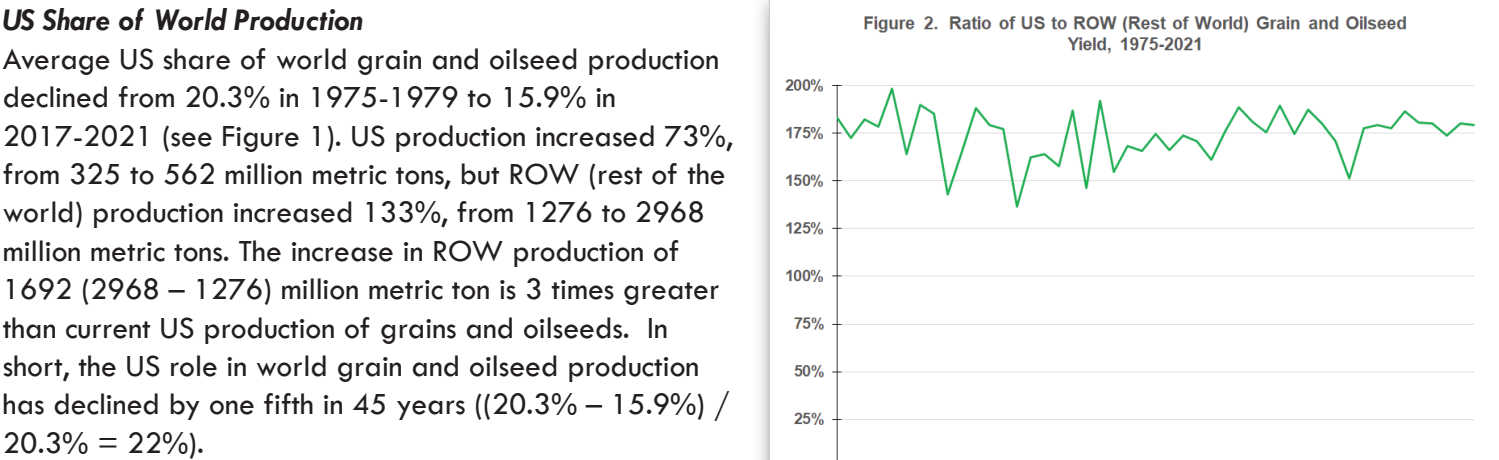
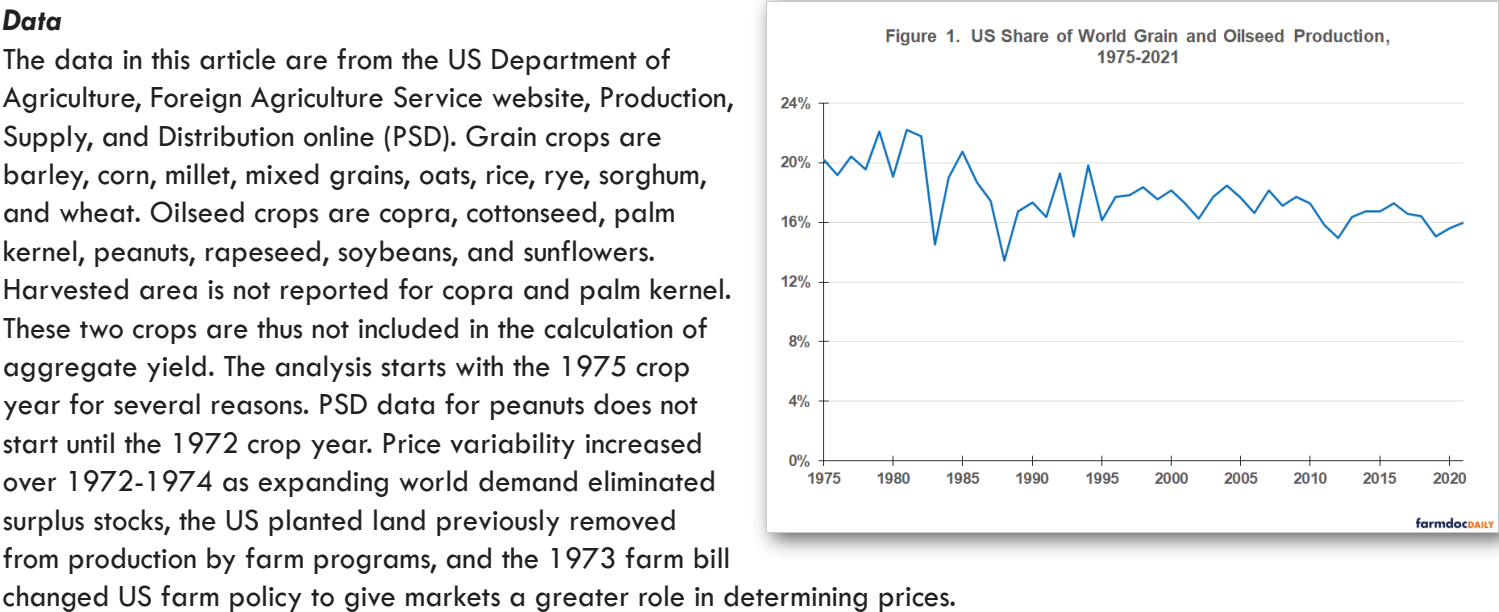
Other costs of the conflict may also hit U.S. agriculture: Increased volatility introduces both opportunities and challenges from a risk management standpoint. Higher prices for agricultural inputs would offset the benefit of higher corn, soybean, and wheat prices for U.S. farmers to some as yet unknown degree. Russia and its ally Belarus are major world suppliers of energy and fertilizer products which could be severely impacted by sanctions (Glauber and Laborde, 2022). With energy and fertilizer prices and volatility already at high levels, the invasion of Ukraine creates additional uncertainty regarding input costs and availability that still might impact the 2022 crop year and also extend to future crop years.

Paulson, N., J. Janzen, C. Zulauf, K. Swanson, and G. Schnitkey. "Revisiting Ukraine, Russia, and Agricultural Commodity Markets." farmdoc daily (12): 27, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, February 28, 2022.



# US Agriculture's Strategic Question

A topic of discussion has been the declining US share of crop exports. The more relevant question is, “How has the US share of aggregate world grain and oilseed production changed?” This question looks at the sector in total as opposed to one of its components, exports. The US share of aggregate world grain and oilseed production has declined, with the decline entirely due to a decline in US share of harvested area. To the extent the US wishes to address its declining share of world grain and oilseed production, it will need to address its acreage question.



**Role of Yield**

The ratio of aggregate yield of grains and oilseeds for the US to ROW has exhibited no trend since 1975 (see Figure 2). The 1.79 average ratio in 2017-2021 is nearly identical to the 1.83 average ratio in 1975-1979. Although US yield is higher, the rate of increase is nearly identical. Yield increased 87% for the US (6.0 / 3.2 metric tons per hectare in 2017-2021 and 1975-1979) and 89% for ROW (3.4 / 1.8 metric tons per hectare in 2017-2021 and 1975-1979). A similar rate of increase is not surprising since most commercial seed companies are international in scope and can quickly disseminate new seed traits around the globe. In short, yield does not explain the declining US role in world grain and oilseed production.

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What should we do now to put our families in the best position to succeed? Well, it depends!

The size of your estate, and what you are shooting for as an outcome, will determine the best strategy for your family. There are a lot of tools and techniques a qualified estate planning attorney can put to work for you. Choosing the right tools to accomplish your goals are critical to the success of your plan.

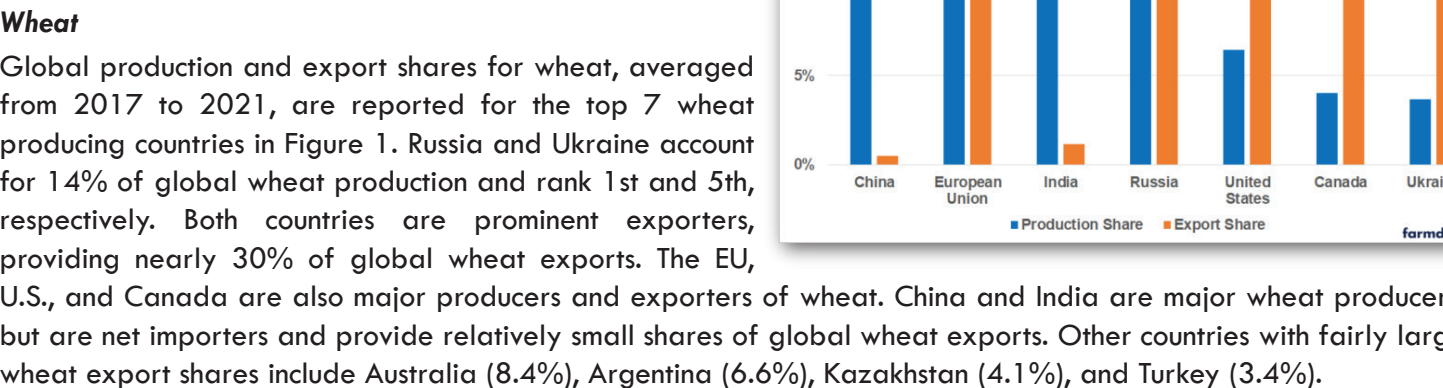
We don't know what Congress will do in the future. I think most of us would agree that taxes are going to increase. The best recommendation I can make is to plan now, clearly establish the result you want your plan to accomplish, apply currently available strategies (while they are available), and then work closely with your estate planning attorney to make adjustments as the environment changes. This will give you, and your family, the best chance for success.

*Dolan, an attorney, helps farm and ranch families achieve comprehensive estate, succession, and legacy planning objectives. Dolan is the principal of Dolan & Associates, P.C. in Brighton and Westminster, Colo. Learn more on his website: [www.EstatePlansThatWork.com](http://www.EstatePlansThatWork.com)*

## Revisiting Ukraine, Russia, and Agricultural Commodity Markets

Ukraine and Russia have become an important source for global supplies of major agricultural commodities in the past 25 years (farmdoc daily, October 11, 2012). These countries, often collectively referred to along with various other Eastern European and Central Asian nations as the Black Sea region, play an important role in the production and export of major grains (corn, wheat, and barley) and oilseeds (especially sunflower and sunflower oil) (Glauber and Laborde, 2022). In addition to the direct toll it will take on the people of the region, the Russian invasion of Ukraine last week introduces many economic concerns including the impact of the conflict on global agricultural markets.

This article summarizes the role of Ukraine and Russia in production and exports of corn, wheat, barley, soybeans, and sunflower oil. The production and export share data provided in all figures is calculated from the USDA Foreign Agricultural Service's Production, Supply and Distribution database (USDA-FAS PSD). Note that we've chosen to consider the members of the European Union (EU) as a single unit in considering production and export shares and comparing them with other countries.



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