

UNITED

POTATO GROWERS OF IDAHO

6109 S. Yellowstone Hwy • Idaho Falls, Idaho 83402 • (208)535-8500 • www.unitedpotato.com

September 9, 2008

To: All Idaho Fresh Potato Growers
Re: 2009 Preliminary Planting Guidelines

We have experienced an unprecedented 3 years of increased returns for spuds since the inception of United Potato Growers of Idaho. That success has been driven by many factors but the single most influential factor by far has been your reduction of acres planted, both in Idaho and by cooperating United growers in Washington, Oregon, California, Colorado, Wisconsin, North Dakota, Minnesota, Montana, Kansas, and Nebraska. **Finally, we have set ourselves up for this coming 2008-09 Crop Season.** Our combination of United acreage cuts coupled with more highly profitable alternative crops has made the difference and has really balanced the supply. Conservatively, Idaho will likely have about 8 million cwt fewer in-weight fresh potatoes than last year and that means we will likely ship about 4 million cwt fewer potatoes into fresh markets. Even in spite of these dramatic changes, **WE HAVE JUST BALANCED SUPPLY WITH DEMAND;** There will be plenty of quality potatoes for retail and consumer markets, **BUT THERE WILL NOT BE ANY OVER-SUPPLY OR EXCESS POTATOES TO DRIVE PRICES DOWN.** That is what we all wanted and why you can expect a great market. We all anticipate an exceptional year. **BUT, we need to remember what got us here! ACREAGE MANAGEMENT!** Every year can be this good if we will just manage the supply.

The Old Paradigm

Commodity markets across the World respond the same; price goes up due to tight supplies, and the next year everyone plants more. Supply exceeds demand even by a little, and the price crashes. You have seen it before in your Idaho Potato Industry; last year you saw it clearly in the Onion industry, and if we do not seriously control our “old paradigm” thinking and instincts, it will happen again here in Idaho. **WE GOT HERE BY CONTROLLING THE SUPPLY. Right now your fresh crop is balanced.** We have planted an estimated 137,000 total Fresh and Dehydration potato acres in Idaho this year. And, right now, everyone of you and your neighbors are likely saying “I want to plant more potatoes”. That’s the Old Paradigm. If EVERY fresh grower in Idaho planted just 10% more than he planted this last year, we will have 13,700 more acres, **AND if the yields go back to trend line of 376 cwt or more, your fresh market will again have 31 million cwt shipments and your return will AGAIN be back to cost of production or lower!**

Do you want potatoes to be profitable next year?

They won’t be with 13,700 more fresh acres planted for the market. It’s just that simple and clear. If we produce and try to ship 31 million cwt like we have for the last 3 years, your return will hover at or just above cost of production.

	'03	'04	'05	'06	'07
Shipments cwt	32,941K	33,281K	31,148K	31,153K	31,604K
% chg	-5.7%	+1.1%	-6.4%	NC	+1.5%
ID share	30.9%	31.0%	30.0%	31.5%	31.7%
GRI	\$3.72	\$3.06	\$6.99	\$6.71	\$7.46*
% chg	-25%	-18%	+128%	-4%	+11%

* with \$2.00 WPG; actual average was over \$3.00 making GRI = \$7.89

What will the Cost of Production be next year?

We have just received Paul Patterson’s updated production costs for the 2008 crop. (see chart below). He indicates 2008 out-of-storage Russet Burbanks grown in Eastern Idaho South (Bannock, Bingham, and Power) to be \$7.65 per cwt, up \$1.34 vs. 2007. In Eastern Idaho North (Bonnevill, Jefferson, and Madison) the 2008

cost is \$7.22 per cwt, up \$1.21 vs. 2007. We at United have reviewed his costs and agree with all but the actual cost of fertilizer this past year, where we believe he is too low. When we put in the actual cost of fertilizer, it adds another 46¢ to the cost per cwt. Thus, we at United maintain that the average 2008 cost of production was \$7.90 per cwt. With Dr. Patterson's permission, we have modified the 2008 numbers to try and reflect costs next spring when you plant. Paul himself indicates he anticipates costs to increase by 15-20% for 2009. We at United have assumed that fuel will stay at today's prices. Per a discussion from Simplot Grower Solutions, we have assumed that 11-52 fertilizer will be \$1500 per ton in the fall and in the spring of 2009 it will be \$1600 per ton. We have assumed that pesticide and chemicals will be up another 5% by next year. We have also updated potato ground cash rents to reflect actual market conditions. All other costs are per Patterson's 2008 analysis. **With these changes, United projects 2009 production costs to be \$8.96.**

Average Eastern Idaho Production Costs- Out of Storage Russet Burbanks

	<u>Patterson 2008</u>		<u>Fertilizer Add on</u>	<u>United Est. 2009</u>	
	<u>Per Acre</u>	<u>Per cwt</u>		<u>Per Acre</u>	<u>Per cwt</u>
Total Operating Costs	\$1686	\$4.96	\$.46	\$2122	\$6.15
Total Ownership Costs	<u>\$ 844</u>	<u>\$2.48</u>		<u>\$971</u>	<u>\$2.81</u>
	\$2530	\$7.44	\$7.90	\$3093	\$8.96

At these high costs, can you afford to be wrong? Do you realize that most of you will have MORE variable cost sunk in the crop per acre than you have equity in the land? If you and everyone else “doubles down” and plants more potatoes, and we end up with 31M cwt fresh shipments, you can safely predict a return of not more than \$8.00. **That means you will lose it all in one season! Can you afford to take that risk?**

2009 Planting Guidelines

The Idaho fresh Market only needs approximately 137,000 total acres to meet demand. For most of you, that is a 25-30% reduction off your 2004 base. That is what we planted this last year. **So, WE ENCOURAGE EVERYONE TO PLANT THE SAME NUMBER OF POTATO ACRES YOU PLANTED LAST YEAR. Your cuts need to be a minimum of a 25% reduction off your 2004 base.** If you cut more acres than that last year, please do not increase acres. **PLANT THE SAME NUMBER OF POTATO ACRES YOU PLANTED LAST YEAR.** It appears that the small grain and hay markets will hold giving most growers other cash producing alternatives. PLEASE TAKE THEM, and like this year, give yourselves a real chance to make great money on potatoes again in 2009. There are those who made extreme cuts last year or have few rotation alternatives. We will work with you. There is plenty of fresh base available in the market to work your special circumstances. Call me at 208-535-8500. **But let's EVERYONE start with what you planted last year.** We finally know what a balanced market looks like. Everyone, members and non-members alike need to **check that “old paradigm” and resist the instinct to increase acres...**even just a few. We are working with and have high expectations that all Idaho Growers will help support and cooperate with these efforts.

Final guidelines will be given to you in the all grower meeting scheduled for November 11, 2008 at the Red Lion Inn in Pocatello. By then, we will know more about this years' crop and how the market is materializing.

Thank you for your understanding and support.

Sincerely,



Jerry P. Wright
 CEO/President
 United Potato Growers of Idaho