June 22, 2020

The Honorable Sonny Perdue
U.S. Department of Agriculture
1400 Independence Avenue SW, Stop 0522
Washington, DC 20250–0522

RE: Notice of Funding Availability; Coronavirus Food Assistance Program (CFAP) Additional Commodities Request for Information Docket ID: FSA–2020–0004

Dear Secretary Perdue:

The U.S. potato industry is responding to the Department of Agriculture's (USDA) Notice of Funding Availability (Docket ID: FSA–2020–0004) for the Coronavirus Food Assistance Program (CFAP) as it relates to adding commodities that were not initially identified by USDA in the CFAP rule and also modifying the payment rates for various categories. We request USDA's immediate attention to the following comments with regard to ensuring that the heavily impacted potato industry is provided with fair and equitable access to these funds.

Background on Potato Industry Impact Due to COVID-19

Overall, the U.S. potato industry comprises approximately $4 billion in sales annually and supports thousands of direct and indirect jobs. Potatoes are the most widely produced specialty crop in the country, with substantial commercial production in Idaho, Washington, Oregon, Colorado, Michigan, Wisconsin, California, Maine, Montana, North Dakota, Pennsylvania, North Carolina, New York, Ohio, Florida, Minnesota, and Texas.

The U.S. potato industry is facing an unprecedented crisis related to the coronavirus pandemic. As we have discussed with the Department of Agriculture (USDA) at length over the past three months, the threat to family farms in the potato industry due largely to the closure of the food service sector may last well into 2021 if aggressive actions are not taken. Specifically, over 1.5 billion lbs. of fresh potatoes-for-processing and potato products are trapped in the supply chain with no likely customers. This oversupply has impacted both the 2019 and 2020 crop for U.S. family farms that grow potatoes. Some of these farms will have no ability to sell their 2019 or 2020 crop.

As a result of this oversupply, potato processing companies have invoked "Act of God" clauses in contracts with growers that either reduce or completely invalidate those agreements for the current 2019 crop. Additionally, those same growers have been advised that they will not have contracts for the upcoming 2020 crop year at nearly the levels of previous years. Therefore, the growers' sole customer has advised them that their crop will either be reduced or entirely unnecessary for two successive years. For some growers, this notification came after all or a substantial portion of their crop had already been planted.

In turn, seed potato growers have had all or a portion of their crop returned without payment as their customers respond to the aforementioned reductions.

Over 70% of the potato industry has been directly impacted by the government-mandated shutdown due to the Coronavirus (COVID-19). Significant negative impacts have been suffered during the period of January 15-April 15 in the sub-sector of the potato industry comprising seed potatoes (10%) and the sub-sector of the industry serving the food service industry (60%).

These growers urgently need a direct payment program that provides meaningful relief as a result of this crisis.

Potatoes Do Not Have Equitable Access to or Receive Meaningful Relief from CFAP

Under the current structure of CFAP, potatoes do not have equitable access or receive meaningful relief from the program. The following limitations specifically impair potato growers' ability to receive support despite the economic harm they have suffered.

- Potatoes are ineligible for Category 1 payments (typically the largest category of payments).

- In Category 2, potatoes have a payment level of $.04/lb. That level of payment could provide some relief if growers are able to utilize it.

  However, the largely contract-nature of the potato business makes it unlikely that growers could qualify for the category's requirements that a commodity be shipped but unpaid for. It is much more likely that the customers who have contracted for the product would simply not require it to be shipped to the processing facility. This condition renders Category 2 unlikely to provide relief for many potato growers in its current form.

- Category 3 is the one most likely to be made use of by the potato industry. However, the payment rate established by USDA is only $.01/lb.

  This payment rate is likely less than it would cost for a grower to responsibly destroy their crop in accordance with environmental requirements. It also appears to be a payment rate that is not equitable in regard to other commodities with similar production practices.

  As identified by USDA, sweet potatoes have a $0.18/lb payment rate under Category 2 and a payment rate of $0.04/lb under Category 3. Both rates are 400% larger than for potatoes ($.04/$.01 per lb. respectively). In general, the cost of production and the market price for these two commodities are extremely comparable but the payment rates are grossly disconnected, leaving potato producers without meaningful relief.

USDA's Data Involved Only Retail Sales – Not the Segments Making up the 70% of the Potato Industry Impacted by COVID-19

It is our understanding that the data USDA relied upon to determine that potatoes are ineligible for Category 1 was based only upon potato pricing at shipping points. This data from the Agricultural Market News Service involves <u>only 6.5% of the overall potato industry</u>. It also surveys the sector of the industry that largely escaped substantial negative impacts from the COVID-19 shutdown, as it involves potatoes destined for retail sales.

If this is indeed the entirety of the limited data that was available to USDA, the impact of the government shutdown was effectively not considered for the overwhelming majority of the potato industry. Without comprehensive data on the industry, the determination that USDA originally made to exclude potatoes from Category 1 cannot be reasonably supported.

By contrast, the potato industry has surveyed all segments of the industry to provide a comprehensive understanding of the impact of the crisis on potato pricing. The results of those surveys are as follows;

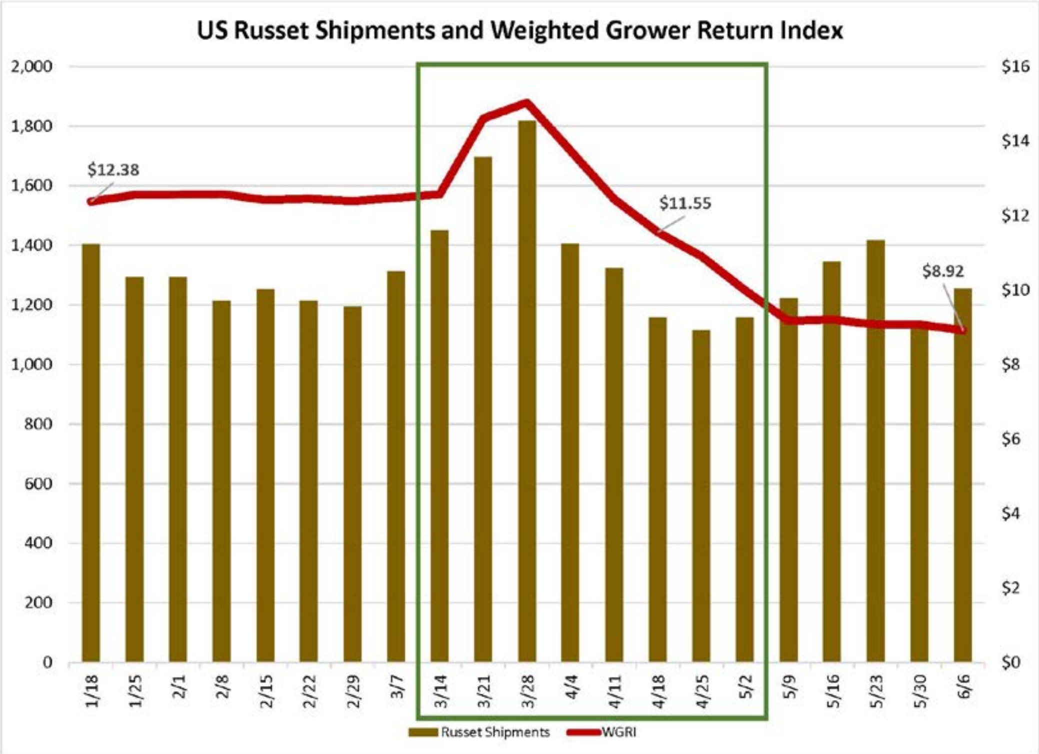
Potatoes Have Suffered a Greater than 5% Nationwide Price Decline due to COVID-19 and should be eligible for Category 1

Based upon the comprehensive information that the industry has compiled from January 15-April 15, potatoes suffered substantially greater than a 5% nationwide price decline. **Overall, the price decline was 20.51%.**

The following distinct potato market segments (fresh market, seed potatoes and processing potatoes) combine to determine that overall price impact. This data has been generated via surveys of potato growers and processors serving all major production areas. These surveys and reports were compiled by United Potato Growers of America, Potato Growers of Washington, North American Potato Market News, the Southern Idaho Potato Cooperative and individual state organizations in the potato-producing states. Their information was bolstered by USDA's National Agricultural Statistics Service (NASS) and Agricultural Marketing Service (AMS) data. Pricing impacts in the individual shares of the overall potato market were then weighted to determine the comprehensive figure on price decline during the reference period of January 15th to April 15th.

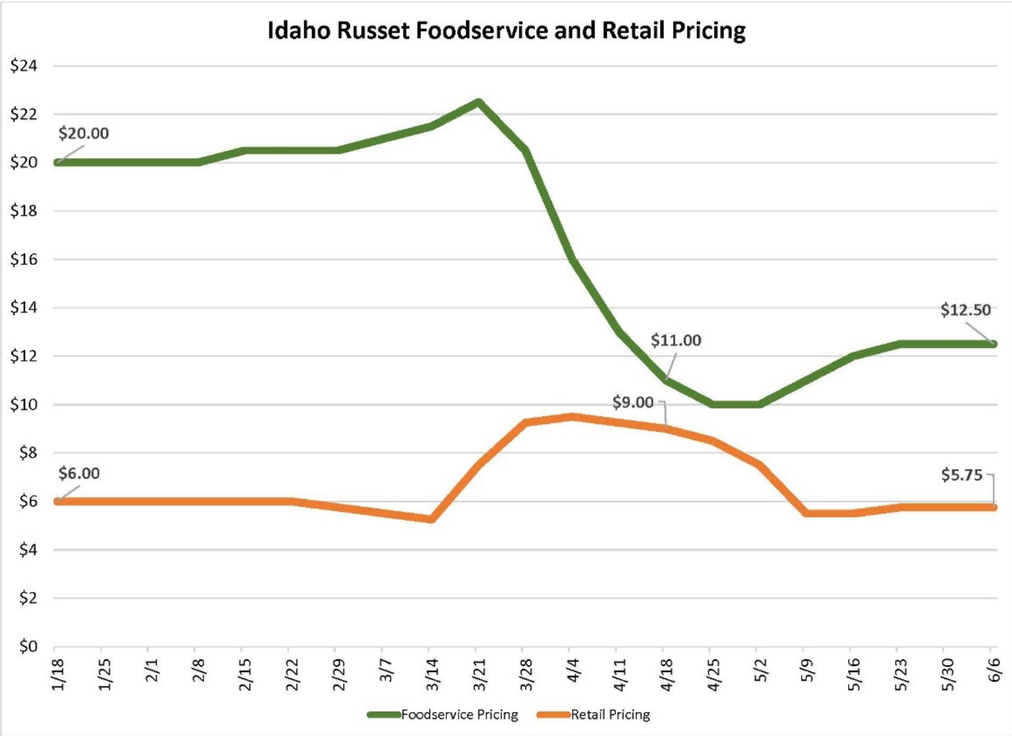
USDA Utilization From December 1, 2019 to June 1, 2020							
	Price Change	Utilization in lbs	Price on 1-15-2020	Value on 1-15-2020	Price on 4-15-2020	Value on 4-15-2020	Increase/ (Decrease) in Value
Seed Potatoes	-15%	1,192,613,269	$ 0.1300	$ 155,039,725	$ 0.1105	$ 131,783,766	$ 23,255,959
Fresh Food Service & Retail	-6.70%	3,184,138,457	$ 0.1238	$ 394,196,341	$ 0.1155	$ 367,767,992	$ 26,428,349
Frozen Processing	-43%	8,529,049,747	$ 0.1050	$ 895,550,223	$ 0.06	$ 511,742,985	$ 383,807,239
Other Processing	0%	5,691,907,166	$ 0.1050	$ 597,650,252	$ 0.1050	$ 597,650,252	$ -
Farm Disposition*	0%	1,412,291,362	$ 0.0500	$ 70,614,568	$ 0.05	$ 70,614,568	$ -
Total		20,010,000,001		$ 2,113,051,110		$ 1,679,559,563	$ 433,491,547
Net Increase/ (Decrease) in Value							-20.51%
*Farm Disposition includes shrink and loss of potatoes in storage, and potatoes used on farm where grown for seed, feed, and home use							

Fresh Market Russets
The single largest variety-class of potatoes that are shipped throughout the year is the Russet. Despite having significant exposure to the retail side of the industry, Russet prices overall declined from $0.1238/lb on January 15 to $.1155/lb on April 15, a 6.7% decline. This calculation does not consider the impact of contracted Russet potatoes that were released during that period.[1]



Utilizing the Grower Return Index (GRI) data provided by United Potato Growers of America, Idaho grower/shippers, overall prices for fresh market (retail and food service) potatoes dropped 18% from January 1 – April 15 including potatoes sold at retail. Fresh potatoes serving the food service sector alone saw a 30% price decline during the same period. These prices have fallen further since mid-April and are now down 33%.

[1] United Potato Growers of America



The Grower Return Index (GRI) for the fresh potato industry is used as a proxy for how much money a potato grower in each major russet shipping region can expect to receive for his fresh potato crop in terms of dollars per hundredweight ($/cwt). It is a formula calculation that for each week considers all of the AMS reported potato pricing for every pack of fresh potatoes (i.e. all count cartons, consumer bags, #2's, etc.) in a given region. It also then includes in the calculation an average size profile distribution, an average packout rate, an average packing charge, and an average off-grade residual value for fresh potatoes in each of those regions as well. Residual value of off-grade potatoes (those that do not make grade standards for USDA fresh potato markets) can be from the average price paid for those potatoes by dehydration companies, animal feed companies, canning or refrigerated companies, etc. GRI is typically reported on a weekly basis in the potato industry for the four major Russet shipping regions – Idaho, Colorado, the Columbia Basin, and Wisconsin.

Seed Potatoes

The seed potato industry has experienced a direct loss in excess of 129,600,600 lbs. or 5% of the overall crop that has been discarded. This is coupled with a 12% overall price reduction for seed potatoes that were still delivered to commercial growers. Before April 1 the value of open market commercial seed dropped from an average $0.13/lb to $0.00/lb. Due to the rapid build-up of oversupplied stocks of seed potatoes, any secondary market (such as selling them to dehydrators for processed production) was not an option after April 1. Seed potatoes are 10% of the industry.

Processing Potatoes for Frozen Product

The overall situation with processing potatoes in the April timeframe is one of the most acute negative impacts that the potato industry is facing. Processors reduced their utilization of storage potatoes during that time period, causing stocks to soar and growers to have their contracts reduced or cancelled.

According to North American Potato Market News (the leading publication for stocks, utilization and production information), "Processors used 25.48 million cwt of potatoes for purposes other than dehydration during April and May. That is 4.46 million cwt less than they used a year earlier, a 14.9%

decline. Most potatoes in this category are used to produce French Fries and other frozen potato products. Monthly data show a 29.8% downturn in April usage, followed by a 2.3% decline during May."[2]

Potatoes contracted with processors have been released from those contracts. The reported volume of the released potatoes is 494,000,000 lbs. out of an overall average contracted volume of 15.85 billion lbs. (3.12%). The average price decline of these potatoes is 50%.

In specific production regions, the impacts are as follows[3]:

- ✓ **Columbia Basin**: Combined Washington-Oregon June 1 potato stocks totalled 21.1 million cwt. That exceeded the year-earlier inventory by 2.4 million cwt, a 12.8% increase. The region's April/May disappearance fell 3.8 million cwt short of the 2019 pace, to 16.8 million cwt, an **18.4% decline**. That included a 2.50 million cwt drop in processing use to 11.54 million cwt, **down 17.8%** from the 2019 pace. <u>The Basin is on the front line of the French Fry export market, which has experienced a severe decline during the COVID pandemic</u>. April processing use fell 37.8% short of the 2019 pace.

- ✓ **Idaho**: Monthly data indicate that Idaho processors **used 26.5% fewer potatoes** during April than they did a year earlier.

- ✓ **Maine**: The state had 2.1 million cwt of potatoes left in storage on June 1. That <u>exceeded the year-earlier inventory by 600,000 cwt, or **40%**</u>. This year's June 1 inventory is the state's largest since 2016. The state's processors use 755,000 cwt of potatoes during April and May. That is 85,000 cwt less than they used the previous year, a 10.1% decline.

- ✓ **North Dakota**: April-May potato disappearance fell 700,000 cwt short of 2019 movement, to 3.4 million cwt, **a 17.1% decline**. That is a modest downturn considering that fresh potato shipments fell 32.0% short of 2019 movement, <u>seed shipments were off by almost 50%</u>, and regional processing use **dropped 16.1%.**

The regional volumes of released potatoes is 396,000,000/lbs. in the Columbia Basin of the states of Washington and Oregon where growers saw their crops value go from a 5-year rolling average value of $0.1006/lb. to only receiving their advanced payment of $0.0525/lb. – a 52.2% decrease in value; 98 million pounds in Idaho where growers saw their crops value go from an average value of $0.10/lb. to an average of $0.651/lb. – a 65.1% decrease in value.

Export Markets Suffered Substantial Declines and Injected Further Supply into the U.S.
Export data, provided by the Global Trade Atlas, reflects that U.S. exports of potatoes and potato products during the months of March and April saw a net decrease from the prior year of 222,466,330 million lbs. of potatoes with a value of $48,202,944. The decrease in exports further increases the impact on the domestic U.S. potato market by injecting more supply into an already oversupplied market.

The payment rate in Category 1 should be established and the payment rates in Categories 2 and 3 must be elevated all to a meaningful level that is equitable with other commodities.

As previously indicated, the payment rates for potatoes in the eligible categories (2 and 3) are inconsistent and inequitable with other specialty crops that have similar production costs. These

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[2] North American Potato Market News, June 17, 2020, Vol. 26 Number 36
[3] North American Potato Market News, June 17, 2020, Vol. 26, Number 36

payment rates for potatoes in Category 1, Category 2 and Category 3 should be established or elevated to levels that are consistent with the payment levels of other commodities and no less than $.04/lb.

Using sweet potatoes as a comparable product under the CFAP payment values. According to the AMS Terminal Market Prices on January 15, 2020 a 40-lb. carton was selling within a range of $14 to $40. This equates to a range of $0.35-$1.00/lb., on average $0.68/lb. CFAP is using a base price of $0.54/lb.; reflecting 80% of the average price.

White potatoes are reflected in the AMS Terminal Market Prices on the same day with a 50-lb. carton ranging from $15 to $38. This equates to a range of $0.30 to $0.76/lb., on average $0.53/lb. CFAP is using a base price of $0.12/lb.; reflecting 22.64% of the average price.

Mirroring the 80% price provided to sweet potato growers to white potato growers would establish the following rates.

Rate on Sales Losses	Rate on shipped but spoiled	Rate on crops not leaving the farm
$0.34/lb.	$0.13/lb.	$0.04/lb.

Additional Recommended Enhancements for CFAP:

- ✓ **Make CFAP payments eligible for the entirety of 2020**

  The end date for this round of CFAP is April 15, 2020. That date was not the end of the crisis for agriculture. Instead it was very early on as the impacts from the government shutdown were growing in rural America. Growers continue to suffer substantial economic impacts that will likely last through at least the balance of 2020.

  Though resources may be limited, truncating the relief for CFAP to an arbitrary period near the beginning of the crisis will not provide the relief growers require.

- ✓ **Allow all growers who believe they can prove an economic injury to have an equal opportunity to apply for CFAP relief**

  The current structure of CFAP creates obstacles that restrict growers' ability to apply for the program. For example, USDA has taken it upon itself to determine commodities that suffered injuries due to the pandemic. This has resulted in a very limited participation by many in the specialty crop industry, due to the aforementioned issues with the data that is being utilized.

  Even if USDA has accurate data on a particular commodity from a national perspective, such an average should not be used to exclude injured growers from participation. In the case of a commodity produced in many states, why should a grower who has had all or a portion of their crop (and livelihood) devastated by this crisis be excluded from applying for relief because an unrelated grower in an entirely different state may have fared better due to their unique circumstances?

- ✓ **Allow growers to have equitable access to relief payments by eliminating the differing payment rates in Categories 1, 2 and 3**

USDA has determined that growers can have access to different levels of relief based upon the circumstances of their crop. These circumstances are;

- Commodities that suffered a price decline (Category 1)
- Commodities that leave the farm but are unsold (Category 2)
- Commodities that remain on the farm (Category 3) and are similarly unsold.

In practice, the degree of injury from these arbitrary conditions may vary by commodity and individual circumstance. There should be no reduction in the payments based upon these conditions, as the economic injuries may be absolutely identical. Growers should be able to apply for and receive an equitable payment based upon their actual provable injuries, not tethered to an arbitrary prejudgment of those injuries.

USDA should seek to eliminate these obstacles and disparities. Instead, growers who believe they have an economic injury should be allowed the opportunity to prove their individual case for relief and to dispose of excess potatoes in an environmentally responsible manner.

Looking forward, this crisis is impacting both the present year (2019) crop and the upcoming (2020) crop. We want to work with USDA to ensure that relief is available for producers that may have their 2020 crop impaired. This is becoming increasingly likely and these producers may suffer impacts that last well into the Fall of 2021.

Thank you for the urgent consideration of these issues and the goal of providing meaningful relief for the growers in America's potato industry.

Sincerely,
National Potato Council
Colorado Potato Administrative Committee
Empire State Potato Growers
Idaho Grower Shippers Association
Idaho Potato Commission
Southern Idaho Potato Cooperative, Inc.
Maine Potato Board
Potato Growers of Michigan, Inc.
Montana Potato Improvement Association
Nebraska Potato Development Division/Potato Certification Association of Nebraska
North Carolina Potato Association
Northern Plains Potato Growers Association
Oregon Potato Commission
Pennsylvania Co-Operative Potato Growers
United Potato Growers of America
Association of Virginia Potato and Vegetable Growers, Inc.
Washington State Potato Commission
Potato Growers of Washington, Inc.
Wisconsin Potato & Vegetable Growers Association