

The Agriculture Letter

Insight and Analysis for Agribusiness Leaders

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Dear Client:

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Biden's next proposal is another BIG package... \$3 tril. to \$4 tril. of sweeping policy priorities.

BIDEN
PROPOSAL

Two-part, "Build Back Better" proposal focuses on infrastructure, clean energy, workforce development and education spending... such as universal pre-kindergarten, national childcare and free community college tuition.

Proposal would be financed in part via tax increases on corporations and the rich (see Page 2).

Infrastructure... would spend hundreds of billions of dollars repairing roads, bridges, waterways and rails. It would include funding to retrofit buildings, boost safety, and improve infrastructure for schools/education facilities as well as low-income and tribal groups.

Proposes \$400 bil. to combat climate change... that tally includes \$60 bil. for infrastructure related to green transit and \$46 bil. for climate research and development.

Electric vehicle charging stations would be available across the country under the plan.

\$200 bil. would be spent on housing infrastructure, including \$100 bil. to expand supply of housing for low-income Americans.

Spends heavily on infrastructure improvements, clean energy deployment and the development of other "high-growth industries of the future" like 5G telecommunications. It would include money for rural broadband, advanced training for millions of workers and 1 mil. affordable and energy-efficient housing units.

Nearly \$1 tril. in spending alone on the construction of roads, bridges, rail lines, ports, electric vehicle charging stations and improvements to the electric grid and other parts of the power sector.

Second component is the "human infrastructure" portion that would include universal pre-kindergarten, free community college tuition, a huge spending increase on childcare and a national paid leave program. The measure would extend for several years the expansion of the Child Tax Credit recently signed into law for just one year as part of the \$1.9-tril. stimulus plan.

Would also include extending subsidies for the Affordable Care Act and free and reduced tuition at historically Black colleges and universities.

Spends heavily on education and on programs meant to increase the participation of women in the labor force by helping them balance work and caregiving.

Extends or makes permanent two temporary provisions of Biden's recent relief bill: expanding subsidies for low- and middle-income Americans to buy health insurance and tax credits aimed at cutting poverty, particularly for children.

Reactions to Infrastructure Proposal

- **Rep. Alexandria Ocasio-Cortez** (D-N.Y.) is encouraged and likened the plan to her Green New Deal plan. "One of the big goals we had when we introduced the Green New Deal was to show how people thought about climate change from being a billion-dollar problem to a trillion-dollar opportunity," she said.
- **Sen. Pat Toomey** (R-Pa.): "There's no good case for anything like the kind of tax increases they're advocating," said Toomey, who helped craft the 2017 GOP tax legislation. "The idea we should agree to some huge economy-crushing tax increase so the government can go on yet another spending binge is a nonstarter for me."
- **Rep. Kevin Brady** (R-Texas) blasted the prospect of "partisan tax hikes" and slammed the emerging infrastructure proposal as one that would "fleece American workers, families and Main Street businesses."

Source: *Ag Letter* editors

TAX POLICY Tax policy options to fund Biden's two-part plan are still under review. They would include: raising the corporate tax rate from 21% to 28%; increasing taxes on wealthy investors to 39.6% from 37%; increasing the minimum tax paid from about 13% to 21%; ending federal subsidies for fossil fuel companies; forcing multinational corporations to pay the U.S. tax rate rather than the lower rates paid by their foreign subsidiaries; and limiting deductions that rich taxpayers can claim annually, among other measures.

No details on ag-sector tax reform... but possibilities include a big boost in capital gains taxes, an end to stepped-up basis and a big reduction in the estate tax exemption.

Financing options would reduce federal spending by \$700 bil. over a decade, like allowing Medicare to negotiate prescription drug costs with pharmaceutical companies.

Estimated \$3 tril. price tag does not include some things... like the cost of extending new temporary tax cuts meant to fight poverty. Final price tag could exceed \$4 trillion.

One question: How to apply Biden's campaign promise that no one earning less than \$400,000 a year would pay more in federal taxes under his plan. Currently, the top marginal income tax rate starts at just above \$500,000 for individuals and above \$600,000 for couples. Biden proposed raising that rate in the campaign. While officials say they are committed to not raising the tax bills of any individual earning less than \$400,000, they have debated whether to lower the income threshold for the top marginal rate, to tax all individual income above \$400,000 at 39.6%, in order to raise more revenue for his spending plans.

DRUG COSTS Prescription drug linkage. White House officials want to include a measure to force pharmaceutical companies to either lower their prices or pay a steep penalty... similar to the prescription drug bill unveiled by House Democrats in 2019, which attempted to respond to voter frustration over the rising costs of prescription drugs across the country. The Congressional Budget Office estimated House Democrats' bill would save the government approximately \$450 billion over the next decade. By lowering the cost of prescription drugs, the government would spend significantly less on Medicare and other public health programs.

FATE OF PROPOSAL Outlook: It is far from clear whether enough Republican support can be found, especially in the Senate. That will largely depend on how the plan is paid for. "I don't think there's going to be any enthusiasm on our side for a tax increase," Sen. Mitch McConnell (R-Ky.), the Republican leader, said. He predicted the administration's infrastructure plan would be a "Trojan horse" for tax increases.

Republicans are united in opposition to most of the tax increases and business groups say corporate tax increases would scuttle their support for an infrastructure plan.

Biden and congressional leaders could again use a special parliamentary tactic... budget reconciliation... to pass the measure with only Democratic votes. But moderate Democrats in the Senate have insisted that the president engage Republicans on the next wave of economic legislation and that the new spending be offset by tax increases.

There's only one more opportunity to use reconciliation this year, so "multiple bills" mean the White House will need a 60-vote strategy for any pieces that move through the Senate outside of reconciliation.

Biden discussed his agenda during his first formal news conference March 25 and will update it in his first address to a joint session of Congress in the coming weeks. Recent history suggests that an administration has only about a year to push major legislation through Congress before attention turns to the midterm elections, and those rarely go well for the party in power. Thus, any bill not at the very top of the president's list is unlikely to happen. That explains why Biden and Democrats are moving so quickly on policy initiatives.

2021
ACREAGE

Pro Farmer expects total area planted to U.S. crops to rise to 319.4 mil. acres this year, up 8.9 mil. acres (2.9%) from last year and the highest since 2018, based on the results of the annual Pro Farmer/Doane planting intentions survey. Stronger prices and improved farm financial conditions are expected to bring more acres into production.

Not surprisingly, the survey signals big increases in corn and soybean acres this year given the sharp rise in prices. Pro Farmer projects total corn and soybean plantings at a record 182.3 mil. acres, which would be up 8.4 mil. acres (4.8%) from last year. Total acres planted to the big four crops (corn, soybeans, wheat and cotton) are expected to rise 9.5 mil. acres (4.1%) from last year.

Corn acres are forecast at 93.4 mil. acres, up from 90.8 mil. acres in 2020.

Soybean acres are pegged at 88.9 mil. acres, up from 83.1 mil. acres in 2020.

MARKETS

Corn: Potential corn acres and quarterly grain stocks are major focal points in USDA's March 31 reports, with spring planting weather soon to become more important. Old-crop focus remains on demand after China bought nearly 4 million metric tons (MMT) from March 16-19. That has supported old-crop contracts. New-crop months are limited by expected higher corn acres... and thus production... for 2021.

Soybeans: Soyoil is a major supporting factor for old-crop soybeans and processor margins, keeping crush activity strong. China's imports of U.S. soybeans rebounded from year ago in January and February, in part due to tight South American supplies. Acreage estimates March 31 will set the price tone for new-crop.

Wheat: Timely March precip helped lift winter wheat crop ratings coming out of dormancy, though USDA's first national crop progress and condition update won't come until April 5. A rise in acres for soybeans, corn and canola could cut into spring wheat area in the Dakotas and Canadian Prairies and keeps some price strength in that market.

Rice: Early seeding results out of Louisiana are getting market attention, but prices have been relatively quiet on adequate old-crop supplies. Demand for U.S. rice remains important, but U.S. supplies are still struggling to gain attention on the global market.

Cotton: Demand remains the key as planting is on the horizon. So far, China has remained a strong buyer, but other countries are also looking for U.S. supplies. The actions taken by the U.S. and others over the Uyghurs in Xinjiang... where most of China's cotton is grown... has sent global buyers scurrying to find other suppliers.

Dairy: Production per cow continues to rise and even with higher feed costs, farmers are still in an expansion mode. Help will be needed on both domestic consumption and exports to help move rising supplies through the pipeline.

Hogs/pork: Comparisons to year ago are out of whack as we're closing in on the 2020 start of the pandemic and major interruptions in the U.S. hog supply chain that unfolded as slaughter plants shut down. The drop in kills over the past month seemed tied to producers pulling marketings forward during January. Pork and cash hog prices are surging.

Cattle/beef: After seven consecutive weeks of steady trade, cash cattle prices finally moved higher, thanks in part to a rebound in beef. Another round of stimulus checks and pent-up demand heading into summer grilling season should bode well for the cattle sector.

Broilers: The industry has worked through the cold-weather backlog on chicken, but impacts from the February cold spell will still be felt. Lost chicks will impact harvest numbers in the weeks ahead, but the sector can shift relatively quickly.

Transportation: The aggressive export pace remains a feature, as weekly inspections for corn hit a record recently after record soy exports. Grain barge lockings are up 44% for 2020-21. The current demand pace points to an active summer shipping season.

CFAP

CFAP payments resume... Biden paused Coronavirus Food Assistance Program (CFAP) payments for review soon after taking office. On March 24, Ag Secretary Tom Vilsack announced that after identifying gaps in previous aid, USDA will dedicate \$6 billion to establish a “new” [Pandemic Assistance for Producers \(PAP\) program](#) that would “distribute resources more equitably.” Existing CFAP programs will be rolled into PAP. Bio-fuels are among those listed as eligible for new assistance. USDA will also reopen signup for CFAP-2 for at least 60 days beginning April 5, 2021 to expand program outreach to socially disadvantaged producers. USDA will also expedite CFAP-3 payments that were approved in December and the \$20 per acre flat-rate payments for eligible crops. New applications are not required and producers should begin receiving these payouts in April. USDA did not adjust payment limits, much to the chagrin of large livestock producers.

CHINA

Vilsack met virtually with his Chinese counterpart, Tang Renjian, March 22. “They agreed that it is important for the United States and China, as two of the largest agricultural producers and consumers in the world, to work together to address areas of common concern,” a USDA official said. “Secretary Vilsack raised concerns about some of the PRC’s [People’s Republic of China’s] trade barriers that disadvantage U.S. farmers. They also discussed the positive role agriculture can play in addressing climate change. Both officials agreed to keep an open channel to discuss these issues further.”

RFS

To the biofuel industry’s chagrin, EPA extends RFS compliance deadline. The Environmental Protection Agency on March 23 finalized a rule to extend the Renewable Fuel Standard (RFS) program’s compliance deadlines for 2019 and 2020. Under the extended deadlines, obligated parties must submit 2020 compliance documentation by Jan 31, 2022, and the associated attest engagement reports by June 1, 2022. EPA also extended the deadline for obligated parties to submit attest engagement reports for the 2021 compliance year to Sept. 1, 2022. The deadline for obligated parties to submit compliance documentation for 2021 is unchanged. Finally, EPA extended the deadlines for small refineries to comply with 2019 volume standards. Under the extended deadlines, small refineries must submit 2019 compliance documents by Nov. 30, 2021, and the associated attest engagement reports by June 1, 2022.

Perspective: The changes for the 2019 and 2020 compliance years were the same as those proposed in January by the Trump administration. The shift on the 2021 compliance year reporting is a new action by the Biden administration.

DATA
USERS

USDA to host spring 2021 virtual data users’ meeting mid-April. USDA’s National Agricultural Statistics Service (NASS) will hold its biannual data users’ meeting April 14-15. The free, virtual meeting is open to the public.

The April 14 agenda includes agency updates followed by several breakout sessions for participants to choose from, including Ag Marketing Service market news; World Board meteorology; NASS grain stocks program; and foreign production, trade, and import/export data. On April 15, after a brief recap of the previous day’s activities, the floor will open to participants for questions and comments, and the event will close with two breakout sessions: NASS modernization and ERS research.

The sessions could be revealing as many in the U.S. ag sector have complained about NASS taking so long to get a handle on the size of last year’s corn, soybean and cotton crops and inventories. Also coming under criticism: USDA’s World Board forecasts of total China corn imports that have lagged more accurate private pegs.

Many in the private ag sector think NASS needs to modernize its efforts.

Best regards,

The Ag Letter Editors
THE AGRICULTURE LETTER EDITORS

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