

The Agriculture Letter

Insight and Analysis for Agribusiness Leaders

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Dear Client:

Washington, June 18, 2021

USDA announced more pandemic aid actions... Mostly stemmed from the \$1.9 trillion Covid aid plan approved in March.

COVID
AID

Aid announcement coincided with USDA Secretary Tom Vilsack appearance June 15 before the Senate Ag Appropriations Subcommittee. Congressional hearings can serve as a catalyst for aid announcements, especially when lawmakers have been pressing USDA to get extra aid to producers impacted by the pandemic.

Latest aid will be dispatched the next 60 days and it “will continue to be focused on filling gaps in previous rounds of assistance and helping beginning, socially disadvantaged, and small- and medium-size [farms] that need support most.”

How the funds are divvied up:

- \$200 mil. for small, family-owned timber harvesting and hauling businesses.
- \$700 mil. for biofuels producers... While welcoming the aid, American Coalition for Ethanol CEO Brian Jennings said producers wanted higher funding and have concerns over how the aid will be distributed.

Support for dairy farmers and processors:

- \$400 mil. for the new Dairy Donation Program (DDP) to address food insecurity and mitigate food waste and loss... but this is not yet ready to roll. The interim final rule for DDP was sent to the Office of Management and Budget (OMB) on June 9 for review and it is not clear how long that review is going to last.

- Additional pandemic payments targeted to dairy farmers that have demonstrated losses that have not been covered by previous pandemic assistance.

- Approximately \$580 mil. for Supplemental Dairy Margin Coverage (DMC) for small and medium farms...

USDA may need to take additional actions before they can be paid.

- Assistance for poultry and livestock producers left out of previous rounds of pandemic assistance:

- Contract growers of poultry
- Livestock and poultry producers forced to euthanize animals during the pandemic (March 1, 2020 through Dec. 26, 2020).

- \$700 mil. for pandemic response and safety grants for personal protective equipment and other protective measures to help specialty crop growers, meat packers and processors, and seafood industry workers, among others.

- Up to \$20 mil. for additional organic cost share assistance, including for producers who are transitioning to organic.

2019 WHIP+ & QLA Payments

Producers who applied for and received their first WHIP+ payment for 2019 crops are now receiving the second payment for eligible crop losses.

Due to budget constraints, producers received an initial WHIP+ payment for 2019 crop losses equal to 50% of the calculated payment. This second payment will be equal to 40% of the calculated payment for a total 90% payment.

This second round is expected to exceed \$700 million.

A third round of payments may be issued if sufficient funds become available.

Producers with 2018 crop losses have already been compensated at 100%.

Eligible Quality Loss Adjustment (QLA) participants will receive 100% of the calculated assistance.

Maximum amount a person or legal entity may receive, directly or indirectly, is \$125,000. Payments to a joint operation... including a general partnership or joint venture... cannot exceed \$125,000, multiplied by number of persons and legal entities comprising ownership of the joint operation.

QLA payments are ineligible if the person's average AGI exceeds \$900,000, unless at least 75% is derived from farming, ranching or forestry-related activities.

Source: USDA's Farm Service Agency

U.S./EU

The U.S. and European Union have agreed to suspend a trade dispute over government subsidies to aircraft manufacturers Boeing Co. and Airbus SE as they join forces to confront China. The two sides agreed to a five-year suspension of tariffs that had been authorized by the World Trade Organization. Easing the 17-year trade fight... the longest and most expensive in the history of the WTO... could reduce tensions between the U.S. and EU.

Biden administration proposes moving the strategic petroleum reserve (SPR) within the Department of Energy. The Biden administration's fiscal year (FY) 2022 budget proposal includes moving the SPR from the Office of Fossil Energy and Carbon Management to the Office of Cybersecurity, Energy Security and Emergency Response (CESER). "We want to connect the two to make the CESER office more of an emergency response office and elevate it to ensure it has all the tools necessary to protect us in the event of an energy crisis," Energy Sec. Jennifer Granholm said in a hearing on the administration's FY 2022 budget.

The budget plan includes \$218 mil. for the Office of Petroleum Reserves and \$197 mil. for the SPR. The latter would be an increase from the FY 2021 enacted level of \$188 million.

ENERGY

Minnesota court upholds Line 3 pipeline approval. The Minnesota Court of Appeals ruled in favor of the decision to approve the Line 3 pipeline project that seeks to replace an aging pipeline that moves Alberta oil sands crude oil to the U.S. The court ruled the Minnesota Public Utilities Commission had addressed concerns about potential oil spills in the Lake Superior watershed when it approved permits for the project for pipeline owner Enbridge.

Sections of the pipeline in Canada, N.D. and Wis. are complete and the project is 60% finished in Minnesota. Enbridge is hoping to put the pipeline in service by the fourth quarter of this year, a move that should roughly double its capacity to 760,000 barrels per day. Age and corrosion mean the pipeline currently carries less crude than it was designed for when it was built in 1968.

The Minnesota Supreme Court could still hear an appeal of the decision. This shows how the court system, both federal and state, are so important today.

CRP

General CRP signup deadline of July 23, CRP grasslands signup ends Aug. 20. USDA has set a July 23, 2021, deadline for ag producers and landowners to apply for the Conservation Reserve Program (CRP) general signup 56. It also said its Farm Service Agency will accept applications for CRP grasslands from July 12 through Aug. 20. This comes after USDA announced it has deleted all previous offers submitted under the continuous and general CRP signups. Offers can now be re-submitted. The deadline for continuous CRP signup is Aug. 6.

Signup for both general CRP and CRP grasslands is competitive. USDA upped the ante this year by providing greater incentives like higher rental payments as part of the Biden administration's all-of-government approach to tackling climate change. FSA has added a new Climate-Smart Practice Incentive for practices that sequester carbon and reduce greenhouse gas emissions for general CRP. The agency is also adding a one-time "inflationary" adjustment for payment rates, as well as having more flexibility on adjusting soil rental rates.

For the grasslands signup, USDA set a minimum rental rate of \$15 per acre, as well as new national grassland priority zones.

Vilsack this week said he is optimistic that USDA can meet goals for boosting CRP enrollment by 4 mil. acres. Vilsack hopes higher payment rates spur greater interest.

DEERE

John Deere has more software development engineers than mechanical design engineers, Jahmy Hindman, chief technology officer at John Deere, told the *Decoder* podcast. This clearly shows the focus of the important farm equipment company.

Fed rate rise expectations moved into 2023. The Federal Reserve is keeping its monetary policy portfolio steady as the U.S. economy continues to recover from the pandemic, but there are still risks to the U.S. economy.

The Fed will keep its target range for the Fed funds rate at 0.00% to 0.25% and continue its monthly purchases of bonds at \$120 billion as the U.S. central bank seeks to provide accommodative monetary policy to keep the economic recovery moving forward.

The improving economy led officials to accelerate expectations for increasing the target range for the Fed funds rate. Now 11 of 18 Fed officials believe the Fed will have to increase that Fed funds target range before the end of 2023, with an average expectation for the midpoint of the range to be 0.6%. In March, only seven Fed officials expected they would need to boost interest rates before the end of 2023.

The Fed said inflation has topped expectations, and it is ready to act if needed.

Corn: Weather has moved to the forefront with crop ratings in an early decline amid drought in some areas. Rain and cooler temperatures are expected as June winds down. The planted acreage question remains, but the June Acreage Report will provide a fairly accurate update given the planting progress while the data was gathered. Demand remains important, but new sales have eased.

Soybeans: Early season weather conditions are the immediate focus, though August is the key development month for the crop. Still, sparse rains are a factor. Plus, a global expansion in vegoils being used for biofuels have also perked up demand or expected demand for all types of vegoils. Concerns on this front have sparked a sharp selloff.

Wheat: Spring wheat crop ratings have plummeted amid drought in the Northern Plains... and concerns extend across the border into Canada. Mid-June rains failed to ease drought in the Dakotas, with high temps accelerating evaporation. Meanwhile, winter wheat harvest is off to a slow start. Global feed wheat supplies remain ample.

Rice: Recent volatility in rice futures appears mostly linked to position-rolling out of the July contract and into September. There are no major crop concerns at this stage, and rice is also influenced by other grain markets. Export demand has not been strong enough to shift prices much.

Cotton: Futures had somewhat of a mixed reaction to USDA's Supply & Demand Report, which showed a larger-than-expected decline in U.S. cotton ending stocks for 2021-22 on bigger exports and smaller carry-in stocks.

Dairy: Cheese disappearance was up nearly 19% in April vs. year-ago. The wind-down of the Food Box program will keep more supplies in the market as some expect gov't-related purchases in July to be only around 5 mil. lbs. vs. the 39 mil. lbs. seen in July 2020. But exports have been strong, and that will help soak up extra supplies.

Hogs/pork: U.S. pork exports in April totaled 655 mil. lbs., a record for the month and a 10% retreat from the overall record registered in March. Strong shipments come despite a decline in Chinese buys. Four months into 2021, U.S. pork exports to China/Hong Kong are down 23% compared with 2020, according to the U.S. Meat Export Federation. Rising prices could prevent 2021 shipments from setting a record.

Cattle/beef: Boxed beef and the cash cattle market continue to trade independently from one another. Cash cattle prices finally strengthened the week ending June 18 after several months of steady trade. At the same time, boxed beef prices turned decidedly lower.

Poultry: U.S. broiler meat exports hit 615 mil. lbs. in April, higher than year-ago levels but down from March. And leg quarters are key in the mix as they accounted for 46% of U.S. broiler meat exports in April, down two percentage points from year ago. Broiler cutout margins for April were up from both March and year ago.

Transportation: Big corn exports to China have resulted in a rise in grain barge lockings, with a record 939,000 short tons recorded in the most recent week. Combined with soybeans, lockings are up 40% from 2019-20.

DEBT
RELIEF

Vilsack chastised lawsuits challenging debt relief for minority producers, asking what those who are challenging the payments did to address previous instances of discrimination the program is meant to address. The debt relief... 120% of a socially disadvantaged producer's direct and guaranteed loan debt... has been a sensitive issue since it was included in a prior Covid aid measure. Several lawsuits have been filed over the program, and a judge in Wisconsin ordered USDA to halt any payments to producers. Vilsack said those lawsuits were "ironically" claiming the relief was discriminatory "because they haven't had the advantage of having debt relief like Black farmers have had. "It's a wonder where those farmers were over the last 100 years when their Black counterparts were being discriminated against, and didn't hear a peep from white farmers about how unfortunate that circumstance was," Vilsack said.

Vilsack defended the merits of the aid, saying it was meant to address comprehensive impacts of previous discrimination. "Now we are seeing white farmers stepping up and asking why they're not included in this program. Well, it's pretty clear why they're not included. Because they've had the full access of all of the programs for the last 100 years," he said. "Those who were Black, those who were Hispanic, those who were Native American, those who are Asian Americans, Pacific Islanders, did not have the full benefit, and the result is the system makes it very difficult for them ever to close that gap, ever to have a fair shot."

USDA says interested producers should continue the application process, despite a temporary restraining order on making payments.

MEAT
SECTOR

Vilsack signals big changes coming to meat processing, livestock pricing and perhaps the seed sector. It was clear listening to Vilsack during a recent Senate hearing that big changes are coming to the livestock sector, notably for meat processors and livestock pricing. Vilsack emphasized USDA plans to bolster small- and medium-sized meat and poultry processors and to expand overall processing capacity.

He suggested farmers are being unfairly hurt by the patent protection that their suppliers enjoy, implying that was discouraging competition in the seed business. Vilsack thinks input costs are one reason many farmers can't support themselves on farm income, but said patent protection was also contributing to the problem.

"We've got to do more for our cattlemen, the concentration in the processing end is too high. We need more pricing transparency, more competition," stressed subcommittee Ranking Member John Hoeven (R-N.D.). Vilsack signaled he agreed with those sentiments and pointed to USDA's plans to revisit rulemaking around the Packers and Stockyards Act (PS&A) as one of its responses. "The spring regulatory agenda did indicate our desire to strengthen Packers and Stockyards to begin that process to draw bright lines and clear lines in terms of what is appropriate and what is not," Vilsack said. USDA is looking at offering low-interest loans for new processing facilities, the secretary added.

In terms of price discovery, Vilsack said USDA efforts to bolster meat processing capacity should have positive knock-on effects. "One way of getting price discovery is by having more processing capacity and more processing facilities getting more data and information," he explained. "I think you will see over the course of the summer that we have a pretty unique approach to this that I think will result in significant expansion of processing." One key to those plans, said Vilsack, is leveraging federal, state and private industry resources in partnership to lay the foundation for a meat processing expansion.

Bottom line: Democrats in Congress have already introduced several antitrust legislative initiatives. The Department of Justice is gearing up for action on this topic. The U.S. meat processing and seed companies are two industries under review.

Best regards,

The Ag Letter Editors
THE AGRICULTURE LETTER EDITORS

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