

# The Agriculture Letter

Insight and Analysis for Agribusiness Leaders

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Dear Client:

Washington, Aug. 13, 2021

Two infrastructure bills...  
What's in them, their impacts and their odds of  
 being signed into law follow.

**INFRASTRUCTURE** Physical infrastructure bill cleared the Senate  
 with enough Republicans to send it to the House.  
It's in a holding pattern in the House because  
 Speaker Nancy Pelosi (D-Calif.) wants to make sure the  
 Senate passes the second infrastructure measure, the  
 "human" portion that currently totals \$3.5 trillion. But  
 that may not be known for a few months.

House Democrats will make changes to the  
 physical infrastructure measure. Key is whether they are  
 major ones that could prompt Republicans who voted for  
 it the first time to reverse their votes.

The first bill has \$550 bil. in new spending be-  
 sides the \$450 bil. allocated for the topic via appropria-  
 tions action.

The first package includes traditional spending  
 that lawmakers from both political parties and outside  
 groups, including the ag sector, favor.

It includes a "down payment" on Green New Deal  
 programs that will see more action via the human infra-  
 structure plan. See the table to the right for more.

It'll take months for lawmakers to negotiate details  
 on the \$3.5-trillion reconciliation package.

Included in the human infrastructure plan:

- Extending the childcare tax credit
- Creating universal pre-K
- Paid family and medical leave
- Tuition-free community college
- Lower prescription drug costs
- Medicare expansion... including dental, hearing and vision coverage
- Lowering the eligibility age for Medicare
- Expanding the Affordable Care Act
- Major funding for climate and energy programs
- Immigration and border security

Regarding immigration, the Senate Judiciary Committee is tasked with providing  
 "lawful permanent status for qualified immigrants." The plan aims to grant green cards to  
 millions of immigrant workers and families. Congress has been unable to pass any kind  
 of immigration reform measure on a bipartisan basis. Details of the policy, which has yet  
 to be written, will dictate whether it can survive the strict budgetary rules governing the  
 reconciliation process.

This would be a major redefinition and expansion of U.S. government... if it clears.

## Physical Infrastructure

What's in it? \$550 bil. in new spend-  
 ing over five years... on top of \$450  
 bil. in already approved funds.

- \$110 bil. for roads and bridges
- \$66 bil. for rail
- \$55 bil. for safe water and waste-  
 water treatment
- \$39 bil. for public transit

There's also money for ports, high-  
 speed broadband internet, replac-  
 ing lead water pipes and building a  
 network of electric vehicle charging  
 stations.

Green energy items include:

- \$21.5 bil. for Office of Clean  
 Energy Demonstrations
- \$2.4 bil. for advanced nuclear  
 reactor projects
- \$3.5 bil. for carbon capture
- \$8 bil. for clean hydrogen
- \$5 bil. for investment in energy-  
 related projects

Source: Ag Letter editors

AG  
DETAILS

Ag sector details in Democrats' go-it-alone \$3.5-trillion plan.

The Ag Committee is directed to focus on issues related to climate change, including farmland and forestry conservation, reducing carbon emissions and preventing wildfires.

It includes \$135 bil. for agriculture and child nutrition programs over a decade... equal to a 9% increase from pre-pandemic levels. Perspective: \$135 bil. is more than the farm bill score for income support (\$69 bil.) and conservation (\$65 bil.).

Senate Ag Chair Debbie Stabenow (D-Mich.) is pleased because the blueprint includes money she wants for USDA conservation programs.

Other key instructions include boosting agricultural climate research and putting money behind the Civilian Climate Corps... a Biden administration proposal to employ young people to help combat climate change. The budget plan would also direct the Agriculture Committee to draft provisions related to rural development, clean energy, child nutrition and debt relief.

Free school meals for all students. Democrats and school nutrition groups have pushed for the reconciliation package to permanently make school meals free for all students, regardless of their household income. That policy has effectively been in place temporarily since last year in response to the coronavirus pandemic.

Farm debt relief. Senators led by Kirsten Gillibrand (D-N.Y.) want farm debt relief for small ag producers and to stem the tide of farm bankruptcies while USDA deals with a legal battle to send debt relief to farmers of color after decades of discrimination.

PAY-  
FORS

How to pay for the massive package of Dem wishes. The Democratic plan gives the Senate Finance Committee wide latitude to draft policies to raise taxes and asks the committee to find additional revenue to fund the \$3.5-trillion in spending from health care savings and a new fee on carbon polluters.

Biden has called on Congress to raise the corporate tax rate from 21% to 28%. Democrats say tax hikes will provide the primary source of funding for their resolution's spending, though they would also include increased funding for the IRS to boost tax enforcement, a measure that was stripped out of the bipartisan infrastructure bill due to Republican opposition. Democrats have said they'll undo or modify the limit on federal deductions for state and local taxes (SALT), a provision that targeted wealthy households in blue states like New York and California.

Democrats want to raise taxes on multinational corporations and remove tax provisions that incentivize outsourcing. One way to help pay for the human infrastructure measure is via a minimum tax on corporations, proposed by Sens. Elizabeth Warren (D-Mass.) and Angus King (I-Maine). They want businesses reporting profits of \$100 million or more to investors to pay a minimum 7% tax, saying it will affect at least 1,300 public companies and raise \$700 billion over a decade.

Democrats say their proposed tax hikes won't impact middle-class families. Their plans would prohibit new taxes on small businesses, family farms and families making less than \$400,000 annually, fulfilling a Biden campaign promise.

But Republicans disagree. They released a Joint Committee on Taxation (JCT) analysis showing that 57% of the burden of illustrative increases in the corporate tax rate from 21% today to 24% to 25% would fall on households earning less than \$500,000 in 2022. That share would rise to about 66% by 2031, the JCT said.

OUTLOOK

So will the \$3.5 trillion package go to the White House? Most say it will have to be scaled back to win over some moderate Democrats in the Senate... and every Democratic vote is needed because no Republican will likely vote for it.

As you can see, there are several hurdles ahead for both the physical and human infrastructure measures. But Democrats are unlikely to blow it all up and get nothing.

Global wheat crop prospects sliding. USDA's U.S. wheat crop estimate of 1.7 bil. bu. fell short of expectations... and that was just one of several nicks to the global wheat crop this month.

USDA chopped 12.5 mil. metric tons (MMT) off the Russian wheat crop, dropping it to 72.5 MMT. It says a series of freeze/thaw events early this year cut harvested acreage and yields.

Canada's wheat crop will likely shrink to 24.0 MMT due to "worsening drought conditions across the Prairie Provinces during July." That's a 7.5-MMT cut from USDA's July forecast and would be the smallest Canadian wheat crop since 2010-11.

There were some increases. USDA raised its wheat crop forecasts for Australia by 1.5 MMT, Ukraine by 3.0 MMT and the European Union by 400,000 MT from last month.

Tighter supplies are expected to reduce consumption and trade. Global stocks are now pegged at 279.1 MMT, down 12.6 MMT from July and 3.4% tighter than 2020-21.

Corn: Supply picture tightened after USDA's first survey-based look at the U.S. crop took it to 14.75 bil. bu.; in July, it projected a crop of 15.17 bil. bushels. Smaller production more than offset an increase in 2020-21 carryover and lower use, dropping 2021-22 carryover to 1.24 bil. bu., down nearly 200 mil. bu. from July. Tighter supplies equal higher prices... USDA projects a season-avg. price of \$5.75, up 15 cents from July.

Soybeans: USDA's initial survey-based soybean crop estimate of 4.34 bil. bu. was down 66 mil. bu. from the July projection and 36 mil. bu. smaller than anticipated. Higher 2020-21 carryover due to cuts to exports and crush didn't offset the smaller crop. USDA trimmed its 2021-22 crush forecast by 20 mil. bu. and lowered its export forecast by 20 mil. bu. from July. Result: 155 mil. bu. carryover, steady with July.

Wheat: Traders missed the winter wheat peg. USDA sliced the crop to 1.32 bil. bu. from 1.36 bil. bu. in July. USDA's minor 2-mil.-bu. cut to its other spring wheat crop peg left some scratching their heads in light of the department's big cut to the Canadian wheat crop. Total wheat production of 1.70 bil. bu. was down 49 mil. bu. from July and 26 mil. bu. lighter than expected. Less feed and residual use is expected, but carryover fell to 627 mil. bu., and USDA's season avg. cash price projection climbed 10 cents to \$6.70.

Rice: In 2021-22, USDA expects reduced U.S. rice supplies, lower domestic use, higher exports and smaller ending stocks. Crop of 197 mil. cwt. would be down 13% from year ago. Carryover of 37.3 mil. cwt. would be down 15% from year ago... season-avg. price is up 10 cents from July at \$14.50 per hundredweight.

Cotton: USDA's first survey-based production estimate of 17.26 mil. bales was nearly 1 mil. bales below expectations. That pushed cotton futures to new contract highs. Exports are forecast 200,000 bales lower than in July, and ending stocks are 300,000 bales lower. U.S. season-avg. price for upland cotton is forecast 5 cents per lb. higher than in July at 80 cents... the highest since 2011-12.

Dairy: Milk production forecasts for both 2021 and 2022 were pared, with the main culprit being lower dairy cow numbers. USDA expects an all-milk price of \$17.95 per cwt. (\$18.30 last month) for 2021, and \$17.85 per cwt. (\$18.50 last month) for 2022.

Hogs/pork: USDA trimmed its 2021 pork production forecast on lower numbers and lighter carcass weights. It nudged 2022 production higher as weights are expected to rise. Slower Asian demand and trade data prompted USDA to trim its pork export forecasts for 2021 and 2022. Its average cash hog price projection edged higher for 2021.

Cattle/beef: USDA trimmed its U.S. beef production forecast for 2021, but it also raised its import forecast, lifting its total supplies outlook. The department also pared its 2021 export forecast, though exports are still expected to shoot 15% higher for the year. Still-firm demand is raising price expectations for both 2021 and 2022.

Poultry: Production prospects for 2021 climbed vs. July; USDA also upped its export forecast for the current season.

HOG AID

Iowa and Minn. senators pressed USDA on contract hog grower aid, top-up CFAP hog producer aid. A bipartisan group of senators urged USDA Secretary Tom Vilsack to deliver not only aid to contract hog growers that was authorized in the Consolidated Appropriations Act of 2021 approved in December but also top-up payments to hog producers that were announced in January under the Coronavirus Food Assistance Program (CFAP).

As for the contract grower aid, the lawmakers said in a letter to Vilsack they were concerned that USDA's June 15 announcement that it would finalize the program within 60 days "only focused on poultry growers and made no mention of providing assistance to swine growers." Congress has authorized payments to contract producers, but the payments appear to be lingering in the wait for new regulations.

Regarding the top-up swine payments under CFAP, the senators acknowledged delays under a change of administration. "However, over the past eight months, USDA has given no indication as to how it plans to put these funds to use," the lawmakers said. "Our livestock and poultry contract growers have been waiting patiently for USDA to provide financial relief that so many desperately need," the senators wrote.

CHINA

Forced labor in China gets U.S. attention. U.S. lawmakers and Biden administration officials are stepping up pressure on American businesses to stop imports from the western Chinese region of Xinjiang as Beijing's alleged use of forced labor emerges as a top item on their bilateral trade agenda. Western officials say the Chinese gov't uses forced labor of Uyghur and other Muslim minorities in Xinjiang, the world's leading producer of cotton and raw materials used in solar panels. Beijing denies the claim.

Imports of cotton and tomato products have already been effectively banned since January, and penalties on purchases of some solar materials were implemented in June. Tougher restrictions are coming.

BELARUS  
POTASH

U.S. sanctions on Belarus potash leave out nation's sole seller. Potash buyers anxious over U.S. sanctions on Belarus's state-owned producer, which controls about a fifth of the global market for the crop nutrient, might not need to panic right away. *Bloomberg* notes that the penalties announced target Belaruskali, which ships much of its products to China, India and Latin America, along with more than a dozen companies with ties to President Alexander Lukashenko. Yet Belarussian Potash, in which Belaruskali owns a 48% stake and which is the sole handler of the country's potash exports, wasn't included in the sanctions list.

Dec. 8 a key date. The U.S. issued licenses allowing counterparts to wind down transactions with Belaruskali... or any entity in which it owns at least a 50% interest... by Dec. 8, giving consumers time to find alternative supplies.

POLITICS

Independents cooling on Biden spells trouble for Democrats in 2022. The decline in President Joe Biden's popularity may be problematic for Democrats if it proves to be more than a summer slump. Biden's surprisingly steady approval ratings are starting to slide, though his disapproval numbers have consistently climbed during the first six months of his administration. That is a foreboding trend for Democrats before the 2022 midterm elections when the party is clinging onto power with slim majorities in the House and Senate. Barely half of the country approves of Biden's job as president, his lowest average rating since his January inauguration.

Best regards,

*The Ag Letter Editors*  
THE AGRICULTURE LETTER EDITORS

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