

# The Agriculture Letter

Insight and Analysis for Agribusiness Leaders

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Dear Client:

Washington, Aug. 27, 2021

Biofuel proponents are frustrated by...

- Reports on upcoming Renewable Fuel Standard program details...
- Court decision regarding year-round E15...
- President Joe Biden's lack of focus on biofuels despite pre-election support.

RFS

EPA sent proposed RFS levels for 2021 and 2022 to the Office of Management & Budget (OMB) for review. Public comments will be requested.

RFS mandate levels may be lower for 2021 than 2020, according to some wire service reports. Reuters reported the levels for 2022 would be higher than those for 2021 or 2020.

No breakdown of where the reductions would be... whether for corn-based ethanol, advanced/cellulosic ethanol or biomass-based biodiesel or some combination of all the categories.

Some details will come when the rule is released for comment.

Proposed volumes are not the final word. The interagency review that takes place could alter the proposed levels before they are finalized... the RFS levels could be altered based on public comments on the plan... that has occurred previously.

U.S. gasoline consumption is key because that determines the volume of corn-based ethanol mandated.

Gasoline consumption was reduced due to Covid-19 in 2020, to 8.0 million barrels per day (bpd), according to the Energy Information Administration (EIA). That marked a 14% decline from 2019 when consumption was 9.3 million bpd. For 2021, EIA's latest forecast is for gasoline consumption to total 8.8 million bpd and then to rise to 9.0 million bpd in 2022.

Small refinery exemptions (SREs) are another issue... particularly, how aggressive the Biden administration will be. EPA must decide how many refiners processing less than 75,000 bpd should qualify for SREs from the RFS. The agency needs to make decisions on 59 applications from refiners seeking annual SREs in compliance years from 2016 to 2021.

Supreme Court this summer ruled small refiners can receive SREs even if they did not seek exemptions in prior years, partially reversing a ruling from the 10th U.S. Circuit Court of Appeals that threw out three SREs.

Another issue: What levels EPA will set for the RFS in 2023-forward. The agency will have to set those annually without levels being set down in law as is the case through 2022. The administration will face pressure from all sides until RFS levels are finalized.

## Other RFS Issues

RINs: Refiners have been facing RIN shortages as higher RIN prices failed to boost ethanol production. Some refiners are setting up their own renewable-energy fuel facilities to mitigate RFS costs.

For 2021, a lower RFS mandate could boost refiners' prospects.

Biofuel proponents say lowering mandates conflicts with Congress' goals in establishing the RFS.

Focus is now on the budget reconciliation process. Biofuel interests want to get grant money for biofuel blender pumps at gas stations and additional tax incentives. Others want to codify year-round E15. Another legislative vehicle could be a fiscal 2022 omnibus spending measure or a package of business tax breaks, known as extenders.

Source: Ag Letter editors

DAIRY  
AID

Another \$350 million in aid to dairy farmers announced... more to come. The Biden administration said it would pay an estimated \$350 million to dairy farmers to offset lower milk prices caused by market abnormalities the second half of 2020. The payments will benefit farms with smaller herds the most. The new Pandemic Market Volatility Assistance Program “is the first step” by the USDA to deliver \$2 billion “to help the dairy industry recover from the pandemic and be more resilient to future challenges,” said USDA Sec. Tom Vilsack.

Details: The market volatility payments will cover 80% of the revenue difference per month from July through December of last year, based on annual production of up to 5 million gallons ... roughly the milk produced by a 210-cow herd. Payment rates will vary by region, “based on actual losses on pooled milk related to price volatility,” said USDA. The money will flow through independent handlers and cooperatives to reach farmers.

More aid to come includes a \$400 mil. program to donate dairy products to food banks and \$580 mil. to provide more assistance to small- and medium-sized milk producers through a dairy subsidy program called Supplemental Dairy Margin Coverage.

More is needed for larger operations, said Jim Mulhern of the National Milk Producers Federation, who said it will work with Congress to seek supplemental funding to close the gap.

Dairy farmers have received more than \$3 bil., or about \$1 of every \$8, of the \$24.4 bil. disbursed to farmers and ranchers since Covid-19 payments began in May 2020.

CFAP 2

USDA updates its Coronavirus Food Assistance Program 2 (CFAP 2) and set an Oct. 12 deadline for producers to sign up for aid or modify existing applications. Aid is now available for contract producers of eligible livestock and poultry ... including hogs and pigs, broilers, chicken eggs, and breeding stock of eligible livestock and eggs... as well as for producers of specialty crops and other sales based commodities... primarily specialty crops. CFAP 2 aids producers who faced market disruptions in 2020 due to Covid-19.

Contract growers can now use eligible revenue for the period of Jan. 1-Dec. 27, 2018, instead of the same dates in 2019 “if it is more representative” for payments. The difference in revenue is then multiplied by 80% to determine a final payment. Payments to contract producers may be factored if total calculated payments exceed the available funding and will be made after the application period closes,” USDA details.

USDA also announced additional flexibilities for those that increased the size of their operation in 2020 and did not have a full period of revenue for the Jan. 1-Dec. 27 period in either 2018 or 2019. USDA said that assistance is also now available to new contract producers who began their farming operation in 2020.

BIOFUELS

USDA awards \$26 mil. for higher-blend biofuel infrastructure. Projects in 23 states will receive the payments to install pumps, tanks, and other equipment for selling higher-blend biofuels. The projects are expected to expand the availability of higher-blend fuels by 822 mil. gallons annually.

The aid comes from the year-old Higher Blends Infrastructure Incentive Program (HBIIP). “We’re giving consumers more environmentally friendly fuel choices when they fill up at the pump and stimulating an important market for U.S. farmers and ranchers,” said USDA rural development official Justin Maxson.

Higher-blend biofuels include E15, a 15% blend of ethanol into gasoline, and E85, an 85% blend. Grant recipients include businesses interested in biodiesel fuel.

INTERNET

A lot of aid has been sent to states for high-speed internet, but more is needed, say gov’t officials and industry experts.

Farmers say the lack of adequate internet service is a top issue. Although internet connections are improving, rural and lightly populated states still have the slowest download speeds, says an analysis that found broadband was slowest in Mont., W.Va., Idaho, Maine and Wyoming. N.D. has one of if not the best high-speed broadband network and the most expansive statewide. Tech-heavy Texas and Calif. cap off the fastest states.

Pending infrastructure bills in Congress include more funding for high-speed rural broadband. Some want to make sure all the funding is actually being spent on the topic.

Biden's chaotic Afghan withdrawal actions...

Will that impact key issues in Washington? And elections?

Yes, if it continues to worsen... more deaths, hostages or terrorism.

White House hopes the current political fallout will be temporary. Foreign policy rarely keeps voters' focus, but Biden will face plenty of congressional and media scrutiny.

While getting out of Afghanistan is popular, Biden's handling of the issue is not. If this drags on, it could impact the timing and details of congressional votes on top issues... like infrastructure bills and a spending measure for fiscal year 2022, which begins Oct. 1.

Current polls show Biden's popularity under the 50% mark for the first time in his young presidency... from renewed Covid-19 cases and the Afghan exit. If his numbers don't bounce back, elections will not be happy ones for Democrats.

Corn: *Pro Farmer* estimated the U.S. corn crop at 15.116 bil. bu., with a national avg. yield of 177.0 bu. per acre. USDA in August pegged the crop at 14.750 bil. bu. and a national avg. yield of 174.6 bushels. While *Pro Farmer's* estimates suggest more corn yield potential, U.S. corn supplies are not going to become burdensome by any stretch.

Soybeans: *Pro Farmer* put the 2021 crop at 4.436 bil. bu., with an avg. yield of 51.2 bu. per acre. USDA in August estimated the crop at 4.339 bil. bu., with a 50 bu. per acre avg. yield. Weather since both the USDA August reports and *Pro Farmer Crop Tour* support a higher crop. Harvest weather is now key. Supplies are expected to remain thin.

Wheat: It appears most of the damage to other spring wheat was largely accounted for in USDA's July estimates. But the department caught the market off guard when it sliced its winter wheat crop estimate to 1.319 bil. bushels. Focus now is on foreign production, with Russian wheat crop prospects sliding.

Rice: Cancellations of U.S. rice sales to Haiti pressured rough rice futures late last week. That's key since Haiti has been a destination for 10% of U.S. rice exports.

Cotton: USDA surprised the market with a big cut to its U.S. cotton crop estimate earlier this month, despite rising crop condition ratings. The market is keeping an eye on hurricane season, with a tropical storm expected to make landfall in Texas or Louisiana next week.

Dairy: Growth in milk production relative to year-ago levels is slowing while news on the demand front has been mixed. Food service sales have faltered some as the Delta variant accelerates, but restaurant sales are still above 2019. And the industry will see another cash infusion from USDA in the weeks ahead.

Hogs/pork: Proposition 12 in Calif. goes into effect Jan. 1, calling for whole pork (including bacon) sold in the state to meet space requirements for sows. Less than 5% of U.S. production is thought to be in compliance now. Presents potential for pricey pork in Calif. and there could be a rush to stock up on the product before the new law takes effect.

Cattle/beef: Cash cattle prices have seen limited support from an impressive five-week runup in boxed beef values leading up to Labor Day. Supplies on feed Aug. 1 were just under 1.1 mil. head, down 1.9% from year ago. Placements were down more than 8% from July last year. That suggests cattle supplies could tighten, supporting prices.

Poultry: Turkey supplies remain tight and even though bird weights are up slightly, numbers have been consistently under year ago. That could make Thanksgiving a little pricier this year. Broiler producers are watching higher feed cost but returns are still solid.

Transportation: Grain barge movements through the key locks are near marketing-year lows, totaling 539 short tons through the week ending Aug. 14, more than 37% below average for this time of year. Grain train carloadings through the week ending Aug. 14 totaled 19,488, up 7% for the week but 11% below average for this time of year. Ocean freight rates are still being impacted by global port congestion.

FOOD  
STAMPS

SNAP increase of 40 cents a meal equals 20 bil. in taxpayer dollars a year for public nutrition. That represents a 27% increase in Supplemental Nutrition Assistance Program (SNAP, formerly food stamps) benefits from pre-pandemic levels. This comes after the U.S. gov't updated its figures on the cost of a healthy diet. Anti-hunger groups said the additional 40 cents a meal per person would help millions of Americans avoid hunger.

Perspective: The increase of \$36 per person per month means SNAP benefits will average \$169 a month starting Oct. 1. The increase will take effect at the same time a nine-month pandemic boost in benefits expires.

The Thrifty Food Plan (TFP) is the foundation for calculating SNAP benefits. Analysts said it was increasingly out of date due to changes in food prices, American eating patterns, dietary advice and nutrients in food products. Congress directed USDA to update the TFP as part of the 2018 Farm Bill. It was the first time the purchasing power of the plan was changed since 1976.

A backdoor approach? Senior Republicans on the Senate and House Agriculture Committees said the update of the TFP became a backdoor way to increase benefits by the Biden administration. Previous updates to the TFP were cost-neutral, they said. "I'm not concerned about the longevity of this," said USDA Sec. Tom Vilsack when asked about a potential rollback of benefits if Republicans gain control of Congress. There is broad support in America, regardless of political party, he said. "This is a program that works."

At present, 42.1 mil. people, or one in eight Americans, are enrolled in SNAP. Participation surged by 6 mil. people when Covid-19 hit. Last spring, USDA estimated SNAP would cost \$114 bil. this fiscal year, or \$187 per person per month, due to temporary increases in benefits intended to buffer the impact of the pandemic. In fiscal 2019, before the pandemic and with lower enrollment and lower benefit levels, SNAP cost \$60.4 billion.

ROUNDUP

Bayer asks Supreme Court to overturn Roundup verdict. Bayer, the world's largest seed and agricultural chemicals company, asked the U.S. Supreme Court to overturn the \$25-million award to Edwin Hardeman, a California man who blamed Roundup herbicide for giving him cancer. The appeal is a key element in Bayer's plan to resolve billions of dollars of claims against Roundup and its active ingredient, glyphosate, the most widely used weedkiller in the world.

Bayer contends EPA approval of glyphosate as safe to use and without requiring a cancer warning on the label preempted California state law, and thus precluded lawsuits that allege Bayer failed to warn users of carcinogenic risk, and the Ninth Circuit U.S. Court of Appeals allowed inappropriate testimony from expert witnesses about Roundup.

It could be six months before the Supreme Court decides whether to hear its appeal, Bayer said. The company previously said it would withdraw glyphosate-based herbicides from sale in the U.S. for residential use, beginning in 2023. The weedkillers will remain available for agricultural and professional use.

FARM  
EQUIP.

Deere raises outlook on continued strong farm, construction equipment demand.

Deere & Company now expects fiscal 2021 net income of \$5.7 bil. to \$5.9 bil., an increase from its May forecast for \$5.3 bil. to \$5.7 billion.

Equipment demand has grown despite pandemic supply chain disruptions raising challenges. "Looking ahead, we expect demand for farm and construction equipment to continue benefiting from favorable fundamentals," Deere Chief Executive Officer John May said. The company's third quarter net income reached \$1.67 bil. (\$5.32 per share), up from \$811 mil. in the year-ago quarter, beating expectations.

Best regards,

*The Ag Letter Editors*  
THE AGRICULTURE LETTER EDITORS

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