FarmJournal

The Agriculture Letter

Insight and Analysis for Agribusiness Leaders • Vol. 93, No. 2

Dear Client: Washington, Jan. 28, 2022

Updates on farm, energy and trade policy issues were given last week by USDA Secretary Tom Vilsack.

STATE OF AG

State of U.S. agriculture. "Our farm income is as good as it has been in the last eight years. We've had record exports," Vilsack said.

Vilsack wants a different farm bill focus, moving away from "the rural extraction economy" where we take things from the land and rather than "convert them and adding value [to products] in the rural areas where the resources [are grown], they are transported long distances to where they are 'value added' in some other location where opportunities and jobs are created," he said.

Vilsack urged a "circular economy" where wealth is created and stays in rural areas. This is why USDA is focused on expanding processing capacity at the local level, "so livestock producers have the choice of local facilities that create local jobs and allow revenue and wealth to stay in the community." Biofuels is another example to convert ag waste products into things beyond renewable energy and fuel, for chemicals, materials, fabrics and fibers.

WHIP+

Payouts initially coming in April or May… via the Wildfire and Hurricane Indemnity Program-Plus (WHIP+) program, which Congress authorized $10 bil… with instructions to make the program less complex and to implement accelerated payments. Coming program impacts eligible 2020 and 2021 crops, livestock and dairy… $750 mil. for the livestock industry.

Payments could be split in two tranches… first tranche "based on information we already have," Vilsack said. They would be pre-filled applications for grain producers (and) livestock forage data… and a second tranche for whatever the first tranche didn't cover, or for those who didn't have Noninsured Crop Disaster Assistance Program (NAP) info or crop insurance information. USDA would use the data to calculate the benefit.

FSA and RMA will work together. The program will still be administered by FSA but the Risk Management Agency (RMA) would calculate the payment for insured producers and pass that dollar amount to FSA to pre-fill an application and apply payment limitations and eligibility provisions, etc.

Second tranche would include opportunities for shallow losses and quality. A producer who receives a pre-filled application under the first tranche could be eligible to apply under the second.

On the livestock side, under the first phase, USDA would leverage Livestock Forage Disaster Program (LFP) data, which would not require a producer to file an application; rather, FSA would just generate a payment based on info submitted for LFP. Under the second tranche, USDA would look at what other gaps there may be… to avoid FSA having to manually key in information already held by RMA… that will save time in getting help out to producers.

VILSACK TALKS CHINA

U.S./China trade relations have been a key focus item for years. USDA Sec. Tom Vilsack during a hearing last week said a priority is pressing China to meet unfulfilled commitments under the Phase 1 U.S./China trade deal.

Vilsack said China is short $13 bil. on purchases for the first year of Phase 1 and around $3 bil. short for the second... a total of around $16 billion. But USDA's Foreign Ag Service said the shortfall was around $6 bil. to $7 billion.

Vilsack noted seven key areas that China has fallen short relative to its Phase 1 commitments, including purchases, biotech approvals, and several sanitary and phytosanitary (SPS) issues out of the 57 Beijing committed to via Phase 1.

Source: USDA Sec. Vilsack and Ag Letter editors.

The Agriculture Letter is published biweekly for $139/one year, $264/two years, $396/three years (U.S.) by Farm Journal Media, Ag Letter Editor Jim Wiesemeyer, 402 1/2 Main St., Cedar Falls, Iowa, 50613-9985. ISSN 2181-4217 (print), ISSN 2381-4225. POSTMASTER: Send address changes to The Agriculture Letter, 820 James St., Webster City, IA 50595.

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DAIRY

Dairy aid was an issue during a hearing with USDA Secretary Vilsack. Rep. Jim Costa (D-Calif.) pressed on the 5-million-lb. production cap associated with dairy market volatility aid and asked what could be done to ensure the limitation does not disadvantage larger producers who also sustained pandemic-induced losses. Vilsack said the effort aims to help smaller producers impacted by divergent milk class prices, a problem he said was exacerbated by the Farmers to Families Food Box Program (FFFBP). He said USDA is working on “other ways to help this dairy industry across the board.”

Regarding dairy pricing, Vilsack said finding an industry consensus is key, noting that views differ across different states and regions, adding that the sector’s struggles are why USDA rolled out supplemental dairy margin assistance and volatility assistance through its pandemic aid effort and the new Dairy Donation Program (DDP).

On the issue of whole milk in schools, Vilsack said as it relates to milk consumption, one issue is the cost of whole milk as well as the containers used in schools, which are difficult to open and create a barrier. Also, the temperature of milk offered at schools is not as cold as it should be. He noted USDA is looking at ways to increase resources for schools, and create milk distributed at very cold temperatures and in containers which are less cumbersome.

A unified view on dairy policy changes has proven elusive. And even when there is a unified view, such as changes that were made in the 2018 Farm Bill, the forecast benefits have failed to materialize or have been overridden by other factors. In the case of the 2018 Farm Bill, the pandemic was one factor which shifted consumption away from fluid milk to dairy products, altering dairy prices to the point where policies put in place did not provide the expected benefits.

HOG SECTOR

Update on promised payments to hog producers. Vilsack was asked about the status of disbursements under the Spot Market Hog Pandemic Program (SMHPP) announced in December. He blamed delays on issues relative to eligibility requirements and said USDA is working to revise the application process. “We hope to get that done very soon and the expectation is, once we do, we hope to be able to see payments made sometime hopefully [in] the March timeframe.” In December, USDA published a notice of funding availability for hog producers who were not able to sell hogs on the spot cash market during the pandemic. The signup opened Dec. 15 and runs until Feb. 25. Vilsack says when USDA initially set it up, it realized some issues created challenges.

BIOFUELS

Biofuels policy questions elicit strong pledge from Vilsack, as he bristled at suggestions the Biden administration has not been supportive of the industry and by extension farmers, countering they have been very supportive of the biofuel industry. He detailed there are “800 mil. reasons why we’re doing that: $800 mil. provided in terms of support during the pandemic, as well as the $100 mil. to expand access to higher blends, the ability to have consumers have access to higher blends.”

Relative to the push for electric vehicles, Vilsack said: “The reality is that we’re still going to have cars for the foreseeable future, probably in my lifetime, for sure,” he observed. “We’re still going to have cars that require biofuel. And hopefully over time, we have airplanes and ships that require biofuel. And in doing so, we will see an expanded biofuel industry, we won’t see the elimination of this industry, we will see expansion of it.”

RFS mandate for 2022 a solid 15 bil. gallons? Some lawmakers noted that the 15-bil.-gallon level for conventional biofuels was a positive from the administration relative to the Renewable Fuel Standard (RFS.) But one lawmaker recounted a *Reuters* report that EPA was considering lowering the mark for 2022 relative to conventional ethanol. Vilsack said the 15-bil.-gallon figure was a “real number” that will provide stability for the industry. “The stability comes not just in setting a number but in making sure that number is real,” he stressed, adding the Trump administration set the conventional ethanol level at 15 bil. gallons but used small refinery exemptions to reduce that figure. He said EPA basically said they would not grant 65 waivers. The number we’re giving you is a real number, and you can count on it. The stability is going to be very helpful to this industry.”

FOOD PRICES

U.S. food prices increased 3.9% in 2021, according to USDA's Economic Research Service (ERS). That included a 3.5% increase in food at home (grocery stores) and a 4.5% jump in the price of food away from home (restaurants). Beef/veal had the largest relative price increase (9.3%) and the fresh vegetables category the smallest (1.1%).

For 2022, all-food inflation is expected to run 2.0% to 3.0%, unchanged from ERS's prior outlook. Grocery store food prices are projected to increase between 1.5% and 2.5%, unchanged from the prior outlook, though ERS raised its outlooks for beef/veal (now seen up 3.0% to 4.0%), pork (now seen up 3.0% to 4.0%), fish and seafood (now seen up 2.0% to 3.0%), dairy (now seen up 1.5% to 2.5%), processed fruits and vegetables (now seen up 2.0% to 3.0%), sugars and sweets (now seen up 2.0% to 3.0%) and nonalcoholic beverages (now seen up 1.0% to 2.0%). The only food-at-home category ERS lowered its forecast was fresh vegetables (now seen down 1.5% to 2.5%.

ERS raised its forecast for restaurant prices to 3.5% to 4.5% above 2021 levels. Price increases for food away from home are expected to exceed historical averages but be at or below the inflation rate in 2021.

MARKETS

Corn: South American weather will remain a factor, but it is not clear how much yield potential may have already been lost in the region. Focus is shifting to the 2022 U.S. acreage outlook as traders consider prices and higher input costs. Demand is another key factor.

Soybeans: South American weather is important as traders try to assess global supplies. U.S. acreage prospects are murky, but spring weather can at times impact those prospects more than price relationships with corn. Crush demand remains robust.

Wheat: Tensions in the Black Sea region on worries that a Russian incursion into Ukraine could interrupt global wheat shipments from the region. But U.S. wheat prices remain lofty enough that foreign buyers are not expected to necessarily shift their purchases here. Weather in the U.S. Plains is also a potential concern.

Rice: Demand for harvested U.S. rice remains a key. Export business has been erratic. But prices are rising in India and Thailand, coupled with dry conditions in southeast Asia. World prices could swing upwards sending some business to U.S. shores.

Cotton: Prices remain lofty as global demand for cotton remains solid as countries seek to soak up supplies to avoid any pitfalls from sanctions on textiles from China's Xinjiang region. The rise in U.S. prices could also be a factor ahead for 2022 acreage prospects and create decisions for producers relative to alternative crops.

Hogs/pork: Slaughter levels remain constrained due to Covid-related worker absenteeism, though it will be a short-term impact. A Calif. judge granted a petition that will delay the state's Prop 12 from taking effect until 180 days after the final rule.

Cattle/beef: The Covid-linked absenteeism at beef plants has been pronounced, limiting U.S. daily and weekly slaughter rates. While weekly kills were up in the most-recent week, rates remain well below year ago... along with beef production. That continues to support cutout values and wholesale beef prices.

Poultry/broilers: There have been no trade interruptions resulting from cases of highly pathogenic avian influenza (HPAI) found in wild birds in North and South Carolina. The three cases have not resulted in any backyard or commercial flock infections. Like with cattle and hogs, Covid absenteeism is a factor at poultry plants, but output remains above year-ago levels.

Dairy: Prices continue to push higher as there has been little change over the last several weeks relative to milk production. It is possible farm-gate milk prices could notch new records ahead, which will prompt a production response. But that response will lag so the higher prices will not quickly erode.

Transportation: Winter's swath of cold and snow and resulting ice in and along the Illinois and upper Ohio rivers, and low water conditions through St Louis, have wreaked havoc on barge loadings and movements. Grain barge freight rates have responded by continuing their upward trajectory, up an average 14% across the various segments.

COTTON AID

More pandemic aid is in the works for cotton merchandisers. Vilsack said USDA is in consultations with the cotton industry and textile users and USDA's FSA is "drafting a notice of funds availability that we hope to be able to make available sometime in the early spring, that would provide some additional resources."

MEAT PRICES

Vilsack diverged from White House on reason for high meat costs. The Biden administration has gone to lengths to stress that concentration in the meat processing industry is one factor causing higher meat prices for consumers at grocery stores. But when asked about those high grocery store prices, Vilsack failed to mention the concentration issue. "The good news is there's been some deceleration the last couple of months," Vilsack observed. "Hopefully, that continues; meat, in particular, has gone down just a bit. This is basically strong demand… globally and nationally. And essentially, we're changing our patterns of how we eat and where we eat. And the supply chain is in the process of adjusting to the fact we're eating more at home and less out in restaurants."

Vilsack talked about expanding meat kill capacity, saying the meat industry "is simply too concentrated, there's not enough capacity, and there's not enough competition. And if we had more competition, we'd give consumers choice. And if consumers have choice, I guarantee that's also going to impact and affect price in a positive way."

SUPPLY CHAIN

The Biden administration is working on supply chain issues by trying to address conditions at ports, including efforts to get more truck drivers available to move goods. "We've got pop-up ports that are being encouraged to create a movement of those containers and getting them into the stream of commerce," Vilsack told lawmakers. "So, there's a variety of things we're doing to try to help folks through this difficult period while we're trying to balance supply and demand."

TRADE POLICY

Trade policy enforcement. Several lawmakers lauded moves by USDA and the Office of the U.S. Trade Representative (USTR) to ensure Canada and Mexico comply with commitments under the U.S.-Mexico-Canada Agreement (USMCA). Rep. Costa asked Vilsack what areas USDA is focused on in terms of trade enforcement. Vilsack touted the United States' recent win in its challenge of Canada's operation of their dairy tariff-rate quotas (TRQs), which he said will ensure they will now be implemented as intended. On Mexico, Vilsack said he and USTR Katherine Tai are working with their Mexican counterparts on several concerns including glyphosate and biotech approvals for corn.

CLIMATE

Climate-smart ag. USDA's Climate-Smart Ag and Forestry (CSAF) initiative was a topic Vilsack discussed. Rep. Austin Scott (R-Ga.) asked what authority USDA was relying on to tap an estimated $1 bill. in Commodity Credit Corporation (CCC) funds for upcoming CSAF pilot programs. CCC "in part is designed to provide for the promotion of commodities," and CSAF is focused on helping farmers meet demand for climate-smart commodities, Vilsack explained. The authority to tap CCC for CSAF "falls under either section four or section five of the CCC [charter] and we are very confident that we have the capacity and ability to use this without jeopardizing any of the other needs or reasons for the CCC," Vilsack detailed.

COVER CROPS

Cover crop payments coming. Vilsack said USDA's Risk Management Agency would be announcing "very, very shortly" a new round of payments to farmers who plant cover crops. USDA provided about $59 mil. to farmers in 2021 on about 12 million acres of cover crops.

Best regards,

The Ag Letter Editors

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