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Dear Client: Washington, April 8, 2022

Trade policy strategy of Biden administration…

What we learned from two days of testimony last week by U.S. Trade Representative (USTR) Katherine Tai:

TRADE POLICY

What Tai did not say speaks nearly as loud as what she did say.

Forget about new trade agreements.

Canada, Mexico, China must keep commitments, but Tai did not say how the administration will do that.

Tai focused on a worker-centered trade policy.

There were bipartisan lawmaker questions about the direction of trade policy. Democrats on the Senate Finance Committee and on the House Ways and Means Committee were frustrated by no indication that new free trade agreements (FTAs) are going to be pursued soon.

Regarding the China Phase 1 agreement reached during the Trump administration which saw China fulfill many… but not all… of the commitments it made: Tai said China's failure to live up to purchase and other commitments fit a long-running pattern of behavior. Talks aimed at resolving those shortfalls and broader U.S./China trade frictions have been "unduly difficult," she said, adding new focus will be on developing tools and investments that defend U.S. economic interests from unfair Chinese behavior… with Congress "an important partner" in the effort.

Tai did not offer any concrete ideas except that it would be a "defensive" policy… one which referenced using subsidies to help U.S. manufacturers, including "rebuilding our industrial base."

Not in the cards: Work on a Phase 2 accord. "I think that we're not necessarily looking at another deal in the next phase, but to expanding our focus on China's challenges beyond its commitments and compliance in Phase 1," she stated.

China's moves to corner the market on critical industries was a Tai focus, but again without any examples or suggestions of what the administration would do.

Tai on FTAs & Canada Dairy

• **Potential FTAs with the EU, U.K. and Kenya:** Tai simply said these are important trading partners and she has spent a lot of time in the last year building a relationship with those countries.

• **U.S. dairy issue with Canada:** The U.S. recently rejected Canada's offer on dairy market access after a USMCA panel found it in violation of commitments under the trade deal relative to the operation of the tariff rate quotas (TRQs). Tai took exception to one lawmaker suggesting the administration was playing "wiffleball" on the dairy situation while Canada was playing "hard ball." She emphasized pursuing the dairy case under USMCA as being a priority. But all she would offer was that the U.S. was continuing discussions with Canada.

Source: USTR Tai and Ag Letter editors

New trade policy includes old tools such as antidumping and countervailing duty authority. "A lot of our trade enforcement tools… trade defense tools… date back to the 1970s and 1980s," she observed, noting the nature of the global economy has "changed and evolved" since those tools were put in place. She urged Congress to update those tools, but she did not offer suggestions about how that should be accomplished.

Asked about the Indo Pacific Economic Framework (IPEF) and how the U.S. can gain market access without an FTA in the region, Tai pointed to moves to settle disputes with trade allies that delivered market access wins.

She acknowledged FTAs "have their place" in the trade policy toolbox.

Mexico will allow imports of U.S. potatoes nationwide by May 15.

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Subscription inquiries: 888-752-2047
Editorial information: Tel., 800-772-0023; Fax, 319-277-7982; E-mail: agletteredltors@farmjournal.com; or AgricultureLetter.com

DISASTER AID USDA formally launched its ELRP effort. USDA on April 4 published a notice of funding availability on the Emergency Livestock Relief Program (ELRP) in the Federal Register, formally launching the effort which will automatically generate payments to livestock producers who have faced increased supplemental feed costs from forage losses due to a qualifying drought or wildfire in calendar 2021.

Phase 1 of the program will use data already provided by affected producers under the Livestock Forage Program (LFP).

ELRP payments are based on the number of animal units, limited by available grazing acreage, in eligible drought counties. USDA is using LFP data to make the payments quickly even though there is not a "direct correlation to the increased feed costs incurred." LFP payments were calculated as being $18.71 per month per animal unit for drought while there was not a single rate calculated for fire. ELRP will pay 90% of that amount ($16.84) per animal unit per month for "historically underserved farmers and ranchers," while all others will receive 75% ($14.03) per animal unit per month.

There is a $125,000 payment limit for a person if their average farm adjusted gross income (AGI) is less than 75% of their average AGI for tax years 2017, 2018 and 2019; if 75% or more of their average AGI is from farming, then the limit per person is $250,000.

Timing of payments: FSA will issue ELRP Phase 1 payments as 2021 LFP applications are processed and approved and are expected to total $577 million; any additional payments under ELRP will be covered under a Phase 2 effort.

We are told to expect some changes in Phase 2… more in a future issue.

Details regarding WHIP+ for crop producers… or whatever USDA will call the program… are expected by the end of May.

COVID AID Senators agreed on $10 bil. Covid spending package after stripping $5 bil. in global aid and offering cuts to help pay for the new aid plan.

Compromise would reprogram billions in unused money from prior Covid bills.

Cuts include $1.6 bil. from prior USDA funding… $1 bil. from a program to purchase food and agricultural commodities and to support smaller food processors, and $600 million in additional funds set aside for USDA to support agricultural producers.

CHINA EXPORTS Russia's attack on Ukraine is sidetracking China's ambitions to export more goods to Europe. Europe-bound rail shipments from China that pass through Russia have been plummeting, the *Wall Street Journal* reports, dealing a setback to the $4 tril. Belt and Road initiative aimed at cementing China's role as a pre-eminent trading force. Although the European Union hasn't officially banned imports passing through Russia, freight forwarders increasingly are shipping away from the rail corridor to avoid the risk of getting caught up in sanctions. That is a blow to operations that moved around $82 bil. worth of Chinese exports into the EU by rail in 2021, a 10-fold increase since 2016.

The war in Ukraine could also shift sentiment on projects in Europe aimed at expediting Chinese cargo. Germany's port of Duisburg plans to stop business activity in Belarus and sell its 39% stake in a Europe-Asia rail business.

CHINA PORK World's largest container port hit by Covid surge in Shanghai, disrupting the logistical chain on land. Shanghai Port, a major export gateway for goods produced in the nearby manufacturing hubs of Jiangsu and Zhejiang provinces, has so far stayed in operation 24 hours a day inside a "closed loop" bubble, which requires workers to stay on site all the time.

But other developments will impact the port. This includes the closure of many warehouses, the drop in manufacturing and the serious disruption to trucking in, out and within the city. Those are expected to cause a significant drop in the availability of goods and port output, according to Freightos, an online freight marketplace.

Trucking services in and out of the Shanghai Port are still available for the moment, but there will be a 30% drop in efficiency, according to the latest customer advisory from Maersk, one of the world's largest container shipping companies.

PLANTING INTENTS.

Corn planting intentions: 89.5 mil. acres… would be down nearly 3.9 mil. acres from actual plantings last year and 2.5 mil. acres shy of the average pre-report estimate… would be the smallest since 88.9 mil. acres in 2018.

Soybean planting intentions: 91.0 mil. acres… up 3.8 mil. acres from last year and roughly 2.2 mil. acres more than traders expected and the most on record.

Sorghum planting intentions: 6.2 mil. acres… down 1.1 mil. acres from last year and 538,000 acres fewer than traders anticipated.

Spring wheat planting intentions: 11.2 mil, acres… Other spring wheat planting intentions would be down 220,000 acres from last year and 601,000 acres below the average pre-report estimate.

Durum planting intentions at 1.915 mil. acres would be up 280,000 acres from last year and 188,000 acres more than traders expected.

Cotton planting intentions: 12.2 mil. acres… up just over 1 mil. acres from last year and 227,000 acres more than the average pre-report estimate.

MARKETS

Corn: USDA surprised the corn market with a planting intentions figure that was below expectations, indicating the rise in input costs apparently influenced some farmers' acreage thoughts for this year. That will keep support under corn futures, along with continued uncertainty about corn export supplies out of Ukraine.

Soybeans: Farmers intend to plant more soybeans than traders expected, with the record acreage intentions number pressuring futures. Mother Nature will still likely be the key factor for final soybean acreage in 2022. That will now shift attention quickly to demand amid expectations soybean production will be hefty in 2022.

Wheat: Black Sea situation remains a focal point for global wheat markets, with pressure in Ukraine for the country to lift its ban on exports. But those exports will be difficult without access to the port of Odessa. U.S. wheat is too pricey on the global market and winter wheat condition ratings were well below expectations to open spring.

Rice: U.S. rice continues to need export demand given current stocks. Countries are starting to focus on rice supplies as they seek to ensure food supplies. Market conditions prompted U.S. farmers to indicate they'll plant less area to rice in 2022… nearly 100,000 fewer acres than 2021. But that may not be enough to lift prices substantially.

Cotton: Prices remain lofty, but demand from foreign buyers has persisted. Countries continue efforts to replace Chinese cotton grown in Xinjiang. But the U.S. and global economic situation is one factor that bears watching, particularly for fabrics and clothing/apparel. If consumers scale back their activity out of fear of an economic downturn, that could sap demand.

Hogs/pork: U.S. hog producers have responded to higher feed bills, prompting the latest USDA Hogs & Pigs data to come in well below expectations, particularly for the breeding herd. And market hog supplies are going to be down from year-ago levels moving through 2022. But higher hog prices could still prompt some shifts in contraction plans.

Cattle/beef: USDA's acreage report boosted corn prices and cut into live and feeder cattle futures. Tightening cattle supplies ahead should provide support for deferred live cattle futures. Cattle slaughter is now running ahead of year-ago marks and carcass weights are abnormally high for this time of year, putting more beef into the pipeline.

Poultry/broilers: Bird flu continues to reduce supplies of turkeys and broilers... and tightening egg supplies with Easter just around the corner. More than 9% of the U.S. turkey supply has been affected and egg prices have already moved up with some layer flocks in Iowa destroyed. The trade impacts have increased even as regionalization agreements have tempered the restrictions.

Dairy: U.S. dairy cow herd expanded by around 3,000 head in February, prompted by high milk prices. But even as numbers rose after contracting for eight straight months, cow numbers are still nearly 100,000 head below year-ago marks. Lofty milk prices will keep milk output up, but high feed costs will cap any significant growth.

CRP

Vilsack says bringing CRP ground back into production "not feasible" and indicates fewer CRP re-enrollments in latest general signup. Calls to allow ground in the Conservation Reserve Program (CRP) to be brought back into production do not appear likely to be granted by USDA for 2022-crop production.

In a letter to the National Grain and Feed Association (NGFA), USDA Secretary Tom Vilsack said bringing CRP acres back into production is "not feasible" in part as land in the program is not highly productive. Only 1.3% of prime farmland is in CRP and "more than 75% of acres" are less productive non-prime farmland.

Drought in several parts of the U.S. is another factor against tapping CRP acres cited by Vilsack along with acres coming out of CRP have significant "slippage," which Vilsack said means "one acre coming out of CRP does not transfer into an acre of crop production, but closer to half that."

It takes two years of above-normal inputs being applied to CRP ground to return it to production, according to USDA guidance. Those with land in CRP with contracts expiring in the fall have typically sought to re-enroll a high percentage of those acres back into the program, typically more than 50% to 60%.

USDA concluded a general CRP signup March 11, and Vilsack indicated that the trend of re-enrolling acres may not be as strong this time relative to the 4 mil. acres under contracts that mature Sept. 30. While cautioning USDA is still sorting through the CRP offers, Vilsack said, "our data reflect the reality that, with higher commodity prices, producers are not re-enrolling all of these acres in CRP. Instead, high prices for this year's crops will motivate producers to plant more acres of wheat, soybeans, and corn, with the main limiting factors being weather and soil moisture conditions." That shows that producers are willing to bring acres out of CRP when contracts mature during a time of higher commodity prices even with higher costs involved to return such lands to productivity.

Bottom line: If there are any major problems with key U.S. crops this season, look for pressure on the Biden administration to do something to settle anxiety among ag product users, including for the 2023 growing season.

DAIRY

USDA published the final rule of origins of livestock relative to organic dairy on April 5 in the Federal Register. It concerns the origins of livestock under the National Organic Program relative to dairy animals. USDA said the action is based on public input to a proposed rule the agency previously released. Under the final rule, "organic milk and milk products must be from animals that have been under continuous organic management from the last third of gestation onward, with an exception for newly certified organic livestock operations."

Rule becomes effective June 6, 2022, and all certified organic operations have to comply with its provisions by April 5, 2023.

Upshot: USDA acted via the final rule to address what it said were "inconsistencies" in how the transition of animals from conventional dairy production to organic production was being handled.

RRF

Restaurant groups pushing for aid extension. Congress should pass an extension of the Restaurant Revitalization Fund (RRF), according to the National Restaurant Association (NRA). The House may consider legislation that would replenish the fund designed to help restaurants slammed by Covid-19. Some $28 bil. of economic relief was provided to more than 101,000 restaurants but another 177,000 establishments have not been able to receive any funding.

Best regards,

The Ag Letter Editors

THE AGRICULTURE LETTER EDITORS

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