

The Agriculture Letter

Insight and Analysis for Agribusiness Leaders

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Dear Client:

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Advice to improve the farm safety net was given recently to a House Ag subcommittee.

Future of farm programs: margin protection for grain and oilseed producers, like a program already available to the dairy sector.

FARM
POLICY

Ag economists: Higher input costs will linger after commodity prices ease. Ag economists told the House Agriculture Subcommittee on General Farm Commodities and Risk Management that high input costs will likely persist even after commodity prices decline, adding that current farm bill commodity programs are not well equipped to deal with any such situation.

Ag commodity prices “are going to decline, but input prices are going to stay up for a while. ...they always do ... and that’s going to be a cost-price squeeze,” said Texas A&M Ag Economist and co-director of the Agricultural and Food Policy Center (AFPC) Dr. Joe Outlaw. “At the end of the day, it’s not what you bring in, it’s the margin you’re left with, and I have tremendous concerns about where we’re headed right now,” said Rep. Glenn Thompson of Pennsylvania, the senior Republican on the House Agriculture Committee. “It will only take some softening of prices before producers may be underwater.”

Economists suggested some moves that could help make Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) better deal with lower prices, including providing farmers with the higher payment, if any, from either program, rather than making them elect coverage from one. Updating PLC reference prices was also suggested so they can more adequately reflect the impact of higher input prices.

Another suggestion: margin coverage like what currently is in place for dairy via the Dairy Margin Coverage (DMC) program. This would account for changes in both commodity prices and input costs. The dairy margin program issues payments when feed costs are too close to milk prices. There is a \$100-a-year fee for the base level of coverage. Farmers can buy higher levels of protection.

Key question: Rep. Thompson, in line to chair the Ag Committee if Republicans win a House majority in the Nov. 8 elections, asked how a margin protection plan for row crops would compare to the current crop subsidy programs, which are triggered by low market prices. “The benefit is that it would take into consideration both the cost side and the revenue side,” said Dr. Outlaw. The dairy margin program needed repeated revisions, so it would be best to test the idea with a pilot project, he said. “On the cost side, fertilizer and clearly fuel and labor... and a lot of things that would matter for a certain set of crops that might not matter for another set of crops, so we’d have to be really careful to make sure we did it balanced. But it would be worth looking at, for sure.”

OTHER FARM BILL ISSUES

More funding needed. “Most of my suggestions require additional resources that may be difficult to secure but are necessary,” said Outlaw in written congressional testimony.

The U.S. rice grower situation was also addressed because they are already facing a cost squeeze due to relatively flat prices as input costs surged. Outlaw urged lawmakers to consider targeted assistance to rice producers, noting that without some sort of aid soon, the U.S. could face the loss of producers and infrastructure across the rice sector.

Creating a permanent disaster program. Outlaw and Joe Janzen of the Univ. of Illinois said taxpayer-subsidized crop insurance generally was sufficient. “There’s going to be natural disasters,” said Outlaw, and it would be helpful for farmers to “understand what kind of help they might get.”

Source: Ag Letter editors

ENERGY
& AG

Republicans push a different approach on energy and ag policies. Thompson, the top Republican on the House Ag Committee, and a group of Republicans are pressing President Joe Biden to reverse some of his energy and agriculture policies. Thompson and the lawmakers dispute President Biden's explanation that Russia's war in Ukraine is to blame for rising food prices, which were elevated even before the war. The GOP lawmakers argue that the president "has neglected to take serious action to increase American production." They also urge the administration to help lower the high cost of food production by rolling back environmental regulations and proposed rules around pesticides and waterways.

The letter outlines administrative actions which Republicans say would "immediately provide real, near-term solutions to address the ongoing crises facing American producers," including:

- Addressing farm input costs
- Halting changes to "Waters of the United States" (WOTUS)
- Ensuring the Environmental Protection Agency (EPA) refocuses on sound science
- Ending onerous climate rules

UKRAINE

Ukraine asks Europe for temporary grain storage. Ukraine asked European partners for temporary grain storage to help with its upcoming harvest. Ukraine's Deputy Agriculture Minister Markian Dmytrasevych said Russian attacks and occupation in southern and eastern areas of the country reduced grain storage capacity by 15 million metric tons.

GLYPHO-
SATE

No action on glyphosate case. The Supreme Court is nearing the end of its term but has yet to decide whether to hear Bayer's appeal of a \$25 million award to a California man who said Roundup weedkiller was the cause of his cancer.

INPUTS

USDA again extends deadline on comments regarding fertilizer competition issues. USDA's Agricultural Market Service (AMS) said in a notice published in the Federal Register that it is again extending the comment period for public input on "competition-related challenges in the U.S. fertilizer market and other obstacles to producers accessing affordable, responsibly manufactured fertilizer." Comments are due July 15. AMS has already received more than 1,000 comments.

OCEAN
SHIPPING

Ocean shipping reform package now law. After the House easily cleared the Ocean Shipping Reform Act, Biden signed it into law. The Federal Maritime Commission (FMC) will draw up new rules covering the U.S. shipping industry. The bill:

- Revises requirements governing ocean shipping to promote the growth and development of U.S. exports. For example, the bill prohibits common ocean carriers, marine terminal operators, or ocean transportation intermediaries from refusing cargo space when available or resorting to other unfair methods.

- Requires the FMC to (1) investigate complaints about detention and demurrage charges (i.e., late fees) charged by common ocean carriers, (2) determine whether those charges are reasonable, and (3) order refunds for unreasonable charges. It also prohibits common ocean carriers, marine terminal operators, or ocean transportation intermediaries from unreasonably refusing cargo space when available or resorting to other unfair or unjustly discriminatory methods.

WTO

The World Trade Organization is struggling for relevance, the *Wall Street Journal* reported. Trade ministers met this week in Geneva for the first time since 2017 and dealt with several problems, including how to respond to food shortages amid rising commodity prices, the continuing pandemic shock and other long-running issues such as the depletion of global fishing stocks. Meanwhile, major economies such as the U.S. and the European Union are moving away from globalization and focusing more on domestic production and trade with like-minded nations.

POLITICS

Age is becoming a factor among Democrats looking at possible Biden re-election run. Axios notes that Washington is run by Biden, 79 ... House Speaker Nancy Pelosi, 82 ... Senate Majority Leader Chuck Schumer, a comparatively youthful 71 ... and Senate Republican leader Mitch McConnell, age 80. Dr. Anthony Fauci, running the U.S. pandemic response, is 81. It's a global phenomenon: Pope Francis is 85. Prince Charles, Britain's next king, is 73. Adds Axios: "And it's not just the top of the ticket. Average age of the Senate at the beginning of this Congress (last year) was 64.3 years... the oldest in history. Seven senators are in their 80s. But Democrats now are privately debating whether Biden, already the oldest president, will be fit to run for re-election. At the end of a second term, he'd be 86."

"The presidency is a monstrously taxing job and the stark reality is the president would be closer to 90 than 80 at the end of a second term, and that would be a major issue," David Axelrod, chief strategist for President Obama, told the *N.Y. Times*.

Bottom line: A new generation of leaders are coming to Washington.

MARKETS

Corn: With planting virtually done, attention is now on ratings for the developing crop. That also keeps weather in focus along with demand news relative to old-crop corn. USDA has now wrapped up its work on gathering data for the next important updates... the Acreage and Grain Stocks reports due June 30.

Soybeans: Condition ratings are now moving into focus as plantings are in the final stage. And the June 30 Acreage Report looms large given the potential for planting issues to have altered some cropping plans. Global vegoil trade developments also factor into the market picture as countries search for alternatives to palm oil.

Wheat: Russia and Ukraine wheat availability remains key in the global market picture given the two countries supply a portion of global humanitarian needs. In the U.S., early results of the HRW wheat harvest are better than feared, but spring wheat crop ratings started lower than expected even as they bested year-ago marks. Still, U.S. wheat remains too pricey to compete in many global markets.

Rice: Prices have not enjoyed the updraft of other crops and with producers seeing high input prices, that is putting them in a potential financial bind. The world remains fairly well stocked with rice and that has kept global demand for U.S. rice limited.

Cotton: Most of the crop is in the ground and weather concerns are the focus. Big producer Texas has factored into planting remaining ahead of the average pace. But weather in Texas has weighed on early crop ratings with more of the crop rated poor/very poor than good/excellent... could increase expectations of more abandonment.

Poultry: U.S. turkey farms have been hit hard by highly pathogenic avian influenza, with 121 turkey operations depopulated. Most of the affected facilities have been released from quarantine actions, so repopulation of those locations can begin. But the HPAI restrictions have cut into Mexico as a key market for both broilers and turkey.

Hogs/pork: U.S. pork exports in April were down 20% from year-ago levels... but April 2021 was a record level for U.S. pork shipments for the month. Still, overall U.S. pork exports the first four months of 2022 are some 20% lower as China's appetite for U.S. supplies has declined dramatically... shipments there were down 70% in April even though the tonnage mark was the biggest yet in 2022.

Cattle/beef: U.S. beef exports reached a record for April of 304 million pounds. U.S. beef imports, meanwhile, declined sharply from March but remained moderately above the April 2021 level. Australia's production and shipment volume has not yet rebounded as expected, keeping increased demand for U.S. beef products in Asian markets and limiting Australia shipments here.

Dairy: April was a solid month for U.S. dairy exports, marking a third month where product exports were above year-ago. Cheese exports set a record. Nonfat dry milk exports at 162.1 million pounds were respectable, but still some 6% lower than year ago. Dairy margins are starting to get squeezed by the same factors hitting nearly every sector... high energy costs.

EVs U.S. automaker CEOs, Toyota urge Congress to lift EV tax credit cap. General Motors, Ford, Chrysler-parent Stellantis and Toyota urged Congress to lift a cap on the \$7,500 electric vehicle (EV) tax credit, citing higher costs to produce zero-emission vehicles, according to a letter seen by *Reuters*.

E15 Biden was not all-in initially on E15 summer waiver. President Biden wasn't sold on his administration's summertime ethanol waivers to bring down gasoline prices, expressing doubt that it would have a major impact, the *Washington Post* reported. Key quote: "Biden had worried even before the announcement that it exaggerated ethanol's ability to cut gas prices and could harm his climate goals... But Agriculture Secretary Tom Vilsack and other officials urged Biden to act, arguing that it would at least help the Midwest... and the White House, after all, was desperate for ways to lower gas prices."

BIRD FLU Colorado infections push HPAI losses above 40 million birds. More than 40 million birds in domestic flocks, mostly chickens and turkeys, have died in the worst outbreak of bird flu since the 2014-15 epidemic, according to USDA data. The outbreaks have killed 6% of the egg-laying hens in the country.

ERP? WHIP+ ERP (WHIP+) payouts for 2020 and 2021 disasters have surged following announcement of program details. USDA has not released its first official report on the newly named program... Emergency Relief Program. But we are getting a lot of emails from eligible producers who say they have received their payments via Phase 1 of the program.

GAS PRICES President Biden accused oil companies of exploiting high gasoline prices after a report showed inflation soaring to a new 40-year high. "We're going to make sure everyone knows Exxon's profits. Exxon made more money than God last year," Biden said during an event at the port of Los Angeles.

WETLANDS EPA seeks to maintain waters protections. The U.S. Supreme Court should uphold Clean Water Act protections for wetlands that aren't directly connected to large bodies of water, the Environmental Protection Agency argued in a brief filed in a case that will determine the extent of the federal government's power over wetlands nationwide. At least three Biden administration rulemakings hinge on the outcome of the case.

CONGRESS New member of House Ag. House Speaker Nancy Pelosi (D-Calif.) announced Rep. Sharice Davids (D-Kan.) will be the newest member of the House Ag Committee.

PRICE OUTLOOK Commodities can still go higher, *Bloomberg's* latest MLIV Pulse survey shows. About 64% of 805 respondents expect *Bloomberg's* key gauge of raw materials to end the year stronger as supply shortages persist. Around 34% saw wheat leading the gains, while close to 27% expected copper and oil to rally most. Meanwhile, Citi estimates that global buyers of commodities are on track to pay producers \$5.2 trillion more in 2022 than they did in 2019 thanks to the surge in prices. That's equal to 5% of world GDP.

FOOD PRICES Food prices to keep rising. Price increases show few signs of slowing down. Some of the biggest U.S. food suppliers and restaurants, such as Kraft Heinz Co. and some McDonald's Corp. franchises, say they plan to keep on raising prices to offset starkly higher costs, the *Wall Street Journal* reports. They are also selling smaller packages, raising the per-unit price and improving their operations' productivity.

Best regards,

The Ag Letter Editors
THE AGRICULTURE LETTER EDITORS

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