

# The Agriculture Letter

Insight and Analysis for Agribusiness Leaders

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Dear Client:

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President Joe Biden's trade policy is developing. But it's a far different approach than usual and has generated questions from both political parties.

TRADE  
POLICY

White House wants to avoid Congress by nixing more traditional trade accords. Reason: A fractious Senate would not likely have the 60 votes.

The Indo/Pacific trade pact the U.S. unveiled is an example of the new more general approach. It doesn't include agriculture and it does not impact tariffs, market access, etc... why some farm-state lawmakers and farm groups do not like the pact.

U.S. wants to boost economic ties with Taiwan. As tensions grow with China, the Biden administration is forging closer ties to Taiwan in areas such as trade and supply chains. The U.S. Trade Representative's (USTR) office this week unveiled a new pact with Taipei to promote bilateral trade in areas such as digital trade, clean energy and labor rights. The two partners will also collaborate to address nonmarket practices and policies, including those conducted by state-owned enterprises, an issue representing Washington's leading complaint about China's trade policy.

U.S. trade with Taiwan has expanded sharply in the wake of tariffs on Chinese imports imposed by the former Trump administration. The U.S. exported \$3.94 bil. worth of U.S. ag commodities to Taiwan in 2021, an 18% jump from 2020, making Taiwan the sixth largest foreign market for U.S. ag products. The U.S. shipped a record \$668 mil. worth of beef to Taiwan in 2021, a 21% increase from 2020. Taiwan imported a record \$167 mil. of U.S. dairy products, a 15% increase from 2020.

U.S. removed U.K. metals tariffs. Washington will scrap Trump-era tariffs of 25% on U.K. steel and aluminum exports, replacing them with quotas. In return, London will suspend extra taxes on U.S. products such as bourbon and Levi's jeans.

Another trade issue unsettled: U.S. tariffs on China. The White House is considering efforts to mitigate inflation, including easing tariffs, White House Council of Economic Advisers Chair Cecilia Rouse said. "But the Treasury Department's No. 2 official highlighted the importance of U.S. tariffs on Chinese goods as a tool to aid American jobs and competitiveness. Biden said he's considering removing some of the tariffs and would take up the topic with Treasury Secretary Janet Yellen. While Biden says he may ease tariffs to calm inflation, he said it's the Fed's job to combat soaring prices.

Congress is finally about to vote on two major trade nominees in the Biden administration. One at USTR and the other at USDA.

## TWO MORE TRADE ISSUES

**Republicans want fertilizer trade fix.** Republican senators asked U.S. Trade Representative Katherine Tai to establish a long-term plan for fertilizer trade, as prices skyrocketed following Russia's invasion of Ukraine. In the letter, Sens. Roger Marshall (Kan.), Chuck Grassley (Iowa), Joni Ernst (Iowa) and Deb Fischer (Neb.) called on the Biden administration to enhance the U.S. trading relationship with Canada and work with China to reduce or eliminate its fertilizer export restrictions.

**A lengthy U.S. dispute about Canada's dairy policy is still unsettled,** with additional talks ahead. The U.S. filed a case against Canada a year ago via the first case under the U.S.-Mexico-Canada (USMCA) agreement. But no resolution was announced. In a surprise move, the U.S. did not retaliate and instead filed a new trade case against Canada.

Source: Ag Letter editors

SHIPPING  
BOXES

Efforts to relieve a shortfall in shipping containers stuck at sea and on docks.

Ship operators have been adding millions of boxes to international operations over the past two years, but the *Wall Street Journal* reports the added capacity is effectively trapped in congested distribution networks as shipping moves into its busiest period. An early start to the peak season is adding to the problem as importers order and ship goods early to get ahead of feared bottlenecks later this year. The result is that some 12% of the world's container ships are backed up outside ports for weeks longer than normal while backups in inland distribution networks are growing.

Average time boxes wait at the ports of Los Angeles and Long Beach has surged recently, and reached 9.6 days in April, the highest level since July 2021.

SHIPPING  
COSTS

Shipping costs to rise at busiest U.S. ports. The record rally of California's diesel prices is pushing up costs for shippers to transport goods from the country's busiest sea ports. California's production of CARB diesel, mandated by the state, has fallen to the lowest level for this time of year since 2004, in part because regulations have incentivized the transition toward renewable alternatives.

Supply could tighten further next month when one of the state's largest refineries, Chevron Corp.'s Richmond plant in the San Francisco Bay Area, undergoes maintenance that had to be postponed from April due to a labor strike.

UKRAINE  
EXPORTS

Push to get Ukraine grain exported. Ursula von der Leyen, president of the European Commission, said the developing global food crisis was "only the fault of Russia," which has seized or blockaded all of Ukraine's Black Sea ports, preventing grain from leaving. Ukraine used to be a major global food exporter: it produced 12% of the world's wheat, 15% of its corn and 50% of its sunflower oil. Russia is currently blocking 22 mil. metric tons of grain in Ukraine, bombarding facilities where wheat is stored, and mining fields, von der Leyen said. It is also seeking to blame Western sanctions for the food crisis, an accusation von der Leyen vehemently rejected. Getting the wheat out of Ukraine will be "tedious and expensive," she said, but it is "necessary." Prime minister Mario Draghi of Italy said if the West were to "lose the war on food security," African countries "will feel betrayed." That, in turn, he added, could have "strategic consequences that are very serious."

The commission previously announced measures to ramp up Ukraine's exports through existing land routes, mainly through Poland and Romania. But there are complex challenges, including the difference in the gauge of railway tracks between Ukraine and its neighbors. Also, railway travel is significantly slower than sending grain by sea.

Biden, others concerned. President Biden and Prime Minister Jacinda Ardern of New Zealand discussed aid to Ukraine and expressed concerns about global food security during a meeting at the White House this week, a joint statement said.

FOOD AS  
WEAPON

Pope: Don't use wheat as 'weapon of war'. Pope Francis appealed to authorities to lift a block on exports of wheat from Ukraine, saying it could not be used as a "weapon of war." He said, "The blocking of exports of wheat from Ukraine is very worrying because the lives of millions of people depend on it, especially in poorer countries. I make a heartfelt appeal so that every effort is made to resolve this problem, to guarantee the universal right to nutrition. Please! Do not use wheat, a basic foodstuff, as a weapon of war." The pope has often condemned Russia's invasion, but this was the first time he spoke in detail of the global food crisis it has brought.

RUSSIA

Russia says it will provide world with food and fertilizer. Russia's Deputy Foreign Minister Sergei Ryabkov said Moscow will find ways to supply markets with Russian grain and fertilizers despite Western sanctions, Russian state-owned *RIA* news agency reported. Meanwhile, Russia's foreign minister will visit Turkey next week to discuss possibly allowing Ukrainian grain to be shipped from ports.

PREVENT  
PLANT

The Biden administration is worried about 2023-crop plantings and production amid fertilizer concerns and the recent inability to export around 20 mil. metric tons of grain from Ukraine.

The push thus far focuses on boosting double-crop plantings and flexibility in the Conservation Reserve Program.

But USDA is being urged to be more flexible re: prevent-plant acres this year. Farm-state lawmakers want payments to be made to offset any reduction in the crop insurance guarantee incurred by producers planting after the final planting date. A letter says this would encourage “robust planting of in-demand commodities whose production is threatened by heavy precipitation that is keeping farmers out of their fields.”

The problem: Producers planting after the final planting date face a 1% reduction in their crop insurance coverage level per day. To mitigate increased risk to farmers and incentivize planting, lawmakers say payments should be made to producers with qualifying losses equivalent to any reduction in their crop insurance guarantee. They say this would ensure domestic production remains robust and able to meet global demand.

MARKETS

Corn: With planting back to near average and into the home stretch, condition ratings for this year’s crop will rise as the market focus... along with weather conditions. The global corn situation remains another key price factor and until there is some sustained resolution to the Black Sea shipping situation, demand for U.S. corn will remain solid. Chinese demand is key.

Soybeans: Getting the remaining U.S. soybean crop planted could be a challenge, but weather conditions will be key on that front. Efforts to boost double-cropping of soybeans after winter wheat will not yield any results until the 2023 growing season, keeping attention on U.S. production weather and conditions in South America.

Wheat: Black Sea shipping issues and weather remain the two major supporting factors for wheat prices... but both are factored into the market. U.S. winter wheat condition ratings and the behind-average pace of spring wheat planting continue to raise concerns about U.S. supplies. But at current price levels, the U.S. is not competitive on the world market even though importers are scrambling for supplies.

Rice: Futures have seen some increase in volatility as grain trade out of the Black Sea remains a question. And global demand has continued to build as buyers are tempering their purchases of more-pricey supplies of wheat and corn. But rice supplies remain relatively ample around the globe, potentially limiting price upside. A wild card: Prices could surge if India were to ban exports of its rice, following a wheat export ban.

Cotton: Combination of demand concerns and rains in dry portions of the biggest U.S. producing state of Texas shifted cotton futures lower as June started. Demand concerns loom as economic questions continue to abound. But supplies are still limited in export channels, potentially putting a floor under prices until more is known.

Poultry: With chicken parts climbing to record prices, it is prompting an increase in egg sets and chick placements. The U.S. turkey flock, however, remains greatly reduced by highly pathogenic avian influenza (HPAI). Of 121 turkey operations depopulated by HPAI, USDA has released 103 of those to resume production.

Hogs/pork: Stocks of pork in the nation’s freezers rose in April compared with year-ago levels, a seasonal trend that typically happens as supplies are laid in for summer demand when hog supplies tighten. Supplies are at levels that leave the industry in better shape to meet rising demand during summer.

Cattle/beef: Fed cattle carcass weights finally dropped below year ago in mid-May, the first time that has happened so far in 2022 and they were down nearly 10 pounds from the prior week. But supplies are still there as beef production for the most recent week was still up 3% from year-ago marks.

Dairy: Global milk prices have eased over the past month and production is slowing as a result. Importantly, China has tempered its purchase pace and that could build more price volatility. Global dairy product inventories are not burdensome, but supplies have not tightened to the point of providing a major boost to prices.

FOOD  
SYSTEM

Transforming the U.S. food system by improving supply chains and addressing issues exposed by the Covid-19 pandemic was detailed this week by USDA Secretary Tom Vilsack during a speech at Georgetown University. The over \$2 bil. package includes previously announced funding to expand meat and poultry processing and to finance new infrastructure such as cold storage facilities, but there is \$600 mil. in new aid to support food supply chain infrastructure outside meat processing. The plan also includes \$400 mil. for regional food business centers, up to \$300 mil. for a new organic transition initiative and \$75 mil. to support urban agriculture.

The initiatives are funded through the American Rescue Plan that was enacted in March 2021 and other relief legislation. Vilsack traveled to Ohio with Democratic Rep. Marcy Kaptur to promote the initiative and visit a full-service grocery store in central Toledo called Market on the Green.

Package includes \$650 mil. in funding and loan assistance for meat and poultry processing projects, including \$275 mil. to help entrepreneurs who have had trouble getting credit. Another \$100 mil. would go toward training workers in meat processing. Another \$600 mil. is earmarked for improving food supply chain infrastructure, including cold storage and refrigerated trucks, outside of meat and processing.

Other funding in the plan:

- \$200 mil. to help fruit and vegetable growers comply with food safety regulations.
- \$400 mil. to create regional food business centers that will provide coordination and technical assistance and other support to small and mid-size businesses involved in processing, distribution and aggregation.
- \$155 mil. to expand USDA's Healthy Food Financing Initiative, which is aimed at reducing food deserts.
- \$90 mil. to prevent and reduce food loss and waste.
- \$60 mil. for farm-to-school programs that increase markets for smaller-scale farmers through child nutrition programs.

GAS  
TAX

New York suspends gas tax. New York announced it is suspending its state gas tax for the rest of the year, seeking to provide drivers in the state with a bit of relief at the pump as gas prices in the U.S. continue to make near-daily record highs. The move to suspend New York's gas tax... which stands at 16 cents per gallon... follows similar efforts passed by a number of other states. It also comes as national gas prices reached an average of \$4.67 a gallon, per AAA.

ENERGY  
BILL

Don't count out a major economic/green energy bill by the Democrats. Democratic leaders in Congress have held meetings with centrist Sen. Joe Manchin (D-W.Va.), upping the odds that something may yet be done. Sources say a final plan must come together before the long August congressional recess.

The bill would include major green energy incentives, including a subsidy for Sustainable Aviation Fuel... SAF. Airlines would over time boost their purchases of SAF in order to offset their carbon footprints.

While most think no bill will result, our sources say a big push is underway for this to be another reconciliation measure that would only need Democratic votes. Another reason is that the measure will contain an extension of expiring ObamaCare provisions.

Manchin insists the bill be paid for... and also contribute to debt reduction. That means some tax provisions would have to be included in the final package... and this could eventually derail the whole measure if not done to garner enough Democratic votes.

Best regards,

*The Ag Letter Editors*  
THE AGRICULTURE LETTER EDITORS

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