FarmJournal

The Agriculture Letter

Insight and Analysis for Agribusiness Leaders • Vol. 94, No. 6

Dear Client: Washington, March 17, 2023

<u>Vilsack wants to transform the ag sector</u>.

<u>Even though the last two years have been the highest</u> in farm income in the history of the country, USDA Sec. Tom Vilsack says most farmers are not making money, or are making more from off-farm income than farming.

<u>He says the farm bill should improve that situation</u>.

FARM INCOME

<u>Vilsack disagrees with former Ag Sec. Sonny Perdue</u> who said farmers must get big or get out. Vilsack believes the farm bill debate is usually about crop insurance and Title I, which provides commodity subsidies, but stresses Congress and farm leaders should not “miss the big picture here. Is it get big or get out or about creating opportunity? That is a fundamental question.”

<u>A transformational moment for U.S. ag is here</u>, Vilsack believes. Reasoning: No longer must farm families rely solely on the sale of crops and livestock and farm program payments for income. Instead, Vilsack touts new opportunities for adding value and profit to the farming enterprise… from tapping eco-system services markets to expanding the production and use of bio-based products. “We’ve always talked about trade, input costs and competition, and rightly so,” said Vilsack. “Yet there’s more to do, and that involves creating additional income streams and market opportunities for producers.”

<u>One example</u>: Incentive-based projects to enhance environmental outcomes that have robust monitoring, measuring, and reporting systems. Vilsack announced $1 billion from U.S. taxpayers for creating voluntary revenue alternatives.

<u>Over 1,000 applications were submitted</u> for Partnerships for Climate-Smart Commodities grants involving every commodity produced in the U.S. Beginning last fall, USDA announced 141 projects selected for funding. They touch every state in the union, cover 25 million acres, and will involve an anticipated 60,000 farmers.

<u>Vilsack wants a farm bill rethink</u>. He says that with a farm bill conversation coming up, “we must ensure these opportunities remain viable and have the opportunity to expand. Let’s create a farm bill that benefits many and the most.”

<u>A major farm bill participant</u>. “We need to ensure we keep front and center whether the farm bill will be for the few or the many and the most,” Vilsack says.

<u>Bottom line</u>: “It’s about helping famers move beyond relying solely on commodity sales and farm program payments,” Vilsack said. “We want farmers to benefit from additional business ventures to provide income not necessarily directed to the marketing of specific commodities. The climate smart commodities grant project does that.”

<u>Reality</u>: The farm bill has been and will be written by the House and Senate Ag panels, with input from all areas of the ag sector.

KEY TOPICS

• Several commodity groups are asking for an increase in reference prices relative to a new farm bill. A hurdle: Texas A&M University economist Dr. Bart Fischer calculates a 10% increase would cost about $20 bil. over 10 years. A 20% increase would pencil out at more than $50 billion.

• Some note the 2018 Farm Bill includes an escalator provision to raise reference prices based on increases in market prices. There is some chatter about adjusting the escalator, which could likely lower the cost of boosting reference prices.

• Says one veteran farm policy analyst: “A safety net should not be measured by how much payments are made when commodity prices are high. Rather it should be measured by whether it kicks in to help producers when prices decline. It’s similar to insurance. One doesn’t buy insurance to receive an indemnity. One buys insurance for the protection.”

• Enforcing existing trade agreements is important for building public support for Trade Promotion Authority… fast track… and, eventually, new trade agreements, says USDA Sec. Tom Vilsack.

Source: 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.

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

LABELING

Labeling rule proposed. Narrowing requirements for labeling meat, poultry and egg products as "Product of USA" or Made in USA is a proposed rule by USDA. Under it an unqualified claim can be used only if the product is "derived from animals born, raised, slaughtered, and processed in the United States."

If a product has ingredients besides the meat, poultry or egg (other than spices and flavorings), the additional ingredients also must be of U.S. origin to support an unqualified claim. Further, if the producer makes a "qualified claim," (that describes the extent, amount or type of a product's domestic content or processing), it must accurately explain the steps conducted in the U.S. Example: While potential qualified claims may vary, one example from the proposed rule is "sliced and packaged in the United States using imported pork."

Proposed rule would tighten current standards for labeling meat, poultry and egg products as "Product of USA" or Made in USA. Currently, any product imported and repackaged or reprocessed in a USDA Food Safety and Inspection Service facility can be labeled with an unqualified claim. USDA Secretary Tom Vilsack said the proposed rule seeks to address "a disconnect between what the consumers' understandings and expectations are and what the label currently is."

President Joe Biden directed Vilsack to consider initiating a rulemaking to better define the proper U.S. origin labeling of meat products, among several other competition-related items. Further, the commentary to the FTC's labeling rule included a note that regulation of country-of-origin labeling of agricultural products falls to USDA and USDA planned to initiate rulemaking on the topic.

Canada is concerned about any measures that may cause disruptions to the integrated North American livestock supply chains. It will closely review the proposed labeling rule and wants to ensure these changes conform "to the U.S.'s international trade obligations and do not disrupt supply chains," the statement said. "Canada will also firmly oppose any proposition from the U.S. to renew a mandatory country of origin labelling system for pork and beef, a practice which the World Trade Organization allowed Canada to take retaliation measures against the United States," said Canada's Minister of Agriculture and Agri-Food, Marie-Claude Bibeau, and Minister of International Trade, Export Promotion, Small Business and Economic Development, Mary Ng in a joint statement.

MEXICO TRADE

U.S., Canada dispute Mexico corn law. The U.S. and Canada requested formal consultations with Mexico over its policies limiting imports of GMO corn and other products under the U.S.-Mexico-Canada Agreement (USMCA). The U.S. said, "Mexico's policies threaten to disrupt billions of dollars in agricultural trade." Canada does not export much corn to Mexico but is concerned about arbitrary prohibitions on agriculture produced using biotechnology.

Mexico claims its policies are USMCA-compliant and will take the case to the dispute panel if the two sides can't reach an agreement during the 30-day consultation period.

VILSACK & CCC

Vilsack wants authority to keep tapping CCC. The Ag secretary says it is important for him to continue to have authority to use the Commodity Credit Corporation… CCC, USDA's line of credit at the Treasury, to strengthen biosecurity. Members of Congress have proposed restricting his flexibility in using the CCC and "that is a problem," Vilsack says, adding he has also used the CCC to help poultry growers faced with avian influenza, and says it is important to keep up the budget for APHIS.

DISASTERS

Major 2022 weather disasters caused over $21 bil. in crop losses, according to a Farm Bureau analysis. In 2022, it says, 18 weather and climate disasters occurred, each with damages exceeding $1 billion from coast-to-coast.

Last year surpassed 2021 as the third-costliest disaster year, says the National Oceanic and Atmospheric Administration (NOAA), with an estimated $165 bil. in total economic losses behind only 2017's $346 bil. and 2005's $244 billion. "With over 470 lives lost, these disasters will haunt impacted communities for years to come," says NOAA.

Ag disaster relief for 2022 woefully short. Farm Service Agency Administrator Zach Ducheneaux admits the $3.4 bil. Congress provided for ag disaster relief in 2022 will only cover one-third of the need identified by USDA, whose estimate was based on coverage USDA has been providing for earlier years under the Emergency Relief Program (ERP).

To date, USDA has disbursed $7.4 bil. in ERP payments for 2020 and 2021 losses.

CHINA MEAT

China key to U.S. meat exports. The U.S. exported 242.6 mil. lbs. of beef in January, down 23.6 mil., lbs. (8.9%) from December and 45.0 mil. lbs. (15.7%) less than last year. That was the smallest January beef export tally in four years. Compared to January 2022, beef shipments fell 36.8% to South Korea and 25.3% to China. USDA forecasts beef exports will fall 12.6% this year.

U.S. pork exports totaled 555.7 mil. lbs. in January, down 5.6 mil. lbs. (1.0%) from December but 45.5 mil. lbs. (8.9%) more than last year. Pork shipments to China jumped 36.7% from January 2022, while exports to Mexico, Japan, Canada and South Korea also increased. USDA forecasts pork exports will inch up 0.2% from last year.

China's meat imports surge. China imported 1.3 MMT of meat in January and February combined, up 21.2% from the same period last year. China doesn't break down meat imports by category in the preliminary data, but much of the strong year-over-year increase was likely driven by pork imports, which began to ramp up in late 2022.

USDA's attaché in Beijing expects China's pork imports will rise 4% despite higher domestic production. The post expects China's beef imports will fall slightly as domestic production is forecast to rise 3%.

MARKETS

Corn: Argentina's corn crop is struggling. The Rosario Grain Exchange slashed its Argentine corn crop estimate 7.5 MMT to 35 MMT. USDA projects the crop at 40 MMT, down 7 MMT from last month.

Soybeans: The Rosario Grain Exchange also slashed its estimate of Argentina's soybean crop by 7.5 million metric tons (MMT) to 27 MMT. That would be the smallest crop since the country produced 21.2 MMT of soybeans in 1999... and warned there could be additional crop losses if temps don't moderate and there aren't timely late-season rains. U.S. soybean markets are watching.

Wheat: Slightly smaller Russian wheat exports... SovEcon trimmed its 2022-23 Russian wheat export forecast by 100,000 MT to 44.1 MMT after a "prolonged period of stormy weather." The firm still expects a record pace of exports during the remainder of 2022-23, with shipments projected at 14.8 MMT from March through June. USDA forecasts Russian wheat exports at 43.5 MMT for 2022-23, up sharply from 33 MMT last year.

Rice: Demand is up in most of Asia and harvests are reduced due to floods in China. South Asian rice distributors are hoarding. Freight costs are rising and China has started to reduce imports of wheat, corn and soybeans as they try to limit imports, forcing more dependence on rice.

Cotton: Mid-February drop in cotton prices triggered a marketing-year high in export sales, but demand has slowed since then. This suggests limited upside for the market, with some saying a drop to the 80.00¢ area may be required to trigger stronger export sales of old-crop cotton.

Cattle: Live cattle futures recently scored new contract highs but have since pulled back. Cash prices are likely to march steadily higher during the coming weeks, with *Pro Farmer* research suggesting a top might come in late April. More from *Pro Farmer*: "We expect fed cattle prices to challenge their record high around $172.00 this spring,"

Hogs: Demand strength is key to the spring hog outlook. *Pro Farmer* views the market's recent flatness as similar to that seen during April and May last year, which was followed by a summer rally to the $122.00 area. The market seems to be building a demand base for a late-spring surge.

Broilers/Eggs: U.S. chicken producers want to do their part to bring down current soaring egg prices by selling their 400 million surplus eggs to food producers. But first they have to convince FDA to change the rule that prevents eggs laid by chickens in the meat industry to be used for human consumption. The National Chicken Council trade group submitted a formal petition to the Food and Drug Administration asking officials to drop a rule passed in 2009 that keeps chicken producers from selling their excess eggs because they aren't refrigerated right away.

CFTC: The two chairs of the Ag panels in Congress said CFTC needs resources, but Rep. John Boozman (R-Ark.) said they must not come from user fees. Senate Ag Chair Debbie Stabenow (D-Mich.) said: "We have recently heard criticism that the CFTC is too small and does not have the resources to take on additional responsibilities as commodity markets evolve. I reject this thinking. The CFTC's mission is too important." While it's CFTC's job to play its traditional role of protecting agricultural producers from abuse, the agency faces new challenges, Stabenow added.

FARM BILL

<u>A big ask for a new farm bill: More funding</u>. The House Ag Committee released and approved its budget views and estimates letter for fiscal year 2024.
Something farmers and farm groups should clearly like: The letter stresses production agriculture, Title I, and the importance of funding the farm safety net.

Some key sections of the letter:

• "The 2023 Farm Bill… through strategic investments in critical programs… "will alleviate the need for costly and inefficient emergency ad hoc spending and promote economic growth, thus contributing to lowering the debt-to-Gross Domestic Product (GDP) ratio."

• "The current policies were designed in the 2014 Farm Bill using 2012 cost of production data. Today, the combination of spiking input costs and outdated policy has rendered the commodity title ineffective. Consider the four crops that represent the largest acreage in the U.S.: corn, soybeans, wheat, and cotton. The forecast season average farm price of each commodity would need to fall by roughly 23%, 30%, 21%, and 52%, respectively, in 2023 to trigger any support under current law. If left unchanged, while production costs remain sticky, many producers would be bankrupt before Title I support provides assistance."

• "Due to the ineffectiveness of the existing farm bill safety net, Congress has returned to the cycle of providing unbudgeted ad hoc assistance for both weather and market related disasters, totaling $93.3 billion over six years. This amount is 150 percent of the entire Title I 10-year baseline. The assistance has been a godsend for many producers who would not have been able to remain in business otherwise in the wake of a trade war, a once-in-a-century pandemic, or historically devastating weather disasters. However… despite this infusion of assistance, the farm financial picture is beginning to erode due to repeated production losses and skyrocketing inflation."

• "With ad hoc assistance, producers and their lenders have no idea what assistance will be available, or which programs they will be eligible for when a disaster strikes. They don't know if or when policymakers will decide to step in, with action oftentimes occurring a year or more after a loss. Additionally, each time ad hoc assistance is authorized, either Congress or the administration changes the parameters of which losses are eligible. As a result, the Committee believes this inefficient and ever-changing delivery of assistance costs the taxpayer substantially more than what would have been needed if the support were incorporated into the existing farm safety net."

Our comments: This letter is one of the better if not best we have seen over our many decades of reporting on the business of agriculture. The letter presents a clear roadmap, with lots of transparency, on what is really needed in the new farm bill. Budget panel chairs should take the well-researched policy and funding recommendations to heart in working out a realistic farm bill baseline because without that, the farm bill will not get the reforms it clearly needs to alter Title I and move away from the billions of dollars in ad hoc disaster program payouts. We also applaud what the letter notes is the importance of trade promotion programs and agricultural research — two topics that usually get a lot of farm bill attention in the early rounds of working on the legislation, only to find them short-changed at the end of the process. The nearly $20 billion in new funding for conservation programs that was part of legislation last year will also be a focus by the House Ag Committee as detailed in the letter. As for food and nutrition programs, the letter attempts to find a middle ground. It remains to be seen whether any changes in this area will be quickly blasted as unworkable by some who want significant increases in funding and little to no reform.

.

Best regards,

The Ag Letter Editors

THE AGRICULTURE LETTER EDITORS

March 17, 2023