

The Agriculture Letter

Insight and Analysis for Agribusiness Leaders

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Dear Client:

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Congress is on its summer recess into September...
But a lot of behind-the-scenes work by staff continues.
This includes work on a new farm bill & appropriations.

CONGRESS

A pile of critical unfinished congressional work ahead.
This is what happens with a five-vote Republican majority in the House and a one-vote Democratic Senate advantage.

The House has just 12 days in September to move the remaining 11 appropriations measures and work on disagreements with the Senate, which is marking up its spending bills at much higher levels.

The House completed the first appropriations bill to be completed in either chamber of Congress. To date, the full Senate has not approved any appropriations bills, but at least the Senate Appropriations panel has completed work on all 12 measures.

A continuing resolution... CR... will be needed when the House and Senate return... to keep the gov't open past the end of fiscal year (FY) 2023 on Sept. 30. While that should be relatively easy in the Senate, nothing is easy in the House.

House GOP hard-liner approach. During a House Freedom Caucus press conference, Rep. Bob Good (R-Va.) said "we should not fear a government shutdown," claiming that "most of what we do up here is bad anyway; most of what we do up here hurts the American people."

That is not the viewpoint of House Speaker Kevin McCarthy (R-Calif.), who does not want the gov't to shut down.

Last time without an omnibus spending measure was in 2005 in completing the 2006 appropriations. Republicans lost the House that year.

Where does this leave the new farm bill?

It's obvious a short-term extension will be needed for provisions that expire at the end of the current fiscal year, Sept. 30. But the real farm bill deadline is at year's end.

Getting a farm bill extension may not be so easy in the House, where some GOP hardliners want to invoke major changes to farm policy... see box above.

Major debate on a new farm bill will not occur until after FY 2024 spending is finished, according to several senators. As noted previously, that could take time to unfold.

When the farm bill debate ensues, key will be the number of amendments allowed and how long that will take to occur on the House and Senate floors.

Farm bill timeline: House Ag Chair Glenn "GT" Thompson (R-Pa.) wants to release draft text sometime in September, but that could be an optimistic timeline.

Both chambers want a new farm bill by the end of the year, but history shows the end zone may not arrive until 2024... if then.

FARM POLICY PROPOSALS

Over the next few months you will hear about farm policy proposals that farm-state lawmakers and others want for the FY 2024 Ag appropriations bill or the new farm bill.

Several positive amendments were filed, including ones to prohibit funding for regulating or requiring farmers to disclose scope 3 emissions under the "The Enhancement and Standardization of Climate-Related Disclosures for Investors," an amendment to increase funding for the National Animal Health Laboratory Network, an amendment to increase payments under the Livestock Indemnity Program, and an amendment to ensure that all types of milk are available to school children, amongst others.

But several amendments have drawn intense criticism. One would prohibit funding of commodity checkoff programs... but it is not garnering much support. Three separate amendments are aimed at gutting U.S. sugar policy and offshoring U.S. production and processing. Amendments aimed at eliminating or significantly reducing funding for U.S. food aid programs were also filed. Another would lower pay limits and further restrict farm labor requirements that diminish active personal management.

Source: Ag Letter editors

CHINA

China has maintained its position as the world's largest meat importer since 2019, despite a recent decrease in imported meat volumes, according to a USDA Economic Research Service report.

In 2022, its imports were 43% higher than those of Japan, the second-largest meat-importing country. Factors such as disease, strict environmental laws, and the departure of small-scale farmers have limited China's meat supply, resulting in an increase in domestic prices and making imports more appealing.

Pork, the most consumed meat in China, dictates its meat supply and demand trends. The African swine fever epidemic in 2019 substantially lowered China's pork supply, which boosted its position as the world's top meat importer over Japan. Even though pork production recovered and meat imports subsequently fell, China retained its ranking in 2022.

At the same time, beef imports are increasing because longer production cycles, insufficient grazing lands, and persistent disease have hindered China's ability to meet domestic beef demand.

Chinese consumers are also eating more poultry... mainly because it tends to be the most affordable meat... yet rising feed costs and diseases have inflated domestic poultry prices, leading to higher poultry imports.

While China's meat consumption appeared to reach a peak after 2014, statistical models project that consumption will continue to rise through 2031. Trends such as changes in diet and moderate growth in income and prices drive this prediction. However, the Covid-19 pandemic and subsequent economic downturn in 2022 have dampened consumption and the associated import prospects. Other factors... like ongoing disease risks and the high cost of livestock feed, which lowers profitability for local producers... continue to impact the market.

PORK INDUSTRY

N.J. Governor Phil Murphy signed legislation banning sow crates and veal-calf stalls, which activists say significantly limit the mobility of the animals. By implementing this law, New Jersey becomes the 15th U.S. state to inhibit the use of such restraints, including "battery" cages for egg-laying hens, as announced by the Humane Society of the United States, a radical animal rights group, in no way associated with the Humane Society. The new regulation seeks to ban gestation crates that severely confine the movements of breeding pigs before birth, as they represent an intolerable degree of cruelty, according to state Senate President Nick Scutari, one of the bill's sponsors.

The law mandates that the state Ag Dept. establishes, within six months, rules and protocols governing the confinement and treatment of breeding sows and veal calves. Some exceptions exist, such as the two weeks before sows are about to give birth or when they are nursing piglets.

Meanwhile, Triumph Foods, a pork processor company, has filed a lawsuit questioning the legality of a voter-initiated law in Massachusetts. This law requires farmers to allot more space to breeding sows, and restricts the sale of pork produced on farms situated outside the state that fail to meet the Massachusetts standard. A similar law, California's Proposition 12, was recently deemed constitutional by the U.S. Supreme Court; however, Triumph Foods' argument is that the ruling was based on specific claims, not on the principle itself, suggesting that future challenges are possible. Additionally, Triumph Foods is seeking a delay in implementing the Massachusetts law, known as Question 3, until their case is resolved. The law was set to come into effect on Aug. 24. Triumph Foods headquarters is located in St Joseph, Missouri.

The so-called EATS Act, the livestock industry's answer to California's Proposition 12, could jeopardize more than 1,000 health, safety, and welfare laws on the state level and threaten states' rights, said a report by a Harvard Law School group. But there's growing support in Congress.

MEAT ALLERGIES

An alarm about the link between lone star tick bites and meat allergies is being raised by the U.S. Centers for Disease Control and Prevention (CDC). It says these tick bites might lead to alpha-gal syndrome (AGS), a condition that has affected up to 450,000 people since 2010.

This disorder is triggered by alpha-gal, a sugar present in meats like pork, beef and lamb, as well as mammalian-derived products including milk products and certain medications. Consumption of these alpha-gal-containing products after a tick bite can result in serious allergies. As there is no cure for AGS, sufferers must avoid these products for life.

Increased testing of AGS in the U.S is also boosting official incidences of the disease as the the geographic range of the lone star tick expands.

U.S.
FARMLAND

Farmland purchases: International issue, hot domestic topic. Putting foreign ownership of U.S. farmland under scrutiny has widespread bipartisan support in Congress. No federal law exists that restricts foreign persons, entities or governments from acquiring or holding U.S. ag land.

Approximately 24 states specifically forbid or limit nonresident aliens, foreign business entities or foreign govts from acquiring or owning an interest in private ag land within their state, according to the National Ag Law Center. Between 2021 and 2022, 12 states have proposed legislation that seeks to restrict certain foreign investments. In 2023, a majority of states have proposed or have plans to propose legislation that seeks to prohibit or restrict foreign investments and landholdings... specifically private farmland located within their states... to some degree.

A recent amendment approved by Congress would prevent foreign investors with affiliations to China, the Russian Federation, the Islamic Republic of Iran or North Korea from acquiring U.S. land. Another amendment would require the Committee on Foreign Investment in the U.S. (CFIUS) to review land purchases from any foreign country totaling more than \$5 mil. or 320 acres. It makes USDA an “ex officio” member of the CFIUS.

MARKETS

Corn: History suggests the failure of the secondary corn rally will be followed by another seasonal slide and sellers likely feel justified by this year's large corn acreage estimates. But the crop isn't in the bin and “poor” to “very poor” conditions ratings remain relatively high.

Soybeans: USDA recently reported daily new-crop soybean sales totaling more than 1.8 mil. metric tons (MMT) to China, Mexico and “unknown destinations.” The sales came despite November soybean futures trading near their highest levels since last summer. Global end-users have been slow buyers of new-crop soybeans, with outstanding sales of 5.5 MMT running 47% behind the five-year average as of July 20.

Wheat: Scouts on the annual Wheat Quality Council HRS tour found an average yield of 47.4 bu. per acre in North Dakota. That was above the tour's five-year average of 40.1 bu. per acre but down from the 2022 estimate for 49.1 bushels. Scouts noted expanding dryness in northern areas of the state, which could trim yields if there aren't timely rains ahead of harvest. USDA's July estimate of North Dakota's other spring wheat yield is at 47 bu. per acre.

Rice: The Indian government banned the overseas sale of non-basmati white rice to slash prices in its domestic market. Parts of northern India have been hit by torrential monsoon rains and floods... endangering yields.. and the country is entering a general election in 2024.

Cotton: Anticipation of an improved global demand outlook, aided by the ongoing stock market rally, powered recent cotton gains.

Food prices: USDA forecasts U.S. food prices will rise 5.8% this year, down from its prior projection of a 5.9% increase. Food at home (grocery store) prices are expected to increase 4.9%, down one percentage point from the prior outlook. Food away from home (restaurant) prices are predicted to jump 7.5%, down from a 7.7% rise previously. Food price inflation in 2024 is expected to decrease considerably from this year, with a projected rise of 2.4%. USDA expects some food categories to experience price declines in 2024, including pork, eggs and dairy products.

Cattle/Beef: Current high prices should reduce cow culling this fall, with overall slaughter generally declining as well. Some ranchers may also start holding back more heifers. The increase in placements the past two months will cause market-ready supplies to not be as tight as once feared. But the estimated supply of feeder cattle outside of feedlots is 34.4 mil. head, down 1.3 mil. head (3.6%) from last year, which suggests placements will slow significantly.

Hogs/Pork: Hog slaughter posted year-over-year gains recently. Also, after consistently running below last year during late winter and spring, hog weights turned sharply higher in late June and are running above year-ago levels. These shifts signal USDA again underestimated hog supplies in its June Hogs & Pigs Report. But strong demand, especially for bacon, continues powering gains in hog prices. But the seasonal supply surge begins in early-to-mid-August.

Dairy: In response to petitions from the dairy industry, USDA will hold a hearing for a potential revision to the federal milk marketing order (FMMO) system. Dairy farmers know that system determines the price farmers receive for fresh milk. The hearing will take place on Aug. 23 in the Indianapolis suburb of Carmel.

WOTUS

WOTUS update. The Waters Advocacy Coalition, which includes ag industry leaders, has called on the EPA and the U.S. Army Corps of Engineers to reconsider important interpretations in the 2023 WOTUS (Waters of the United States) definition. This comes as the agencies aim to modify the rule to match the Supreme Court's opinion in the case of *Sackett v. EPA*.

Background. In May, the Supreme Court ruled in the WOTUS case that the term "waters" specifically refers to geographical features that can typically be characterized as "streams, oceans, rivers, and lakes," as well as adjacent wetlands that seamlessly blend with these water bodies, making it hard to distinguish between the two.

EPA and the Corps plan to finalize a revised WOTUS rule by Sept. 1 to align with the Sackett decision. However, there are concerns that the expedited timeline might lead the agencies to skip public comments and simply remove certain language from the rule. The Waters Advocacy Coalition sent a letter emphasizing that stripping isolated language is not enough and that the agencies need to thoroughly examine the rule's legal basis for consistency with Supreme Court precedents.

Revisions sought. The coalition, representing 45 organizations from sectors like small businesses, farmers, and energy producers, has suggested several revisions to the 2023 WOTUS rule:

- Removing the standalone category of interstate waters and wetlands;
- Adopting a standard consistent with Supreme Court precedent;
- Excluding ditches;
- Clarifying the definition of adjacent based on the Sackett decision;
- Keeping the rule's codified exclusions.

The letter emphasizes that a robust WOTUS definition shouldn't significantly infringe on the states' primary jurisdiction over land and water use. They argue that pushing the boundaries of the agencies' CWA (Clean Water Act) authority without due consideration to the Section 101(b) policy would be legally fragile and could undermine the aim of establishing a stable rule.

AUTO
REGS

Stricter fuel-economy standards for light-duty vehicles were proposed by the National Highway Traffic Safety Administration. They would boost the required average fuel efficiency for new cars and trucks from 49 miles per gallon (mpg) in 2026 to 58 mpg by 2032. Proponents say this would help consumers save money at the pump and lead to decreased pollution.

Although the proposal does not directly mandate automakers to produce electric vehicles (EVs), it's believed that enforcing these rules would heavily incentivize the industry to significantly expand EV sales to comply. Currently, EVs only account for about 7% of U.S. vehicle sales.

NHTSA will collect public comments for 60 days before finalizing the new rules.

FOOD
INDUSTRY

McDonald's will test a new small-sized spinoff restaurant chain named CosMc's. The name hails from CosMc, a former McDonaldland mascot that was featured in the company's advertisements during the 1980s and 1990s. McDonald's CEO, Chris Kempczinski, said that while CosMc's will maintain core McDonald's elements, it will also foster its own distinctive personality. The testing phase is slated to commence early next year in several locations spanning a limited geographical area. The announcement was made in conjunction with the company's Q2 results.

ECONOMY

Could a recession still be years away? While forecasters have predicted a downturn since the Federal Reserve began increasing interest rates more than a year ago, they have consistently pushed back the predicted start date for a recession. A *Wall Street Journal* article says an unusual aspect is that this predicted recession would occur after only four years of economic expansion. In recent history, expansions have averaged 8.6 years, which suggests a continuing economic expansion could potentially push the recession a few years into the future. Key challenge for the Federal Reserve: manage inflation so it does not force the economy into a contraction.

Best regards,

The Ag Letter Editors
THE AGRICULTURE LETTER EDITORS

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