

The Agriculture Letter

Insight and Analysis for Agribusiness Leaders

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Dear Client:

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A big battle is going on re: corn-based ethanol...
EPA science advisors question its enviro benefits.

EPA &
BIOFUELS

EPA's Science Advisory Board raised doubts about the environmental benefits of corn-based ethanol versus traditional petroleum-based fuels, calling for more in-depth research on the matter. The panel, consisting of numerous so called experts, expressed uncertainty regarding the carbon intensity of ethanol and its impact on reducing greenhouse gas emissions.

Details: In a draft report the board stated, "According to the best available science, it appears there is a reasonable chance there are minimal or no climate benefits from substituting corn ethanol for gasoline or diesel." They urged the EPA to conduct "more extensive research" and consider these findings when establishing future biofuel-blending quotas.

Key issue: While the board emphasized that it was not pre-judging the results of further research, its decision challenges the belief held by ethanol advocates that corn based ethanol is a cleaner alternative for powering vehicles and aircraft.

Importance to SAF. This development coincides with the U.S. Treasury Department's efforts to determine which products qualify for a tax credit aimed at promoting sustainable aviation fuel (SAF).

The debate centers on a federal requirement that renewable fuels, under EPA quotas, emit no more than 80% of the greenhouse gas emissions produced by gasoline and diesel throughout their entire life cycle, from cultivation to combustion. The board raised concerns about the expansion of cropland for corn ethanol production in response to annual biofuel-blending quotas mandated by the Renewable Fuel Standard... RFS.

Biofuel proponents countered the board's assertions, citing data indicating that corn production has become more efficient, and less U.S. land is being used for corn cultivation. They argued that ethanol is environmentally superior to petroleum-based fuels.

The National Corn Growers Association (NCGA) cited studies, including research from the Department of Energy's Argonne National Laboratory and academic research, which showed substantial GHG emission reductions from corn ethanol.

The Biden admin. is being urged to use the GREET model for SAF tax credit eligibility. Several ag and biofuel organizations urged the Biden administration to utilize the Argonne National Laboratory's GREET model as the "similar methodology" option for determining eligibility for SAF tax credits, as outlined in the Inflation Reduction Act. They argue that not using the GREET model could hinder investments in SAF production, which their members have heavily committed to. The groups noted that their members have invested \$3.8 bil. in new construction or optimization of facilities and some \$6 bil. to expand or build new oilseed processing capacity in 10 U.S. states.

USDA is going to expend around \$400,000 to update the GREET model with the expectation it will be used by Treasury for the SAF credits. The Treasury is expected to release guidance on SAF credits later this year.

SOCIAL COST OF CARBON

President Joe Biden expanded the use of a controversial social cost of carbon metric.

The White House granted federal agencies the authority to incorporate the contentious social cost of carbon metric into a wide range of decisions. This move paves the way for imposing higher fines on violators, conducting more rigorous assessments of federal programs, applying stricter analyses to permit applications, and promoting the adoption of electric vehicles and other low-carbon equipment.

The social cost of carbon represents the estimated societal cost of emitting one ton of greenhouse gases into the atmosphere, considering factors such as reduced agricultural productivity, property damage from severe weather events, and decreased access to freshwater resources.

Sen. Shelley Moore Capito (R-W.Va.) criticized the decision, branding the metric as "flawed" and accusing the Biden administration of relying on unproven figures to support its environmental policies. Capito serves as the ranking member of the Environment and Public Works Committee.

Source: White House, Ag Letter editors

WTO

USTR reiterates commitment to WTO reform, focusing on dispute settlement. Katherine Tai, the U.S. Trade Representative (USTR), emphasized the United States' dedication to reforming the World Trade Organization (WTO), addressing criticism that the U.S. has been slow in updating the trade body's outdated rules. Speaking at the Center for Strategic and International Studies in Washington, Tai stated that the U.S. is actively working on a comprehensive reform agenda aimed at enhancing transparency, strengthening the WTO's negotiating capabilities, and revitalizing its dispute-settlement system.

Tai stressed the Biden administration is not seeking to "restore" the WTO appellate body, which serves as a kind of supreme court for trade disputes but ceased functioning in 2020 due to former President Donald Trump's blocking of new appointments. She said the goal is not to revert to the previous state of affairs but to instill confidence that the system is fair and empower member nations to resolve their disputes effectively.

The paralysis of the WTO's appellate body has made it difficult for member countries to obtain trade justice amid growing global economic tensions. While countries can still file disputes at the WTO, a losing party can effectively veto WTO rulings by appealing into uncertainty.

Tai outlined four specific goals for reforming the dispute settlement system, including providing practical alternatives to litigation, limiting dispute rulings to what is necessary to resolve disputes, addressing judicial overreach, and correcting panel reports that second-guess members' legitimate national-security judgments.

Skepticism remains high among U.S. allies and adversaries who have observed the Biden administration's limited use of the system. Instead of filing dispute-settlement cases, the U.S. has engaged in bilateral negotiations with key trading partners to resolve trade disputes outside the WTO framework. Additionally, some observers note the U.S. has maintained WTO-illegal tariffs, blocked new appointments to the appellate body, and pursued domestic subsidies, raising doubts about its commitment to reforming the WTO.

In October, the WTO will host a senior officials' meeting to discuss the 2022 pledge to restore a fully functioning dispute-settlement system by 2024. Expectations for a breakthrough remain low, particularly with the 2024 deadline coinciding with a U.S. presidential election year. Many believe the Biden administration may be reluctant to invest political capital in repairing a system perceived as failing to address China's trade abuses effectively.

RICE

Final payments for rice farmers via the Rice Production Program (RPP) will be issued soon, USDA said. The RPP is a \$250 mil. assistance program for supporting U.S. rice farmers who faced stagnant rice market prices and exceptionally high input costs in 2022. This funding was allocated in the 2023 Consolidated Appropriations Act following a request from rice producers.

Rice farmers who were previously approved and received a first-round payment will not need to submit new applications.

Final payment rate will be set at 0.28 cents per pound, based on previously reported data, resulting in a total assistance of 1.28 cents per pound for the 2022 crop year.

USDA intends to disburse these payments ahead of the fiscal year-end, which is Sept. 30.

FLORIDA

Hurricane Idalia inflicted significant agricultural losses in the state of Florida, ranging from \$78 mil. to \$371 mil., as reported in a preliminary study by the University of Florida. The Category 3 hurricane made landfall in Florida's Big Bend region, bringing heavy rainfall, storm surges, and strong winds. This caused substantial damage to rural areas, impacting crops like peanuts and cotton, as well as poultry, cattle, and aquaculture operations.

Livestock losses alone could range from \$30.9 mil. to \$123.4 million. Field and row crop losses were projected to be between \$30.7 mil. and \$93.6 mil., while damages to greenhouse and nursery products were estimated to be between \$4.7 million and \$68.8 million. The most severely affected areas were identified as six northern Florida counties, including Madison, Hamilton, Lafayette, Taylor and Dixie.

The hurricane also broadly impacted the state's infrastructure related to agriculture, affecting irrigation systems, fence lines, and farm buildings' roofs. Idalia brought a storm surge of up to 11 feet and sustained winds of 125 mph, causing flooding and significant damage.

FED

Malanga: Potential troubles loom for economy and markets. Dr. Vince Malanga, president of LaSalle Economics, says the near-term outlook for the economy and financial markets is clouded by three key issues. First, there are unresolved fiscal issues in Congress as the fiscal year-end approaches, leading to acrimony. A budget impasse and the rising likelihood of a government shut-down are looming. And, the deficit is on track to reach nearly \$2 trillion, around 7% of GDP.

Secondly, Malanga says an automotive strike, combined with a widening credit crunch, the resumption of student loan payments, and pressure on discretionary income from rising energy prices, could have a cumulative negative effect on the economy.

Lastly, there is growing pressure on discretionary income due to rising energy prices. Both domestic and Brent crude oil prices have surpassed \$90 per barrel in recent weeks, with the heating season approaching. The rise in distillate prices, a key factor in transportation costs, is of particular concern, Malanga notes. While natural gas prices have remained relatively stable, a cold winter could lead to an acceleration in utility bills.

MARKETS

Corn: U.S. harvest pressure is rising as the crop has matured rapidly after being pushed quicker than usual due to unfavorable weather in key areas of the Corn Belt. Harvest results are being watched closely while demand for U.S.-origin corn has been lagging, aside from Mexico. But USDA's Oct. 12 Crop Production Report could be affected if the government shuts down.

Soybeans: Like corn, soybean harvest is advancing with the crop having moved to maturity relatively quickly. Recent rains in areas of the Corn Belt likely provided little for the crop unless fields had yet to drop leaves. Key ahead will be export demand for newly harvested soybeans. The government shutdown also looms as a backdrop for soybean futures.

Wheat: The Black Sea region continues as a focus, not just for the Russian invasion of Ukraine and their attacks on Ukrainian grain export capabilities, but overall supplies from the region appear to be ample, keeping them competitive for global buyers. U.S. winter wheat planting is moving at a near-average pace while spring wheat harvest is nearly complete.

Rice: Futures are being affected by harvest pressure and macroeconomic concerns. Globally, prices remain elevated as trade restrictions have been deployed by some countries. But so far, U.S. values have not yet reached a point where foreign buyers are knocking down the door to scoop up U.S. supplies.

Cotton: Futures gave back most of their advances linked to the smaller-than-expected U.S. crop size in the September Crop Production Report. With bolls opening in more fields, attention on weather will shift more to the potential for damage from too much rain versus relief for dry growing conditions. We are entering a key time with hurricane season in full swing.

Dairy: After USDA revised July output downward, August U.S. milk production marked a second consecutive monthly reduction. Herd size is continuing to edge down, but as usual, the downturn in cow numbers is being muted by continued increases in milk per cow. Cooler weather and improved feed costs will likely limit the production downturn ahead.

Cattle/Beef: USDA's monthly update on feedlots continues to tell the story of shrinking cattle supplies. But attention will remain on just how small supplies will get given the full expectations that cattle numbers are declining. Macroeconomic concerns also remain for beef as pricey supplies may still be impacting demand as consumers weigh their food bills.

Hogs/Pork: The U.S. hog industry has moved into a contraction mode and that is expected to be borne out in the quarterly USDA update. That will set the tone for market action as we head into the early part of fall and get closer to winter. Demand will be key ahead as lean hog futures are continuing to focus on numbers but also the cash market for signals.

Poultry: The level of egg sets and hatchability remains somewhat confounding and is a factor in market ready supplies being somewhat constricted. This has resulted in profitability questions for processors. On the foreign side, there are increased supplies coming onto the market from other exporters which is muting somewhat any significant poultry price increases.

POTATOES

The U.S. has seen a significant shift in the consumption of potatoes over the years, with the majority now being consumed in processed forms, such as frozen, chipped, dehydrated or canned products.

This transformation has been driven by the popularity of french fries as a prominent side dish in quick-service restaurants. Since 1979, there has been a consistent increase in the share of potatoes used to create frozen products, particularly french fries, resulting in nearly half of all potatoes in the U.S. food supply being used for frozen products.

Conversely, the share of potatoes used as fresh table dishes has declined steadily over each decade. The popularity of low-carb diets and a shift towards alternative food choices and cuisines caused some disruptions in the upward trend of frozen potato availability, particularly in the late 1990s and early 2000s. However, by the mid-2010s, the availability of frozen potatoes began to rise again, with per capita availability during the pandemic-influenced period of 2019-2021 increasing by 8 percent compared to a decade earlier... 2009-2011.

Around 90% of frozen french fries are distributed via food service channels, with quick-service restaurants accounting for about two-thirds of french fry consumption, according to industry data and research from USDA's Economic Research Service.

Bottom line: Data shows the enduring popularity of processed potato products, especially french fries, in the American diet, despite occasional shifts in consumer preferences.

HEALTH

A pig's heart was transplanted into a man. It's only the second time the groundbreaking surgery has ever been performed. University of Maryland doctors said that a Navy veteran who had been facing death from heart failure was talking and laughing after receiving the genetically modified heart two days before. The same team performed the surgery the first time about a year ago on a different patient who lived for two months afterward. These efforts at animal-to-human transplants come amid a shortage of human organs for patients who need them.

MEXICO

Mexico researchers show progress on replacing some U.S. GM corn imports. Researchers at the Autonomous University of Chapingo highlighted progress they had made in producing more non-GM yellow corn seeds to help replace some imports from the United States. Fields planted last spring were generating new strands of hybrid seed varieties to be tested in 2024 with release for planting in 2025, they said. The project aims in two years to develop enough non-GM seed varieties cultivable in Mexico to replace about 6 MMT of the 18 MMT of corn the country imports from the U.S. annually, with a focus on food-grade corn used to make tortillas.

SUGAR

Global prices of sugar are expected to hover between 22 cents and 30 cents a pound in the next 12 months, Sucden's General Director Jeremy Austin said in New Delhi, *Bloomberg* reports. Prices are expected to stay elevated due to concerns over a drop in output in India, the world's second-biggest producer. India is likely to produce 28.6 mil. tons of sugar in 2023-24, Austin detailed. Brazil produced 33.7 mil. tons in 2022-23 with projected 2023-24 output of 40.4 mil. tons, with expectations of 42.07 mil. tons in 2024-25.

SENATE

Sen. Robert Menendez indicted on federal corruption charges in New York. Menendez is a prominent Democrat from New Jersey who previously led the Senate's Foreign Relations Committee but he voluntarily agreed to exit leading the panel. This indictment comes after an extensive investigation by federal prosecutors in Manhattan and nearly six years after his previous trial for unrelated corruption charges resulted in a hung jury. The indictment is expected to have political implications in Washington and New Jersey, particularly as Menendez faces competition from both Democratic and Republican challengers in his bid for re-election to a fourth term in the Senate. If he were to step down, New Jersey's Democratic governor would appoint his successor.

Best regards,

The Ag Letter Editors
THE AGRICULTURE LETTER EDITORS

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