

The Agriculture Letter

Insight and Analysis for Agribusiness Leaders

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Dear Client:

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The new farm bill saga continues...
And it will linger into 2024.

FARM
BILL

Calls for a one-year extension are growing, including key players on the Senate and House Ag panels.

Reasons: More than a few, including:

- Three weeks to get a new House speaker.
- Differences over more funding for the Title I safety net.
- Need to focus on a stopgap spending measure to avoid a gov't shutdown on Nov. 17.
- Work on fiscal year 2024 appropriations bills.
- Aid to Israel.
- Aid to Ukraine.

Republicans are pushing for subsidies for specific Southern crops, potentially at the expense of food aid/food stamp and conservation programs, House Dems charge.

Increasing extremism and cynicism in the House Republican Conference is alleged by House Ag ranking member David Scott (D-Ga.). He's one of the growing numbers calling for a temporary one-year extension of the 2018 Farm Bill, making a five-year farm bill reauthorization by year-end less likely.

House Ag Chair Glenn "GT" Thompson (R-Pa.) has changed his stance. Thompson previously said he wanted to get a new farm bill done yet this year. He now says a new farm bill will not come before the full House until January "at the earliest," citing issues he has previously noted — delays in getting scoring on proposals and technical responses from USDA and a lack of agreement on key issues.

House farm bill timeline. House Speaker Mike Johnson (R-La.) has allotted one week for House debate of the farm bill in December, said Thompson. But he noted the current House schedule only has the chamber slated to be in session two weeks in December.

Thorny issue: As noted, Dems say the proposed changes in the House bill include increasing subsidies for select crops such as peanuts, cotton and rice, which will not receive price increases under the 2018 Farm Bill like corn and soybeans. To fund these increases, Republican supporters reportedly want to cut food stamp aid and divert funds from conservation payments.

Even a "simple" one-year extension is not so simple. Reason: House GOP conservatives are looking to cut spending, not add.

Another issue: Extending funding for so-called "orphan" programs no longer covered.

There's also a critical need to extend the Dairy Margin Coverage program.

A farm bill extension could be a rider on legislation to fund the gov't after Nov. 17, when stopgap funding expires.

Bottom line: A new farm bill is still possible in 2024, commencing with 2025 crops.

FARM BILL QUOTES

Rep. David Scott (D-Ga.): "While we continue the bipartisan effort on the House Agriculture Committee to craft a new farm bill, the extremism and cynicism that has taken hold of the broader House Republican Conference makes a five-year farm bill reauthorization by the year's end increasingly unlikely," said Scott. "A one-year extension is the responsible thing to do. It allows our farmers, ranchers, and foresters to operate with an element of certainty while we continue working on a bipartisan five-year farm bill."

Rep. Glenn "GT" Thompson (R-Pa.) said: "Quite frankly, we're still being held back by USDA technical assistance, CBO scores and we're working on the funding part of it," he remarked. "It's just challenging as we're in two weeks in December, and that's the limitation we have."

Sen. Debbie Stabenow (D-Mich.) said the new farm bill will not be enacted until next year because of continuing disagreements over issues such as SNAP benefits and higher crop subsidies. "I am committed to passing a strong, bipartisan farm bill as soon as possible," she said, but the process is taking longer than hoped.

Source: Ag Letter editors

RFS

EPA defends its decision to modify the Renewable Fuel Standards (RFS) program against objections from some fuel refiners.

Key points:

- EPA's Defense: EPA on Nov. 3 argued before the D.C. Circuit that its decision to make changes to the RFS program was based on the Clean Air Act and that it “reasonably set and fully explained the 2022 volume requirements for total renewable fuel and advanced biofuel” within the authority granted by the statute.
- Clean Air Act Authority: EPA contends it has the discretion to set annual standards for renewable fuel volume targets, which fuel refiners and importers must follow to reduce greenhouse gas emissions. They argue that they considered both the program’s implementation and statutory factors while making their decisions.
- Changes Made: EPA’s final rule, effective from Aug. 30, 2022, modified the 2021 and 2022 volume targets for different types of renewable fuels and established the 2022 volume target for biomass-based diesel. It also changed volume requirements for 2020, established annual percentage standards for obligated parties in 2020, 2021, and 2022.
- Refiners’ Objections: Refineries and biofuel groups argued that EPA’s rule did not align with federal statute requirements. They claimed that EPA increased renewable fuel requirements for 2022 to unreasonably high levels and disregarded statutory criteria.
- Small Refinery Exemptions: The dispute also involved hypothetical future small refinery exemptions, with refiners contending that EPA wrongly reallocated them to nonexempt obligated parties.
- Cellulosic Biofuel Volume: The biofuel petitioners argued that EPA set the required cellulosic biofuel volumes too low due to a misinterpretation of the cellulosic waiver provision, which is one of the types of renewable fuels regulated by EPA.
- Compliance with Standards: Obligated parties can meet fuel standards by retiring credits, known as renewable identification numbers (RINs), which they acquire through blending renewable fuels or purchasing them from third parties.
- Waivers for Cellulosic Biofuel: EPA can reduce or waive the required cellulosic volume if the projected volume of cellulosic biofuel production for a year is less than the statutory requirement. Biofuel groups claimed that EPA failed to include carryover cellulosic RINs in its waiver decisions.
- RIN Lifespan: EPA disagreed with refiners’ suggestions that RINs from 2015 or 2016 could be used for compliance, stating that such an approach would be inconsistent with the statute’s provision that RINs have a 12-month lifespan.
- Supplemental Obligation: EPA imposed supplemental obligations in response to a 2017 court opinion, which raised questions about the fairness of subjecting obligated parties that were not in the market in 2016 to these obligations. EPA argued that it felt compelled to take action to address the court’s remand, and any approach it considered would have imposed some burden on obligated parties.

Bottom line: EPA defended its actions in modifying renewable fuel standards against claims from industry groups that the changes do not comply with federal law. The case involves complex legal interpretations and disagreements over the interpretation of the Clean Air Act and its requirements.

SAF

Virgin Atlantic gets U.K. approval for 100% SAF in transatlantic flight. Virgin Atlantic received approval from the U.K. government for a transatlantic flight from London to New York, scheduled for Nov. 28, powered entirely by sustainable aviation fuel (SAF). However, the airline still needs regulatory approval for the flight from U.S. and Canadian authorities. The U.K.’s approval came after a series of technical reviews conducted by Britain’s Civil Aviation Authority (CAA), which included successful ground testing of the jet engines that will be used on the flight.

Virgin Atlantic is committed to using 10% SAF by 2030 but acknowledges the need for government support to establish a sustainable aviation fuel industry in the U.K. Only 0.5% of aviation fuel used in 2021 was SAF, and it remains relatively expensive, with SAF costing between three to five times more than conventional jet fuel, as reported by *Reuters*... thus the need for subsidies.

Is global trade really in decline? Depends on what you are using to calculate the answer. A *Wall Street Journal* item notes that two conflicting sets of data provide differing perspectives on the state of globalization:

- Traditional Metrics: The article notes that over the past 15 years, there has been a consensus that globalization has been in decline. One commonly used metric to support this view is the ratio of trade (the dollar value of exports and imports) to global gross domestic product (GDP). This ratio reached its peak in 2008 but has not recovered since, leading many to believe that globalization has stagnated or reversed.

- New Metric: The article introduces a new metric, the “ton-kilometer,” which measures the total distance traveled by freight multiplied by its total weight. This metric indicates that more goods are being transported over longer distances than ever before, seemingly contradicting the idea of globalization decline. According to this metric, ton-kilometers of trade increased by 49% from 2008 to 2019, outpacing global GDP growth.

Corn: Harvest is winding down as weather has still allowed combines to roll through to completion ahead of the average pace. This is starting to increase supplies in the pipeline and puts even more attention on demand for newly harvested production. There have been some daily export sales announcements, but more need to be seen and strong weekly business needs to show up given current prices.

Soybeans: Harvest is basically wrapped up and as with corn, that puts even more attention on demand news. Daily sales have been fairly regular from USDA and weekly sales have come in relatively strong in recent weeks but the pace still lags the seasonal norm. Weekly inspection data indicate that barge bottlenecks are not creating as much of a headwind as was initially expected.

Wheat: U.S. wheat has come down in price and that has opened the door for more demand for U.S.-origin supplies. But the U.S. dollar remains one of the keys for the export outlook along with continued ample supplies out of the Black Sea. China’s appetite for U.S. wheat has been positive, but other wheat producing countries have seen China come to their markets as well.

Rice: U.S. harvest is all but done and that should be helping U.S.-origin supplies start moving onto the world market. But macroeconomic factors and the U.S. dollar remain two of the keys for rice as is the case in cotton. Countries in Asia continue to adjust their policies to assure domestic supplies, including easing the way for imports. But the U.S. is not price competitive in Asian markets for the most part.

Cotton: The ongoing U.S. harvest has pressured prices to a degree. That has resulted in a spark in U.S. cotton export sales. But the macroeconomic side of the equation continues to exert a lot of influence over cotton futures. The concerns over China have continued and that presents a price-limiting factor given their role as a global cotton consumption leader.

Dairy: The combination of higher milk prices and lower feed costs have translated into producers opting to slow cull rates this fall. In fact, dairy cow slaughter in September was the lowest since 2014. Those that are left in the herd are also healthier and better producers. Growth in the cow herd will be tepid ahead, but milk-per-cow is likely to continue climbing.

Cattle/Beef: Near-term bottoms in both live and feeder cattle futures could be in place. Funds have backed away from the market and are not expected to come back in a big way for the remainder of the year with holidays ahead that typically are not beef related. And supplies still remain relatively tight even though that may not send futures higher from here.

Hogs/Pork: Lean hog futures continue to chop around with producer margins dipping into the red at times. Given where cash and futures are, the expectation is that more margin pressure will be seen as 2023 comes to a close. At some point, that will be reflected in expansion plans... either in reversing earlier plans or even contracting compared with year-ago levels.

Poultry: The first two commercial flocks that were not turkeys confirmed with highly pathogenic avian influenza... HPAI... were pullet flocks in Arkansas and Alabama. The Arkansas flock was in a county which had a confirmed finding last year. Concern continues that the virus has become endemic... trade-related restrictions pose another threat to demand for U.S. poultry/products.

FOOD
WASTE

A third or more of U.S. food is either never eaten or wasted while millions of Americans are challenged by food insecurity, according to USDA. Sen. Chuck Grassley (R-Iowa) and Senate Majority Whip Dick Durbin (D-Ill.) recently introduced the Reduce Food Loss and Waste Act bill (S 3146) to create a USDA Food Loss and Waste Reduction Certification system. It would recognize businesses cutting food waste, similar to Energy Star certification of efficient appliances.

NASS

NASS announces Lance Honig as acting ASB Chair. USDA's National Agricultural Statistics Service (NASS) announced the appointment of Lance Honig as Acting Chairperson of USDA's Agricultural Statistics Board (ASB) until a permanent chair is named. As the chair, he will lead the preparation and dissemination of market-sensitive agricultural forecasts and estimates. Honig will also serve as NASS's Acting Methodology Division Director.

Honig has a wide range of experience with NASS, including most recently serving as the Crops Branch Chief since 2008. Honig replaces the prior Chair Joe Parsons, who held the position since 2016. Parsons is now the new NASS Associate Administrator.

TRANS-
PORT

Container shipping lines, including A.P. Moller-Maersk, are facing significant challenges, with a sharp decline in profits and the need to cut more than 10,000 jobs. A.P. Moller-Maersk's profits have plummeted from \$8.88 bill. to \$521 million, and its core Maersk Line container revenue has fallen by 56% compared to the previous year.

Most concerning: The Ocean division posted a loss for the first time in several years. A *Wall Street Journal* report says challenges go beyond the typical cyclical trends in the shipping industry. Container lines have ordered too many ships, leading to overcapacity and a decline in freight rates.

Unlike retailers, carriers cannot easily eliminate excess capacity. A.P. Moller-Maersk's job cuts indicate their preparation for a prolonged period of supply-demand imbalance in the industry.

INDONESIA

Indonesia extended its rice donation program until 2024 for certain lower-income households. This extension was announced by Chief Economic Affairs Minister Airlangga Hartarto. Initially, the program was scheduled to run until December.

Extended effort will benefit approximately 21.3 mil. lower-income households. Additionally, the government of Indonesia plans to remove import duties on specific types of rice, although the exact details of these rice types were not provided in the reports. Furthermore, the Indonesian Food Procurement Import Company (Bulog) has stated that it will set a rice import quota of 2 mil. metric tons (MMT) for calendar year 2024. However, actual rice imports will depend on domestic supply and demand conditions. This decision to import additional rice aligns with Indonesia's efforts to address reduced rice supplies and ensure an adequate food supply for its population.

SUGAR

A bill to mandate chain restaurants to display warnings for items with high sugar content, including sugary drinks and snacks, was passed by the New York City Council. This requirement will be implemented in phases, commencing in June 2025. This initiative aims to increase public awareness about the sugar content in menu items and promote healthier food choices among consumers dining at chain restaurants in the city.

POLITICS

David Axelrod, the former Obama adviser, is openly wondering whether Biden should run for re-election. While conceding that it's late for Democrats to change candidates, he wrote of Biden, "What he needs to decide is whether that is wise; whether it's in HIS best interest or the country's?"

Trump is ahead of Biden in five of six battleground states via a *New York Times/Siena College* poll. The poll shows Trump leads at least by four percentage points among registered voters in Pennsylvania, Michigan, Arizona, Georgia and Nevada. Biden leads narrowly in Wisconsin.

Of note: Trump saw unprecedented gains among young, Black and Latino voters.

Best regards,

The Ag Letter Editors
THE AGRICULTURE LETTER EDITORS

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