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Dear Client: Washington, Dec. 1, 2023

Let the sun shine in?
Big controversy over solar panels in farm country.

SOLAR FARMS

A growing number of states are having it out in disputes over solar panels.

Ohio, Missouri and North Carolina are just three states we have visited recently and experienced the escalating friction over the topic.

Cincinnati has successfully harnessed solar energy to power over 400 municipal buildings, including facilities like City Hall, police stations and health clinics. This initiative has significantly reduced the city's reliance on conventional electricity and has also resulted in savings of more than $1 mil. in electricity costs since the previous year.

But the New Market Solar project is controversial. It spans more than 1,000 acres in Highland County... and growing... and is a source of controversy at the state & local levels.

Farmers are split in their attitudes.

Some like the annual $1,000-plus per acre payments... three times the profit on most acres planted to crops. And multiyear agreements have some dubbing this the Energy CRP.

But loss of farmland concerns many. The conversion of agricultural land into solar facilities raises concerns about the loss of productive land for farming.

Others raise compaction concerns as construction units move topsoil to get the prior farmland ready for solar screens.

Dislike of the appearance of solar screen facilities is also evident. The use of prison-like fences and scraggly vegetation to shield the solar panels may negatively impact the visual appeal of the area.

Grazing sheep under the solar panels is a realtively new development... to keep the area looking better and weeds under control.

But others say this is just an end-around to get the preferential tax treatment for agricultural land in most areas.

Experts warn farmers should get lawyers involved in looking over potential contracts... this is not a quick decision that can be signed on top of a truck's hood.

Others warn some payments to farmers have been slow to occur and not fully paid until the underlying project is completed. In some cases that can take years. Some solar companies say payments were initially delayed due to supply chain issues that have since been mostly resolved.

Others want a state or local backup plan to ensure payments will be paid if the companies supplying the funds go banrkupt.

Bottom line: More states/counties are being wooed...and this controversy will grow.

SOLAR FARM CONCERNS

- Property taxes from projects will be a boost to a county's tax base over the life of the project... but others say ag banks, farm input companies and other ag sector infrastructure would suffer.

- Some farmers say solar panel construction in some areas have increased flooding of their properties.

- Some charge the solar panels are toxic but panels must pass a strict testing protocol by EPA. Some solar companies say they only use panels that are manufactured mostly in the U.S. or North America. There's been some concerns about manufacturing in China.

- Some solar companies are applying for a conditional use permit as a utility, so no zoning change will be required since it is a utility. In states, some counties are zoned and others are not. That means developers must take different paths to create their projects depending on the location.

- Regulations are on the rise regarding land dimensions and solar panel height limits. Others include a mandatory requirement for pollinator areas.

Source: Ag Letter editors

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USMCA DAIRY

U.S. complaint over Canadian dairy access rejected by USMCA panel. A trade dispute settlement panel established under the United States-Mexico-Canada Agreement (USMCA) has rejected a complaint filed by the U.S. against Canada. The complaint pertained to Canada's alleged improper limitation of access to its dairy market. Highlights:

• U.S. Complaint: Two of the three panelists found for Canada in the dispute, which the U.S. brought at the urging of the U.S. dairy industry. The U.S. had accused Canada of not fulfilling its obligations under the 2020 USMCA to open its dairy market to foreign producers. The U.S. claimed that Canada was not providing adequate access to its market.

• Panel's Decision: A three-person independent panel was convened to address this dispute. The panel ruled that Canada had not acted unreasonably in its handling of dairy market access, effectively dismissing the U.S. complaint. Their report was released on Nov. 24.

• U.S. Response: U.S. Trade Representative (USTR) Katherine Tai expressed disappointment with the ruling, emphasizing the U.S.' continued concerns regarding Canada's implementation of dairy market access commitments under the agreement. She stated that the U.S. would use all available tools to enforce trade agreements.

• Canada's Response: Canada's Trade Minister Mary Ng expressed satisfaction with the dispute settlement panel's findings, noting that all outcomes were in favor of Canada. She welcomed the decision.

• House Ag leaders' statement: House Agriculture Committee Chairman Glenn "GT" Thompson (R-Pa.) and Ranking Member David Scott (D-Ga.) said: "We are disappointed in today's announcement and the decision of the dispute panel. It is critical the U.S. encourage and enforce USMCA, and this decision allows Canada to continue their questionable protectionist practices that disallow fair access to Canadian markets. We appreciate Ambassador Tai and the Biden Administration's continued pursuit to ensure fair market access for U.S. dairy producers."

• U.S. dairy industry responds. International Dairy Foods Association President and CEO Michael Dykes said: "This outcome sadly confirms what the U.S. dairy community and U.S. negotiators collectively feared from the outset of USMCA negotiations... that Canada's supply management system is so imbalanced and so far outside a rules-based and free market trading system that no existing set of rules is comprehensive enough to effectively curb its distortive impacts." But Canada's Ng said: Supply management provides stability to the market and supports producers with "fair returns" for their investments. "The government of Canada will also continue to work with processors and retailers to stabilize food prices," she added.

Background: In a previous USMCA panel decision in January 2022, Canada was found to have violated the agreement by not opening its domestic market enough. Following that decision, Canada amended its policies. USMCA retained Canada's supply management system, which limits domestic production of dairy, eggs, and poultry to support dairy farmers and protect them from import competition through high tariffs.

Of note: The dairy sector is politically influential in Canada, with many farmers operating in Quebec and Ontario, provinces with a significant number of parliamentary seats.

Bottom line: Before taking the role of USTR, Tai was a major writer of the USMCA enforcement action language. The most recent U.S. trade policy loss signals that U.S. trade lawyers were again found wanting. This will also spur another look at President Biden's trade policy.

U.S. DOLLAR

Dollar selling. Investors are currently selling U.S. dollars at the fastest rate seen in a year, as they increasingly believe that Federal Reserve has completed its tightening of monetary policy. Asset managers, who oversee a significant amount of funds, are specifically mentioned as being part of this trend. They were expected to reduce their open dollar positions by approximately 1.6% in November, according to State Street, which acts as a custodian for assets totaling $40 trillion.

Analysts say these current dollar sales may signal a broader, longer-term trend among investors. This trend could involve a reduction in their exposure to U.S. assets as they anticipate a different monetary policy outlook.

Impact: A lower-trending dollar makes U.S. farm products more competitive for export.

CHIINA

China’s global economic share is shrinking fast. China’s share of the global economy is declining at the fastest rate since Mao Zedong’s era, with a projected two-year drop of 1.4 percentage points, according to Ruchir Sharma, chair of Rockefeller International, writing in the *Financial Times*.

This decline in China’s economic superpower status comes as the nation’s share of global GDP slips due to strict Covid-19 measures.

This shift could “reorder the world,” as emerging markets like India, Indonesia, Mexico, Brazil and Poland are expected to gain ground, potentially reshaping global power dynamics, Sharma observes.

The factors contributing to China’s economic slowdown include government intervention in businesses, debt issues, declining productivity, labor force constraints and foreign investor departures.

Bottom line: Despite Chinese President Xi Jinping’s optimism and hints at policy changes, the decline in China’s global economic share appears likely to continue.

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MARKETS

Corn: Harvest is essentially in the rearview mirror for 2023. U.S. corn export demand has started to pick up to a degree, but Mexico is providing most of the buying interest at this point. Other foreign buyers need to pick up the pace, especially with some questions again about production potential in South America with adverse weather conditions.

Soybeans: Foreign buyers… led by China… are scooping up U.S. soybeans as they seek a cushion of supplies due to uncertainties about South American supplies with weather conditions less than favorable in the region. The sales total of just under 4 MMT the week ended Nov. 9 was the largest weekly total for a single crop year based on data back to 1990.

Wheat: Price pressure on U.S. wheat continues and on other non-Black-Sea supplies. Russian wheat continues to be the cheapest, leaving that country to pick up much of the export business to buyers looking for the best price. But China recently surprised the market by buying some Canadian wheat. U.S. winter wheat planting and the crop appear headed for dormancy in better shape than last year by a considerable amount. Winter weather will be key.

Rice: Foreign buyers have stepped up their purchases of U.S. rice amid continued restrictions on exports by some major producing countries. The rise in price resulting from the increased business, however, is likely to temper or choke off demand at some point. Macroeconomic factors also remain a key factor for rice prices ahead.

Cotton: Futures have improved as expectations the U.S. will achieve a soft landing for the U.S. economy has removed some concerns with demand. Purchases of U.S. cotton from foreign buyers remains so-so, but China has continued its purchases which are likely a bid to rebuild state stocks of the fiber. U.S. harvest is ahead of the five-year average and just behind last year’s pace at this point.

Dairy: Cow slaughter has continued to slow and that could result in a bigger-than-expected cow herd as the year winds down. But the expectation still is that the overall milk-producing herd will be under year-ago levels. Key now could be if cheese demand slows as some food service outlets are seeing traffic easing as consumers still view the cost of dining out as being too high.

Cattle/Beef: Feedlot numbers were above-year ago levels with hefty placements in October. This could keep a near-term lid on prices, but still the overall fundamentals in the cattle market remain largely unchanged… supplies overall are still tight and that will put a floor under prices moving forward.

Hogs/Pork: Hog slaughter numbers continue to run ahead of year-ago levels, but the outlook for 2024 is for a downturn in market-ready supplies. Holiday buys are largely moved through the system, which is expected to keep downward pressure on cutouts and that will potentially provide a limiting factor for futures ahead.

Poultry: The level of highly pathogenic avian influenza (HPAI) infections in terms of numbers culled is nearly double the level seen by this point last year. But the number of farms affected is well below. HPAI infections arrived late enough in the season that turkey supplies are above year-ago levels while prices have fallen… trimming Thanksgiving feast costs.

MEAT STOCKS

Pork stocks fall more than average; beef stocks rise more than normal. USDA's Cold Storage Report showed 444.3 mil. lbs. of beef in frozen storage at the end of October, up 23.5 mil. lbs. (5.6%) from September. The five-year average was a 12.2-mil.-lb. increase in beef stocks during the month. Beef inventories dropped 65.9 mil. lbs. (12.9%) from last year and were 48.8 mil. lbs. (9.9%) under the five-year average. Pork stocks stood at 435.9 mil. lbs., down 25.7 mil. lbs. (5.6%) from September. The five-year average was a 15.7-mil.-lb. decrease during the month. Pork inventories fell 73.8 mil. lbs. (14.5%) from year-ago and were 80.5 mil. lbs. (15.6%) below the five-year average.

ARGENTINA

Argentina's grain trade is largely "paralyzed" by a lack of soybeans due to drought and farmers holding onto product, anticipating a devaluation of the peso under President-elect Javier Milei, the head of the main export chamber told *Reuters*. The comments were the first from the crushing and export body CIARA-CEC, which represents major grains firms in Argentina, including Cargill and Bunge, since the election of Milei on Nov. 19. He takes office on Dec. 10. While the government has rolled out preferential exchange rates for farmers, many are waiting to see what Milei does when he takes office. He has pledged to scrap the currency controls and cut taxes.

UKRAINE GRAIN

Plans to again change Ukrainian grain trading rules concerning to exporters. Ukrainian traders' union UGA said parliament's "ill-considered" plans to change grain trading rules could completely halt Ukraine's key grain exports. On Nov. 21, a bill passed its first reading in parliament that would change rules on the taxation of grain export transactions and could also introduce minimum export prices for grain.

The bill is designed to minimize tax evasion on certain agricultural products, such as grain and oilseeds. UGA noted that some of the new requirements are impossible to fulfil and others may result in significant losses for both traders and farmers. UGA said the bill proposed that minimum export prices should not be lower than the average grain prices quoted on international exchanges for the previous 10 days, which the group called "unenforceable, as at some point the minimum export price from Ukraine set by this mechanism will exceed the real prices on the world market."

E15

White House stalls E15 expansion plans. The White House is stalling action on requests by Farm Belt states to allow regional sales of gasoline blended with higher volumes of ethanol after oil industry warnings that the move could cause regional supply disruptions and price spikes, two sources familiar with the matter told *Reuters*. Governors from eight Midwestern states... Illinois, Iowa, Kansas, Minnesota, Nebraska, North Dakota, South Dakota and Wisconsin... petitioned EPA last year to let them sell E15 gasoline year-round. The sources said the White House decided to delay action on the matter following the oil industry's warnings in part because of concern that higher pump prices in certain states could hurt President Joe Biden's re-election chances.

TRUMP

Trump's potential climate and energy policy shifts if re-elected. Donald Trump is reportedly planning significant changes to U.S. climate and energy policy if he is re-elected as president. His agenda includes dismantling President Joe Biden's climate law, boosting investment in fossil fuels and rolling back regulations aimed at promoting the transition to electric vehicles. Trump's senior campaign officials and advisers have outlined his intention to prioritize fossil fuel production in his second term.

Additionally, Trump aims to target the Inflation Reduction Act (IRA/Climate Bill), a key component of Biden's economic strategy that offers around $370 bil. in tax incentives and subsidies for clean energy. The former president has criticized this act, referring to it as the "biggest tax hike in history." He has blamed Biden's climate policies for increasing gasoline prices and undermining what he perceives as his prior achievement of achieving U.S. "energy independence."

Best regards,

The Ag Letter Editors

THE AGRICULTURE LETTER EDITORS

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