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Dear Client: Washington, Dec. 22, 2023

An ethanol-backed SAF tax credit method was unveiled by the Biden Administration…

But an update will come by March 1, which has raised some uncertainty for corn-based ethanol producers, as it may lead to stricter requirements for sustainable aviation fuel… SAF… feedstocks.

SAF TAX CREDIT

GREET model focus. Ethanol industry groups have been advocating for the GREET model, while environmentalists prefer standards that prioritize feedstocks like cooking oil and animal fat.

The GREET model will be updated to incorporate new emissions data and modeling related to factors such as land use changes, livestock activity and emissions reduction strategies like carbon capture and renewable natural gas. Fuel produced in 2023 that meets these updated standards will be eligible for tax credits. Various government agencies, including the Environmental Protection Agency, Departments of Agriculture, Energy, and Transportation, are collaborating on the scientific updates to the methodology.

The guidance aims to narrow the price gap between SAF and traditional jet fuel, although the administration could not provide specific data on the extent of the price reduction. The credit currently incentivizes the production of SAF that achieves a lifecycle GHG emissions reduction of at least 50% compared with petroleum-based jet fuel.

Producers of SAF are eligible for a tax credit of $1.25 per gallon to $1.75 per gallon. Under the rules, SAF that decreases GHG emissions by 50% is eligible for the $1.25 credit, and SAF that decreases GHG emissions by more than 50% is eligible for an additional $0.01 per gallon for each percentage point the reduction exceeds 50%, up to $0.50 per gallon.

"Numerous fuels will qualify for the credit," Treasury said, including valid biomass-based diesel, advanced biofuels, cellulosic biofuel or cellulosic diesel that have been approved by EPA under the Renewable Fuel Standard (RFS).

Of note: Fuels that have a 50% or greater GHG emissions reduction via the most recent Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) standard will continue to qualify for credits.

Bottom line: The update to the GREET model will play a pivotal role in determining the eligibility of fuels for SAF credits. It is anticipated that corn-based ethanol and other renewable fuels will qualify for the credits in relation to SAF produced and used in calendar years 2023 and 2024.

Following the GREET model update, focus will shift toward the Clean Fuels Credit, scheduled to take effect Jan. 1, 2025, replacing the SAF and other credits. The structure of this credit will have significant implications for the future growth of the biofuels industry, encompassing a wide range of feedstocks.

**REACTION TO SAF INFO**

• The new guidance will be a boon to farmers and ranchers who have been waiting to be able to get in on the new SAF industry, USDA Secretary Tom Vilsack said on a press call. "By powering aviation through low-carbon fuels, farmers can earn extra income, tap into value-added climate-smart agriculture markets, and meet the demand for an aviation industry that seeks to accelerate sustainable production," he said in a release.

• Growth Energy says it's a good first step, but the industry needs more clarity before market access is certain and the path-forward for corn-based bioethanol remains unclear.

• Brian Jennings with the American Coalition for Ethanol says U.S. ethanol can now be used to make a more affordable sustainable aviation fuel. "It's potentially game-changing and allowing the GREET model in measuring carbon intensity determined whether we'd be in or out." Jennings says sustainable aviation fuel has the potential to be a 30-billion-gallon market long-term and he says globally, the market is even bigger.

*Source: Ag Letter editors*

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*Subscription inquiries:* 888-752-2047
*Editorial information:* Tel., 888-752-2047;
Email: agricultureletter@farmjournal.com.

CARBON OFFSETS

Leading food and beverage companies are taking steps to reduce their carbon footprint by addressing a significant source of emissions in their supply chains: fertilizers. This includes companies such as PepsiCo, Heineken and Nestlé.

Fertilizers are essential for crop production but a big portion of greenhouse gas emissions in various food supply chains. For instance, they account for about 15% of total emissions in beer supply chains and 35% to 40% in bread production.

Nitrogen-based fertilizers and farm manure are 5% of global greenhouse gas emissions, producing 2.6 bil. tons of $CO_2$ annually... more than the combined emissions from global aviation and shipping. Green fertilizer start-ups are working to mitigate these emissions by offering solutions that can reduce the environmental impact of crop nutrients.

Scope 3 is coming. Companies in the EU will soon be required to report the carbon footprint of their entire supply chains, known as “scope 3” emissions. In response to regulatory changes, the industry is focusing on producing lower carbon ammonia, a critical component of nitrogen-based fertilizers and adopting practices to improve nitrogen use efficiency.

One project: Start-ups like CCm Technologies are capturing $CO_2$ from industrial activities and blending it with organic materials to create lower-carbon crop nutrients. Nestlé and Cargill have partnered with CCm Technologies to use such fertilizers in their supply chains, reducing emissions significantly.

In the alcoholic beverage sector, Heineken is part of an investor consortium supporting FertigHy, a company planning to produce low-carbon ammonia using renewable electricity. Tesco, the U.K.’s largest food retailer, is also collaborating with low-carbon fertilizer manufacturers to reduce emissions in its supply chain.

While these initiatives show promise, challenges remain, including the high cost of alternative fertilizers due to limited production. Some executives believe that government subsidies are needed to bridge the price gap between traditional and low-carbon fertilizers. As production scales up, prices are expected to decrease, but collaboration among food groups is essential to accelerate the adoption of low-carbon fertilizers in the industry, proponents note.

FARM BILL

House Ag panel: from bipartisan to partisan. The on-again, off-again kerfuffle between House Ag Republicans and Democrats is on again. The latest discord concerns a switch of attitude from ranking member David Scott (D-Ga.) who now is chastising the delay in finalizing a new farm bill after previously signaling support for the one-year extension of the 2018 Farm Bill.

The issue: Staffers working for House Agriculture Committee Chair Glenn “GT” Thompson (R-Pa.) accused Scott of talking out of both sides of his mouth. “This you?” they asked on social media, pointing to Scott’s support for an extension of the 2018 Farm Bill through next Sept. 30.

Farm bill timing still murky. While some reports say Thompson hopes to move a farm bill by March, others say the farm bill timeline depends on securing House floor time. House Democrats may want to wait until after 2024 elections as they think they could retake House leadership.

Funding still big issue. While Senate Ag Chair Debbie Stabenow D-Mich.) says Democratic leaders have provided \$4 bil. to \$5 bil. in additional funding beyond the baseline, that is not the case in the House. That is why House Republicans and their staffs are adjusting funding levels and mulling other ideas to come up with more funding to improve the Title I safety net. But those adjustments will not likely garner Democrats’ approval and thus some conjecture that the GOP may have to push a Republican-only farm bill.

GLOBAL SHIPPING

Global shipping companies halt Red Sea journeys. Global shipping companies have halted journeys through the Red Sea because of the threat of attacks by Yemeni rebels, in moves that could disrupt vital trade through the Suez Canal, the *Financial Times* reports.

Pauses and precautions are being taken. AP Møller-Mærsk, which operates the world’s second-largest container shipping fleet, instructed all vessels due to pass through the Bab-el-Mandeb strait to “pause their journey until further notice.” Trafigura, one of the world’s largest commodities traders, is “taking additional precautions” for its owned and chartered vessels.

The attacks risk disrupting the global supply chains that pass through the Red Sea and the Suez Canal, the waterway that accounts for 30% of all container ship traffic and is a vital conduit for crude oil shipments.

U.S. ECONOMY

U.S. economic growth is estimated at approximately 2.5% annually for the current quarter, as per the Atlanta Fed's GDP now model. However, the Federal Open Market Committee (FOMC) anticipates much slower growth in 2024, which could be a signal of concern about the economy's performance.

On a positive note, financial conditions have improved significantly in recent months as inflation has moderated, says Dr. Vince Malanga, president of LaSalle Economics. He says this trend of easing inflation is expected to continue, with soft commodity prices, weak energy prices, and aggressive retail pricing contributing to this trend.

Services prices remain relatively stable, real-world shelter costs are decreasing, and this should eventually reflect in published data. Furthermore, favorable year-over-year comparisons in the first half of the coming year may result in core inflation falling below 3% by spring, Malanga notes.

Malanga's bottom line: If inflation continues to ease while the economy slows down, waiting until the second half of the year to start reversing the current restrictive monetary policy might be too late and could even risk deflation. This may be why the Fed is considering moving its timetable forward.

MARKETS

Trade policy: 'There's no such thing as pure free trade': U.S. Trade Rep Katherine Tai defended tariffs against China, saying that "tariffs are a part of the U.S./China bilateral relationship" because of an "unfair" global economy. The U.S. has "to get pragmatic in order to compete" with China, Tai said, which means adopting similar industrial policies that Beijing has used to hinder American production and trade. "We can't just rely on the promise of this very beautiful vision of a very pure free trade taking us to the promised land," Tai said.

Corn: Mexico GMO corn resolution in '24? The current frontrunner to replace Mexico's term-limited President Andrés Manuel López Obrador, Claudia Sheinbaum, could prove more flexible on the GMO corn issue. USDA Secretary Tom Vilsack noted Sheinbaum "is a scientist," expressing hope that could help resolve the trade dispute between the two countries.

Soybeans: With hot temps recently in portions of Brazil, market focus remains on the eventual size of the country's soybean crop. A recent string of daily USDA soybean export sales and stronger-than-expected November crush are challenging market bears.

Wheat: USDA's Export Sales report for the week ended Dec. 7 confirmed China was a major buyer of U.S. wheat. Activity for 2023-24 included net sales of 1.120 million metric tons of wheat.

Rice: Indonesia ordered the military to help farmers plant rice as severe drought has reduced output, lifting prices, requiring increased imports and threatening food security. With planting behind schedule due to dryness fueled by the El Niño weather phenomenon, President Joko Widodo requested military supervisory officers in villages to help take advantage of recent rains and immediately plant rice.

Cotton: Futures continue to be limited by the 40-day moving average, which continues to limit bulls' appetite for the natural fiber, along with lackluster demand.

Cattle/Beef: USDA updated the status of Paraguay to reflect that as of Dec. 14, the import of fresh beef from the country is to be allowed entry into the U.S. USDA said that the "foreign inspection certificates provide assurance from Paraguay's Central Competent Authority (CCA) that these products were produced under an inspection system equivalent to FSIS requirements." USDA has currently listed nine facilities in Paraguay as being eligible to ship fresh beef to the U.S. This marks the culmination of a contentious situation where several U.S. lawmakers and those in the beef industry argued against the action that USDA first proposed earlier this year. Their push against the imports was based on concerns that Paraguay was still potentially at risk for foot-and-mouth disease (FMD) which Paraguay last reported in 2012.

Hogs/Pork: Hog traders have become much more optimistic about the winter outlook than was the case recently.

Poultry: USDA confirmed highly pathogenic avian influenza (HPAI) in a large commercial table egg layer operation in Hardin County, Ohio, consisting of 2,613,600 birds. Since October, the total number of commercial egg layers depopulated due to HPAI outbreaks stood at 8 mil. birds. Egg producer Cal-Maine Foods temporarily ceased production at a facility in Kansas after some of the flock tested positive for HPAI. The company said HPAI had affected about 684,000 laying hens, or nearly 1.6% of its total flock.

DAIRY POLICY

Stabenow blocks bill to allow whole milk in school lunches. Senate Ag Committee Chair Debbie Stabenow (D-Mich.) prevented Sen. Roger Marshall (R-Kan.) from passing the Whole Milk for Healthy Kids Act by unanimous consent in the Senate. This legislation, already approved by the House, aims to allow whole milk back into the school lunch program, reversing a ban that has been in place for over a decade.

Reason for Stabenow's opposition: It goes against the Dietary Guidelines for Americans. She had signaled her intent to block the bill before it was brought to the Senate floor. Stabenow emphasized the importance of maintaining school meal standards that are rooted in dietary science, rather than promoting specific food products. She suggested those advocating for the inclusion of whole milk in school meals should participate in USDA's review of the school meal program rather than having Congress intervene in the process.

CHINA GMO CORN

China's corn breeders ready to double GMO planting in 2024. Chinese corn breeders are preparing for the planting of more than double the amount of GMO corn next year, three industry sources told *Reuters*, with Beijing expected to tightly control the situation.

GMO corn reportedly will be allowed on around 10 mil. mu, or about 670,000 hectares (1.66 mil. acres), in eight provinces next year, including the northeastern province of Liaoning for the first time. Beijing permitted planting of GMO corn on about 4 mil. mu (270,000 hectares) this year in what it described as trials but has not yet issued any public guidance for 2024.

TRADE POLICY

Port of Los Angeles chief warns against 10% import tariff. The chief of the nation's largest port, the Port of Los Angeles Executive Director Gene Seroka, in an interview on *Bloomberg TV*, voiced concerns about the potential impact of a 10% tariff on all U.S. imports, as proposed by former President Donald Trump.

Such a tariff, Seroka warns, would have devastating consequences for an economy heavily reliant on trade... and the U.S. ag sector.

Perspective: Los Angeles, in conjunction with neighboring Long Beach, accounts for nearly 40% of the nation's imports, making it particularly vulnerable to the effects of such a tariff. Trump had suggested this 10% tax on all imports into the U.S. from all countries in August, describing it as a means to bolster the economy.

The White House views this idea as a sweeping tax on the middle class, and some economists have expressed concerns about the potential repercussions. While the direct impact on GDP might not be substantial, such a move could undermine the rules-based global trading system and trigger retaliatory measures from U.S. trading partners. It could also exert upward pressure on consumer prices at a time when inflation is slowing, and the Federal Reserve is considering ending interest rate hikes.

PARP

USDA is issuing $223 mil. in payments via the Pandemic Assistance Revenue Program (PARP). This program aims to provide financial assistance to producers who experienced a decline in allowable gross revenue due to the Covid-19 pandemic in 2020. Payments will be go to those who suffered a 15% or greater reduction in revenue during that calendar year.

USDA received applications totaling over $7 bil., from 38,500 applicants.

To determine payments, USDA will apply a 9.5% payment factor to all PARP payments.

USDA has established a small national reserve within the program to ensure accuracy and address any errors, omissions, or appeals. While payments were set to begin processing on Dec. 13, county offices were instructed not to certify and sign PARP payments in the national payment system until they receive notification that the required reviews have been completed.

HAPPY HOLIDAYS.

Best regards,

The Ag Letter Editors

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