

# The Agriculture Letter

Insight and Analysis for Agribusiness Leaders

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Dear Client:

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Big news awaits SAF... sustainable aviation fuel.  
Key: How the GREET model is updated... Greenhouse Gases, Regulated Emissions, and Energy Use in Transportation model.

**SAF** Concern for corn/ethanol producers: *Reuters* reports the updated model, used to assess fuels for SAF credits, won't automatically qualify corn-based ethanol.

The preliminary model, expected by May 15, requires corn-based ethanol to meet specific sustainable farming practices to qualify, say reports.

Eligibility for tax credits necessitates corn sourced from farmers using efficient tilling, cover crops, or efficient fertilizer application. The plan initially considered requiring all three practices, but may now only require one.

This development may raise concerns in the corn/ethanol industries and shift focus to the 45Z credit later this year.

The model could expand to include a broader range of practices when considering the rule for the Clean Fuel Production Credit (45Z) later this year.

USDA Secretary Tom Vilsack's goal: Make climate-smart agriculture practices account for emissions reductions in the new model... allowing farmers who use the lower carbon practices to more easily qualify for the IRA's tax credit.

EPA Administrator Michael Regan addressed updates to the GREET model, which he said are crucial for some future programs that USDA, EPA and the Treasury Department are designing and to be sure its application can comply with the Clean Air Act. "The timeline that we originally announced has fallen by a couple of weeks, if not a month, but in the near future... the very near future... we will have that model up and running and applied in the ways that we said it would be applied," he said.

SAF and its tax credit are big opportunities for farmers and biofuel producers when electric vehicles supplant gas-powered cars. At least that's the pitch of the Biden administration and USDA. But producers of the fuel remain largely in limbo without the updated GREET model to provide guidance on what feedstocks will be eligible for the fuel.

UC-Davis analysts warn of a significant soybean acreage increase for SAF. Two UC-Davis analysts in a report highlighted that satisfying SAF goals would require a significant increase in soybean plantings, almost by 50%. Conversely, relying solely on corn ethanol would necessitate a lesser increase in land area, around 9%, due to its higher yields per acre. The report says a swift expansion into SAFs could reignite debates over the food versus fuel dilemma, potentially prompting changes in land use for conservation and crop production akin to those seen during the implementation of Renewable Fuel Standard (RFS) policies.

To produce 3 bil. gallons of SAF by 2030, as targeted by the Biden administration, an estimated 8 mil. to 11 mil. acres of corn or 35 mil. to 50 mil. acres of soybeans would be required, depending on the rate of crop yield improvements over the next six years. Currently, SAF production stands at 16 mil. gallons annually.

## UCO IN FOCUS

### UCO imports spark concerns...

Used cooking oil (UCO) imports have surpassed expectations, particularly from China. UCO holds advantages in the U.S. biofuels program due to its waste product status, especially in California.

The American Soybean Association (ASA) says greater UCO imports impact blending obligations, as levels exceeding EPA's expectations displace domestic feedstocks.

The Blenders Tax Credit ends in 2025 and the Producers Tax Credit (PTC; 45Z) starts. Imported biomass-based diesel will no longer be eligible for tax credits, so renewable diesel imports will likely fall. However, ASA says: "PTC amounts are dependent upon carbon intensity scores, which will give an even stronger incentive to import UCO."

A meeting was held this week to discuss UCO issues. UCO imports, and especially potentially fraudulent imports, are of concern. The ag and biofuel sectors are trying to get their arms around what can be done and what are their "asks."

Source: Ag Letter editors, ASA

Thompson: House farm bill seen before Memorial Day. House Agriculture Committee Chairman Glenn “GT” Thompson (R-Pa.) expects his panel will vote on a farm bill package before the end of May. Thompson told *Politico* he anticipates a markup before Memorial Day.

- Funding: The bill already has baseline spending of \$1.51 tril. over 10 years. But key Republicans want more. A lot more. While they say there is a need for \$75 bil. to \$100 bil. more to handle farm bill funding needs, that will be throttled to a \$40 bil. to \$50 bil. funding boost if current indications are accurate.

- Where is the funding coming from? If there is one word that describes this farm bill from others it is “creative,” a word both Democratic and Republican farm-state lawmakers have used for at least a year leading into the latest farm bill saga. Another farm bill phrase of note is “put farm in the farm bill.” To do that, a significant boost in baseline farm bill spending is needed. Where from? Sources say GOP leaders do not plan to cut SNAP. They apparently aim to ensure that the Thrifty Food Plan (TFP) provision of SNAP can’t be used to increase or decrease the program like before. That prevents a big increase but also prevents a cut. Regarding the Inflation Reduction Act (IRA/ Climate Bill), GOP farm bill writers say USDA can’t spend it all by Sept. 30, 2031, and it all dries up afterward. Using the amount that would otherwise go down the drain and extending the whole program is a win-win, they argue.

GOP lawmakers and staff have reportedly come up with \$40 bil. to \$50 bil. in extra money. Some of the ways would run smack into strong Democratic resistance.

Language tapping USDA’s Commodity Credit Corporation (CCC) is possible if not likely, with “guardrail language” included to make sure any Ag Secretary doesn’t use it for items not to some lawmakers’ acceptance.

But there will likely be additional creative approaches. Farm bill staffers of the past were as good as Federal Reserve officials in “printing money” needed for spending not included in the baseline or as a quick offset for spending elsewhere.

- What will the additional funding be used for? One is increasing reference prices at a variable rate depending on the commodity. Another is improving crop insurance... several possibilities, including encouraging more farmers to buy higher levels of coverage via the traditional program or more incentivized area-wide programs like SCO and ECO. Other needs for the additional funding include trade promotion funds (MAP, FMD, likely backloaded), and more funding for biosecurity.

- Timeline for House GOP farm bill: Whenever the text of the chairman’s mark is officially released... by the end of May... supporters will want to accelerate action at both the House Ag Committee markup level and on the House floor. The longer the coming farm bill text is out before such action, the more opponents will find things not to their liking. House lawmakers have frequently said two weeks after a chairman’s mark is released, further action will take place. Key will be whether any Democrats approve the bill in panel markup. Farm bill writers had plenty of time to write a new farm bill, despite their saying they are waiting on scores from the Congressional Budget Office (CBO).

- Can a farm bill even be passed by the House and Senate? The Democratic-led Senate will have a different farm bill that will come in some form after unveiling of the House measure. Ag Chair Debbie Stabenow (D-Mich.) is a farm bill veteran who knows how to get an omnibus bill passed in committee and on the Senate floor. However, that was in the past. There has been a farm bill “red line” drawn by Ag panel ranking member John Boozman (R-Ark.) regarding the need for an adequate boost for reference prices. The Senate bill is a no go unless Stabenow finds a way to accommodate Boozman as 60 votes are needed to move a bill in the upper chamber. Passage hurdles could also develop in the House, which has a recent history of defeating some farm bills. A combination of Democratic naysayers and House GOP rebels against what they will likely say is a bloated farm bill could be enough to sink the measure if a vote is held.

Bottom line: Lots of hurdles remain, which is why many think this is a 2025 issue.

BIAV

AABP renames emerging cattle influenza to Bovine Influenza A Virus (BIAV).

Much discussion has been about the emerging cattle influenza situation. “Because this infection in cattle is not the same as highly pathogenic avian influenza (HPAI), after thoughtful consideration and discussion with many experts,” the American Association of Bovine Practitioners (AABP) will now refer to this as Bovine Influenza A Virus (BIAV) which it says more accurately depicts it.

AABP says using BIAV is “consistent with our messaging and better distinguish the disease syndrome in cattle from the pathogenesis observed in birds.” The group said their reasoning is that while the virus causes HPAI in birds, it does not cause deaths in cattle as it does in birds and said that they believe it is “important for the public to understand the difference to maintain confidence in the safety and accessibility of beef and dairy products for consumers.”

The Centers for Disease Control and Prevention (CDC) issued a health alert to inform clinicians, state health departments and the public of a case of BIAV in a person who had contact with dairy cows infected with the virus. To prevent infection, CDC recommends use of personal protective equipment, testing, antiviral treatment, patient investigations, and monitoring of persons exposed to sick or dead, wild & domesticated animals and livestock that may have been infected with the virus.

MARKETS

Corn: Markets continue to digest mixed factors including reduced corn acreage intentions and concerns about demand with reports out of China that importers are potentially being urged to temper corn imports. U.S. corn planting is in its initial stages and the weather outlook still looks mostly favorable as planters are getting ready to roll in the heart of the Corn Belt.

Soybeans: Demand for U.S. soybeans on the export market has slowed as South American production is coming on line and coaxing buyers. There are questions about the pace of expansion in Chinese demand. For U.S. planting, increased soybean acreage signaled in March by USDA has weighed on prices with weather having the final say on the actual increase in plantings.

Wheat: U.S. winter wheat emerged from dormancy in good shape... the best since 2019 in the initial updates on condition ratings. The downturn in winter wheat plantings was met with increased spring wheat and durum acreage intentions. With Black Sea wheat continuing to come onto the market at cheap prices, attracting demand for U.S. supplies has not been easy.

Rice: Global factors continue to serve as a backdrop for the rice market, with India's export restrictions still dampening overall supplies. Countries like Indonesia have been picking up supplies from other Asian markets. U.S. supplies remain as a source for Central and South American countries, but that is not likely enough to provide a long-term uplift for prices.

Cotton: Planting conditions are in focus for the Delta and the rest of the Cotton Belt. Rains in the Delta could bring some needed moisture to eastern Texas. Demand for U.S. cotton globally has started to ease, but exports of already-sold supplies remain brisk. Fund selling remains a pressure point for U.S. futures, but will not likely shift unless planting issues or a surge in demand surfaces.

Dairy: Production has been impacted by BIAV as supplies are being kept off the market in herds that have tested positive. As consumer awareness grows, that could impact demand despite milk from any infected cows not reaching the consumer market. Production in affected herds will slowly recover and the greatest impact to production appears to be in herds with older cows.

Cattle/Beef: Wholesale beef demand flagged as usual post-Easter and that put pressure on cutout values. Carcass weights have also been moving higher over the past couple months, a contra-seasonal development. However, those weights are expected to start falling in coming weeks and into summer. Still, they may run 5-10 lbs above average through the spring.

Hogs/Pork: April pork production is seen around 3% higher than March, which indicates numbers are elevated since dressed weights have remained under year-ago and five-year average levels. That seems unlikely to change in coming weeks as summer approaches and packers start pulling hogs relatively aggressively. But tightening margins will eventually slow packer demand and push weights back higher.

Broilers/Poultry: The confirmation of HPAI in two major egg-layer flocks took nearly 3 mil. layers out of commission. That has spurred some worries about feed demand but it is likely not going to have a major impact. The total layer flock in the U.S. was 377 mil. birds in March so losing 3 mil. birds is not a major hit to supply. But if it spreads in the layer flocks as we have seen previously, that could start to move table egg prices higher... again.

FOOD  
PRICES

Food inflation in wealthy nations has decreased to its lowest level since before the full-scale invasion of Ukraine by Russia. This decline in price growth has relieved pressure on households affected by the two-year surge in food costs. Factors contributing to the surge included rising energy costs, decreased trade due to the war in Ukraine, droughts and supply chain disruptions related to Covid-19. However, agricultural commodity prices have dropped significantly since their peak following the invasion of Ukraine, leading to a disinflationary effect. Supply chains have normalized, gas prices have reduced and Ukraine's grain exports have resumed, contributing to the decrease in food prices.

Annual change in consumer food prices across 38 industrialized countries eased to 5.3% in February, down from 6.2% the previous month and well below a peak of 16.2% in November 2022, according to the latest OECD data... Organization for Economic Co-operation and Development .

The food price figures are the lowest since October 2021.

A slight increase in the food commodity price index in March was reported by the UN Food & Agriculture Organization, but they noted a decrease compared to the previous year.

Challenges still exist. While food price inflation has eased in developed and emerging markets, some countries still face challenges, particularly those with exchange rate pressures and reliance on imports. Turkey and Nigeria, for instance, experienced significant food inflation due to currency devaluation and reliance on food imports, respectively. Additionally, countries dependent on Indian rice imports, such as the Philippines and Bangladesh, saw continued food price inflation following India's ban on rice exports.

Consumer food prices have not decreased significantly due to various factors affecting retail costs beyond commodity prices, including labor, marketing and distribution. However, the recent decline in agricultural prices is expected to eventually translate into lower grocery prices.

Interest rates: Higher for longer? Former Treasury Secretary Lawrence Summers said the March payroll surge illustrates the Fed is well off in its estimate of where the neutral rate is, and cautioned against any move to lower rates in June.

Fed Reserve Gov. Michelle Bowman hinted at the possibility of further interest rate hikes to combat inflation, suggesting that it may be necessary if progress on inflation stalls or reverses. Bowman emphasized that while it's not her baseline outlook, the risk of future rate increases remains.

Her comments follow a series of cautious statements from Fed officials, including Chair Jerome Powell, indicating a reluctance to cut rates. This uncertainty surrounding future Fed policy has kept markets on edge.

DISASTER  
AID

Texas farmers are challenging the constitutionality of USDA's disaster assistance and pandemic relief programs, alleging discrimination based on sex and race, according to *Law360*. Led by Rusty Strickland, they claim USDA prioritizes minority groups, resulting in less aid for nonminority farmers. They reference a USDA notice introducing progressive factoring and limited insurance premium refunds to underserved farmers. The farmers argue this unfairly benefits specific demographics, violating the Constitution's equal protection clause. They seek to invalidate the programs, alleging unauthorized allocation of funds by USDA based on race or sex. USDA has yet to respond. The farmers are represented by attorneys from Southeastern Legal Foundation and Mountain States Legal Foundation.

Asked to respond to the Texas development, one farm policy contact emailed: "The department is so blatantly violating the Constitution and the law that this is not at all surprising. After the court overturned the debt forgiveness scheme, one would have thought the department would have sought to come into compliance. But it may take another, stronger rebuke by the courts."

Best regards,

*The Ag Letter Editors*  
THE AGRICULTURE LETTER EDITORS

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